The City of SAN DIEGO

FISCAL YEAR 2026-2030
FIVE-YEAR FINANCIAL OUTLOOK

Todd Gloria
Mayor

Eric Dargan
Chief Operating Officer

Matthew Vespi
Chief Financial Officer

Rolando Charvel
Department of Finance Director and City Comptroller

Benjamin Battaglia
Assistant Director

Vanessa Montenegro
Principal Accountant

DECEMBER 2024

Disclaimer:

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EXECUTIVE SUMMARY

The City of San Diego's Fiscal Year 2026-2030 Five-Year Financial Outlook Report (Outlook) is a long-range fiscal planning guide that serves as the framework for the development of the Fiscal Year (FY) 2026 Adopted Budget for the General Fund. The purpose of the report is to provide an outlook of the City's General Fund finances over the next five years as forecasted.

The Outlook focuses on baseline revenues and expenditures, including updated forecasts for revenues and expenditures necessary to maintain the City's service levels as reflected in the FY 2025 Adopted Budget. In addition to the baseline forecast, the Outlook includes projected costs for new facilities and planned commitments. The Outlook was developed based on information available and known at the time of the preparation of the report; however, risks to the projections include events that may or will occur during the outlook period whose outcomes are unpredictable or cannot be reasonably quantified at this time. Some of these risks and priorities are discussed in the *Risks to the Outlook* and *Future Fiscal Considerations* sections of this report.

The Outlook is a planning tool that assists in budget decisions related to the allocation of General Fund resources and should not be considered a budget. The Outlook provides the Mayor, City Council, key stakeholders, and the public with information at the start of the budget process to facilitate a discussion regarding the coming year's General Fund budget allocations. The City Charter requires that a balanced budget be proposed. So, to the extent projected expenditures exceed estimated revenues in any given year of the Outlook, the City will need to address these shortfalls through mitigating actions. Some of the potential mitigation options are discussed in the *Potential Mitigation Actions* section of this report.

There are many additional priorities, services, and operational needs beyond those included in this report. However, given the City's limited resources, the City will need to explore additional mitigating actions, which could require reevaluating current expenditure patterns, ongoing budget reductions, reducing or waiving reserve contributions, repurposing or waiving contributions to the Infrastructure Fund and Climate Equity Fund, prioritizing other expenditures instead of those included in the baseline, and exploring future revenue enhancing initiatives. In addition, revenue projections are based on current economic indicators, historical trends, industry research, and information from the City's Property Tax and Sales Tax consultants. To the extent any of the underlying assumptions change, actual revenues could change significantly.

Any new expenditures assumed in the Outlook for FY 2026 will be considered during the FY 2026 Budget Development process and will be dependent upon available resources and consistent with the priorities outlined in the City's Strategic Plan, which include the following five priority areas of focus:

- Create Homes for All of Us
- Protect & Enrich Every Neighborhood
- Advance Mobility & Infrastructure
- Champion Sustainability
- Foster Regional Prosperity

The FY 2026 budget process will consider the City Council's budget priorities, as outlined in IBA Report 24-30 REV: FY 2026 City Council Budget Priorities, which were approved on October 28, 2024 by the City Council. As required by the City Charter, the Mayor will present a balanced budget to the City Council by April 15, 2025. The decisions made for the FY 2026 budget will have an impact on the entire outlook period and will be reflected in the FY 2027-2031 Five-Year Financial Outlook Report.

Throughout the report, tables may not foot due to rounding.

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Summary of Key Financial Assumptions in Baseline

The Outlook projects moderate increases in both baseline revenues and expenditures, which are required to maintain the City's service levels as reflected in the FY 2025 Adopted Budget. Any anticipated growth is highlighted within each baseline revenue and expenditure category throughout the Outlook.

As discussed later in the report, the Outlook was developed based on information available and known at the time of the preparation of the report. Projections were developed using economic and industry research, available data, and reasonable assumptions; however, risks to the projections include events that may or will occur during the outlook period whose outcomes are unpredictable or cannot be reasonably quantified at this time. Examples of these events include an economic downturn, pension cost increases due to updated actuarial assumptions, and salary increases above those assumed in the Outlook.

As depicted in **Table 1.1 – Fiscal Year 2026 – 2030 Financial Outlook, Summary of Key Financial Data**, a projected baseline shortfall, in which baseline expenditures exceed baseline revenues, is projected in FY 2026 through FY 2030.

The following highlight key assumptions included in the Outlook:

- One-time resources and expenditures included in the FY 2025 Adopted Budget were removed;
- Salary increases for all current negotiated MOUs and an assumed 2.73 percent salary increase for future MOU negotiations in Fiscal Years 2027 through 2030; 2.73 percent is equivalent to the average annual Consumer Price Index growth for the San Diego-Carlsbad region over the last fifteen years;
- Pension contribution, or annual Actuarially Determined Contribution (ADC), as projected in the SDCERS City of San Diego Actuarial Valuation Report as of June 30, 2023;
- City Charter-required Infrastructure Fund (Proposition H) contributions throughout the outlook period;
- General Fund reserve contributions throughout the outlook period in order to reach reserve target levels of 16.7 percent by FY 2030 as reflected in the City's Reserve Policy; and
- The Outlook does not include any future revenues associated with the implementation of Measures B (Refuse Fee) and C (Transient Occupancy Tax).

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Table 1.1 - Fiscal Year 2026-2030 Financial Outlook Summary of Key Financial Data ($ in Millions)	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030
Property Tax	$844.4	$880.6	$918.5	$957.5	$998.2
Sales Tax	$392.8	$403.0	$416.6	$430.7	$445.3
Transient Occupancy Tax	$176.4	$185.1	$194.4	$204.0	$214.2
Franchise Fees	$120.8	$117.0	$120.4	$126.8	$134.7
All Other Revenue Categories	$540.4	$560.3	$568.5	$584.7	$592.0
BASELINE GENERAL FUND REVENUES	**$2,074.7**	**$2,146.1**	**$2,218.4**	**$2,303.8**	**$2,384.4**
Salaries & Wages (Current MOUs)	$986.9	$988.9	$989.1	$989.4	$989.6
Salaries & Wages (Assumed General Wage Increases at 2.73% Annually)	$0.1	$24.9	$50.5	$76.7	$103.6
Retirement Actuarially Determined Contributions (ADC)	$364.3	$369.7	$381.4	$328.6	$332.7
All other Personnel Expenditures	$229.4	$233.6	$237.1	$241.0	$245.3
Non-Personnel Expenditures	$680.4	$711.2	$735.8	$792.9	$823.3
Charter Section 77.1 - Infrastructure Fund Contribution	$8.8	$11.1	$16.7	$22.6	$28.8
BASELINE GENERAL FUND EXPENDITURES (LESS RESERVE CONTRIBUTIONS)	**$2,269.8**	**$2,339.4**	**$2,410.5**	**$2,451.1**	**$2,523.2**
BASELINE (SHORTFALL)/SURPLUS (LESS RESERVE CONTRIBUTIONS)	**($195.0)**	**($193.4)**	**($192.2)**	**($147.3)**	**($138.8)**
Reserve Contributions	$63.2	$24.3	$24.7	$24.8	$30.5
BASELINE (SHORTFALL)/SURPLUS	**($258.2)**	**($217.6)**	**($216.9)**	**($172.1)**	**($169.4)**

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Report Outline

The Outlook includes a discussion of General Fund baseline projections for revenues and expenditures, necessary to maintain the City's current service levels. The *Baseline Projections* section of the Outlook consists of the City's projections for the next five fiscal years for ongoing revenues and expenditures, as displayed in **Table 1.1 – Fiscal Year 2026 – 2030 Financial Outlook, Summary of Key Financial Data**. The *Baseline Projections* section includes baseline revenue and expenditure growth, and anticipated adjustments to the FY 2025 Adopted Budget. Examples of anticipated adjustments in the baseline projections include the removal of one-time resources and expenditures included in the FY 2025 Adopted Budget.

Additionally, the Outlook identifies future fiscal commitments identified over the next five years in the *Priorities Beyond the Baseline Expenditures* section of the report. These commitments include:

- Operational impacts of new and expanded Library facilities, as well as new Fire-Rescue and Parks and Recreation facilities scheduled to open within the outlook period;
- Projected future net impact to the General Fund of maintaining and expanding homelessness programs and services; and
- Planned expenditures for mandatory wetland mitigation needed to compensate for habitat lost during previous City storm channel maintenance.

The Outlook Report also identifies potential funding sources and other options that could be used to mitigate projected revenue shortfalls in the *Potential Mitigation Actions* section of the Report. The *Potential Mitigation Actions* section explores other levers that are available to the City to help mitigate projected shortfalls, including items in the City's direct control such as reducing or waiving reserve contributions; the suspension or strategic use of Infrastructure Fund contributions; as well as a strategic review of baseline operations to identify opportunities for resource reallocation. Mitigation actions are needed to ensure the City has a balanced budget in FY 2026 and beyond. To promote the City's financial health for the future, it will be important to address the City's structural deficit in order to adjust service levels to match available resources.

The *Potential Mitigation Actions* section also explores resources that will take additional time to be resolved, or are outside of the City's direct control, such as results from November 2024's Measure E, which proposed to increase the City of San Diego's sales tax by 1.0 percent; establishment of a fee for refuse and recycling services; and a resolution to the litigation of Measure C, which could provide additional Transient Occupancy Tax revenue to support homelessness programs and services.

The Outlook Report includes the *General Fund Infrastructure Needs* section which outlines certain components of the City's infrastructure needs from a range of asset types, including streets, stormwater infrastructure, and City facilities. Unfunded capital needs are not isolated challenges; they also compete directly with the budget allocated to General Fund operations such as public safety and neighborhood services. The inclusion of certain components of the City's infrastructure needs is aimed at providing a more holistic view of the City's financial landscape and better reflect the magnitude of the General Fund's structural budget deficit.

Lastly, the *Risks to the Outlook* and *Future Fiscal Considerations* sections of the report detail significant items that could impact the projections reflected in the Outlook including an economic downturn, salary increases above those assumed in the baseline, increases in ADC, and fiscal impacts from implementing the City's Climate Action Plan. Any new expenditures or enhancements to services will be considered during the upcoming FY 2026 budget development process and will be dependent upon available resources and consistent with the priorities outlined in the City's Strategic Plan.

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration by April 15, 2025.

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BASELINE PROJECTIONS

The *Baseline Projections* section describes forecasted General Fund revenue and expenditure changes based on growth assumptions and anticipated adjustments to the FY 2025 Adopted Budget at the time of the preparation of this Report. This section provides forecasted growth rates for revenues, including an overview of each revenue category, key economic trends, and a discussion of varying scenarios that could impact the forecast for the major revenue categories. General Fund expenditures are reviewed thereafter, including significant changes required to maintain current service levels and growth assumptions as applicable, within each expenditure category.

Unless otherwise noted, baseline projections assume growth based upon the FY 2025 Adopted Budget with one-time resources and expenditures removed. **Attachment 1: One-Time Resources and Expenditures** provides further detail.

Baseline General Fund Revenues

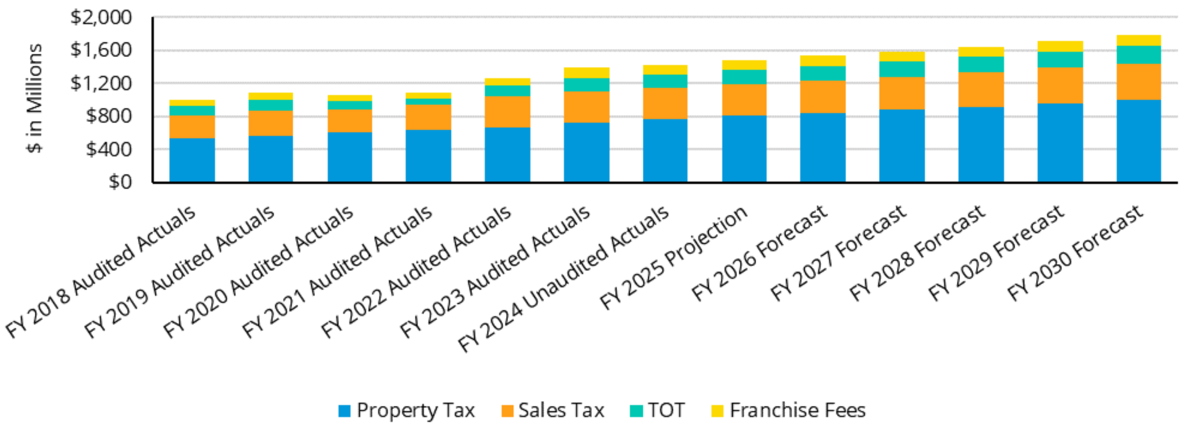
The following section provides details on the Outlook's baseline General Fund revenue projections. This includes a description of the revenue source, factors impacting the revenue source, and the projected growth rates.

The City's revenue sources are anticipated to grow at moderate rates throughout the outlook period. Similar to the FY 2025 Adopted Budget, the Outlook's revenue forecast balances favorable, yet softening, economic conditions with moderate growth in the City's General Fund revenues.

In addition to growth rate percentages applied in each of the major revenue categories, other adjustments have been included based on significant known and anticipated events that are detailed within each category. To assist in evaluating the potential variability of revenue projections, "High" and "Low" projection scenarios have been included for the City's major revenue sources, including property tax, sales tax, and transient occupancy tax (TOT). Although the "High" and "Low" projections provide a range of possibilities within the current economic parameters, they do not account for a potential recession.

The City's four major General Fund revenue sources, property tax, sales tax, TOT, and franchise fees, represent 72.2 percent of the City's FY 2025 Adopted Budget for the General Fund. As depicted in **Figure 2.1 – Major General Fund Revenues**, the four major revenue sources are projected to increase throughout the outlook period, with sales tax and TOT projected to decrease in FY 2025 when compared to the Adopted Budget, before moderately increasing throughout the outlook period. Consistent with the FY 2025 First Quarter Report, the Outlook uses updated major revenue projections as the baseline for the Outlook forecast. The overall economic assumptions included in the report are in line with information received from industry experts representing the four major revenue categories and overall regional economy, including the City's property tax consultant, HdL Coren & Cone; the City's sales tax consultant, Avenu Insights & Analytics; the San Diego Tourism Authority's tourism forecasts, prepared by Tourism Economics; San Diego Gas & Electric; and the UCLA Anderson Forecast. In addition to the major revenue projections, the baseline projections for the General Fund's other departmental revenue sources are based on various economic assumptions, known and anticipated events, and historical trend analyses.

Figure 2.1 - Major General Fund Revenues



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Property Tax

Property Tax is the City's largest revenue source, representing 39.0 percent of the General Fund FY 2025 Adopted Budget. The primary component of the Property Tax category is the 1.0 percent levy on the assessed value of all real property within City limits. The Property Tax category also includes the Motor Vehicle License Fee (MVLF) backfill payment, which is property tax revenue received from the State of California to replace the MVLF that was repealed in 2004. Additionally, the category includes pass-through and residual property tax payments deposited into the Redevelopment Property Tax Trust Fund (RPTTF) due to the dissolution of Redevelopment Agencies (RDAs) statewide.

Forecast

The Outlook for Property Tax assumes growth based upon the updated FY 2025 projection for property tax included in the FY 2025 First Quarter Report, and economic assumptions available at the time of the preparation of this report. **Table 2.1 - Property Tax Five-Year Forecast** displays the FY 2025 Adopted Budget and year-end projection, as well as the forecast for FY 2026 through FY 2030 for the Property Tax category.

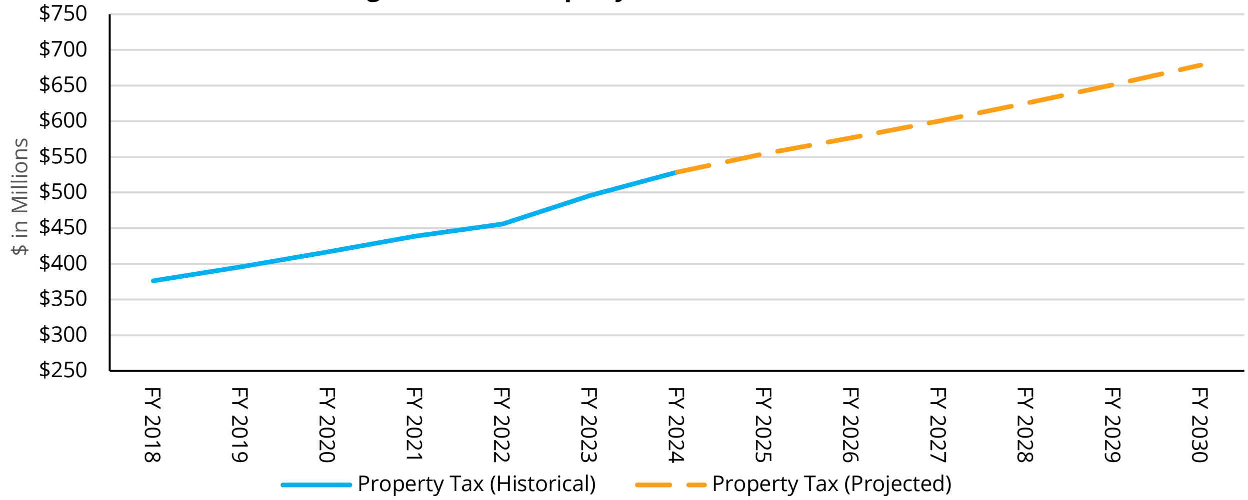
Table 2.1 - Property Tax Five-Year Forecast ($ in Millions)

	FY 2025 Adopted	FY 2025 Projection	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Growth Rate	4.4%	5.7%	4.2%	4.2%	4.2%	4.3%	4.3%
Projection	$ 808.9	$ 814.4	$ 844.4	$ 880.6	$ 918.5	$ 957.5	$ 998.2

As reported in the FY 2025 First Quarter Report, the Property Tax category is projected at $814.4 million, which represents an increase of $5.5 million from the FY 2025 Adopted Budget and serves as the baseline for the Outlook forecast. Due to a lag between the time assessed valuation is set by the County Assessor's Office and Property Tax revenue is received by the City, property tax growth for FY 2025 is based on real estate activity through calendar year 2023. Activity in calendar Year 2023 serves as the base for the forecast in the outer years. Moreover, the FY 2025 projection includes an increase in the MVLF back-fill payment based on the most recent calculation and payment schedule provided by the County of San Diego. These adjustments are considered in the baseline projections for the outlook period.

The growth that is applied to the FY 2025 First Quarter projection to develop the Outlook forecast is based on an analysis of the relationship of property tax to assessed values and assessed valuation growth, followed by adjustments based on the assumptions and economic factors discussed in the *Economic Trends* section below. **Figure 2.2 – 1% Property Tax Five-Year Forecast** represents the historical and projected 1.0 percent property tax amounts.

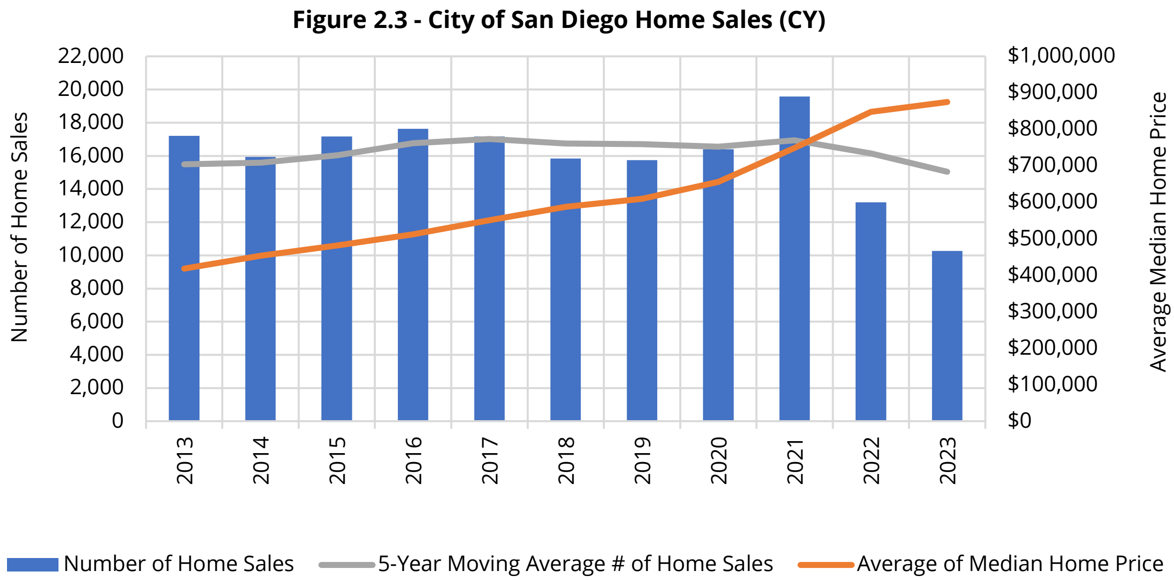
Figure 2.2 - 1% Property Tax Five-Year Forecast



Economic Trends

The major economic drivers of Property Tax revenue are the California Consumer Price Index (CCPI), home sales, home prices, foreclosures, and defaults. The CCPI plays an important role in the assessed valuation of properties that do not sell or are not improved within a given year. Specifically, Proposition 13 specifies that a property's value may increase at the rate of the CCPI, but cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value. In compliance with Revenue and Taxation Code section 51, the San Diego County Assessor's Office uses the October CCPI to assess property values under Proposition 13. However, at the time that this report was prepared, the October 2024 CCPI had not yet been released. The latest CCPI released by the California Department of Finance (CA DOF) is as of August 2024 at 343.108, which is a 2.7 percent increase from the August 2023 CCPI of 334.027. As a result, the Outlook applies the 2.0 percent maximum that is specified in Proposition 13 to the assessed value of all properties not sold or improved within the given year.

As depicted in **Figure 2.3 - City of San Diego Home Sales (CY)**, home sales began to slow in calendar year 2022 and continued with a 22.2 percent decrease in calendar year 2023. The decline in property sales experienced in calendar year 2023 is primarily attributed to increasing interest rates resulting in unfavorable lending conditions, which when coupled with high median home prices, has further reduced the affordability of homes in the region. Additionally, the low inventory in available housing for sale has also contributed to decreasing home sales across the City. A large percentage of homeowners have a low mortgage rate, making it unfavorable for them to sell in this current market and purchase a new home at both a higher interest rate and higher price. Any changes in future interest rates, could have either a positive or negative effect by further reducing or increasing the number of home sales and also potentially impacting median home prices.



