The City of

SAN DIEGO

FISCAL YEAR 2023-2027
FIVE-YEAR FINANCIAL OUTLOOK

Todd Gloria
Mayor

Jay Goldstone
Chief Operating Officer

Matthew Vespi
Chief Financial Officer

Rolando Charvel
Department of Finance Director and City Comptroller

Adrian Del Rio
Assistant Director

Nicole Chalfant
Financial Operations Manager

Vanessa Montenegro
Principal Accountant

NOVEMBER 2021

Disclaimer:

The City files its disclosure documents, including official statements, audited financial statements, annual comprehensive financial reports, annual financial information, material event notices, and voluntary disclosures with the Municipal Securities Rule Making Board's Electronic Municipal Market Access ("EMMA") system. The Five-Year Financial Outlook ("Outlook") is utilized by the City as a planning tool and as such, is not filed on EMMA and therefore should not be relied upon by investors to make any investment decisions. The City will provide the Outlook to the rating agencies, its bond insurers and other interested parties for informational purposes and welcomes and encourages their careful review of this document. All readers are cautioned that the numbers presented in the Outlook represent the City's best estimates for the next five years based on facts and factors currently known to the City and may differ materially from actual results. As of the date any reader reviews the Outlook, the City makes no representation that there is not a material difference between the City's actual performance as of such date and the financial data presented in the Outlook. Certain statements herein constitute forward-looking statements or statements which may be deemed or construed to be forward-looking statements. Forward-looking statements involve and are subject to known and unknown risks, uncertainties and other factors which could cause the City's actual results, performance (financial or operating) or achievements to differ materially from future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. All forward-looking statements herein are expressly qualified in their entirety by the above-stated cautionary statement. The City disclaims any obligation to update forward-looking statements contained in the Outlook.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The City of San Diego Fiscal Year 2023-2027 Five-Year Financial Outlook Report (Outlook) is a long-range fiscal planning guide and serves as the framework for the development of the Fiscal Year (FY) 2023 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 updating forecasts for revenues and expenditures necessary to maintain the City's current service levels as reflected in the Fiscal Year 2022 Adopted Budget. In addition to the baseline forecast, this year's Outlook also includes projected costs for priorities beyond the baseline and include costs for new facilities and planned commitments, new expenses associated with compliance requirements to meet regulatory mandates. In addition, as an effort to improve the quality of services provided to the public, an additional select number of department service level improvements have been identified as areas of focus in the Outlook and for future budget planning. Note, there are many additional priorities, services and operational needs beyond those included in this report. However, the services and programs included in the Outlook are the most requested service level improvements identified through the City's "Get It Done" application. Aside from the projected costs mentioned above, the Outlook does not include new expenditures that enhance current service levels or expenditures that support priorities or initiatives that are not expected to be funded by the General Fund. Any new expenditures assumed in the Outlook for FY 2023 will be considered during the upcoming FY 2023 Budget Development process and will be dependent upon available resources and consistent with the priorities outlined in the Mayor's 2022 Strategic Plan scheduled to be released in January of 2022. The Strategic Plan will cover five key priority areas including: Advance Mobility; Champion Sustainability; Create Homes for All of Us; Foster Regional Prosperity; and Serve Every Neighborhood.

The following points highlight key assumptions included in the Outlook:

- 3.05 percent annual general salary increase following the current Memoranda of Understanding (MOU) with each Recognized Employee Organization (REO) in the City;
- Total major General Fund revenues are projected to reach pre-pandemic levels by FY 2023; while TOT is anticipated to fully recover by FY 2024; and
- Includes reserve contributions within the Outlook period in order to reach reserve target levels of 16.25 percent by FY 2023.

The Outlook is a planning tool to assist in budget decisions related to the allocation of General Fund resources and should not be considered a budget. The Outlook provides the City Council, key stakeholders, and the public with information at the start of the budget process to facilitate a discussion regarding the upcoming year's General Fund budget allocations. To the extent projected expenditures exceed estimated revenues in any given year of the Outlook, the City will address these shortfalls through a variety of mitigating actions such as the use of American Rescue Plan Act funds, the use of available fund balance above reserve levels (Excess Equity), or other necessary actions, including, but not limited to, budget reductions or use of reserves. As required by the City Charter, the Mayor will present a balanced budget to the City Council by April 15, 2022. The decisions impacting the FY 2023 budget will have an impact on the entire Outlook period and will be reflected in the FY 2024-2028 Five-Year Financial Outlook Report.