Mortgage rates, changes to federal tax policy, and property tax refunds are all factors considered in the development of the revenue projections for Property Tax. The 30-year mortgage rate has steadily increased in recent months as record high inflation has led the Federal Reserve to increase the federal funds rates in an effort to combat record high inflation and bring the Consumer Price Index (CPI) to a target rate of 2.0 percent. In November 2024, the Federal Open Market Committee (FOMC) decreased the target range for the federal funds rate by 25 basis points due to positive progress in the economy. This was the second consecutive interest rate cut following a reduction of 50 basis points in September 2024. It is expected that there will be an additional rate cut in 2024, with additional cuts continuing in 2025, which should favor property tax revenues in future years. In their November 2024 statement, the Federal Reserve stated that:

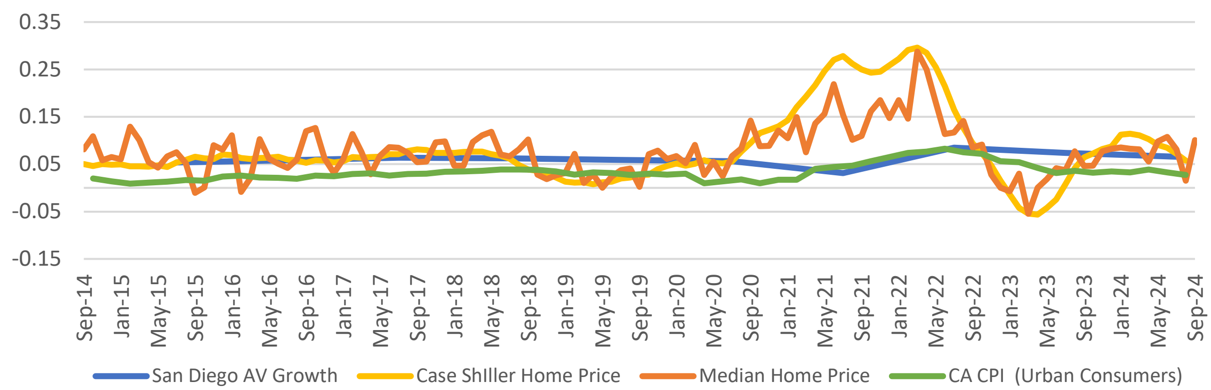
> In support of its goals, the Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 4-1/2 to 4-3/4 percent. In considering additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.[1]

At the start of calendar year 2024, the City experienced growth in home prices, which has remained stable through the calendar year. The median home price reached an all-time high of $1.0 million as of June 2024, and is projected to remain relatively steady through the remainder of the calendar year, with the current median home price in September 2024 reported at $950,000. Since then, home sales have also begun to slightly improve in calendar year 2024. When comparing the number of home sales activity from September 2023 to September 2024, home sales activity increased slightly by 2.5 percent.

[1] Federal Reserve Issues FOMC Statement. Board of Governors of the Federal Reserve System. https://www.federalreserve.gov/monetarypolicy/files/monetary20241107a1.pdf. November 7, 2024.

Figure 2.4 – Case-Shiller Home Price Index, California CPI, San Diego Median Home Price displays the correlation of several economic factors described above since 2014 and the resulting impact on the City's assessed valuation. The graph shows that while the Case-Shiller Home Price Index and the median home price have fluctuated significantly over the years, the CCPI has remained relatively stable, then increasing steadily in calendar year 2022, before showing slight improvements beginning in calendar year 2023 and continuing improvement through the outlook period. As CCPI is a key driver of the change in the City's assessed valuation as long as it remains above 2.0 percent, the stability in this indicator and the Proposition 13 restrictions have allowed the annual change in assessed valuation to remain steady when compared to the Case-Shiller Home Price Index and the local median home price. Notably, the graph displays a lag of approximately 12 to 18 months between activity in the local real estate market and the resulting impact on the City's assessed valuation, as noted earlier in the *Property Tax Forecast* section.

Figure 2.4 - Case-Shiller Home Price Index, California CPI, San Diego Median Home Price



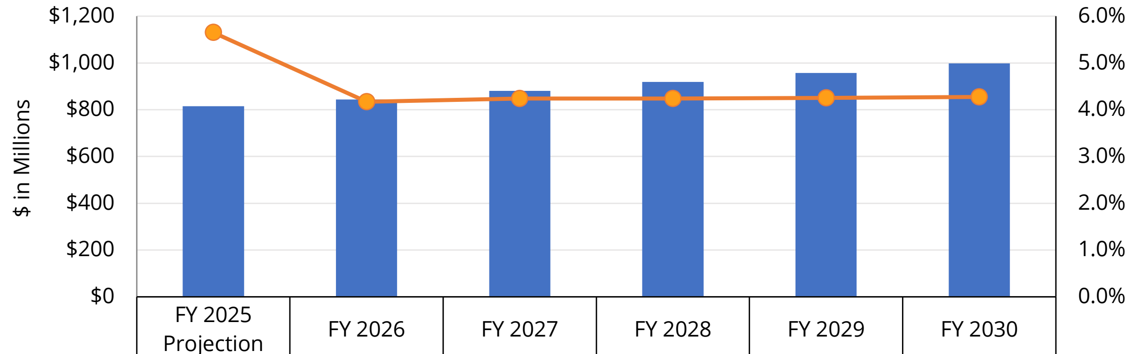
Additionally, foreclosures have steadily increased while notices of defaults have steadily dropped. The recent trends reflect a return to historically normal levels after the lifting of statewide eviction moratoriums that were put in place during the pandemic. The rate is expected to continue to normalize, with economic factors such as stable unemployment, any changes are expected to be minimal in the near term.

In addition to the above factors, due to the dissolution of RDAs, pass–through and residual property tax payments to the City from the RPTTF are included in the Property Tax forecast. Pass-through payments are agreements between former redevelopment areas and the local entities to provide payments from the RPTTF deposits to local entities. The residual property tax payment is the City's proportionate share of funds remaining in the RPTTF after the Recognized Obligation Payment Schedule (ROPS) requirements have been met. As ROPS obligations are paid off, residual RPTTF revenues will grow. **Table 2.2 – Property Tax Components** and **Figure 2.5 – Property Tax Revenue Projections: Fiscal Years 2026 - 2030** provide details on the components of the FY 2025 Adopted Budget and year-end projection, as well as the forecasted Property Tax revenue for FY 2026 through FY 2030. The current growth rates incorporate a 12 to 18-month lag time between the time that the assessed valuation is set by the County Assessor's Office and the time that Property Tax revenue is received by the City. It is anticipated that Property Tax will see the impacts from the current year trends in FY 2026 before normalizing in the outer years.

Table 2.2 - Property Tax Components ($ in Millions)	FY 2025 Adopted	FY 2025 Projection	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Growth Rate	4.4%	5.7%	4.2%	4.2%	4.2%	4.3%	4.3%
1% Property Tax	$ 549.0	$ 554.2	$ 576.9	$ 600.2	$ 625.2	$ 651.3	$ 678.7
MVLF Backfill	$ 203.9	$ 204.3	$ 212.8	$ 221.9	$ 231.3	$ 241.1	$ 251.4
RPTTF Pass-Through Tax Sharing Payment	$ 12.3	$ 12.6	$ 13.1	$ 13.7	$ 14.3	$ 14.9	$ 15.5
RPTTF Residual Property Tax Payment	$ 43.7	$ 43.2	$ 41.5	$ 44.9	$ 47.8	$ 50.2	$ 52.6
Total Property Tax Projection	$ 808.9	$ 814.4	$ 844.4	$ 880.6	$ 918.5	$ 957.5	$ 998.2

Figure 2.5 - Property Tax Revenue Projections: Fiscal Years 2026 - 2030

Projections including Redevelopment Property Tax Trust Fund (RPTTF)



	FY 2025 Projection	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 814.4	$ 844.4	$ 880.6	$ 918.5	$ 957.5	$ 998.2
Growth Rate	5.7%	4.2%	4.2%	4.2%	4.3%	4.3%

Scenario Analysis

The factors described above were used in the development of the projection; however, should one or several of these factors not perform as projected, Property Tax revenues will vary from the current projection. To account for variances in these factors, “High” and “Low” projections were also prepared. **Figure 2.6 – Property Tax Revenue Five-Year Forecast: Fiscal Years 2026 - 2030** reflects the current scenario as well as the “High” and “Low” scenario. In addition, **Table 2.3 – Property Tax Five-Year Forecast: Growth Rate Scenarios** details the assumed growth rates for each scenario for FY 2026 through FY 2030.

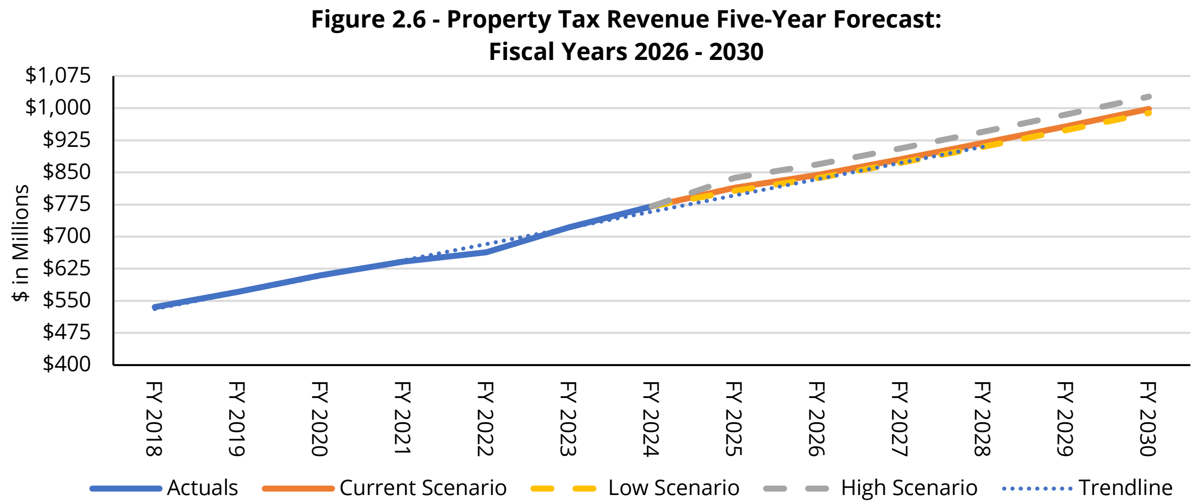


Table 2.3 - Property Tax Five-Year Forecast: Growth Rate Scenarios

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Current Growth Rate	4.2%	4.2%	4.2%	4.3%	4.3%
High Growth Rate	6.2%	6.2%	6.2%	6.3%	6.3%
Low Growth Rate	3.2%	3.2%	3.2%	3.3%	3.3%

The current growth rates were developed based on the most recent housing market conditions and data available at the time of the preparation of the report. As a result of the 12 18-month lag time for this growth to be recognized in the City's Assessed Valuation, it is expected that Property Tax will see the impacts from current year trends in FY 2026 before normalizing in the outer years. The assumption incorporates the following housing statistics: an increase of 2.9 percent in year-to-date home sales and an increase of 10.1 percent in home prices as of September 2024[2].

The "Low" scenario assumes an increase in mortgage interest rates implemented by the FOMC over the next year. Increased mortgage rates raise the cost of home ownership, thereby slowing the number of home sales. A lower supply in homes for sale also has the potential to negatively impact home sales. Further contributing to the "Low" scenario is that existing higher prices are changing home ownership behaviors and reducing turnover. High interest rates and lower turnover could result in lower annual assessed valuation growth rates for FY 2026 through FY 2030. A "Low" scenario would reduce Property Tax projections by $8.1 million in FY 2026 and a cumulative total of $44.1 million throughout the outlook period.

A "High" scenario is projected to exist should homes sales and valuations increase, with slightly restrained growth. Interest rates would potentially decrease over the next several years, causing high demand for housing and limited inventory, further fueled by continued growth in higher income labor markets. The projections in this scenario reflect higher levels of growth similar to those seen in recent

[2] San Diego Residential Home Sale Activity by Month. HDL Coren & Cone. Retrieved September 2024.

years, during the recovery of the pandemic. A "High" scenario would increase Property Tax projections by $16.2 million in FY 2026 and a cumulative total of $88.2 million throughout the outlook period.

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

Sales Tax

The City's second largest revenue source is sales tax, which represents 18.9 percent of the General Fund revenue in the FY 2025 Adopted Budget. Sales tax is collected at the point-of-sale and remitted to the California Department of Tax and Fee Administration, which allocates tax revenue owed to the City in monthly payments. Sales tax revenue also includes online sales from out-of-state businesses that meet a threshold in cumulative sales and deliver goods in California. The total citywide sales tax rate in San Diego is 7.75 percent, of which the City receives 1.0 percent of all point-of-sale transactions within the City.

Forecast

The Outlook for Sales Tax assumes growth based on the updated FY 2025 projection for Sales Tax included in the FY 2025 First Quarter Report, and economic assumptions available at the time of the preparation of this report. **Table 2.4 – Sales Tax Five-Year Forecast** displays the FY 2025 Adopted Budget and year-end projection, as well as the forecast for FY 2026 through FY 2030 for the Sales Tax category.

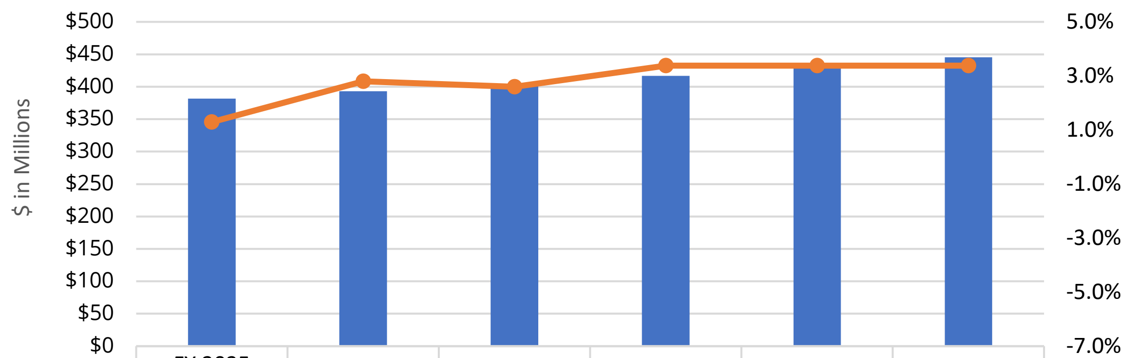
Table 2.4 - Sales Tax Five-Year Forecast
($ in Millions)

	FY 2025 Adopted	FY 2025 Projection	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Growth Rate	4.3%	1.3%	2.8%	2.6%	3.4%	3.4%	3.4%
Projection	$ 393.5	$ 381.8	$ 392.8	$ 403.0	$ 416.6	$ 430.7	$ 445.3

As reported in the FY 2025 First Quarter Report, the Sales Tax category is projected at $381.8 million, which is a decrease of $11.6 million from the FY 2025 Adopted Budget. The FY 2025 projected decrease is primarily attributed to a trending decline in sales tax receipts collected, which first began in the last quarter of FY 2023—impacted by a decrease in consumer confidence, including reduced discretionary spending. A continued shift in consumption patterns in the form of reduced purchase quantity, particularly for goods as a result of rising prices has had an effect on the sales tax collected. As a result of the current trend, the sales tax growth rate has been revised from a 4.25 percent growth rate included in the FY 2025 Adopted Budget to 1.3 percent following updated information provided by the City's sales tax consultant, Avenu Insights & Analytics. These adjustments are considered in the baseline projections for the outlook period.

The Sales Tax baseline is increased by growth rates that are considered moderate for the first few years of the forecast to reflect a softening of the economy due to the continued economic uncertainty, followed by a return to historically normal growth in the outer years. **Figure 2.7 – Sales Tax Revenue Projection: Fiscal Years 2026 - 2030** displays the relationship between the projected Sales Tax receipts and the forecasted growth rates.

Figure 2.7 - Sales Tax Revenue Projection: Fiscal Years 2026 - 2030



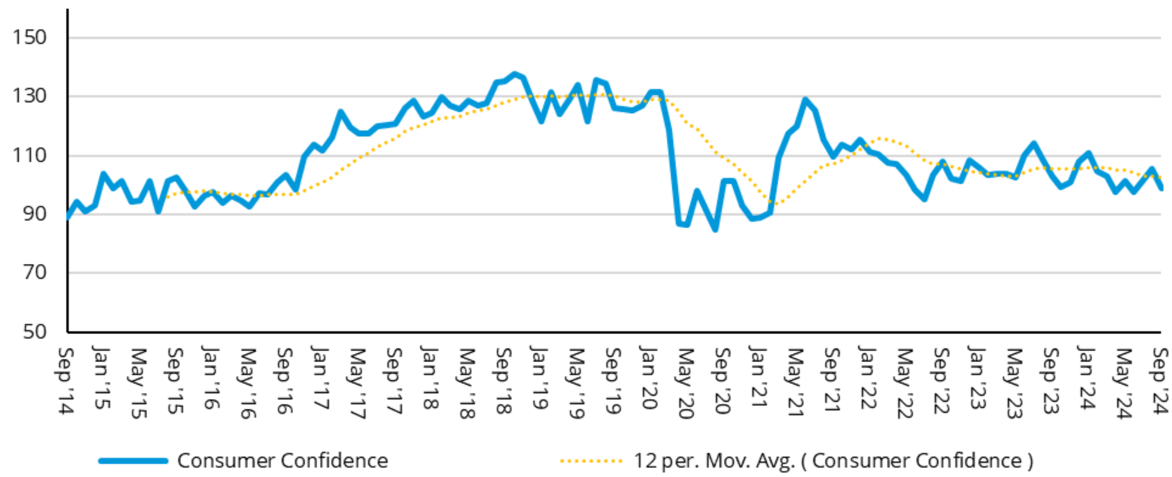
	FY 2025 Projection	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 381.8	$ 392.8	$ 403.0	$ 416.6	$ 430.7	$ 445.3
Growth Rate	1.3%	2.8%	2.6%	3.4%	3.4%	3.4%

Economic Trends

The primary economic drivers for spending and growth in sales tax receipts include the unemployment rate and consumer confidence, which drive consumer spending, and the San Diego Consumer Price Index (CPI). As preliminarily reported by the California Employment Development Department, the September 2024 unemployment rate for the City of San Diego was 4.4 percent; an increase from the 4.0 percent unemployment rate recorded in September 2023. The City's unemployment has remained at a stable rate, averaging 4.3 percent from September 2023 through September 2024. The unemployment rate has continued to fluctuate month-to-month, recently decreasing 0.5 percent, when comparing month-to-month data, from the August 2024 rate of 4.9 percent to 4.4 percent in September 2024.

Moreover, consumer confidence, a measurement of consumers' willingness to spend, continues to fluctuate month-over-month as consumers respond to reservations regarding the current state of the economy and geopolitical events. As shown in **Figure 2.8 – Consumer Confidence,** consumer confidence peaked at 110.9 in January 2024, before fluctuating over the next few months. As of September 2024, consumer confidence has decreased to 98.7, which represents a decrease of 4.2 percent from the September 2023 consumer confidence of 103.0, and reflects a 6.5 percent decline when compared to 105.6 in August 2024.

Figure 2.8 - Consumer Confidence



Source: The Conference Board – Consumer Confidence Survey ®

The San Diego CPI, a metric that measures costs across many consumer items, increased by 2.5 percent from 367.185 in September 2023 to 376.221 in September 2024—continuing a decline from the record high rate of inflation experienced in recent years, in which annual CPI had reached a 5.1 percent increase from calendar year 2022 to 2023. This decline in CPI is consistent with recent economic reports, including the UCLA Anderson Forecast's October 2024 Economic Forecast, which assumes CPI will continue to gradually decline, projecting to reach 2.0 percent in FY 2027.

The forecast for sales tax reflects a moderate yet steady growth in business activity from various sectors. The fluctuating price of gasoline, currently lower than this time last year, and overall lower retail sales, reflects closer to normal consumption compared to the unusually high levels of consumption experienced in prior years post-pandemic. Local business activity, including business sectors like general retail and food products are anticipated to experience slower growth through FY 2030, while transportation is expected to see negative growth during the same period as the market rebalances following elevated price levels that arose due to supply chain constraints during the pandemic[3].

Sales tax revenues from online retailers are distributed to the City through the county pool at a rate of approximately 0.5 percent as opposed to 1.0 percent for in-store point-of-sale City sales tax revenues, which reduces the portion of sales tax revenue received by the City. This trend towards online sales is evidenced by the significant percentage of the City's total sales tax revenue received from the county pool steadily increasing over the past several years.

[3] The UCLA Anderson Forecast for the Nation and California. UCLA Anderson Forecast. October 2024. Page 18

Scenario Analysis

The factors described above combine to make up the sales tax projection; however, should one or several of these factors not perform as projected, sales tax revenues will vary from the current projection. To account for variances in these factors, "High" and "Low" projections were also prepared using the City's sales tax consultant's optimistic and conservative projections. **Figure 2.9 – Sales Tax Projections: Fiscal Years 2026 – 2030** reflects the current scenario as well as the "High" and "Low" scenario. In addition, **Table 2.5 – Sales Tax Five-Year Forecast: Growth Scenarios** details the assumed projections for each scenario for FY 2026 through FY 2030.

Figure 2.9 - Sales Tax Projections: Fiscal Years 2026 - 2030

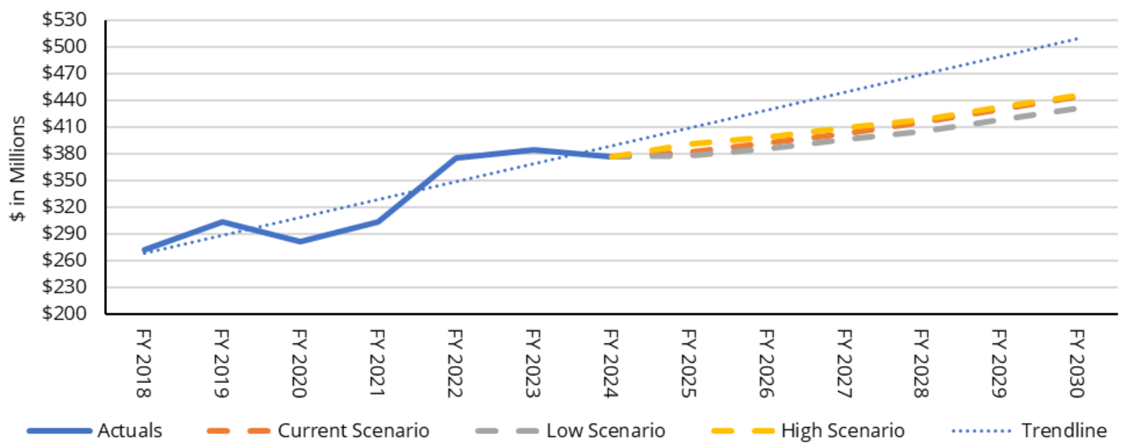


Table 2.5 - Sales Tax Five-Year Forecast: Growth Scenarios ($ in Millions)					
	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Current Projection	$ 392.8	$ 403.0	$ 416.6	$ 430.7	$ 445.3
High Scenario Projection	$ 398.9	$ 409.4	$ 419.0	$ 432.5	$ 446.2
Low Scenario Projection	$ 386.3	$ 396.5	$ 405.8	$ 418.8	$ 432.1

The "Low" scenario reflects the City's sales tax consultant's conservative projections. This scenario considers impacts from consumers' willingness to cut back on spending, higher unemployment, and lower consumer confidence in the local and State economies. A "Low" scenario would reduce sales tax projections by $6.5 million in FY 2026 and a cumulative total of $49.0 million throughout the outlook period.

The "High" scenario reflects the City sales tax consultant's optimistic projections, in which CPI and the unemployment rate continue to decrease, and the consumer confidence and wages would begin to rise, fueling an increase in consumer spending. A "High" scenario would increase sales tax projections by $6.0 million in FY 2026 and a cumulative total of $17.3 million throughout the outlook period.

Transient Occupancy Tax (TOT)

TOT represents 8.3 percent of the City's General Fund FY 2025 Adopted Budget. TOT is levied at 10.5 cents per dollar on taxable rent for a transient's stay of less than one month in properties such as hotels, Short Term Residential Occupancy (STRO) locations, and Recreational Vehicle (RV) parks. The use of TOT is guided by the City's Municipal Code which stipulates that of the 10.5 cents of collected TOT, 5.5 cents is to be applied toward general governmental purposes, 4.0 cents towards promoting the City as a tourist destination, and the remaining 1.0 cent towards any purposes approved by the City Council. TOT from RV parks is levied at 10.5 cents which is directed entirely towards general governmental purposes.

Forecast

The Outlook for TOT assumes growth based upon the updated projection included in the FY 2025 First Quarter Report, and economic assumptions available at the time of the preparation of this report. **Table 2.6 – Transient Occupancy Tax (TOT) Five-Year Forecast** displays the General Fund TOT budget and year-end projection for FY 2025, and the forecast for FY 2026 through FY 2030.

Table 2.6 - Transient Occupancy Tax (TOT) Five-Year Forecast ($ in Millions)

	FY 2025 Adopted	FY 2025 Projection	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Growth Rate	5.9%	3.1%	5.0%	5.0%	5.0%	5.0%	5.0%
Projection	$ 172.8	$ 168.7	$ 176.4	$ 185.1	$ 194.4	$ 204.0	$ 214.2

Note: Table 2.6 represents only the General Fund portion of total TOT (5.5 cents of the total 10.5 cents TOT).

As reported in the FY 2025 First Quarter Report, total citywide TOT receipts are projected at $320.5 million; the General Fund's 5.5 cent portion of the total TOT projected receipts is $168.7 million, which represents a decrease of $4.2 million from the FY 2025 Adopted Budget and serves as the baseline for the Outlook forecast. This decrease is primarily attributed to a lower than anticipated demand for travel. Actual TOT receipts have continued to trend below previously expected levels, which is consistent with the recent San Diego Lodging Forecast, released by Tourism Economics in October 2024. While leisure travel has continued to experience moderate growth, the full recovery of group and business travel to pre-pandemic levels, which was previously forecasted to fully recover this fiscal year, is now anticipated to take place in 2026[4]. These adjustments are considered in the baseline projections for the outlook period.

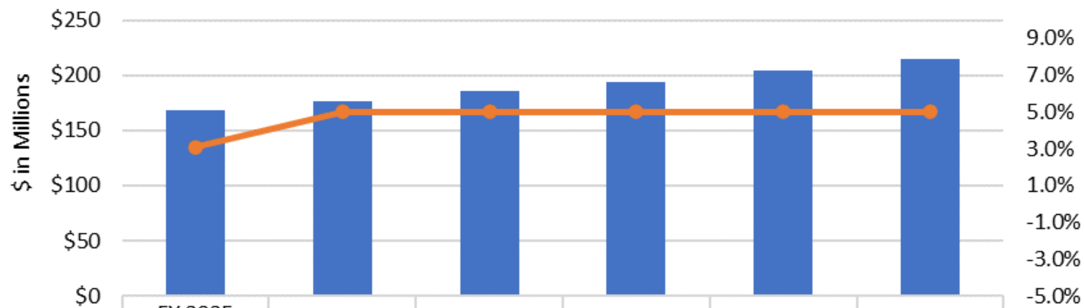
A constant growth rate of 5.0 percent is applied to FY 2026 through FY 2030 based on the assumption that TOT growth will continue to trend moderately. While TOT revenue experienced negative growth in FY 2024, relevant economic indicators (described in the *Economic Trends* section below) and assumptions from the San Diego Lodging Forecast, point toward a more normalized growth in the outer years. The growth rate of 5.0 percent balances these indices and anticipated trends with

[4] Tourism Economics San Diego Lodging Forecast. October 2024. San Diego Industry Research

continued, yet tempered growth—coupled with the assumption that group and business travel will recover to pre-pandemic levels during the Outlook period.

Figure 2.10 – Transient Occupancy Tax (TOT) General Fund Revenue Projection: Fiscal Years 2026 - 2030 below displays the relationship between the projected TOT receipts and the forecasted growth rates.

Figure 2.10 - Transient Occupancy Tax (TOT) General Fund Revenue Projection: Fiscal Years 2026 - 2030



	FY 2025 Projection	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 168.7	$ 176.4	$ 185.1	$ 194.4	$ 204.0	$ 214.2
Growth Rate	3.1%	5.0%	5.0%	5.0%	5.0%	5.0%

Economic Trends

The primary economic drivers for TOT revenues are the Average Daily Room Rate (ADR), occupancy and room demand growth. According to the San Diego Lodging Forecast, which was prepared for the San Diego Tourism Authority (SDTA) by Tourism Economics in October 2024, moderate growth in room revenue in calendar year 2024 reflected a softening demand for travel before growth begins to normalize beginning in calendar year 2026. **Table 2.7 – San Diego County Tourism Industry (Annual % Growth)** summarizes the projected growth for relevant economic indicators below.

Table 2.7 - San Diego County Tourism Industry (Annual % Growth)

	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028
Room Demand (Growth)	0.8%	1.8%	3.4%	2.4%	2.2%
Occupancy	73.7%	73.9%	74.2%	74.8%	75.0%
Avg. Daily Room Rate	$ 211.40	$ 212.97	$ 215.90	$ 220.42	$ 225.58

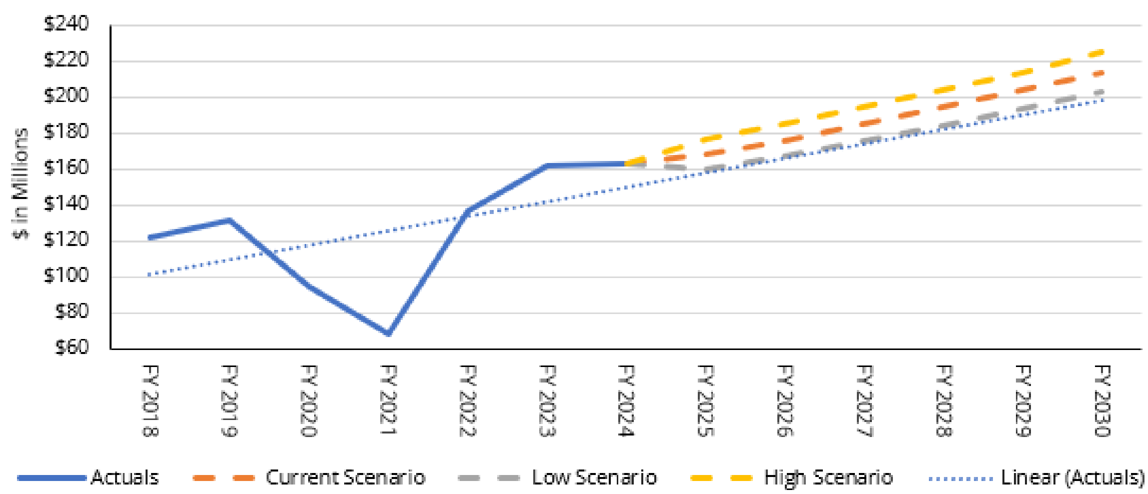
Source: San Diego Lodging Forecast, October 2024. By Tourism Economics for San Diego Tourism Authority.

Room demand is anticipated to increase by 1.8 percent in calendar year 2025 before increasing to a 3.4 percent growth rate in 2026 and normalizing in the outer years. When compared to calendar year 2024, occupancy is anticipated to increase by 0.3 percent in calendar year 2025 and ranges from 0.3 to 0.7 percent growth throughout the Outlook period. Moreover, the ADR has steadily increased from $165.46 in calendar year 2021 to $212.97 in calendar year 2025; however, it is expected to normalize through the outer years. Despite the anticipated easing of growth in these economic indicators, inflation has returned to a growth rate consistent with the Fed's 2.0 percent inflation target[5]—easing potential travel expenses and anticipates international, leisure and business travel to all fully recover to pre-pandemic levels in the upcoming years. Thus, the Outlook forecasts a moderate growth rate of 5.0 percent throughout the outlook period, reflecting continued performance at normalized levels.

Scenario Analysis

The factors described above combine to make up the TOT projection; nonetheless, any changes to major economic drivers or indicators could have a corresponding change in TOT revenues. To account for variances in these factors, "High" and "Low" projections were prepared using a variability margin of error. This is not a representation of economic assumptions, rather a variability factor used to calculate how revenues can differentiate with a 5.0 percent margin of variability. **Figure 2.11 – Transient Occupancy Tax (TOT) Projections: Fiscal Years 2026 – 2030**, reflects the current scenario as well as the "High" and "Low" scenario. In addition, **Table 2.8 – Transient Occupancy Tax (TOT) Five-Year Forecast: Growth Scenarios** details the assumed projections for each scenario for the current fiscal year as well as FY 2026 through FY 2030.

Figure 2.11 - Transient Occupancy Tax (TOT) Projections: Fiscal Years 2026 - 2030



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[5] The UCLA Anderson Forecast for the Nation and California. UCLA Anderson Forecast. October 2024. Page 14

Table 2.8 - Transient Occupancy Tax (TOT) Five-Year Forecast: Growth Scenarios ($ in Millions)					
	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Current Projection	$ 176.4	$ 185.1	$ 194.4	$ 204.0	$ 214.2
High Scenario Projection	$ 185.2	$ 194.4	$ 204.1	$ 214.3	$ 224.9
Low Scenario Projection	$ 167.5	$ 175.9	$ 184.6	$ 193.8	$ 203.5

A "Low" scenario would reduce TOT projections by $8.8 million in FY 2026 and a cumulative total of $48.7 million throughout the outlook period. Potential factors that would negatively impact TOT projections include decreased consumer discretionary spending on items such as leisure travel due to the return of high inflation, the unemployment rate increasing, and a potential recession.

A "High" scenario would increase TOT projections by $8.8 million in FY 2026 and a cumulative total of $48.7 million throughout the outlook period. Potential factors that would positively impact TOT projections include inflation reaching the Fed's target 2.0 percent, which would result in reduced travel expenses. Additionally, this scenario would reflect a greater demand for business, group, and international travel—sectors that have not fully recovered from the pandemic—and an increase in the number of conventions and special events held across the City.

Franchise Fees

Revenue from franchise fees makes up 6.0 percent of the City's General Fund FY 2025 Adopted Budget. These revenues are based on agreements with private utility companies in exchange for the use of the City's rights-of-way. Currently, San Diego Gas and Electric (SDG&E), Cox Communications, Spectrum (formerly Time Warner Cable), and AT&T pay a franchise fee to the City. The City also collects franchise fees from private refuse haulers that conduct business within the City limits. The fee received from the agreements with utility companies is based on a percentage of gross revenue while the fee received from refuse haulers is based on tonnage.

SDG&E, refuse haulers and cable companies are the largest contributors to Franchise Fees, generating approximately 93.4 percent of Franchise Fee revenue in FY 2026. The growth rate for SDG&E electricity and gas sales is expected to increase through the outlook period to account for projected electricity and gas rate increases as projected from SDG&E's General Rate Case (GRC) filed in July 2023, with the bulk of the rate increase expected in FY 2025 and FY 2026. The final rate increases, approved by the CPUC, are yet to be determined. Due to many complex issues in the scope of the GRC proceeding, on October 17, 2024, it was ordered that the statutory deadline of the proceeding be extended until March 31, 2025. The growth rate for cable is expected to decrease through the outlook period due to the increasing loss of market share to digital competitors.

Additionally, the City receives annual bid payments, for both electric and gas, as part of the current negotiated agreement with SDG&E. Beginning in FY 2022, the City will receive the electric bid payment for the first five years of the agreement, ending in FY 2026, and the gas bid payment continuing through FY 2040. If the agreement is terminated at any time, the remaining payments will be voided. The FY 2026 forecast includes an installment payment of $11.9 million, of which $11.3 million accounts for the electricity portion and $567,000 accounts for the gas portion. Of the total $11.9 million, $2.4 million will be transferred to the Energy Independence Fund (EIF), a fund established by the City Council in May 2022 and includes the allocation of a minimum of 20.0 percent of the Bid amount; $3.3 million to the Environmental Growth Funds (EGF), which is in accordance with the City Charter to allocate 25.0 percent of revenues received from SDG&E; and the remaining $6.6 million will be transferred to the General Fund, followed by annual installments with a 3.38 percent interest rate applied each year through the Outlook.

Forecast

The Outlook for Franchise Fees assumes growth based upon the updated FY 2025 projection for Franchise Fees and economic assumptions available at the time of the preparation of this report. The FY 2025 projection includes all General Fund franchise fees, including the Major General Fund revenue portion projected in the FY 2025 First Quarter Report. **Table 2.9 – Franchise Fees Five-Year Forecast** displays the budget and year-end projection for FY 2025 and the forecast for FY 2026 through FY 2030 for revenue from franchise fees.

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

	FY 2025 Adopted	FY 2025 Projection	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Electricity/Gas Growth Rate	8.0%	8.0%	4.0%	3.0%	4.0%	7.0%	8.0%
Cable Growth Rate	-5.5%	-5.5%	-5.9%	-6.2%	-6.5%	-6.8%	-7.1%
Projection	$ 123.7	$ 124.6	$ 120.8	$ 117.0	$ 120.4	$ 126.8	$ 134.7

The Franchise Fees category is projected at $120.8 million in FY 2026, which represents a net decrease of $2.9 million from the FY 2025 Adopted Budget. The decrease is primarily attributed to the following one-time revenue adjustments, which have been removed from the baseline:

- One-time waiver of $2.3 million budgeted in FY 2025, representing 20.0 percent of the Minimum Bid transfer to the EIF, and now forecasted to occur in FY 2026 and through the outlook period;
- $4.3 million one-time transfer to the General Fund from the Recycling Fund for the Sycamore Canyon Landfill franchise agreement. Beginning in FY 2026, these allocations will be received in the Recycling Fund.

The one-time reductions are partially offset with increases in forecasted SDG&E revenues, attributed to projected rate increases, and franchise fee revenues from refuse hauler collections, based on a projected increase in tonnage through the outlook period.

Franchise Fees growth rates are projected independently, using historical actuals and relevant information respective to each of the franchise fees—the aggregate of these assumptions results in the total forecast for the Franchise Fees category. Most notably, the growth rate for gas and electricity rates considers an increase in gas and electricity rates based on current market conditions and various factors impacting revenue collected. The City receives an annual cleanup payment from SDG&E in

February each year at which time the revenue projections will be updated. The cable growth rates consider the continuing loss of market share to digital competitors that do not have franchise fees levied against them. These assumptions are further described in the *Economic Trends* section below.

Economic Trends

San Diego Gas and Electric (SDG&E)

The FY 2026 forecast for SDG&E franchise fee revenue is projected at $88.1 million—based off the most recent revenue projections from SDG&E's 2024 General Rate Case (GRC) application filed in July 2023. SDG&E filed the application with the CPUC, seeking approval to change base rates to customers. If approved by the CPUC, the rate increases would be effective November 2024. The CPUC issued a Proposed Decision for the SDG&E GRC in October 2024 which ordered the statutory deadline for completion of the GRC proceeding to be extended to March 31, 2025. The decision to extend the deadline for completion of application is primarily due to allowing the Commission adequate time to issue a final decision.[6] If approved by the CPUC, the rate increases would be effective in CY 2025. Therefore, an increase in franchise fee revenue from SDG&E is expected in FY 2026 and beyond primarily due to the anticipated rate increases. The GRC projects a blended growth of 24.0 percent for both gas and electricity over the next five years. Although the exact growth per year is undetermined, the Outlook assumes the bulk of the rate increases taking effect at the start of the outlook period. Additionally, increases in electric vehicles, additional housing supply, and increases in investments in the safety and reliability of infrastructure of the energy market and accelerated transition to clean energy through new technology and regional electrification efforts can also contribute to the increases in revenue. Other key variables that impact franchise fee revenue include: solar installations, increased energy efficiencies, building decarbonization, Community Choice Aggregation (CCA) and other rate savings, changes in rate structures, legislative and regulatory mandates, energy storage, and variable weather patterns including fire activity within a given year.

Refuse Haulers

The forecast for franchise fee revenue from refuse haulers is developed by the Environmental Services Department. Franchise fee revenue from refuse haulers is projected at $14.2 million in FY 2026. The forecast is based on refuse collection fees from anticipated tonnage collected at the City's landfills. The forecast assumes a rate of $18/ton, with a growth rate of 2.0 percent applied to anticipated tonnage each year of the outlook, which is based on anticipated CPI. The last fee increase of $1/ton was implemented in FY 2023 and no additional fee increases are projected through the outlook period.

[6] California Public Utilities Commission Online Documents | CA.GOV
544372021.PDF October 17, 2024.

Cable Companies

Franchise fees from cable companies are expected to decrease due to the increasing loss of market share to digital competitors. The FY 2026 forecast is projected at $9.3 million, representing a decrease by 5.9 percent from the FY 2025 Adopted Budget. The increasing loss of market share is expected to continue in the outer years as several new digital content providers have entered the market in recent years and significantly impacted the cable market share, decreasing by an additional 0.32 percent in each year of the outlook period. The forecast for cable revenue assumes the current franchise agreements.

Scenario Analysis

The factors described above combine to make up the franchise fees projection; however, should one or several of these key variables significantly outweigh other variables in a different pattern from past history, franchise fee revenues will vary from the current projection which is based on historical year-end actuals. Additionally, the quickly changing dynamics of the energy market with the push for climate action goals, clean energy and impacts of climate change, weather, and fire risks, will all impact future growth rates for gas and electric franchise fees. Due to this, past performance may not be a reliable measure for future performance.

For cable revenue, variances in content ownership, media advertising, subscription levels, and pricing may also impact franchise fee growth. Since adequate data on these individual factors for all San Diego cable companies are not yet available to City staff, cable projections are based on historical actuals and overall fluctuations in these factors.

Property Transfer Tax

Property Transfer Tax is levied on the sale of real property. The County of San Diego collects $1.10 per $1,000 of the sale price when any real property is sold, of which the City receives half, or $0.55 per $1,000. Property Transfer Tax revenue is remitted to the City monthly and represents 0.5 percent of the City's General Fund FY 2025 Adopted Budget.

Forecast

Table 2.10 – Property Transfer Tax Five-Year Forecast displays the FY 2025 Adopted Budget and year-end projection, as well as the forecast for FY 2026 through FY 2030 for Property Transfer Tax. The FY 2025 projection for Property Transfer Tax is projected to increase by $782,000 from the FY 2025 Adopted Budget and serves as the basis for the Outlook projections.

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

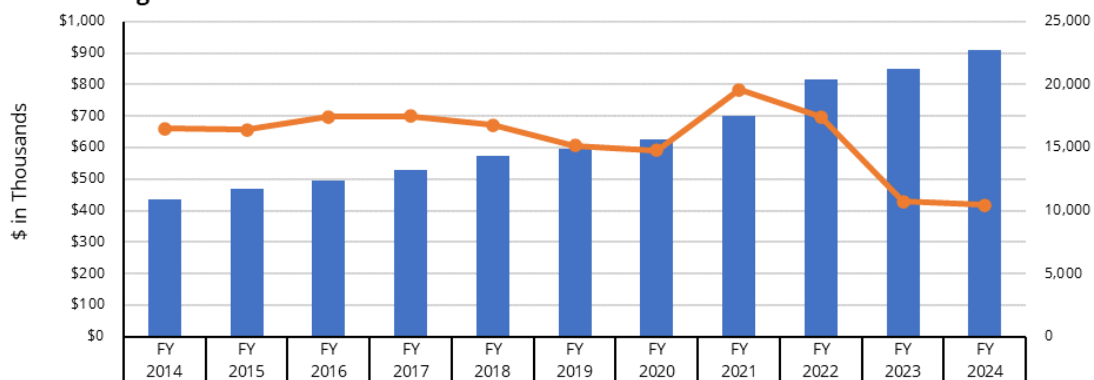
	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Growth Rate	4.4%	4.2%	4.2%	4.3%	4.3%	4.3%
Projection	$ 10.1	$ 10.9	$ 11.3	$ 11.8	$ 12.3	$ 12.8

Property Transfer Tax estimates were developed using current apportionment reports received from the County of San Diego. Growth rates for property transfer tax revenues included through the outlook period reflect those projected for Property Tax revenues for the corresponding year.

Economic Trends

The major economic drivers for Property Transfer Tax are volume of property sales and home prices. Unlike the 1.0 percent Property Tax revenue, Property Transfer Tax receipts reflect current economic conditions without lag time. The median home price has continued to grow over the past year, and although the number of home sales had experienced a significant decline in the previous year, current year-to-date trends are experiencing slight increases in number of home sales when comparing data with the same time period last year. **Figure 2.12 – Median Home Prices & Number of Homes Sold** illustrates the median home prices and number of homes sold over the last ten years. Property Transfer Tax revenue is anticipated to grow gradually throughout the outlook period.

Figure 2.12 - Median Home Prices & Number of Homes Sold



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Median Home Price	$436,938	$470,542	$494,896	$530,500	$572,667	$595,500	$625,438	$700,125	$818,063	$849,473	$911,750
Number of Homes Sold	16,508	16,415	17,432	17,499	16,820	15,145	14,777	19,617	17,452	10,749	10,435

Source: HdL Coren & Cone

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Licenses and Permits

The Licenses and Permits category includes revenue associated with regulating certain activities within the City, and other revenues such as business tax, rental unit business tax, parking meter revenue, alarm permit fees, and special event permits. Licenses and Permits represent 2.3 percent of the City's General Fund FY 2025 Adopted Budget.

Table 2.11 – Licenses and Permits Five–Year Forecast displays the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for revenue from licenses and permits.