Summary of Key Financial Data in Baseline Projections

The major General Fund revenues continue to recover from the COVID-19 pandemic and are projected to exceed pre-pandemic levels by FY 2024. The Outlook forecasts the continuance of the economic recovery in FY 2022, which began in the last quarter of FY 2021. This forecast includes the positive impacts of high vaccination rates in San Diego County, measuring at 81.2 percent of the population 12 years and older being vaccinated according to San Diego County's Epidemiology and Immunization Services Branch (EISB) COVID-19 Vaccination Report as of October 27, 2021[1]. The assumptions are also dependent upon a continued low transmission rate of COVID-19, and the resumption of business and international travel projected to progressively normalize with large group events gradually resuming in August 2021. Revenue growth is projected to increase significantly in FY 2023 and return to pre-pandemic growth levels in FY 2024. Major General Fund revenues are anticipated to increase in each year of the Outlook; however, the rate of growth decreases in the outer years of the Outlook once an economic recovery from the COVID-19 pandemic is reached. The Outlook also projects moderate increases in baseline expenditures required to maintain current service levels and is based on anticipated growth in each expenditure category. Any anticipated growth is highlighted within each baseline revenue and expenditure category within 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, fiscal impacts from the reversal of Proposition B, potential new state or federal funding, pension cost increases due to updated actuarial assumptions, and salary increases above those assumed in the outlook.

As depicted in Table 1.1, projected baseline expenditures exceed revenues in FY 2023 through FY 2025. The baseline revenue growth is projected to exceed anticipated expenditure growth by FY 2026. Throughout the report, tables may not foot due to rounding differences.

This Section Intentionally Left Blank

[1] November 3, 2021, *Epidemiology and Immunization Services Branch COVID-19 Vaccinations Report*, County of San Diego, retrieved November 4, 2021, [COVID-19 Vaccinations Demographics.pdf (sandiegocounty.gov)]

Table 1.1 - Fiscal Year 2023-2027 Financial Outlook Summary of Key Financial Data ($ in Millions)					
	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027
Property Tax	$700.2	$740.2	$781.0	$823.1	$864.9
Sales Tax	$348.4	$364.1	$379.0	$393.0	$406.0
Transient Occupancy Tax	$130.2	$135.3	$140.7	$146.2	$152.1
Franchise Fees	$85.3	$85.6	$86.6	$87.6	$86.6
All Other Revenue Categories	$449.2	$458.8	$475.0	$486.5	$495.9
BASELINE GENERAL FUND REVENUES	**$1,713.2**	**$1,784.0**	**$1,862.3**	**$1,936.5**	**$2,005.5**
Salaries & Wages (Current MOUs)	$712.2	$716.7	$719.1	$724.5	$719.4
Salaries & Wages (Assumed General Salary Increases at 3.05% Annually)	$9.9	$30.6	$51.8	$73.7	$96.3
Retirement Actuarially Determined Contributions (ADC)	$320.7	$326.2	$330.8	$331.4	$329.5
All other Personnel Expenditures	$220.5	$221.1	$221.8	$222.4	$223.0
Non-Personnel Expenditures	$472.7	$483.7	$492.9	$501.4	$516.2
Charter Section 77.1 - Infrastructure Fund Contribution	$18.4	$26.1	$33.0	$38.7	$43.1
Reserve Contributions	$25.6	$18.3	$21.2	$16.2	$12.8
BASELINE GENERAL FUND EXPENDITURES	**$1,780.0**	**$1,822.8**	**$1,870.5**	**$1,908.4**	**$1,940.4**
BASELINE (SHORTFALL)/SURPLUS	**($66.8)**	**($38.8)**	**($8.2)**	**$28.1**	**$65.2**

This Section Intentionally Left Blank

Report Outline

The Outlook includes a discussion on General Fund baseline projections for revenues and expenditures, necessary to maintain the City's current service levels. Additionally, the Outlook identifies future fiscal impacts for new facilities scheduled to open within the outlook period, critical funding needed to meet state and federal compliance requirements and department service level requests identified as areas of focus from the City's "Get it Done" application. The Outlook Report also identifies available funding sources that could be used to mitigate projected revenue shortfalls, and reviews other assumptions and considerations not included in the projections used in this Report.

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 2023-2027 Financial Outlook. The Baseline Projections section includes baseline revenue and expenditure growth, and anticipated adjustments to the FY 2022 Adopted Budget. Examples of anticipated adjustments in the baseline projections include the removal of one-time resources and expenditures included in the FY 2022 Adopted Budget from the FY 2023 baseline projections.