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

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Growth Rate		1.8%	1.8%	1.8%	1.8%	1.8%
Projection	$ 47.4	$ 41.6	$ 48.3	$ 43.8	$ 50.6	$ 46.1

The forecast for FY 2026 reflects a $5.8 million decrease from the FY 2025 Adopted Budget primarily due to $5.1 million in licensing and application revenue associated with the Short-Term Residential Occupancy Program, which are collected every two years, and a decline of $1.2 million in Cannabis Business Taxes paid by outlets. With the exception of Cannabis Business Tax and Short-Term Residential Occupancy application and license revenue, a constant growth rate of 1.8 percent is applied from FY 2026 to FY 2030 based on a three-year average of historical revenue growth. Within this category, Cannabis Business Tax and Short-Term Residential Occupancy revenue are projected separately from the 1.8 percent growth rate and then aggregated with other revenue from Licenses and Permits.

A majority of the revenues from Licenses and Permits are considered user fees. The City is currently conducting the FY 2026 Comprehensive User Fee Study, which is performed every three to five years. The City's user fees are currently being evaluated by each servicing Department and new and revised fees will be submitted and proposed to the City Council in early calendar year 2025. Once approved, related revenue adjustments will be included in the FY 2026 Proposed Budget. Any future fee adjustments, approved by City Council can have the potential to further impact the forecasted revenue in the outlook period.

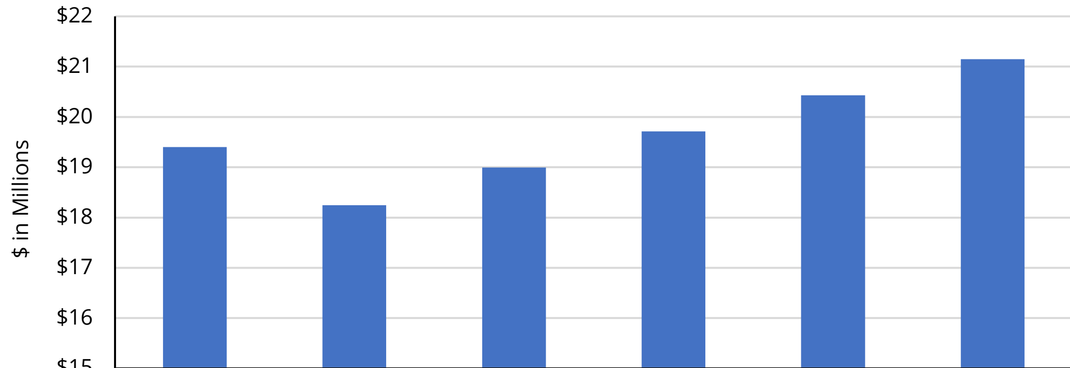
Cannabis Business Tax

Included within the Licenses and Permits category are business taxes received from the sale, distribution, cultivation, and manufacturing of non-medical cannabis products. The City levies a gross receipts tax of 8.0 percent on cannabis retail sales and 2.0 percent for cannabis production facilities.

To develop the Outlook projections, actual sales data from FY 2024 was used to develop an average of annual taxable sales per outlet. This figure was then scaled to the number of dispensaries projected in each fiscal year in the forecast period and the tax rate applied. The projection for cultivation, manufacturing, and distribution of cannabis was calculated following a similar methodology. **Figure**

2.13 - Cannabis Business Tax Revenue, Fiscal Years 2026 - 2030 depicts the forecasted growth for cannabis business tax revenue, which is expected to remain steady through the outlook period. As the industry continues to evolve, the City will continue to monitor and update projections from all cannabis businesses, as needed.

Figure 2.13 - Cannabis Business Tax Revenue
Fiscal Years 2026 - 2030



	FY 2025 Adopted Budget	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Cannabis Tax	$ 19.4	$ 18.2	$ 19.0	$ 19.7	$ 20.4	$ 21.1

Short-Term Residential Occupancy (STRO) Program

Included within the Licenses and Permits category is revenue received from application and license fees associated with the Short-Term Residential Occupancy (STRO) Program. The purpose of the STRO Program is to regulate short-term residential occupancy of dwelling units to balance the need to preserve neighborhood quality of life with the protection of private property rights. City Council approved the STRO ordinance on February 23, 2021. Licenses are valid for a two-year period. Application fees are collected when applications are submitted and license fees are collected after the application is approved; the majority of licenses will be renewed every odd fiscal year. This results in a projected revenue of $6.8 million in FYs 2027 and 2029, and $1.2 million every other year.

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Fines, Forfeitures, and Penalties

The Fines, Forfeitures, and Penalties category includes revenue generated from the violation of laws or regulations, such as California Vehicle Code violations, City parking and ordinance violations, negligent impounds, collection referrals, and litigation awards. This revenue source represents approximately 1.5 percent of the City's General Fund FY 2025 Adopted Budget.

Table 2.12 – Fines, Forfeitures and Penalties Five-Year Forecast displays the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for revenue from fines, forfeitures, and penalties.

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

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Growth rate		1.5%	1.5%	1.5%	1.5%	1.5%
Projection	$ 31.2	$ 31.6	$ 32.1	$ 32.6	$ 33.1	$ 33.5

Revenue from fines, forfeitures, and penalties are projected at a constant growth rate of 1.5 percent for FY 2026 to FY 2030 based on a three-year average of historical revenue growth. The forecast for FY 2026 reflects a $460,000 increase from the FY 2025 Adopted Budget primarily due to the projected growth.

A majority of the revenues from fines, forfeitures and penalties are considered user fees. Any future fee adjustments, including parking citation fees, approved by City Council can have the potential to further impact the forecasted revenue in the outlook period.

Revenue from Money and Property

The Revenue from Money and Property category primarily consists of interest from city investments and rental revenue generated from City-owned properties primarily including Mission Bay Park, Balboa Park, City Pueblo Lands, and Torrey Pines Golf Course. This revenue source represents 3.9 percent of the City's General Fund FY 2025 Adopted Budget.

Table 2.13 – Revenue from Money and Property Five-Year Forecast displays the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for the Revenue from Money and Property category.

Table 2.13 - Revenue from Money and Property Five-Year Forecast ($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 81.8	$ 78.3	$ 79.8	$ 81.3	$ 82.9	$ 84.6

Within this category, office space rent received from non-General Fund departments and Mission Bay Park rents and concessions are analyzed and projected separately and then aggregated with other revenue from money and property. A zero percent growth rate is applied to the other revenue sources within this category from FY 2026 to FY 2030 based on an overall inconsistent historical growth in this category.

The forecast for FY 2026 reflects a $3.5 million decrease from the FY 2025 Adopted Budget primarily due to $3.3 million one-time revenue from the sale of leased property and a $253,000 decrease in revenue from Mission Bay Park rents and concessions.

Per City Charter Section 55.2, $20.0 million of Mission Bay Park rents and concessions will remain in the General Fund. The remainder of funds greater than $20.0 million will be allocated to the San Diego Regional Parks Improvement Fund and the Mission Bay Park Improvement Fund, which is reflected in the *Transfers Out* section of this Report. The San Diego Regional Parks Improvement Fund receives 35.0 percent of revenues in excess of the threshold amount, or $3.5 million, whichever is greater, with 65.0 percent or the remaining amount allocated to the Mission Bay Park Improvement Fund.

Office space rent revenue is received from non-General Fund departments occupying General Fund owned buildings. Revenues received in this category are based on the rental agreements and occupancy levels for those departments, which are anticipated to increase by a net $37,000 in FY 2026. The net increase is due to an annual increase in operations and maintenance costs received from the non-General Fund departments occupying the Civic Center Plaza building.

Interest on pooled investments is projected based on the current General Fund participation level in the treasury pool and an average of historical actuals. Due to recent market conditions and changes in interest rates, a zero percent growth is applied year-over-year. Past interest earnings performance is no guarantee or indicator of future results. This revenue source makes up 2.7 percent of the total revenue from the Money and Property category in FY 2026 and is closely monitored as part of each year's budget monitoring process.

Revenue from Federal and Other Agencies

The Revenue from Federal and Other Agencies category includes federal and State grants, and reimbursements to the City from other agencies, such as court crime lab revenue, urban search and rescue grants, and service level agreements. This revenue source represents 0.6 percent of the City's General Fund FY 2025 Adopted Budget.

Table 2.14 – Revenue from Federal and Other Agencies Five-Year Forecast displays the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for Revenue from Federal and Other Agencies.

Table 2.14 - Revenue From Federal and Other Agencies Five-Year Forecast ($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 12.2	$ 10.8	$ 10.8	$ 10.8	$ 10.8	$ 10.8

The forecast for FY 2026 reflects a decrease of $1.4 million from the FY 2025 Adopted Budget. This decrease is primarily due to the removal of $1.1 million in one-time reimbursement for grant administration revenue in the Homelessness Strategies and Solutions Department and $197,000 in one-time opioid settlement revenue.

Zero-growth is applied to the Revenue from Federal and Other Agencies category as no additional State or federal assistance above the baseline projection is assumed throughout the outlook period due to its unpredictability—any federal or other agency assistance beyond $10.8 million was not known at the time of the preparation of this report.

Charges for Services

The revenue forecasted in the Charges for Services category is primarily comprised of reimbursements for services rendered by the General Fund to non-General Funds and also includes charges for services provided to the public. This category includes the 4.0 cent TOT reimbursements to the General Fund, General Government Services Billing (GGSB), and other user fee revenues. This revenue source represents 13.6 percent of the City's General Fund FY 2025 Adopted Budget.

Table 2.15 – Charges for Services Five-Year Forecast displays the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for revenue from Charges for Services.

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

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 281.7	$ 267.5	$ 276.0	$ 284.1	$ 288.9	$ 295.8

The forecast for FY 2026 reflects a decrease of $14.2 million from the FY 2025 Adopted Budget. While a zero-growth rate is applied to the Charges for Services category, select commitments including reimbursements from other funds, are projected independently and then aggregated with other revenues in the Charges for Services category. Reimbursements to the General Fund from the TOT Fund are projected to decrease by $8.4 million in FY 2026 due to a decrease in projected TOT revenue. Moreover, reimbursement revenue from other funds is projected to decrease due to the removal of one-time resources in FY 2025, notably $4.3 million from the Infrastructure Fund, $3.9 million from the Environmental Growth Funds and $1.5 million in other one-time revenue. These decreases are partially offset by an increase for reimbursements from other funds as a result of forecasted increases in the Salaries and Wages category.

Other Revenue

The Other Revenue category includes ambulance fuel reimbursements, corporate sponsorships, unclaimed monies, and other miscellaneous revenues. This revenue source represents 0.1 percent of the City's General Fund FY 2025 Adopted Budget.

Table 2.16 – Other Revenue Five-Year Forecast displays the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for revenue from other sources.

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

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 1.6	$ 1.6	$ 1.6	$ 1.6	$ 1.6	$ 1.6

The growth rate for Other Revenue is projected to remain unchanged through the outlook period, based on historical trends.

Transfers In

The Transfers In category primarily represents transfers to the General Fund from non-General Funds. The major components in this category are transfers from the Public Safety Services Fund, Gas Tax and TransNet Funds, and the one-cent TOT revenue transfer from the TOT Fund. This revenue source represents 5.4 percent of the City's General Fund FY 2025 Adopted Budget.

Table 2.17 – Transfers In Five-Year Forecast displays the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for revenue from Transfers In.

Table 2.17 - Transfers In Five-Year Forecast ($ in Millions)						
	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 111.6	$ 98.0	$ 100.3	$ 102.4	$ 104.5	$ 106.7

The forecast for FY 2026 reflects a decrease of $13.6 million from the FY 2025 Adopted Budget. This decrease is primarily due to the removal of a net $14.1 million in one-time revenue transfers from various other funds including: $5.8 million from the Civil Penalties Fund; $3.2 million from the Energy Independence Fund; $1.4 million from the Concourse and Parking Garages Operating Fund; $1.3 million from FEMA-COVID Disaster Cost Recovery funds; and $2.3 million from the TransNet Fund.

A growth rate is not applied to the Transfers In category as each transfer is independent of one another and individually projected. The one-time removals noted above are partially offset by slight increases in wayfinding kiosk revenue and Safety Sales Tax revenue.

The 1-cent TOT transfer is forecasted to remain consistent with the FY 2025 Adopted Budget , for a total of $31.3 million, based on the current total TOT revenue projection, of which 1-cent of the revenue is allocated to the General Fund to be used for any purpose that the City Council may direct. As total TOT revenues increase in the outlook period, the respective 1-cent allocation to the General Fund increases accordingly.

Safety sales tax reimbursements to the Police and Fire-Rescue Departments are projected to moderately increase throughout the outlook period. Safety Sales Tax revenue is derived from a half-cent sales tax resulting from the enactment of Proposition 172 in 1994. Each year, a certain amount of safety sales tax revenue is allocated to the Fire and Lifeguard Facilities Fund for the payment of debt obligations associated with Fire and Lifeguard facility improvements. The remaining revenue is distributed to the General Fund equally between the Police and Fire-Rescue Departments' budgets to support public safety needs.

Baseline General Fund Expenditures

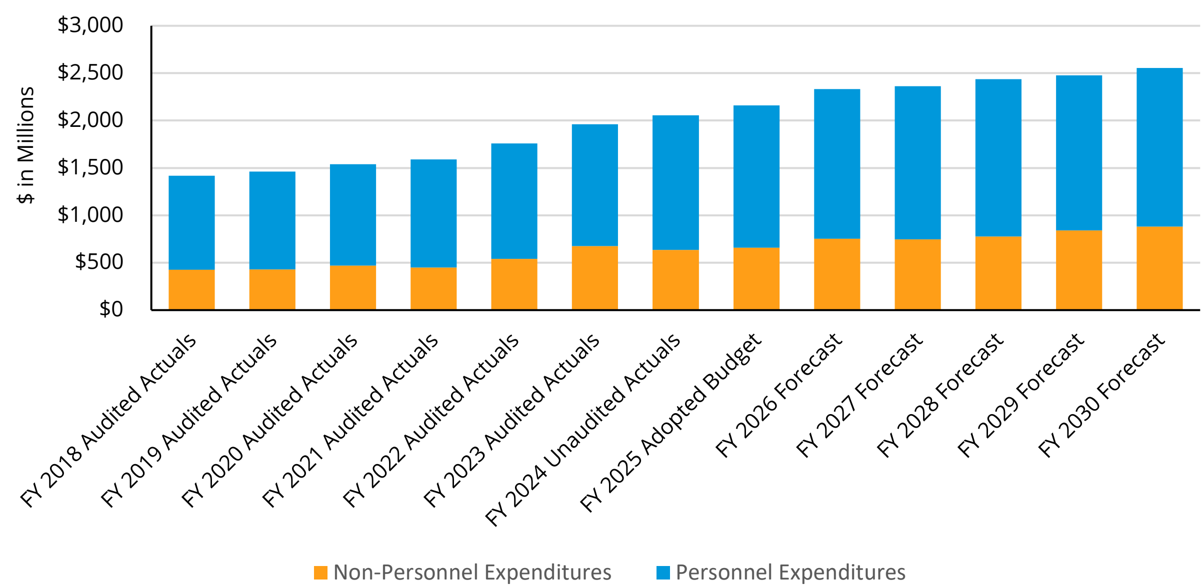
General Fund expenditures are comprised of both personnel and non-personnel expenditures including Salaries and Wages, Supplies, and Contracts & Services. Unless otherwise noted, baseline projections assume growth based upon the FY 2025 Adopted Budget, with the removal of one-time expenditures. **Attachment 1: One-Time Resources and Expenditures** further details the one-time resources and expenditures that have been removed from the baseline projections.

Personnel expenditures account for 69.6 percent of the City's General Fund FY 2025 Adopted Budget. The following section breaks down the primary components of these expenses, including salaries and wages; the City's annual pension payment, or Actuarially Determined Contribution (ADC); employee flexible benefits; retiree healthcare, or Other Post-Employment Benefits (OPEB); workers' compensation; Supplemental Pension Savings Plan (SPSP); and other fringe benefits. Baseline personnel expenditures are projected to increase during the outlook period primarily due to growth in salaries and wages resulting from current agreements between the City and its Recognized Employee Organizations (REOs); an assumed 2.73 percent salary increase, equivalent to the average annual Consumer Price Index growth for the San Diego-Carlsbad region over the last fifteen years, for future MOU negotiations for FY 2027 through FY 2030; and projected increases in the City's pension payments (or ADC).

Projections for ongoing non-personnel expenses are also included in the baseline projections and include significant anticipated adjustments required to maintain the City's service levels as reflected in the FY 2025 Adopted Budget.

Figure 2.14 – Baseline Expenditures depicts the forecasted growth in baseline personnel and non-personnel expenditures.

Figure 2.14 - Baseline Expenditures



Salaries and Wages

The Salaries and Wages category is the largest General Fund expenditure category and is comprised of regular salaries and wages, budgeted personnel expenditure savings, termination pay/annual leave payouts, step increases, special pays, overtime, and vacation pay-in-lieu. This category includes the General Fund cost of salaries and wages for the current Memoranda of Understanding (MOUs) with each of the City's Recognized Employee Organizations (REOs). The Outlook also assumes a 2.73 percent annual general wage increase, equivalent to the average annual Consumer Price Index growth for the San Diego-Carlsbad region over the last fifteen years, for fiscal years that occur beyond the terms of the current MOUs with each REO.

The FY 2025 Adopted Budget for General Fund salaries and wages was $925.7 million and included 8,733.16 full-time equivalents (FTE) positions. The Salaries and Wages category represents 42.8 percent of the total FY 2025 Adopted Budget for the General Fund. **Table 2.18 – Salaries and Wages – Current MOUs** displays the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for salaries and wages; however, it excludes assumed future salary increases. These assumptions will be discussed in the subsequent tables.

Table 2.18 - Salaries and Wages - Current MOUs[1]
($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 925.7	$ 986.9	$ 988.9	$ 989.1	$ 989.4	$ 989.6

[1]Table includes the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for salaries and wages, and does not include assumed future salary increases.

Adjustments within the Salaries and Wages category incorporate only expenditures associated with positions included in the FY 2025 Adopted Budget. The Salaries and Wages category includes negotiated salary increases in FY 2026 based on approved MOUs with the City's six REOs; as well as for unrepresented and unclassified employees. Additionally, this category incorporates an adjustment for anticipated pay scale step increases, which are typically provided to employees based on the number of years the employee has been in their current classification and annual performance evaluations. The step increases assumed in the Outlook were developed using the average amount budgeted for step increases over the past five fiscal years and are projected to increase at a moderate pace, from $3.3 million in FY 2026 to $3.7 million in FY 2030.

The Salaries and Wages category also includes an adjustment for termination pay, which includes both DROP payments and termination payouts for employees who leave City employment and have remaining annual leave. Annual leave payouts for DROP members are projected based on recent activity and participants' projected leave balances; although DROP participants may continue to work at the City for up to five years, recent trends reflect that many DROP participants are not staying the full five years. For employees not in DROP, termination pay was based on a five-year average of actual expenditures with a 2.73 percent assumed General Wage increase applied to each subsequent fiscal year. The number of DROP participants anticipated to retire in FY 2030 is not yet available as DROP is a five-year program. Therefore, the FY 2030 projected number of retirees and the termination pay/annual leave projection are based on the average of FY 2026 through FY 2029.

As previously noted, the Outlook assumes a general wage increase of 2.73 percent for all REO groups following their current MOUs. **Table 2.19 – Salaries and Wages – Assumed General Wage Increases at 2.73% Annually** displays the FY 2026 through FY 2030 forecast for the assumed 2.73 percent annual general wage increase. The 2.73 percent annual general wage increase is equivalent to the average annual Consumer Price Index growth for the San Diego-Carlsbad region over the last fifteen years. The 2.73 percent general wage increase is forecasted to begin in FY 2027 for the City's six REO's and Unclassified and Unrepresented employees, with the exception of elected officials, which begins in FY 2026 and reflects a slight increase $58,000. The general wage increase assumption of 2.73% for years in which there are no MOUs with the respective REOs may be lower or higher than what is required to meet the market median in accordance with the City's Total Compensation Philosophy goal. The City will re-evaluate employee compensation during future labor negotiations after commissioning a compensation study to determine the current standing of each position classification in relation to the market median in the region. Any future negotiated general wage increases that deviate from the 2.73 percent assumption will impact future year personnel costs included in the outlook period. The *City's Compensation Philosophy & Recruitment and Retention Efforts* discussion under the *Future Fiscal Considerations* section of this report, further elaborates on these potential costs.

Table 2.19 - Salaries and Wages - Assumed General Wage Increases at 2.73% Annually
($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ -	$ 0.1	$ 24.9	$ 50.5	$ 76.7	$ 103.6

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Retirement Actuarially Determined Contribution (ADC)

The City's FY 2025 pension payment, or Actuarially Determined Contribution (ADC), was $486.3 million, of which $357.2 million, or 73.4 percent, was allocated to the General Fund. Based on the latest actuarial valuation report[7], in FY 2026 the ADC is projected to be $496.0 million, an increase of $9.7 million, or 2.0 percent. The General Fund allocation, which is based on the General Fund/non-General Fund split included in the FY 2025 Adopted Budget, is projected to be $364.3 million, or 73.4 percent of the City's total ADC. This represents an increase of $7.1 million from the FY 2025 Adopted Budget.

The FY 2026 projected ADC of $496.0 million is based on the SDCERS Actuarial Valuation Report as of June 30, 2023, which was released in April 2024, and includes the following components:

- The unfunded actuarial liability (UAL) for the City, which includes the expected shortfall for Proposition B members reinstated on July 9, 2022.
- A 6.5 percent investment return and discount rate.
- A payroll growth rate of 3.25 percent.

Not included in this forecast are the impacts associated with the negotiated salary increases that were approved for FY 2025 and FY 2026, both of which were larger than the 3.25 percent salary inflation assumption used by the actuary. As a result, it is anticipated this number could increase with the release of the next actuarial valuation report unless there are offsetting experience gains. Additionally, there may be experience gains or losses regarding other assumptions that are not included and could impact the Outlook projections. As noted above, the General Fund allocation of the ADC is projected to be $364.3 million, based on the General Fund/non-General Fund split included in the FY 2025 Adopted Budget; however, the final General Fund allocation will not be known until the participation count is finalized for the members participating in the City's pension system and the allocation is recalculated based on the distribution of employees participating in the pension across the City's multiple funds. Additionally, the final amount of the City's FY 2026 ADC payment will not be known until the June 30, 2024, actuarial valuation report is completed in early 2025.

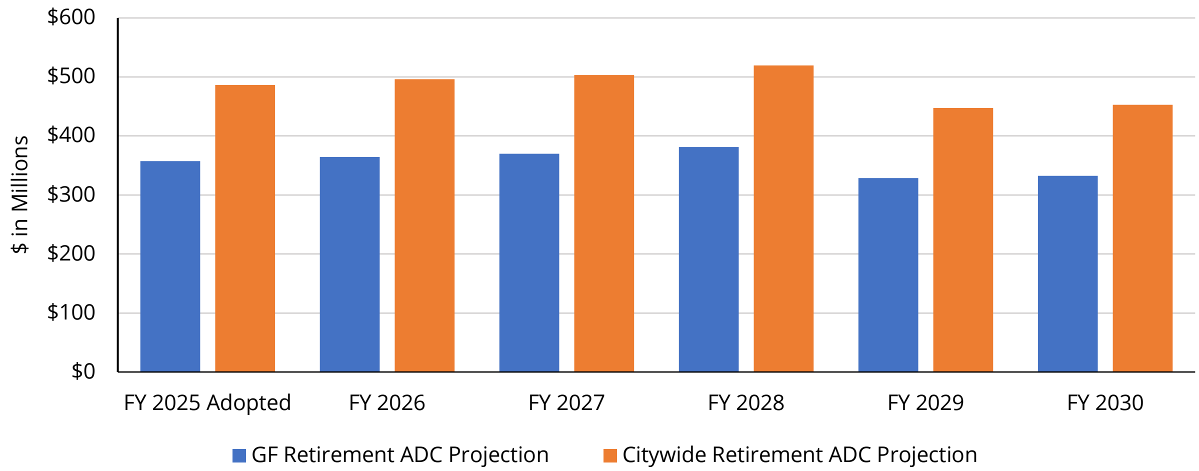
Table 2.20 – ADC Pension Payment and **Figure 2.15 - Retirement ADC** display the citywide ADC and the General Fund's proportionate share for FY 2026 through FY 2030, based on the June 30, 2023 SDCERS Actuarial Valuation Report. As shown in the table, there is a significant decrease in the citywide pension payment of approximately $71.9 million in FY 2029, or $52,8 million for the General Fund, because the City will have fully paid certain components of the unfunded actuarial liability associated with various amortization layers generated by prior year experience losses or assumptions changes.

Table 2.20 - ADC Pension Payment
($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
GF ADC Estimate (73.4%)	$ 357.2	$ 364.3	$ 369.7	$ 381.4	$ 328.6	$ 332.7
Citywide ADC Estimate	$ 486.3	$ 496.0	$ 503.4	$ 519.3	$ 447.4	$ 453.0

[7] San Diego City Employees' Retirement System for the City of San Diego, Actuarial Valuation Report as of June 30, 2023 Produced by Cheiron in April 2024.

Figure 2.15 - Retirement ADC



Employee Flexible Benefits

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

Flexible benefits include optional and required benefits, such as medical, dental, vision, and basic life insurance plans. For the FY 2025 Adopted Budget, $104.6 million was budgeted in flexible benefits. **Table 2.21 – Flexible Benefits** displays the projection for flexible benefits for FY 2026 through FY 2030.

Table 2.21 - Flexible Benefits
($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 104.6	$ 106.9	$ 107.4	$ 107.4	$ 107.4	$ 107.4

Individual flexible benefit costs vary by each employee's benefits selection and the total flexible benefit cost varies by the total number of employees. The flexible benefits baseline projection incorporates known changes per negotiated MOUs with the REOs, and is held constant from FY 2027-2030 since position additions are not included as part of the baseline projections.

Retiree Healthcare/Other Post-Employment Benefits (OPEB)

In FY 2012, the City entered into a 15-year memorandum of understanding (MOU) with each of its recognized employee organizations to reform Retiree Healthcare benefits for employees who were members of the closed plan (active employees hired between 1982 and 2005). Retired employees retained their existing healthcare benefits while active employees elected one of three plans (Options A, B, and C). Options A and B offered defined benefit plans, providing a specific annual healthcare benefit amount after retirement. Option C offered a defined contribution plan in the form of a one-time lump sum payment when the employee became service- and age-eligible. In June 2023, the City extended the terms of the MOUs for an additional 15 years. The City's defined benefit plans and the Option C defined contribution plan are closed to employees hired on or after July 1, 2005. For general members hired on or after July 1, 2009, the City established a new defined contribution plan through a trust vehicle (Retiree Medical Trust Plan). The City has pre-funded future post-employment healthcare benefits for defined benefit plan costs through the California Employers' Retiree Benefit Trust (CERBT), an investment trust administered by the California Public Employees' Retirement System (CalPERS). Other than the amounts pre-funded through the CERBT, the City pays for retiree healthcare costs on a pay-as-you-go basis. If the City's annual contribution and employee contributions for the Option A and B Plans do not fully cover the annual costs of the defined benefit plans and Option C Plan, the City withdraws funds from the CERBT to cover the difference.

In May 2023, the City engaged with actuarial consultants to analyze the City's planned funding strategy and provided a revised funding plan that would stop pre-funding the benefit and rely on the strategic use of retiree healthcare trust funds and pay-as-you-go contributions for retiree healthcare costs that will continue to decrease over time as the City meets its obligations and the plan membership decreases. The FY 2025 Adopted Budget for retiree healthcare/OPEB was budgeted at $49.0 million, of which, the General Fund portion is $32.2 million. In line with the new funding strategy, the Outlook assumes that the City's annual OPEB contributions will continue to decrease by 2.0 percent per fiscal year until contributions are no longer required for the trust to have sufficient funds to cover benefits for all remaining participants.

Table 2.22 – Other Post-Employment Benefits (OPEB) displays the OPEB projection for the General Fund's proportionate share for FY 2026 through FY 2030.

Table 2.22 - Other Post-Employment Benefits (OPEB)
($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
GF OPEB Projection (65.8%)	$ 32.2	$ 31.6	$ 30.9	$ 30.3	$ 29.7	$ 29.1

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Workers' Compensation

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

The City's workers' compensation expenses are comprised of two components: operating expenses which cover the costs of current medical expenses and claims, and contributions to the Workers' Compensation Reserve. **Table 2.23 – Workers' Compensation** displays the General Fund's projected share of 80.0 percent of Workers' Compensation expenses.

Table 2.23 - Workers' Compensation
($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Operating	$ 33.0	$ 39.2	$ 42.7	$ 46.5	$ 50.6	$ 55.0
Reserves	$ -	$ 3.1	$ 1.7	$ 1.8	$ 1.9	$ 2.0
Total	$ 33.0	$ 42.3	$ 44.4	$ 48.2	$ 52.5	$ 57.0

The projections for operating expenses are based on actual prior year experience and are forecasted to increase by 8.8 percent annually based on the average change in operating expenditures for the prior three fiscal years. Additional information on the Workers' Compensation Reserve can be found in the *Reserve Contributions* section of this report.

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Supplemental Pension Savings Plan (SPSP)

In January 1982, the City established the Supplemental Pension Savings Plan (SPSP), a defined contribution retirement savings plan. This benefit provides a way for eligible employees who were hired before July 1, 2009 to supplement retirement income, with employee contributions matched by the City. As a result of the unwinding of Proposition B, most general members hired on or after July 1, 2009 now receive a hybrid retirement plan which includes a reduced defined benefit retirement plan as well as a defined contribution savings plan with a mandatory employee contribution of 1.0 percent of payroll, which the City matches. Prior to this, employees could only participate in a defined contribution plan. As part of the unwinding of Proposition B, some employees, depending on the REO they belong to, were given the option to either join SDCERS or continue in the prior defined contribution plan. Given this option, some eligible general members elected to stay in the SPSP-H Plan in lieu of joining SDCERS. These employees are required to contribute a percentage of compensation based on SDCERS member contribution rates to the plan, which is matched by a 9.2 percent employer contribution. **Table 2.24 – Supplemental Pension Savings Plan (SPSP)** displays the projection for SPSP for FY 2026 through FY 2030, which includes those selecting to participate in the SPSP-H Plan, as well as hourly employees. City employees hired after July 10, 2021, with no prior City service, are now being placed in SDCERS and therefore, SPSP is projected to remain constant through the outlook period.

Table 2.24 - Supplemental Pension Savings Plan (SPSP)
($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 10.9	$ 10.9	$ 10.9	$ 10.9	$ 10.9	$ 10.9

Other Fringe Benefits

The Other Fringe Benefits category is comprised of Long-Term Disability, Medicare, Retiree Medical Trust, 401(a) plan contributions, Retirement DROP contributions, Employee Offset Savings, Risk Management Administration, and Unemployment Insurance expenditures. **Table 2.25 – Other Fringe Benefits** displays the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for the Other Fringe Benefits category.

Table 2.25 - Other Fringe Benefits
($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 39.7	$ 40.8	$ 41.6	$ 41.9	$ 42.3	$ 42.8

Other Fringe Benefits are projected based on a percentage of employees' salaries. In the FY 2025 Adopted Budget, Other Fringe Benefits were approximately 6.9 percent of General Fund Fringe Benefits. For the outlook period, that percentage is projected to be consistent at 6.9 percent with slight increases during the outlook period as a result of salary increases included within the Salaries and Wages category.

Supplies

The Supplies category includes costs for items such as office supplies, books, tools, uniforms, safety supplies, and building and electrical materials. **Table 2.26 - Supplies** displays the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for the Supplies category.

Table 2.26 - Supplies ($ in millions)						
	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Growth Rate		2.3%	2.1%	2.1%	2.1%	2.1%
Projection	$ 31.5	$ 39.5	$ 40.3	$ 41.1	$ 42.0	$ 42.8

The FY 2025 Adopted Budget included one-time expenditure savings of $7.1 million which is added back in FY 2026, primarily associated with the one-time use of the Infrastructure Fund for General Fund eligible expenditures.

The Supplies baseline projection is then increased by the forecasted growth in the CPI, based on the UCLA Anderson Forecast October 2024 Economic Forecast, to account for the average change of costs over the outlook period.

Contracts & Services

The Contracts & Services category consists of both internal and external contracts and services. External contracts and services are provided by outside companies and/or agencies and include items such as outside legal counsel, operation of homeless shelters and services, insurance, rent expenses, and consulting services. Internal contracts and services consist of services that are provided internally (by a City fund or Department), and include items such as refuse disposal fees, fleet vehicle usage and assignment fees, print shop services, and IT support services, including the SAP support allocation and the Information Technology Services transfer. **Table 2.27 – Contracts & Services** displays the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for the Contracts & Services category.

Table 2.27 - Contracts & Services ($ in Millions)						
	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Growth Rate		2.3%	2.1%	2.1%	2.1%	2.1%
Projection	$ 387.6	$ 394.0	$ 409.0	$ 420.7	$ 438.1	$ 449.3

The FY 2025 Adopted Budget included a net reduction of $9.1 million in one-time expenditures within the Contracts & Services category which is added back in FY 2026. The net reduction in this category consisted of $17.1 million in one-time reductions in FY 2025 that are being added back to the baseline projections, offset by $8.0 million in one-time additions that are being removed from baseline projections in FY 2026. The following summarizes some of the significant one-time expenditures that revert back to the General Fund after FY 2025 as these onetime sources have been exhausted or require approval to be used as mitigation options in future fiscal years:

- $7.8 million for one-time use of the Infrastructure Fund for General Fund eligible expenditures, which includes channel, pump station, storm drain and building maintenance;

- $5.3 million in the Homelessness Strategies and Solutions Department, primarily for one-time support from the Affordable Housing Fund and Permanent Local Housing Allocation. This is partially offset by one-time expenditures for continued shelter operations, the Day Center, portable restrooms and the Multidisciplinary Outreach Program that have been removed from baseline projections; and
- $2.1 million for one-time General Fund discount of Refuse Disposal Fees.

The one-time adjustments listed above are offset by other one-time adjustments that have been removed from the baseline projections, including the most notable:

- $1.1 million for the Small Business Enhancement Program to support small businesses;
- $1.0 million for Youth Care and Development;
- $969,000 for tree planting in support of a settlement agreement with the Air Pollution Control District;
- $962,000 for the Eviction Prevention Program to provide education and legal services for low-income renters facing eviction;
- $900,000 for Community Projects, Programs, and Services (CPPS) funding;
- $750,000 for water quality monitoring, pollution abatement and regulatory reporting in the Bacteria Total Maximum Daily Load Time Schedule Order issued by the Regional Water Quality Control Board; and
- $454,000 for expanded parking facilities at the Chollas Operations Yard.

The Contracts & Services baseline projection is increased by the forecasted growth in the CPI to account for the average change of costs over the outlook period; the forecast for CPI growth is based on the UCLA Anderson Forecast October 2024 Economic Forecast. Within this category, select commitments including Fleet vehicles usage and assignment fees, public liability costs, and election costs are projected separately from the CPI growth rate and then aggregated with other expenditures in the Contracts & Services category.

Vehicle usage fees are projected to decrease by approximately $3.0 million and vehicle assignment fees are projected to increase by approximately $369,000 in FY 2026. This is primarily due to Fleet revising their projection methodology to align with previous fiscal year actuals rather than fleet count, resulting in a decrease to the forecast in FY 2026. This is partially offset with increased debt payments for vehicles delivered in FY 2025 and prorated payments for vehicles on order and to be delivered during FY 2026. Additionally, the projection does not include the potential increased costs associated with electric vehicles, which is unknown at this time. The *Climate Action Implementation Plan* update under the *Future Fiscal Considerations* section of this Report provides an additional update on the City's fleet electrification program.

Public liability insurance premiums are projected to increase by $728,000 in FY 2026 compared to the FY 2025 budget. The Outlook assumes a 16.8 percent growth rate for public liability insurance premiums, a 17.7 percent growth rate for the Optional Excess Insurance Program, and a 4.6 percent growth rate for other insurance programs (i.e., Cyber, Pollution) throughout the Outlook. These growth rates were determined based on the average growth in insurance premiums over the most recent three-year period. The public liability claims and non-claims are projected to increase by $1.0 million in FY 2026 compared to the FY 2025 budget. This assumes a 3.25 percent year-over-year growth rate through the outlook period, based on the recent three-year average growth of public liability operating expenditures, thus reaching a total increase of $5.2 million by FY 2030.

Election costs are projected to decrease by a net of $7.2 million in FY 2026, primarily due to an anticipated decrease in the number of ballot measures and the absence of elections for Mayor and City Attorney during the 2026 Primary Election. The 2026 Primary Election is anticipated to feature four San Diego Council Councilmember races on the ballot; the November 2024 General Election featured races for the Mayor, City Attorney and two Councilmembers seats. It is assumed that one ballot measure will be placed on the 2026 Primary Election ballot based on the historical average of the last three primary elections, whereas General Election ballots typically include more ballot measures than a Primary Election ballot, averaging six ballot measures based on the last three General Elections. The costs associated with elections are difficult to predict and are dependent on a variety of factors including the number of participating jurisdictions, number of contests, number and length of ballot measures, and number of registered voters. The Department of Finance will continue to work with the Office of the City Clerk to incorporate the latest information from the Registrar of Voters (ROV) and update these estimates during the FY 2026 budget process.

Information Technology

The Information Technology category includes both discretionary expenditures and non-discretionary allocations to General Fund departments. This category includes the costs related to hardware and software maintenance, help desk support, and other information technology (IT) services. **Table 2.28 – Information Technology** displays the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for the Information Technology category.

Table 2.28 - Information Technology
($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Growth Rate		2.3%	2.1%	2.1%	2.1%	2.1%
Projection	$ 59.2	$ 60.2	$ 61.0	$ 61.7	$ 65.4	$ 71.9

The FY 2025 Adopted Budget included one-time expenditures of $134,000 in the Information Technology category, which are removed from the baseline projections.

The FY 2026 forecast includes an increase of $1.0 million from the FY 2025 Adopted Budget to meet baseline contractual obligations for software licenses, cyber security, application maintenance and software support throughout the outlook period. The baseline discretionary costs, like hardware/software enhancements, computer maintenance and professional IT services are then increased by the forecasted growth in the CPI to reflect the average change of costs over the outlook period; the forecast for CPI growth is based on the UCLA Anderson Forecast October 2024 Economic Forecast.

Energy and Utilities

The Energy and Utilities category includes the General Fund's costs for electricity, fuel, and other utility and energy expenses. **Table 2.29 – Energy and Utilities** displays the FY 2025 Adopted Budget and the forecast for FY 2026 through FY 2030 for the Energy and Utilities category.

Table 2.29 - Energy and Utilities
($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Growth Rate		5.0%	5.4%	5.9%	7.0%	8.0%
Projection	$ 70.9	$ 74.5	$ 78.5	$ 83.1	$ 88.9	$ 96.0

Each cost component of the Energy and Utilities category has a different applicable growth rate. The majority of the rates for each category are based on the Annual Energy Outlook 2023 Report prepared by the U.S. Energy Information Administration and forecasted CPI growth based on the UCLA Anderson Forecast October 2024 Economic Forecast. Fuel growth rates are developed by the General Services Department for fuel and renewable diesel. Inflation has had a significant impact on fuel prices. With elevated inflation anticipated to continue declining, with CPI forecasted to reach 2.3 percent by FY 2026, the cost of fuel is also anticipated to decline. Fuel growth rates range from -8.6 percent to 0.27 percent depending on the year and the type of fuel through the outlook period. There are many factors that may impact the current fuel projections, including: changes in world-wide crude oil production, which affect the fluctuations in the cost per gallon; demand and consumption; changes in vehicle types from fuel-consuming to electric; and inflation—changes in the cost of doing business, etc. The City will continue to monitor these variables and update fuel projections accordingly.

The Sustainability and Mobility Department prepared the forecasts for electric and gas services, streetlight electricity and traffic signal electricity categories. Electrical growth rates range from 3.0 percent to 8.0 percent. These projections were calculated using four factors: anticipated SDG&E rate increases, building electrification, fleet electrification, and client department adjustments.

- **SDG&E Rate Increases** include the percentage cost increase for which SDG&E is predicted to charge consumers and businesses. The majority of the City's facilities fall under the medium and large commercial buildings rate category. A 26.0 percent rate increase was applied to electricity and an 18.0 percent rate increase was applied to gas through the outlook period. SDG&E rate increases are guided by the most recent revenue projections from SDG&E's 2024 General Rate Case (GRC) application. SDG&E filed the application with the CPUC, seeking approval to change base rates for customers. The timeline for the rate increases to go into effect is contingent on CPUC's review and approval. It is currently anticipated that the rate increases will go into effect in late FY 2025 once approved by CPUC.
- **Building Electrification** entails replacing natural gas systems with electric alternatives. Due to the switch, there is a projected decrease in gas offset by an increase in electricity.
- **Fleet Electrification** is the transition of the city's conventional internal combustion engine vehicles to zero-emission vehicles. The estimated electricity cost from the Fleet Electrification Plan was used to account for the additional cost of fleet EV charging. The increase in electricity costs due to fleet electrification will be offset by saving in Fuel and Renewable Diesel.
- **Client Department Adjustments** were also factored in the analysis to account for any significant operational changes that may impact a City department's energy usage. Some

examples of significant operational changes include the addition of new facilities or significantly expanding the square footage.

The most significant changes are in electric and gas services, which are forecasted to increase by $1.5 million for electricity services and $307,000 in gas services in FY 2026, when compared to the FY 2025 Adopted Budget. Streetlights and traffic signal electricity costs are anticipated to increase by $375,000 in FY 2026 and continue to increase at an average growth of 5.1 percent throughout the outlook period.

The Public Utilities Department (PUD) developed the water and wastewater growth rates[8] included in this outlook. PUD determines the water and wastewater rates through a process prescribed by State law, which requires a cost-of-service analysis considering customer class charges and City Council approval of any rate adjustments at a public hearing. Increases in wastewater charges range between 6.0 percent and 8.0 percent annually throughout the outlook period, with growth in FY 2026 anticipated at 7.0 percent. The water charges assume general City demand remains consistent throughout the outlook period and that rate increases will range between 11.0 percent and 14.5 percent annually throughout the outlook period, with growth in FY 2026 anticipated at 13.7 percent.

The growth rates for the Energy and Utilities category represent a blended growth rate that was calculated after applying the corresponding growth rate for each component.

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[8] For sensitivity analysis, a difference for a 2.0 percent change equates to an approximately $300,000 change in water costs per year and a $20,000 annual change in sewer costs, which is less than the margin of error of changes in water usage in any given fiscal year.

Other Expenditures

Expenditures in the Other Expenditures category include debt service payments, transfers-out to other funds, capital expenses, and other miscellaneous expenditures. With the exception of a few accounts such as transportation allowances, which are grown by CPI, adjustments are made only to account for anticipated transfers and projected debt service payments; therefore, no growth rate is assumed for all other expenditures in this category. **Table 2.30 – Other Expenditures** displays the FY 2025 Adopted Budget and FY 2026 through FY 2030 projections for the Other Expenditures Category.

Table 2.30 - Other Expenditures ($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 39.3	$ 40.2	$ 42.0	$ 43.8	$ 45.9	$ 48.2

The FY 2025 Adopted Budget included a net $3.1 million in one-time expenditures within the Other Expenditures category. The following summarizes the most notable one-time expenditures that have been removed from the baseline projections:

- $2.5 million transfer to the Capital Improvements Program to support work for a safe parking site at H Barracks;
- $2.4 million transfer to the Capital Improvements Program to support various community projects including the San Carlos Library, Jeremy Henwood Park, and UTC Streetlights;
- $1.2 million for the Debris Assistance Program for January 2024 Storm response efforts; and
- $690,000 associated with the Business Cooperation Program rebate, which generated General Fund Sales and Use Tax revenue in FY 2024.

The one-time adjustments listed above are offset with other one-time adjustments that are added back to the baseline projections. For instance, the FY 2025 Adopted Budget suspended the transfer of $8.5 million to the Climate Equity Fund; the forecast for FY 2026 assumes this transfer—currently projected at $8.8 million—will occur. Additionally, the $1.3 million in deferred capital debt service that was moved from the General Fund to the Infrastructure Fund for FY 2025 has been added back to the General Fund in FY 2026.

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Debt Service

Table 2.31 - Debt Service Expenditures ($ in Millions)						
	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 48.2	$ 72.0	$ 80.4	$ 85.4	$ 112.6	$ 115.0

Updates to the City's existing debt service schedules, including future bond issuances, commercial paper assumptions, PC replacement, vehicle and helicopter replacements, and energy loans are included in the forecast based on projections developed by the Department of Finance and the Sustainability & Mobility Department. **Table 2.31 – Debt Service Expenditures** displays the FY 2025 Adopted Budget and FY 2026 through FY 2030 projections for the Debt Service Expenditures, and **Table 2.32 – Debt Service by Category (Principal & Interest)** displays the projected debt service expenditures by category.

Table 2.32 - Debt Service by Category (Principal & Interest) ($ in Millions)						
	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Bonds	$ 40.7	$ 61.4	$ 68.4	$ 68.4	$ 92.4	$ 92.4
Capital Leases	$ 4.4	$ 7.6	$ 7.6	$ 7.6	$ 6.6	$ 5.5
Energy Efficiency Loans	$ 1.1	$ 1.1	$ -	$ -	$ -	$ -
General Fund Commercial Paper	$ 1.9	$ 0.5	$ 0.5	$ 2.2	$ 0.5	$ 2.7
Stormwater WIFIA Loan	$ 0.2	$ 1.4	$ 4.0	$ 7.1	$ 13.2	$ 14.4
Total	$ 48.2	$ 72.0	$ 80.4	$ 85.4	$ 112.6	$ 115.0

Note: There are existing debt issuances not included in the table (e.g., 2016 Ballpark Refunding Bonds, 2020A Convention Center Refunding Bonds, 2012B Fire & Life Safety Facilities Refunding Bonds, 2013B Balboa Park/Mission Bay Refunding Bonds, and fleet replacement leases) that are paid from sources other than the General Fund but have a pledge of general revenues of the City.

The Outlook incorporates projected long-term lease revenue bond issuances totaling $1.02 billion and the related debt service costs to finance General Fund CIP projects (including related Commercial Paper pay down) and future required City matching funds for Stormwater's Water Infrastructure Finance and Innovation Act (WIFIA) loan. This includes a $379.6 million Lease Revenue Bond issuance in FY 2026 (with debt service beginning in FY 2026), a $407.8 million Lease Revenue Bond issuance in FY 2028 (with debt service beginning in FY 2029), and a $236.7 million Lease Revenue Bond issuance in FY 2030 (with debt service beginning in FY 2031, outside the Outlook period). The actual timing and size of each of these bond issuances will be further evaluated based on funding needs and market conditions closer to issuance.

Approximately $394.7 million of the total projected long-term lease revenue bond issuances over the Outlook period are expected to finance prior appropriations including a portion of City matching funds required to support the Stormwater WIFIA loan. The remaining $629.4 million is expected to be utilized for future appropriations including remaining Stormwater WIFIA matching funds not yet appropriated.

Given current spend down rates for Stormwater projects and projected construction timelines provided by the Stormwater Department, the forecast anticipates draw down on the Stormwater

WIFIA loan to begin in FY 2025, with interest-only debt service payments occurring in FY 2025 through FY 2028. Stormwater WIFIA loan principal payments are anticipated to occur starting in FY 2029, once construction of the related projects is complete.

The City utilizes lease-to-own financing to fund various vehicles, equipment and Information Technology projects via its Equipment and Vehicle Financing Program (EVFP) or standalone capital leases. Capital Leases, as reflected in **Table 2.32 – Debt Service by Category (Principal & Interest)** include projected debt service costs for existing and anticipated capital leases that are supported by the General Fund. The new anticipated capital leases included in the Outlook are described below:

- General Fund PC replacement provides for the replacement of General Fund departments' computers and supports mobile and telework capabilities. To support this program, the forecast includes executing a lease with a five-year term in the principal amount of approximately $1.3 million each year throughout the outlook period, with the exception of FY 2026 when a five-year lease principal of $1.0 million is assumed.
- The City Council has authorized the financing of the replacement of Police and Fire-Rescue helicopters with the City's EVFP. The Outlook assumes that three Police helicopters will be replaced in Fiscal Years 2025 and 2026 for a total principal of $16.0 million. The report also assumes the financing of one replacement Fire-Rescue helicopter, currently anticipated to be delivered March 2025, for a principal of $17.5 million.

In addition to the capital leases, the Outlook includes borrowing of approximately $267.5 million to fund the General Fund annual fleet vehicle replacement needs, which are expected to be funded with the City's EVFP. The debt service for these leases is supported by the Fleet Operations Replacement Fund and the General Fund impact is reflected under fleet assignment charges in the *Contracts & Services section* of the Outlook.

Lastly, the debt service associated with existing California Energy Resources Conservation and Development Commission and General Electric loans, as well as Qualified Energy Conservation Bonds equipment lease payments are included in the Energy Efficiency Loans category.

Impacts on the City's Debt Ratios, as defined in the City's Debt Policy, are evaluated when considering the use of debt financing supported by the General Fund. Generally, annual debt service as a percentage of general fund revenues should remain under 10.0 percent. When combined with pension and OPEB costs the percentage should remain under 25.0 percent. Current projections show the impacts of projected debt service costs will stay within these parameters through FY 2030, reaching highs of approximately 6.7 percent and 24.2 percent, respectively. Additional capital financing needs not assumed in this report, such as any potential General Fund backed debt issued for the Climate Action Plan implementation, may increase the Debt Ratios up to or exceeding the guidelines outlined in the Debt Policy, depending on future General Fund revenues. Reductions in General Fund revenues or increases in pension payments would also adversely affect the Debt Ratios.

Any future Council action requesting debt financing, per the Debt Policy, will include an affordability analysis explaining the impacts to the Debt Ratios.

Reserve Contributions

The City's Reserve Policy (Council Policy 100-20) establishes target reserve levels and a time frame for meeting reserve targets. The City's Reserves include the General Fund Reserve (Emergency Reserve and Stability Reserve), Pension Payment Stabilization Reserve (Pension Reserve), Public Liability Fund Reserve, Long-Term Disability Fund Reserve, and Workers' Compensation Fund Reserve. The City also maintains other reserves for various enterprise funds which are not included in this report.

The General Fund Reserve is comprised of the Emergency and Stability Reserves. The Emergency Reserve is maintained to sustain General Fund operations in the case of a public emergency or catastrophic event. The Stability Reserve is maintained to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. In December 2022, the City Council approved updates to the City's Reserve Policy to modify the annual funding targets for the General Fund Emergency Reserve and Stability Reserve, while maintaining the policy goal of 16.7 percent for the General Fund, which is a best practice per the Government Finance Officers Association (GFOA). As noted in the FY 2025 First Quarter Budget Monitoring Report, the FY 2025 Adopted Budget includes the waiver of the required reserve contribution. Due to this decision, General Fund reserves are projected to end the fiscal year with a balance of $207.1 million, which is consistent with the balances for FY 2023 and FY 2024 and is equivalent to 11.8 percent of the three-year average of General Fund operating revenues. As a result, the projected reserve balance will not meet the target percentage level identified in the City's Reserve Policy for FY 2025, which is set at 13.58 percent. The FY 2026 forecast includes a contribution of $56.6 million to the General Fund Reserves, which includes the estimated FY 2025 contribution of $31.2 million and the FY 2026 portion of $25.4 million to meet the FY 2026 Reserve Policy target of 14.1 percent. Additional contributions in the outlook period range from $21.0 million to $26.7 million in FY 2027 through FY 2030, with the goal of reaching the reserve target of 16.7 percent by FY 2030. While the Outlook includes contributions to achieve the City's current Reserve Policy targets, given the baseline shortfalls projected in the Outlook, it may not be reasonable to meet the FY 2026 target level of 14.1 percent. As discussed in the mitigation actions section of this report, the City could consider waiving all or part of the reserve contribution in FY 2026; alternatively, the City could consider updating the Reserve Policy to adjust the timeline for meeting the ultimate reserve target of 16.7 percent, in order to take a more incremental approach to this goal.

The Pension Reserve was established to mitigate potential increases in the Actuarially Determined Contribution (ADC), the annual pension payment. Per the City's Reserve Policy, the City will fund and maintain a Pension Reserve up to 8.0 percent of the most recent three-year average of the ADC as reported in the most recent Actuarial Valuation Report. The FY 2023 Adopted Budget included the use of the total available balance of $7.9 million to offset expected increases to the ADC due to the reversal of Proposition B. The City has not made any contributions to the reserve since then and currently does not have a balance. In accordance with the City's Reserve Policy, contributions are planned to begin again once the General Fund Reserves reach the target of 16.7 percent.

Per the City's Reserve Policy, the Public Liability Fund Reserve is to be maintained at 50.0 percent[9] of the value of outstanding public liability claims. The Outlook projects a General Fund contribution of $2.7 million in FY 2026 and additional contributions ranging from $619,000 to $1.0 million in the remaining years of the Outlook due to assumed incremental changes in the three-year average of outstanding actuarial liabilities[10]. As described in more detail in the FY 2025 First Quarter Report[11], the Public Liability Fund has provided an interest-bearing interfund loan to the Sewer Utility's Municipal Fund. The issuance of this loan from the Public Liability Fund Reserve has caused the fund to fall below its reserve targets. The Outlook assumes it will remain below reserve target levels through the term of the loan, reaching 38.0 percent in FY 2026 to 49.0 percent in FY 2030, which is anticipated to mature in FY 2031.

The Long-Term Disability Fund Reserve is maintained at 100.0 percent of the value of outstanding claims and is forecasted at the target level. The Outlook projects a General Fund contribution of $824,000 in FY 2026 and additional contributions in each of the remaining years throughout the Outlook due to assumed incremental changes in the three-year average of outstanding actuarial liabilities.

The Workers' Compensation Fund Reserve is maintained at 12.0 percent of the value of outstanding claims. The Outlook projects a General Fund contribution of $3.1 million in FY 2026 and additional contributions in each year of the remaining years throughout the Outlook due to assumed incremental changes in the three-year average of outstanding actuarial liabilities.

Table 2.33 – Reserve Target Levels displays the reserve targets and projected reserve contribution amounts by Reserve type.

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[9] The Public Liability Reserve is currently forecasted slightly below the reserve target level. The balance will remain below to account for an outstanding loan to the Public Utilities Department, which will be paid back over the Outlook period.

[10] Assumes a three-year outstanding actuarial liability average from FY 2022 – FY 2024.

[11] See the *Risk Management Public Liability Fund Reserve* section in the FY 2025 First Quarter Budget Monitoring Report for more information.

Table 2.33 - Reserve Target Levels ($ in Millions)						
	FY 2025 Proj.[1]	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030
General Fund Target (%)	13.6%	14.1%	14.7%	15.4%	16.0%	16.7%
General Fund Reserve Target ($)	$ 238.3	$ 263.7	$ 285.0	$ 306.4	$ 327.4	$ 354.1
General Fund Reserve Level Projection ($)	$ 207.1	$ 263.7	$ 285.0	$ 306.4	$ 327.4	$ 354.1
General Fund Contribution Amount	$ -	$ 56.6	$ 21.3	$ 21.4	$ 21.0	$ 26.7
Pension Stability Target (%)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
General Fund Pension Stability Reserve Target ($)	$ 24.6	$ 25.7	$ 27.1	$ 29.7	$ 28.8	$ 27.8
General Fund Pension Stability Reserve Level Projection ($)	$ -	$ -	$ -	$ -	$ -	$ -
General Fund Pension Stability Contribution Amount	$ -	$ -	$ -	$ -	$ -	$ -
Public Liability Target (%)	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Public Liability Reserve Level Goal ($)	$ 39.7	$ 41.1	$ 41.7	$ 42.6	$ 43.6	$ 44.5
Public Liability Reserve Level Projection ($)	$ 31.8	$ 28.8	$ 33.6	$ 36.5	$ 39.6	$ 42.8
Public Liability Contribution Amount[2]	$ -	$ 2.7	$ 0.6	$ 0.9	$ 1.0	$ 0.9
Long-Term Disability Fund Target (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Disability Fund Reserve Target($)	$ 5.6	$ 6.3	$ 7.3	$ 8.3	$ 9.6	$ 11.0
Long-Term Disability Fund Reserve Level Projection ($)	$ 5.0	$ 6.3	$ 7.3	$ 8.3	$ 9.6	$ 11.0
Long-Term Disability Contribution Amount	$ -	$ 1.3	$ 1.0	$ 1.0	$ 1.2	$ 1.4
Long-Term Disability Contribution Amount (GF)	$ -	$ 0.8	$ 0.7	$ 0.7	$ 0.8	$ 0.9
Workers' Compensation Target (%)	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Workers' Compensation Reserve Target ($)	$ 37.4	$ 39.4	$ 41.5	$ 43.8	$ 46.1	$ 48.6
Workers' Compensation Reserve Level Projection ($)	$ 35.6	$ 39.4	$ 41.5	$ 43.8	$ 46.1	$ 48.6
Workers' Compensation Contribution Amount	$ -	$ 3.8	$ 2.1	$ 2.2	$ 2.4	$ 2.5
Workers' Compensation Contribution Amount (GF)	$ -	$ 3.1	$ 1.7	$ 1.8	$ 1.9	$ 2.0

[1]The FY 2025 Adopted Budget did not include reserve contributions for the General Fund or non-General Fund reserves. The FY 2026 projected reserve contributions includes the required reserve contribution needed to meet each respective reserve target.

[2]An interfund loan from the Public Liability Fund Reserve to the Sewer Utility’s Municipal Fund in FY 2024 has caused the fund to fall below its reserve targets, and the Outlook assumes it will remain below reserve target levels through the term of the loan, which is anticipated to mature in FY 2031.

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Charter Section 77.1 – Infrastructure Fund

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

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

- Sales tax increment—an amount equal to the annual change in sales tax revenue when compared to the sales tax baseline of FY 2016 actual receipts, adjusted by the California Consumer Price Index (CCPI) for FY 2018 through FY 2042; and
- General Fund Pension Cost Reduction—any amount if pension costs for any fiscal year that are less than the base year of FY 2016 for FY 2018 through FY 2042.

Prior to FY 2023, the calculation to fund the Infrastructure Fund included a Major Revenues Increment based on an amount equal to 50.0 percent of the year-over-year growth in property tax revenues, unrestricted General Fund TOT, and unrestricted franchise fees. However, the City Charter only required this increment from FY 2018 through FY 2022.

The Outlook projects Infrastructure Fund deposits throughout the Outlook pursuant to the City Charter for each Outlook year. **Table 2.34 – Infrastructure Fund Deposits** reflects the projected contributions for FY 2026 through FY 2030. The forecast represents the portion of the deposit calculation only required from the sales tax increment, as no new deposits are anticipated for the General Fund pension cost savings.

Table 2.34 - Infrastructure Fund Deposits
($ in Millions)

	FY 2025 Adopted	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Projection	$ 21.1	$ 8.8	$ 11.1	$ 16.7	$ 22.6	$ 28.8

The FY 2026 forecast includes an $8.8 million Infrastructure Fund contribution. The sales tax increment is calculated based on the annual change in sales tax revenue when compared to the sales tax baseline of FY 2016 actual receipts, adjusted by the CCPI. As the CCPI decreases, as seen in the last year, so does the sales tax base, which adjusts the annual projected contribution. The CCPI assumptions used to forecast the sales tax increment are consistent with the UCLA Anderson Forecast October 2024 Economic Forecast for CPI, which anticipates a continued decline in inflation. When compared to the FY 2025 Adopted Budget, the FY 2026 forecasted contribution represents a decrease of $12.3 million, primarily attributed to recent decreases in CCPI and a lower sales tax projection than previously anticipated.

Eligible infrastructure expenses are defined to include costs incurred in the acquisition of real property; the construction, reconstruction, rehabilitation, and repair and maintenance of infrastructure; including all costs associated with financing such expenses. The Outlook does not designate the specific uses of these funds. The FY 2026 Proposed Budget will include the recommended programs, projects, and services to be budgeted with infrastructure funds to comply with Charter Section 77.1.

Priorities Beyond Baseline Expenditures

In addition to the baseline forecast, the Outlook also includes projected costs for new facilities and planned commitments. The forecast includes ongoing and one-time costs associated with the operations of new or expanded facilities that are projected to open within the outlook period. The annual operating costs for these new facilities are included in this outlook as a planning guide, and DoF will continue working with the respective City Departments to include better estimates for the costs beginning with next year's budget.

Additionally, planned commitments are included in this section to account for commitments made by the Mayor and/or City Council. These include costs to maintain and enhance service levels committed for homelessness programs and services and fund stormwater wetland mitigation needed as a result of stormwater channel maintenance activities.

These items are City priorities; however, not all the facility CIP projects included in the Outlook are fully funded, but it is assumed that capital improvement program funding will be identified during the Outlook period to continue the projects. The actual funding of new facilities and planned commitments listed in the Outlook will be dependent on available resources at the time the FY 2026 Proposed Budget is developed. The postponement of any of these priorities will need to be considered if resources are not identified. The following sections quantify the projected funding needs for new facilities and planned commitments.

New Facilities

Table 2.35 - New Facilities
($ in Millions)

Department	FTE/Rev/Exp	FY2026	FY2027	FY2028	FY2029	FY2030
Library	FTE	-	-	-	-	-
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ -	$ 0.1	$ 0.1	$ 0.2	$ 0.2
Parks and Recreation	FTE	39.25	62.75	65.25	67.75	69.25
	Revenue	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1
	Expense	$ 9.4	$ 14.0	$ 12.1	$ 12.6	$ 12.9
Fire-Rescue	FTE	-	-	12.00	39.00	39.00
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ -	$ -	$ 2.5	$ 8.2	$ 8.5
	Total FTE	**39.25**	**62.75**	**77.25**	**106.75**	**108.25**
	Total Revenue	**$ 0.1**	**$ 0.1**	**$ 0.1**	**$ 0.1**	**$ 0.1**
	Total Expense	**$ 9.4**	**$ 14.0**	**$ 14.7**	**$ 21.0**	**$ 21.5**

The Outlook identifies the funding needed to operate one new library and one library expansion, two new fire stations, and 28 new parks and joint-use facilities, which are projected to open within the outlook period—this includes ongoing and one-time expenditures to operate these facilities. The following section provides additional detail for the new facilities projected to open during the outlook period, along with the year the facilities are projected to open.

Operations costs for branch libraries include estimated energy and utilities costs, janitorial services, and landscaping associated with the new and expanded libraries scheduled to open in the outlook period. The following is a list of new libraries:

- FY 2027 – Ocean Beach Branch Library Expansion

- FY 2028 – Oak Park Branch Library

New Fire Station facility operations costs include the addition of 12.00 FTE positions for Black Mountain Ranch Fire Station and 27.00 FTE positions for the Otay Mesa Fire Station, which includes staffing for two crews. In addition to the personnel costs, the Outlook includes non-personnel expenditures, including fire station supplies, personal protective equipment (PPE), self-contained breathing apparatus (SCBA) maintenance and replacement, rescue tools and radio/communication equipment. The following is a list of new fire stations planned to come onboard during the outlook period:

- FY 2028 – Black Mountain Ranch Fire Station
- FY 2029 – Otay Mesa Fire Station

The Outlook also identifies the staffing and operating costs for the operations and maintenance of parks and recreation facilities, including 15 new park facilities and 13 new joint-use facilities as identified in **Attachment 2 – New Facilities**. The new facilities operating costs include personnel needed to staff the new sites, new vehicles, equipment, and other miscellaneous costs.

Planned Commitments

Table 2.36 - Planned Commitments
($ in Millions)

Department	FTE/Rev/Exp	FY2026	FY2027	FY2028	FY2029	FY2030
Homelessness Strategies and Solutions	FTE	-	-	-	-	-
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ 55.8	$ 63.0	$ 67.9	$ 72.9	$ 77.5
Stormwater	FTE	-	-	-	-	-
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ 6.0	$ 8.0	$ 8.0	$ 8.0	$ 8.0
	Total FTE	**-**	**-**	**-**	**-**	**-**
	Total Revenue	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
	Total Expense	**$ 61.8**	**$ 71.0**	**$ 75.9**	**$ 80.9**	**$ 85.5**

Homelessness Strategies and Solutions Department

Homelessness Services

The Outlook identifies funding needs to maintain the programs and services provided by the City's Homelessness Strategies and Solutions Department, including homeless shelters and services, outreach efforts, safe parking and safe sleeping, storage, and prevention and diversion programs. Existing programs and services are currently funded by both ongoing and one-time General Fund and grant funding sources. When comparing to the FY 2025 Adopted Budget, an additional $55.8 million is projected to be needed in FY 2026 to continue providing enhanced services and programs for homelessness needs. The combination of existing General Fund and anticipated grant funding still necessitates additional resources to fund continued and increased homelessness support throughout the outlook period. Barring alternative funding sources, the net impact to the General Fund would range from $55.8 million in FY 2026 to between $63.0 million and $77.5 million in the outer years of the outlook.

The net impact of $55.8 million in FY 2026 is primarily driven by a $35.0 million reduction in grant funding and other resources as well as an increase of $20.8 million in expenditures for shelters and services. The projected decrease in grant funding sources includes:

- $18.3 million in one-time funding sources for Hope @ Vine shelter tenant improvements;
- $16.1 million in one-time support from the Affordable Housing Fund, Permanent Local Housing Allocation, Low Income Housing Lease Revenue Fund and Emergency Rental Assistance (ERA2) funding; and
- $8.2 million in federal, State and County grant resources are anticipated to be fully encumbered in FY 2025.

These reductions are partially offset by an assumed increase of $5.7 million in Homeless Housing, Assistance and Prevention (HHAP) Grant Program[12] funding in FY 2026. This increase assumes funding from the fifth and sixth rounds of the HHAP Grant, though the State of California has not yet made a formal announcement of a sixth round of HHAP funding.

The FY 2026 forecast projects a net $20.8 million increase in expenditures. This is primarily due to a $42.7 million increase for the cost of shelters and services, which includes the following:

- $33.3 million for the annualized cost for up to 1,000 new shelter beds;
- $6.1 million for the replacement of shelter beds at the Father Joe's Paul Mirabile Center, Golden Hall, Rachel's Promise Women's Shelter, and Winter Weather Shelter at the Old Central Library; and
- $1.8 million in ongoing expenditures is anticipated for Safe Parking, primarily a new safe parking site and the annualized cost of providing safe parking.

Partially offsetting the addition of ongoing expenditures, the Outlook anticipates a $21.8 million reduction in one-time expenditures primarily due to $18.3 million in one-time tenant improvements at the Hope @ Vine shelter.

As stated in the *Potential Mitigation Actions* section included later in this report, one resource that could help offset these costs—but is currently in litigation—is Measure C. Measure C is a tax levied on overnight lodging guests that would be used to expand and modernize the San Diego Convention Center, address homelessness, and support street repair. Once the case is resolved, an estimated $192.9 million could be generated in the first five years for homelessness programs and services, which would reduce the funding gap for existing programs and services and could lessen impacts to the General Fund. **Table 2.37 – Homelessness Services** reflects how Measure C would reduce the impact to the General Fund over the Outlook period, if resolved favorably for the City.

[12] HHAP-6 allocations will be based on the City's proportionate share of the state's homeless population as reported by HUD in the 2024 Point in Time count. Actual allocation amounts are anticipated to be provided by the State by the end of January 2025.

Table 2.37 - Homelessness Services ($ in Millions)					
	FY2026	FY2027	FY2028	FY2029	FY2030
General Fund Net Impact	$ (55.8)	$ (63.0)	$ (67.9)	$ (72.9)	$ (77.5)
Measure C Projected Revenue	$ 34.9	$ 36.7	$ 38.5	$ 40.4	$ 42.4
Revised Surplus / (Shortfall)	$ (20.9)	$ (26.3)	$ (29.4)	$ (32.5)	$ (35.1)

Stormwater Department

Wetland Mitigation

The Stormwater Department oversees the repair, maintenance, and replacement of the City's stormwater system, which requires a comprehensive set of environmental protocols, mitigation measures, and permits. The FY 2025 Adopted Budget included $6.8 million in the Environmental Growth Fund to support compensatory wetland mitigation.

The Outlook identifies funding for mandatory wetland mitigation projects needed to compensate for habitat lost during previous and future stormwater channel maintenance work. Mitigation land is difficult to find in the area required. If there is a large gap between when wetlands are impacted and when mitigation land is provided, the amount of mitigation required can increase due to penalties. Additionally, the cost to construct mitigation sites is increasing significantly. The expenditures related to wetland mitigation range from $6.0 million to $8.0 million annually throughout the outlook period.

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Revised Outlook Shortfall Beyond Baseline Expenditures

When new facilities and planned commitments are added to the baseline projections, there is an increase to the projected shortfall in each fiscal year within the outlook period. Current available resources are not sufficient to mitigate the shortfall in FY 2026, and the shortfall persists in FY 2027 through FY 2030. The revised projections beyond the baseline expenditures require additional resources of $329.3 million in FY 2026 and decrease slightly over the Outlook period.

As depicted in **Table 2.38 - Revised Outlook Surplus/Shortfall**, after adding the above referenced costs, projected expenditures exceed revenues throughout the entire outlook period from FY 2026 through FY 2030.

Table 2.38 - Revised Outlook Surplus/Shortfall
($ in Millions)

	Fiscal Year 2025 Adopted Budget	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030
BASELINE GENERAL FUND REVENUES	$ 2,160.9	$ 2,074.7	$ 2,146.1	$ 2,218.4	$ 2,303.8	$ 2,384.4
BASELINE GENERAL FUND EXPENDITURES	$ 2,160.9	$ 2,332.9	$ 2,363.7	$ 2,435.3	$ 2,475.9	$ 2,553.8
BASELINE SURPLUS / (SHORTFALL)	$ 0.0	$ (258.2)	$ (217.6)	$ (216.9)	$ (172.1)	$ (169.4)
NEW FACILITIES		$ 9.3	$ 13.9	$ 14.6	$ 20.9	$ 21.4
PLANNED COMMITMENTS		$ 61.8	$ 71.0	$ 75.9	$ 80.9	$ 85.5
TOTAL NEW FACILITIES AND PLANNED COMMITMENTS		$ 71.1	$ 84.9	$ 90.5	$ 101.8	$ 107.0
REVISED SURPLUS / (SHORTFALL)		$ (329.3)	$ (302.6)	$ (307.4)	$ (273.9)	$ (276.3)
SUSPEND RESERVE CONTRIBUTIONS		$ 63.2	$ 24.3	$ 24.7	$ 24.8	$ 30.5
REVISED SURPLUS / (SHORTFALL) (LESS RESERVE CONTRIBUTIONS)		$ (266.1)	$ (278.3)	$ (282.7)	$ (249.1)	$ (245.8)

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

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Potential Mitigation Actions

The Outlook has identified the need for additional resources in order to mitigate projected baseline shortfalls in all five years of the Outlook. Moreover, additional funding sources would need to be identified to fund new facilities and planned commitments. The following section identifies potential mitigation actions that could be used to address the projected baseline shortfalls. In addition to the mitigation options discussed below, the Department of Finance will work with City Departments to identify non-General Fund resources that could be used to support General Fund operations (e.g., Environmental Growth Funds) or provide rate relief to the General Fund through the non-discretionary process. Departments will also conduct a strategic review of their programs to identify potential savings by implementing operational efficiencies and will evaluate potential service level reductions. As required by the City Charter, the Mayor will present a balanced FY 2026 budget to the City Council by April 15, 2025.

Excess Equity

Excess equity is unassigned fund balance that is not otherwise designated as General Fund Reserves and is available for appropriation. The FY 2025 First Quarter Report currently projects excess equity at $105.0 million. After accounting for the $84.4 million in excess equity programmed in the FY 2025 Adopted Budget, this leaves $20.6 million available for future appropriation. These funds could be used in FY 2025, to offset projected decreases in the City's Major General Fund revenues or increases in expenditures or planned for use in future fiscal years to fund one-time expenditures. The First Quarter Report has a limited scope, focusing on certain revenues and expenditures in the General Fund. The Department of Finance will develop a more comprehensive estimate as part of the Mid-Year Budget Monitoring Report, which includes a projection of all General Fund revenues and expenditures. At that time, a revised excess equity amount will be projected.

Amendment to the People's Ordinance (Measure B)

During the November 2022 election, a majority of City voters 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 collection services, removed the prohibition for the City to recover costs to perform City force residential solid waste collection services. Implementing a fully cost-recoverable fee could eventually eliminate the financial burden on the General Fund estimated to be approximately $70.0 million annually. Implementation of a new fee structure is a multi-year process that is contingent on Proposition 218 compliance and City Council adoption.

The FY 2025 Adopted Budget added a total of $6.6 million and 16.00 FTE positions to support a waste collection cost of service study, stakeholder engagement process, development of a potential billing solution and software integration, and planning and implementation of the amendment. Revenue from the collection service fees, could begin as early as FY 2026, subject to City Council approval. Although the total amount of annual revenue projected to be collected is not known at the time of the publication of this report, any revenue collected in FY 2026 and beyond would alleviate the financial burden on the General Fund.

TOT Increase (Measure C)

Measure C was a 2020 citizens' initiative that would raise the Transient Occupancy Tax. The increased tax would support the expansion of the San Diego Convention Center, create a dedicated funding source for homelessness programs and services, and fund road repairs across the City. The Measure was included on the March 3, 2020 ballot and required approval by two-thirds of San Diego voters; however, recent legal rulings indicate that a simple majority was needed to pass because it was a citizens initiative, not the two-thirds super majority vote needed for City-sponsored initiatives. On April 6, 2021, the City Council voted to validate Measure C, to assist the City in addressing some of its most significant needs. The City of San Diego, as well as the residents of San Diego, have been waiting on a final decision from the courts on the validity of the measure in order to proceed with implementation. In August 2023, the California State Court of Appeal declared that "Measure C, as a citizens' initiative, was subject to a simple majority vote[;]" however, the court made that determination based on the assumption that Measure C was a citizens' initiative. The appellate court returned the case for additional proceedings in the trial court to determine if the measure was a citizens' initiative[13]. On August 30, 2024, the Judge issued the order and judgment in the Measure C trial in favor of the City on all issues, which declares Measure C to have been duly enacted by the voters and the City to have the authority and an obligation to impose and collect the TOT. On September 26, 2024, opponents of the Measure appealed the trial court judgment. A motion to expedite the appellate case has been granted, and briefing will be completed by February 2025, with a decision expected in the Summer of 2025. If the case is affirmed in the City's favor on appeal, an estimated $192.9 million could be generated in the first five years for homelessness programs and services, which would reduce the funding gap for existing programs and services and could lessen impacts to the General Fund.

Sales Tax Increase (Measure E)

Measure E was a proposal in the City of San Diego to raise the sales tax rate by 1.0 percent, from 7.75 percent to 8.75 percent starting April 1, 2025, expected to generate approximately $400.0 million in additional annual sales tax revenue for the General Fund. This additional revenue, if approved by a majority of voters, would have fully solved the current General Fund projected baseline deficit and also provided the resources needed to fund new facilities and planned commitments as outlined in this Report. This revenue would have been used to invest in the City's infrastructure and fund services such as public safety, infrastructure maintenance, and neighborhood services. The County Registrar of Voters and the City Clerk certified the election results on December 3, 2024 which confirm the measure was narrowly defeated by the voters of the City of San Diego and this additional source of revenue will not be available to support General Fund services.

[13] Alliance San Diego et al. v. City of San Diego et al. Court of Appeal, Fourth Appellate District, Division One ruling. Retrieved October 26, 2023.

Suspend or Strategic Use of Infrastructure Fund Contribution

Per Charter Section 77.1, $8.8 million is required to be deposited into the Infrastructure Fund for FY 2026. The Mayor can recommend the suspension of Charter Section 77.1 for one fiscal year or for the remainder of a fiscal year. After at least one public hearing on the request of the suspension, the City Council may approve a one-year suspension by a vote of two-thirds of the City Council. Suspending the contribution for FY 2026 will provide an estimated $8.8 million back to the General Fund to help mitigate the projected baseline shortfall. Alternatively, the full $8.8 million contribution can be used to support infrastructure operations and maintenance currently supported by the General Fund, or debt service on lease revenue bonds used to support infrastructure projects, providing savings to the General Fund.

Suspend Reserve Contributions

The Reserve contributions forecasted in the Outlook were calculated to meet the reserve targets as outlined in the City's Reserve Policy (100-20). As mentioned in the *Reserve Contributions* section of this report, the City's Reserves include the General Fund Reserve and the Risk Management Reserves, including the Public Liability Fund Reserve, Long-Term Disability Fund Reserve, and Workers' Compensation Fund Reserve. The FY 2026 General Fund Reserve contribution is estimated at $56.6 million to meet the 14.1 percent reserve target and $6.6 million is estimated for the Risk Management Reserves to meet each reserve target. Per the City's Reserve Policy, in the event a reserve is reduced below the amount established by the policy, or the contribution is suspended, the Mayor shall prepare a plan no later than one year from the reserve action to replenish the reserve balance to the policy level. Suspending the reserve contributions for FY 2026 could provide an estimated $63.2 million to help mitigate the projected General Fund baseline shortfall.

Budget Reductions

To address the projected baseline shortfall, General Fund departments, and select non-General Funds that impact the General Fund, will be requested to submit budget reduction proposals for the FY 2026 budget process. Proposals are expected to reflect ongoing reductions to City services and support in order to address the structural budget deficit. To assist in this effort, City departments have been asked to create a list of the programs and services they provide as well as to zero-base their external contracts and services budgets. A careful review of this information will allow the City's Executive Management team to identify potential reductions of certain programs or adjustments to service levels to align expenditures with existing City resources. Additionally, any budget reductions taken in FY 2025 mid-year will provide one-time relief in the form of excess equity to support FY 2026.

RISKS TO THE OUTLOOK

The Outlook was developed based on information available and known at the time of the preparation of the report. Projections were developed using economic and industry research, available data, and reasonable assumptions; however, risks to the projections include events that may or will occur during the outlook period whose outcomes are unpredictable or cannot be reasonably quantified at this time.

Actuarially Determined Contribution (ADC)

There are many factors that can affect the Actuarially Determined Contribution (ADC) payment made by the City to the San Diego City Employees' Retirement System (SDCERS). Any variation between the assumptions used by the actuary and actual experience will increase or decrease the City's annual pension payment. These include lower or higher than expected investment returns and increases in salaries above inflation assumptions, among others. The City has signed Memoranda of Understanding (MOUs) agreements with all Recognized Employee Organizations (REOs) through FY 2026 and negotiations will take place for all REOs starting in FY 2027; the associated fiscal impacts are not known at this time and not included in the Outlook projections.

Salary and Wage Increases

As previously discussed in the *Salaries and Wages category* section of this report, General Fund salaries and wages expenditures represents 42.8 percent of the total FY 2025 Adopted Budget for the General Fund. Any changes in MOU provisions can have large impacts on City expenditures. For example, a 1.0 percent change in salaries for all employees could increase this category by approximately $8.7 million in the General Fund. The Outlook currently includes negotiated salary increases in FY 2026 based on approved MOUs with the City's six REOs; as well as for unrepresented and unclassified employees. A 2.73 percent General Wage increase, equivalent to the average annual Consumer Price Index growth for the San Diego-Carlsbad region over the last fifteen years, is assumed for FY 2027 through FY 2030. Any deviations from the 2.73 percent, currently included in the Outlook projections, will have a direct impact on the projected General Fund bottom-line and the true impact is not known at this time.

Economic Recession

The impact of a future economic recession has not been incorporated into this Outlook. In each fiscal year of the Outlook, moderate growth is projected from the prior year. Based on historical recessions, the City's Major Revenues (Property Tax, Sales Tax, TOT, and Franchise Fees) could be significantly impacted. Prior recessions have impacted the City's aggregate Major Revenues by -1.0 percent to -4.9 percent. A recession affects each revenue source differently. Changes to Property Tax revenue are likely to lag by 12 to 18 months since current revenue is based on prior calendar year valuations. However, small percentage changes to property tax growth can equate to large swings in tax revenue. Sales tax and TOT are based on consumers' discretionary funds; therefore, they are more directly impacted by a recession. The Department of Finance will continue to monitor major revenue projections and economic indicators throughout the fiscal year and report any fluctuations in revenue.

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FUTURE FISCAL CONSIDERATIONS

This section details other future fiscal considerations that are not included in the Outlook forecast but could significantly impact the City's General Fund during the outlook period. As part of the City's effort to incorporate equity into the budgeting process, the Department of Finance worked with the Department of Race and Equity to include an equity description for the following future fiscal considerations, where applicable. Departments prepared the equity descriptions below to articulate what, if any, disparities these programs will address. For the programs that are anticipated to address disparities, Departments were asked to provide the following information:

- **Designated Community:** List any designated neighborhoods and communities this program will serve: Promise Zone, Community of Concern, Community Development Block Grant area, or structurally excluded communities as defined by Council Policy 800-14.
- **Current State and Recommendation Plans:** If applicable, outline any specific plans, studies, or condition assessments that assess the current state and recommend implementation plans related to this program.
- **Enhancing Access:** How does, or will, this program enhance access to City services or programs?

Emergency Medical Services (EMS) Alliance Model

In July 2023, the City Council approved a transformative change to the provision of emergency medical services in the City. The new transportation model, implemented on October 1, 2023, positioned the City to manage medical billing and collections directly, adjust Advanced Life Support (ALS) and Basic Life Support (BLS) unit hours as required, contract with multiple EMS providers, and deploy additional ambulances during periods of increased demand. This model ensures that ALS and BLS resources are aligned with public health and safety needs, while also supporting the Fire Department's mission to advance its oversight and continue moving forward toward enhanced services.

Since its implementation, the new transportation model has demonstrated sustainability through revenues generated from patient charges received in the EMS Fund. Projections for FY 2025 and beyond suggest that the revenue could sustain the system and generate a surplus. It is anticipated that the EMS Fund will achieve a fund balance of approximately $7.0 million by the end of FY 2025. Of this amount, approximately $6.1 million is expected to be transferred to the General Fund in FY 2025 to support EMS-related expenditures. The baseline for the Outlook assumes the $6.1 million transfer will continue throughout the Outlook period, with additional fund balance available to potentially reinvest in EMS system improvements and enhancements, further supporting the Fire-Rescue Department's efforts.

While financial projections for the outlook period appear robust, the Fire-Rescue Department will continue to closely monitor actual revenue and expenditures to ensure the viability of the transportation model. The Department will also consider alternative models for EMS transport. Any significant changes to the EMS transport system could impact the General Fund during the outlook period.

Equity Description:

A key advantage of the Fire-Rescue Department's oversight of ambulance transportation is the ability to address inconsistencies in emergency medical responses, particularly in ambulance service distribution throughout the city. Previously, private ambulance companies controlled ambulance deployment, resulting in inequitable response times in certain areas of the City. Since taking responsibility for deployment and system status, the Fire-Rescue Department has successfully reduced response time disparities across all San Diego neighborhoods. A primary strength of the Fire-Rescue Department's oversight is its capacity to identify and resolve these challenges. Communities, particularly in the south bay and southeast regions, which previously experienced longer response times, have seen improvements due to the Fire-Rescue Department's focus on optimizing deployment models. The Department's control over system status allows for dynamic ambulance positioning throughout the City, ensuring efficient and effective deployment. The Fire-Rescue Department, through its strategic management and deployment of resources, ensures the delivery of the highest level of service to all neighborhoods with the available resources. Additionally, the Fire-Rescue Department can adjust unit hours as needed to meet community demands and enhance services in historically underserved areas.

Deferred Maintenance for General Fund Facilities

The General Services Department oversees repairs, modernization, and improvements for over 1,600 municipal facilities, which are valued at $7.2 billion. The department's work includes addressing urgent system replacements, Americans with Disabilities Act (ADA) compliance upgrades, and long-term facility planning, including those for public safety and neighborhood services. Aging infrastructure leads to increased maintenance and repair needs, with key building systems such as roofing, HVAC, and electrical requiring immediate attention to avoid higher future costs. As the backlog of repairs grows, so do operational inefficiencies and costs, necessitating better planning and resource allocation for deferred maintenance.

To address this, and the recent Performance Audit of Facility Maintenance, the department plans to request funding for several initiatives. These include hiring consultants to conduct updated Facility Condition Assessments (FCAs) and develop a Facilities Maintenance Plan, adding new positions to manage the Facilities Maintenance Plan, and securing ongoing operational funding to support the expansion and operational efficiency of the Facilities Maintenance program.

FCAs are required to accurately identify the current cost associated with addressing annual and deferred maintenance. The last FCAs were completed between 2014 and 2016, and the current backlog of annual and deferred maintenance is estimated to exceed $1.0 billion. The department currently lacks designated funding for deferred maintenance and requires additional financial support to develop a comprehensive maintenance strategy and address existing gaps.

Once updated FCAs are completed, the department will work to align staffing and resources to address deferred maintenance, support critical repairs and improvements, and help keep City facilities operational. This includes assessments for the City's Operations Yards to ensure departments have adequate facilities to meet operational requirements. Increased funding will be essential to correct deficiencies in staffing and non-personnel expenditures and to adequately maintain and expand City facilities for continued delivery of public services. The General Services Department plans to establish an annual maintenance and repair funding goal, for both new and existing facilities, after the completion of the next Facilities Condition Assessment. The annual funding goal is expected to be included in the FY 2028-2032 Five-Year Financial Outlook. Additional details are outlined in the *General Fund Infrastructure Needs* section of this document.

Equity Description:

The General Services Department helps maintain facilities for various City departments like Library, Parks & Recreation, Fire, Police, Public Utilities, and Transportation, all of which serve San Diego residents, including those in structurally excluded communities. Increasing funding for deferred maintenance will allow the department to repair and maintain important facilities including libraries, parks, recreation centers, fire and police stations, and water and wastewater treatment plants. Along with updating facility condition assessments, the department plans to hire consultants to create a long-term maintenance strategy for City buildings. This strategy will include new approaches to providing facility maintenance and repairs in structurally excluded communities and will be viewed through an equity lens to ensure that equity is an integral part of the overall strategy.

Climate Action Plan Implementation

The City of San Diego is now in its second full year following the adoption of the updated Climate Action Plan (CAP). This plan sets an ambitious goal of achieving net-zero carbon emissions by 2035 to mitigate the most severe impacts of climate change while also increasing resilience. A key focus of the CAP is to promote climate equity by actively involving impacted communities in the City's decision-making processes, ensuring that actions and investments are directed where they are needed most. The steps taken to reach this goal will bring additional benefits, such as improved air quality, better public health, and more livable, economically stable neighborhoods while addressing decades of systemic inequity. The goals and strategies of the CAP can be found in the full plan located at the following link: https://www.sandiego.gov/sustainabilitymobility/climate-action/cap.

In 2023, the City released an Implementation Plan along with a five-year projection of staffing and budget needs (the Implementation Cost Analysis). This plan features a prioritization score for each action in the CAP, incorporating various factors, including an equity measure. In FY 2025, the City launched a dashboard to track the progress of department-level CAP work plans and emissions data, allowing stakeholders to regularly monitor performance metrics and key greenhouse gas (GHG) emissions indicators. The dashboard also allows action sorting based on prioritization scores, making it easier for policymakers to focus on actions with the greatest potential equity impacts.

CAP-related funding needs remain challenging to isolate because they are often part of broader project costs, such as facility upgrades that involve improvements beyond CAP-related requirements. Conversely, in this second year of CAP implementation, some projected revenue sources are beginning to emerge. In order to address historic disparities in infrastructure, the City has signed a contract with a private vendor to install and maintain hundreds of electric vehicle charging stations at City parking lots over the next ten years. This partnership will provide essential infrastructure for the energy transition in historically disadvantaged neighborhoods at no cost to the City. Early revenue from the public EV charging program will accrue beginning in late FY 2025, increasing regularly over the next five years.

The City continues to actively seek additional funding sources to support its CAP goals, with several notable achievements:

- A Federal Energy Efficiency and Conservation Block Grant of $1.2 million will provide rebates and incentives for low- and moderate-income households to replace natural gas appliances with energy-efficient, all-electric alternatives. The City may implement a phased eligibility that starts with the lowest income, flood affected communities and Communities of Concern, and eventually broaden to moderate income residents across the entire city.
- The City secured a FEMA Hazard Mitigation Grant Program (HMGP) award to design a renewable microgrid and other resilience features at a City facility that will be selected based on input from project stakeholders, including community members. This funding is a preliminary step toward a full FEMA Hazard Mitigation Assistance project application to construct a Community Resilience Hub.
- A combination of funding from a Caltrans Sustainable Transportation Planning grant and Federal Safe Streets and Roads for All (Rounds 1 and 2) grants will support the update and implementation of the Bicycle Master Plan. Additionally, this funding will go toward Slow Streets, Quick Build, and Speed Management activities aimed at improving the safety of the active transportation network.
- The City has secured funding to support its tree-planting efforts with a $10.0 million grant from the federal government for the “Ready, Set, Grow San Diego” program and $4.7 million for “Trees for Communities,” a San Diego County Air Pollution Control District settlement program. Both large-scale planting programs are focused in San Diego’s Communities of Concern, using tools like CalEnviroScreen and the CEI to prioritize planting locations.

Equity Description:

Achieving net-zero emissions by 2035 remains central to the City of San Diego’s Climate Action Plan (CAP), with a strong emphasis on promoting climate equity. Specific equity-focused initiatives include the use of the Climate Equity Index (CEI) to prioritize actions and investments where they are needed most, particularly in historically disadvantaged neighborhoods. This year, the City signed a contract to install and maintain electric vehicle (EV) charging stations in these neighborhoods, supporting the energy transition for underserved communities. Additionally, tree-planting programs, supported by over $14.0 million in grant funding, will focus on greening Communities of Concern to improve air quality and provide environmental benefits. Through these actions and others, the CAP’s strategies aim to mitigate the most severe impacts of climate change and directly address systemic inequities, ensuring that all communities, especially those historically disadvantaged, benefit from a sustainable and resilient future. The City will continue to involve Communities of Concern in decision-making processes to ensure that the benefits of climate action, such as improved air quality, better public health, and enhanced economic stability, are equitably distributed. These actions not only help the City of San Diego achieve its climate goals but also improve the quality of life for residents by fostering healthier, more equitable communities, enhancing mobility, and creating more sustainable, resilient neighborhoods for future generations.

Zero Emissions Municipal Building Operations Policy and Fleet Electrification Program

In alignment with the City of San Diego's Climate Action Plan (CAP) and the Municipal Energy Implementation Plan, the City Council adopted Council Policy 900-03, the Zero Emissions Municipal Buildings & Operations Policy (ZEMBOP), to guide the elimination of fossil fuels from all City facilities and the transition to electric fleet vehicles by 2035. ZEMBOP requires an electric solution to replace any natural gas system at end of life; major facility renovations to incorporate electrification retrofits and installation of Electric Vehicle (EV) charging infrastructure; and the development of Fossil Fuel Elimination Plans and Fleet Charging Plans for each Asset Managing Department.

To support development of these plans, in FY 2024, the Sustainability and Mobility Department (SUMO) completed electrification studies at City facilities to identify an inventory of gas-burning equipment to be replaced and existing fleet parking spaces to be electrified, electric infrastructure improvements necessary to support increased electric loads, and the estimated cost to perform these improvements. The electrification studies indicate an overall cost of $80.0 to 90.0 million to electrify all City facilities and associated fleet parking spaces, excluding fleet charging at operations yards. This figure is specific to electrification of energy systems and does not include deferred maintenance costs related to Americans with Disabilities Act (ADA) and non-energy facility improvements. It also does not incorporate potential operational savings through energy efficiency measures or integration of energy management systems.

Similarly, the General Services Department completed an initial fleet electrification assessment in 2023, estimating costs to replace the City's 4,700 gas-powered fleet vehicles with Zero Emission Vehicles (ZEV), vehicle electricity usage, and vehicle maintenance required to meet CAP goals and the California Air Resources Board (CARB) Advanced Clean Fleet regulations. Costs through FY 2030 are estimated to be $261.0 million Citywide. The assessment also calculated capital costs for charging infrastructure at four City operations yards[14] (accounting for approximately 30 percent of the City's fleet) at an estimated $22.3 million over the next five years.

SuMo will translate the data from these facility and fleet assessments into Fossil Fuel Elimination Plans and Fleet Charging Plans for each asset managing department, which will outline timelines and cost estimates to electrify facilities, replace the City's 4,700 gas powered fleet vehicles with ZEVs, install necessary charging infrastructure and software, upgrade Fleet's repair facilities, and provide staff training.

To address electrification and other clean energy facility retrofits, SUMO is pursuing public-private partnerships (P3s) with Energy Service Companies (ESCOs) and other clean energy vendors that offer contracting mechanisms like Energy Savings Performance Contracts whereby the external vendor provides upfront funding to cover the cost of retrofits and the City relies on guaranteed annual energy savings to pay back the partner's upfront investment over a specified contract term. SUMO is also pursuing clean energy improvements including solar PV, battery energy storage, and microgrids at

[14] Chollas Operations Yard, Central Operations Yard (20th and B), Rose Canyon Operations Yard, and Metropolitan Operations Center.

select City facilities via the P3 model. P3s can also be leveraged to deploy EV charging infrastructure at priority locations, paired with distributed energy resources (DERs) such as solar panels, battery energy storage, and microgrids. CIP funding of $1.0 million is programmed in FY 2025 to begin planning for improvements at the Chollas Operations Yard to increase power to the facility from the nearby electric grid. While ESPCs and other P3 financing structures will address many electrification retrofits required by the CAP, the program will require significant capital investments that are currently unfunded. The facility and fleet electrification programs are also expected to save the City an estimated $11.5 million in avoided vehicle replacement and maintenance costs through FY 2030.

Last, the City continues to actively seek additional funding sources to support its facility and fleet electrification goals. Examples include:

- The City secured a FEMA Hazard Mitigation Grant Program (HMGP) award to design a renewable microgrid and other resilience features at a City facility that will be selected based on input from project stakeholders and community needs. This funding is a preliminary step toward a full FEMA Hazard Mitigation Assistance project application to construct an all-electric Community Resilience Hub.
- The City is pursuing rebates for the purchase of medium- and heavy-duty fleet electric vehicles through the IRS Commercial Clean Vehicle Credit program. Credits range between $7,500 and $40,000 for each electric vehicle purchased.
- The City is participating in SDG&E's Power Your Drive program, which covers eighty percent of the City's costs to deploy charging infrastructure at four City properties.

Equity Description:

Improvements to City facilities will occur in nearly every neighborhood in the City, including Communities of Concern. Council Policy 800-14 will be leveraged to appropriately score capital improvement projects that provide equity benefits. SUMO aims to include facilities that serve Communities of Concern in each P3 portfolio. Facilities that receive electrification and other clean energy and deferred maintenance improvements will better serve constituents.

Similarly, the General Service Department operates over 4,700 vehicles out of more than 80 City facilities, of which 43 percent are located within Communities of Concern. Implementing the fleet electrification program will reduce gasoline and diesel consumption decreasing CO2e across the City. Fleet's use of EVs since 2019 has avoided approximately 36,000 gallons of gasoline and 3,000 gallons of diesel, reducing impact to the environment.

City's Compensation Philosophy and Recruitment and Retention Efforts

In 2022, the City of San Diego established a Total Compensation Philosophy that endeavors to pay at least the market median for comparably situated public employees. The City's goal is to move all classifications toward the market median while focusing on the ability to recruit, retain, and engage highly qualified employees capable of delivering world-class public service to the community; comply with public safety and regulatory requirements; and carry out critical infrastructure needs. This philosophy also includes the principle that total compensation should keep pace with economic inflation over the long term through cost-of-living adjustments. The City's Compensation Philosophy plays a critical role in meeting the City's goal of positioning itself as a regional employer of choice and attracting and retaining top talent. The City's compensation philosophy and recruitment strategies play a key role in the delivery of all City services providing safe, livable neighborhoods.

The City has made significant progress in addressing employee compensation over the past few years including negotiated salary and special pay increases for employees. The Outlook assumes general wage increases of 2.73 percent for years not currently covered by approved labor contracts. Any future negotiated salary increases that deviate from the 2.73 percent assumption included in the Outlook will impact future year personnel costs. For instance, a 1.0 percent general wage increase is estimated at $8.7 million for the General Fund. This estimate is based on the FY 2025 Adopted Budget and does not address known adjustments for FY 2026. Additionally, future labor negotiations may include other costs, in addition to general wage increases, such as Special Salary Adjustments, Add-on Pays, and flexible benefit increases, which are not included in the $8.7 million estimate.

The general wage increase assumption included in the Outlook may be lower or higher than what is required to meet the Total Compensation Philosophy goal. The City will re-evaluate employee compensation during the next labor negotiation cycle after commissioning a compensation study to determine the current standing of each classification in relation to the market median of comparable jurisdictions.

Equity Description:

The development of total compensation and recruitment programs will ensure City of San Diego employees are paid appropriately for the work they do and provide livable wages that allow employees to live in the communities in which they serve. The program will work to ensure equity between similarly situated employees, diversify recruiting strategies to ensure a community representative population of applicants, and opportunities are created to support all employees in career advancement goals. The development of a skilled and diverse workforce will serve and support all communities including the designated neighborhoods and communities identified as the Promise Zone, Communities of Concern, Community Block Development Grant areas, and structurally excluded communities as defined by Council Policy 800-14.

Street Repair Program

The Transportation Department's Street Repair Program consists of asphalt repair, asphalt trench restoration, and street asset management. The Asphalt Repair Section repairs, maintains, and improves the City's over 6,600 lane miles of streets and alleys to provide high-quality infrastructure that individuals can safely drive, roll, and ride on and supports Departments citywide to ensure continuity in the roadway network. The Street Asset Management section includes an Asset Management team, Geographic Information Systems (GIS) team, and Slurry Seal contracting group. This section acts as the project manager and is responsible for producing slurry seal contracts, managing crack seal projects, conducting condition assessments, and managing asset inventory through GIS and Cartegraph.

The Transportation Department's long-term goal is to maintain the City's street network in good condition, which equates to an average network pavement condition index (PCI) of 70 or above. To assist with achieving an average network PCI of 70, an additional Mill and Pave team would increase the number of street miles repaired by in-house crews from 30 lane miles to 40 lane miles annually. Additional resources are needed to support the capital improvement of City streets and are further discussed in the *General Fund Infrastructure Needs* section of this document.

Equity Description:

Street maintenance and repairs will be prioritized using a process that ranks street segments based on road condition, number of road users (functional road classification), proximity to high-use areas, and equitable community investments (which includes neighborhoods and communities identified in Promise Zone, Communities of Concern, Community Block Development Grant areas, and structurally excluded communities as defined by Council Policy 800-14). The City's goal is to ensure investments in road infrastructure have the greatest impact for the maximum number of users using the above-mentioned criteria.

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GENERAL FUND INFRASTRUCTURE NEEDS

The discussion of certain components of the City's infrastructure needs is aimed at providing a more holistic view of the City's financial landscape and better reflect the magnitude of the General Fund's structural budget deficit.

It is crucial to understand that unfunded capital needs are not isolated challenges; they also compete directly with the budget allocated towards General Fund operations such as public safety and neighborhood services. While the City has relied on restricted revenue sources, one-time allocations, and debt financing to fund the Capital Improvements Program (CIP), these funding sources are not sufficient to support the growing infrastructure needs of the City. Absent a new revenue source, additional General Fund resources that would otherwise fund operations will have to be either directed as one-time allocations to the CIP or committed from the General Fund to ongoing financing costs.

The information below selectively incorporates needs from a range of asset types, including streets, stormwater infrastructure, and City facilities. Please note that the scope of this analysis is not exhaustive and excludes many other asset categories such as streetlights, sidewalks, traffic signals, among others. A more complete analysis will be reflected in the FY 2026-2030 Five-Year Capital Infrastructure Planning Outlook, which will be released on February 7, 2025.

Transportation – Road Repair Program

The Transportation Department's long-term goal is to maintain the City's street network in good condition, which equates to an average network pavement condition index (PCI) of 70 or above. Because of long term under-investments in the City's road network, the PCI has fallen from a 71 in 2016 to a 63 in the most recent condition assessment performed in 2023. The Transportation Department released a pavement management plan in January 2024 using updated data from the pavement condition assessment completed in 2023. This scenario assessed the funding needs to achieve a PCI of 70 in 10 years, with a total cost of approximately $1.9 billion at the time the document was published. Because funding needs have outpaced available resources, the total cost to reach a PCI of 70 will continue to increase over time.

The department plans to address these needs through various revenue sources, such as the Road Maintenance & Rehabilitation Account, Gas Tax, and TransNet revenues. However, these funds are generally allocated for maintenance, leaving capital needs in direct competition with other General Fund commitments. In a resource-limited scenario, long-term costs can be more expensive because road repairs would not take place at the most cost-effective time.

It is also important to note that there are 62 miles of unimproved streets and alleys across the City (17 unpaved and 45 paved), and costs associated with upgrading these locations are not included in the above estimate. Cost estimates average $24.0 million per mile to pave unimproved road segments, and there is no current funding source for unimproved streets and alleys.

Stormwater Infrastructure

The Stormwater Department's funding needs are calculated based on the City's Watershed Asset Management Plan (WAMP), which encompasses both physical assets like pipes, channels, pump stations and storm drains, as well as programmatic assets such as personnel and operational activities. In addition, the department adjusts these estimates based on the latest information available in the field as the projects are being executed. The WAMP financial model reveals that a significant number of physical stormwater assets are past their useful lives, leading to a rollover of unfunded needs each fiscal year and an increasing number of emergency repairs following significant rain events. The projected total funding requirement for stormwater infrastructure was approximately $2.2 billion over the FY 2025-2029 period. This amount has likely increased, with the increasing costs of executing projects and the continuing deterioration of assets.

A portion of the capital costs will be funded by a Water Infrastructure Finance and Innovation Act (WIFIA) loan awarded by the Federal Environmental Protection Agency (EPA). The loan and required match total $733.0 million to fund a portion of the Stormwater CIP Program during the outlook period. The EPA will finance 49.0 percent, with the City providing a 51.0 percent match. The City's match is expected to be funded with a combination of grants and other financing proceeds from lease revenue bonds or State Revolving Fund Loan funds. However, absent any other dedicated funding source, debt service for repayment of the WIFIA loan and any City issued debt will need to be paid by the General Fund (see *Debt Service* section for additional information on projected debt service expenditures).

New and Existing City Facilities

The most recent condition assessments for City Facilities were completed between FY 2014 and FY 2016[15]. Many identified needs remain to be addressed but need to be reconciled to the current list of required improvements. The condition assessment estimated funding needs of approximately $508.0 million for the then 560 City-occupied facilities and 133 leased General Fund facilities (excluding the City Administration Building, City Operations Building, and other City Concourse facilities). This was the estimate to bring General Fund facilities from a Facility Condition Index (FCI) score of 23 (Fair) to 11 (Good). Once this facility condition assessment is updated, funding needs are expected to increase based on the continual deterioration of facilities, as well as impacts from the Climate Action Plan and Zero Emissions Municipal Buildings and Operations Policy (ZEMBOP) requirements.

In July 2024, the Office of the City Auditor conducted a performance audit on facility maintenance. The audit estimated that the City's deferred maintenance needs exceeded $1.00 billion. In addition, it estimated that to adequately maintain facilities to best practices, the City should be budgeting between $143.0-$287.0 million annually for routine maintenance and repairs, far more than the $20.0-30.0 million budgets for facilities maintenance over the last few fiscal years. The General Services Department plans to establish an annual maintenance and repair funding goal, for both new and existing facilities, after the completion of the next Facilities Condition Assessment. The annual funding goal is expected to be included in the FY 2028-2032 Five-Year Financial Outlook.

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[15] Cost Estimates are based on the Condition Assessment Update City Council Report 16-014 presented to City Council on April 12, 2016. In addition, assessment information of leased facilities was included in the analysis.

The FY 2025 Adopted Budget also includes public safety and neighborhood services capital projects for new and existing facilities with unidentified funding that will likely require significant General Fund contributions or General Fund-backed financing. These new facilities, such as parks, libraries, and fire stations, will create additional maintenance needs once the facilities are completed and opened. In addition, there are critical needs, such as the Police Plaza Reconfiguration and Firearm Training Facility, that are not yet reflected in the Adopted Budget document as capital projects. The City has some dedicated funding sources for City facilities such as Mission Bay and Regional Park Improvement Funds and Impact Fees. The City also relies on federal and State grants when available. However, the funding needs for facilities-related capital improvements far exceed these resources. In addition, increased funding is needed for preventative maintenance to maintain facilities to best practice. As stated earlier, absent a new revenue source, additional General Fund resources that would otherwise fund operations will have to be redirected as one-time allocations to the CIP program, committed to ongoing financing costs, or directed towards additional preventative maintenance tasks.

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CONCLUSION

The purpose of the Outlook is to provide a comprehensive forecast of the City's General Fund finances over the next five fiscal years, and to serve as a framework for the development of the FY 2026 Adopted Budget. It is a long-range fiscal planning guide that focuses on baseline revenues and expenditures, while also considering new facilities and planned commitments beyond the baseline, to help guide future fiscal and policy decisions. The Outlook was developed based on information available and known at the time of the preparation of the report; however, risks to the projections include events that may or will occur during the outlook period whose outcomes are unpredictable or cannot be reasonably quantified at this time.

The projections included in the Outlook show the importance of developing multi-year strategies to correct the projected structural deficits, where ongoing expenditures exceed ongoing revenues. The projected shortfalls also demonstrate the need for additional ongoing available resources to support the critical needs of the City. Based on the forecast for baseline expenditures and revenues, growth in expenditures is anticipated to outpace the growth in revenues for all five years of the Outlook. The shortfall is based on the following key factors:

- Reduction of one-time revenue sources used to support the FY 2025 Adopted Budget, including $84.4 million in excess equity that was used to balance the budget;
- Moderate, but softening growth in revenues when compared to the robust growth that followed the height of the COVID-19 pandemic; and
- Projected growth in expenditures needed to maintain the City's service levels as reflected in the FY 2025 Adopted Budget.

The City can partially address these baseline shortfalls through a variety of mitigating actions, such as the use of Excess Equity, budget reductions, strategic use of the Infrastructure Fund, or waiving reserve contributions to support eligible General Fund expenditures. However, once forecasted costs for priorities beyond the baseline are included in the Outlook, including costs for new facilities and planned commitments, the forecasted shortfall grows considerably and extends throughout the outlook period. In addition to new facilities and planned commitments, there are many additional priorities, services, compliance, operational, and capital needs beyond those included in this report. Given the limited and one-time nature of the City's available funding sources, the City will need to explore additional mitigation actions in future years, which could include reduction or suspension of reserve contributions, suspension or strategic use of contributions to the Infrastructure Fund, budget reductions, and the pursuit of additional one-time and ongoing revenue sources.

The Outlook is not a budget document and is intended to provide the City Council, key stakeholders, and the public with information to facilitate an informed discussion in preparation for the development of the FY 2026 Adopted Budget. Any new expenditures assumed in the Outlook for FY 2026 will be considered during the upcoming FY 2026 budget development process and will be dependent upon available resources and consistent with the priorities outlined in the City's Strategic Plan.

The FY 2026 budget process will consider the City Council's budget priorities, as outlined in IBA Report 24-30 REV: FY 2026 City Council Budget Priorities, which were approved on October 28, 2024 by the City Council. As required by the City Charter, the Mayor will present a balanced budget to the City Council by April 15, 2025. The decisions made for the FY 2026 budget will have an impact on the entire outlook period and will be reflected in the FY 2027-2031 Five-Year Financial Outlook Report.

ATTACHMENT 1
ONE-TIME RESOURCES AND USES OF FUNDS

The tables below detail the one-time resources and expenditures that were included in the Fiscal Year 2025 Adopted Budget that were adjusted to develop the FY 2026-2030 Five-Year Financial Outlook baseline budget.

One-Time Resources	Amount
Use of Excess Equity	$ 84,444,903
Delay General Fund Reserve Contribution	22,410,549
Use of Infrastructure Fund for General Fund Operating Expenditures	20,262,331
Waiver of the Climate Equity Fund Contribution	8,469,702
Affordable Housing Fund Support for Homelessness Programs	8,000,000
Short-Term Residential Occupancy Licensing Fees	6,254,000
Employ & Empower Intern Program Grant Revenue	6,214,194
Emergency Medical Services Transfer	6,064,807
Waiver of the Transfer to the Bridge to Home Program	5,847,660
Civil Penalty Fund - Use of Fund Balance	5,824,000
Internal Service Funds - Use of Fund Balance	5,816,003
Energy Independence Fund - Use of Fund Balance and Waive Contribution	5,515,741
Transient Occupancy Tax Fund - Use of Fund Balance	5,016,170
Executive Approval to Fill Vacancies Process - Budgeted Personnel Expenditure Savings	4,493,948
Sycamore Facility Franchise Fee Revenue	4,300,000
Environmental Growth Fund Reimbursements	3,920,392
Transaction Fee Revenue from Sale of Hilton La Jolla Torrey Pines	3,300,000
TransNet Revenue	2,346,863
Grant Reimbursements	2,282,403
Use of Permanent Local Housing Allocation (PLHA) Program Funding	2,250,000
General Fund Discount on Refuse Disposal Fees	2,100,000
Budgeted Personnel Expenditures Savings for New Positions	1,575,432
Concourse & Parking Garage Fund - Use of Fund Balance	1,395,631
COVID-19 FEMA Reimbursements	1,309,396
Delay Workers' Compensation Reserve Contribution	1,005,253
Community Development Block Grant Revenue	910,000
Use of Low-Income Housing Lease Revenue	834,176
Use of HOME - American Rescue Plan Act Funds	240,342
Opioid Settlement Revenue	197,000
Project Labor Agreement Reimbursements	102,000
False Alarm Revenue	90,750
Special Events Revenue	53,530
Annualization of Wayfinding Kiosk Revenue	(771,109)
Total	**$ 222,076,067**

One-Time Uses	Amount
Portable Restrooms	$ 3,710,000
Continued Homeless Shelter Operations	1,456,921
Start-Up Costs for 1,000 Beds and Safe Parking Program	1,249,265
Transfer to the Capital Improvements Program - San Carlos Library	1,200,000
Debris Assistance Program	1,200,000
Termination Pay for City Employees	1,175,438
Multi-Disciplinary Outreach Program	1,100,000
Small Business Enhancement Program	1,061,000
Youth Care Development Drop-In Pilot	1,002,000
Transfer to the Capital Improvements Program - Jeremy Henwood Park	1,000,000
Tree Services related to Urban Forestry Air Pollution Control District Settlement	969,169
Eviction Prevention Program	962,573
Community Projects, Programs, and Services	900,000
SD Access for All	784,000
Bacteria TMDL Time Schedule Order	750,000
Business Cooperation Program Rebate	690,000
Day Center Improvements	660,933
Chollas Yard Parking Expansion	453,506
Project Labor Agreements	400,000
Family Shelter Operating Costs	315,000
Library Materials	230,000
Parks and Recreation New Supplies and Equipment	208,002
Library Donation Match	200,000
Pothole Repair Vehicle	174,000
Transfer to the Capital Improvements Program - UTC Streetlights	150,000
General Benefits for Maintenance Assessment Districts	144,622
Support for Your Safe Place – A Family Justice Center	96,000
False Alarm Tracking and Billing System Replacement	90,750
Non-Personnel Expenditures for New Positions	55,910
Software to Support Central Asphalt Team	47,950
Recreational Programming Support	10,000
Annualization of Independent Legal Counsel	(90,000)
Reduction of Window Washing at Central Library	(221,000)
Reduction of Tree Planting Services	(562,000)
Reduction in Traffic Signal Cabinet Supplies	(700,000)
Reduction of Water Services	(724,000)
Reduction in Second Helicopter Overtime and Maintenance	(850,000)
Other Budget Reduction Proposals	(958,626)
Total	**$ 18,341,413**

ATTACHMENT 2
NEW FACILITIES

New Facilities	
Parks and Recreation	
East Village Green	2026
Eastbourne Neighborhood Park	2026
Federal Boulevard Pocket Park	2026
Bruce Brown Memorial Park	2026
Hickman Elementary Joint Use	2026
Mira Mesa Aquatic Center	2026
Pacific Beach Elementary Joint Use	2026
Rowan Elementary Joint Use	2026
Solterra Vista Neighborhood Park	2026
Hidden Trails Neighborhood Park	2026
Parks and Recreation	
Dennery Ranch Neighborhood Park	2027
Beyer Park Phase 1	2027
Junipers Park	2027
Walden Neighborhood Park	2027
Mira Mesa Community Park	2027
Black Mountain Ranch Park Phase 2	2027
Perry Elementary Joint Use	2027
North Central Square	2027
Shoal Creek Neighborhood Park	2027
Library	
Ocean Beach Library	2027
Parks and Recreation	
Jones Elementary Joint Use	2028
Fire-Rescue	
Black Mountain Ranch Fire Station	2028
Library	
Oak Park Library	2028
Parks and Recreation	
Foster Elementary Joint Use	2029
Benchley-Weinberger Elementary Joint Use	2029
Perkins Elementary Joint Use	2029
Toler Elementary Joint Use	2029
Lafayette Elementary Joint Use	2029
Fire-Rescue	
Otay Mesa Fire Station	2029
Parks and Recreation	
Florence Elementary Joint Use	2030
Carver Elementary Joint Use	2030
Ross Elementary Joint Use	2030