In addition to the baseline projections discussion, the Outlook incorporates one-time and ongoing revenues and expenditures associated with new planned facilities scheduled to open within the outlook period and for homelessness strategies and solutions. New libraries, fire stations and new park and joint use facilities are identified in the Outlook. Additionally, the Outlook quantifies additional expenses needed to meet critical compliance requirements, including the implementation of Senate Bill 1383 Organics Waste Program (SB 1383) phased over the outlook period and storm water compliance requirements. Lastly, the report includes select services identified through the City's "Get It Done" application, as areas requiring additional resources to meet standard service levels. These services include additional funding for weed and graffiti abatements, pothole road repairs, sidewalk repairs, streetlight and traffic signal repairs, street resurfacing, tree maintenance and planting, increased garbage collection at City parks and beaches and additional resources needed to address 72-hour parking complaints and missed trash and recycling collections. Aside from the select services described later in the report, the Outlook does not include new expenditures that enhance service levels. Any new expenditures assumed in the Outlook for FY 2023 will be considered during the upcoming FY 2023 Budget Development process and will be dependent upon available resources and consistent with the priorities outlined in the Mayor's 2022 Strategic Plan scheduled to be released in January of 2022.

Available funding sources are identified to address the anticipated revenue shortfalls noted in the Report. Resources include federal funding through the American Rescue Plan Act of 2021 (ARPA) eligible to be used through December 31, 2024. The American Rescue Plan Act was passed on March 11, 2021 and allocated $299.7 million in Coronavirus State and Local Fiscal Recovery Funds to the City of San Diego. The American Rescue Plan Act provides additional relief to address the continued impact of COVID-19 and aid to states and local governments for direct and flexible relief. The United States Department of Treasury's Interim Final Rule[2] provides the guidelines and requirements for the use of the Coronavirus State and Local Fiscal Recovery Funds, in which the City will ensure that the funds

[2] May 17, 2021, *Interim Final Rule to implement the Coronavirus State and Local Fiscal Recovery Fund under the American Rescue Plan Act*, Department of the Treasury, retrieved November 4, 2021, 2021-10283.pdf (govinfo.gov)

allocated continue to adhere to federal guidelines. In accordance with ARPA and Interim Final Rule language, funds may be used to:

- Provide government services to the extent of reduction in revenue due to COVID-19 relative to revenues collected in the most recent full fiscal year prior to the emergency;
- Respond to COVID-19 or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
- Provide premium pay up to $13 an hour to eligible municipal or county workers performing essential services to respond to COVID-19. This provision is capped at a maximum benefit of $25,000 per eligible worker; and
- Make necessary investments in water, sewer, or broadband infrastructure.

The funds cannot be used for offsetting tax cuts or for pension liabilities, contributions to reserve funds, or debt service. The City currently assumes the use of $149.3 million of ARPA funds in the FY 2022 Adopted Budget, which leaves an available balance of $150.4 million to be allocated within the Outlook period up to, but no later than FY 2025. In addition to ARPA funding, the Fiscal Year 2022 First Quarter Budget Monitoring Report (FY 2022 First Quarter Report) currently projects Excess Equity at $26.7 million and may be available to address revenue shortfalls in FY 2023.

Lastly, there remains uncertainty around the disease containment and suppression, the rise and persistence of inflation, the magnitude and potential impacts from supply chain constraints, as well as the timing of a full economic recovery. There continues to be risks and possible other unforeseen issues that may cause the revenues and expenditures projected to materially deviate from the projections used in the preparation of this report. The Other Assumptions and Considerations section of the report details significant items that could impact the projections reflected in the Outlook including, fiscal impacts from the reversal of Proposition B, potential new state or federal funding, pension cost increases due to updated actuarial assumptions, and changes to current labor agreements.

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration in by April 15, 2022.

This Section Intentionally Left Blank

This Page Intentionally Left Blank

BASELINE PROJECTIONS

The Baseline Projections section describes forecasted General Fund changes based on growth assumptions and anticipated adjustments to the FY 2022 Adopted Budget at the time of the preparation of this Report. This section provides forecasted growth rates for revenues, including an overview of the revenue category, key economic trends, and a discussion of varying scenarios that could impact the forecast for the major revenue categories. General Fund expenditures are reviewed thereafter, including 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 on the FY 2022 Adopted Budget with one-time resources and expenditures removed. The one-time resources and expenditures that have been removed from the baseline projections are detailed in Attachment 1: One-Time Resources and Expenditures.

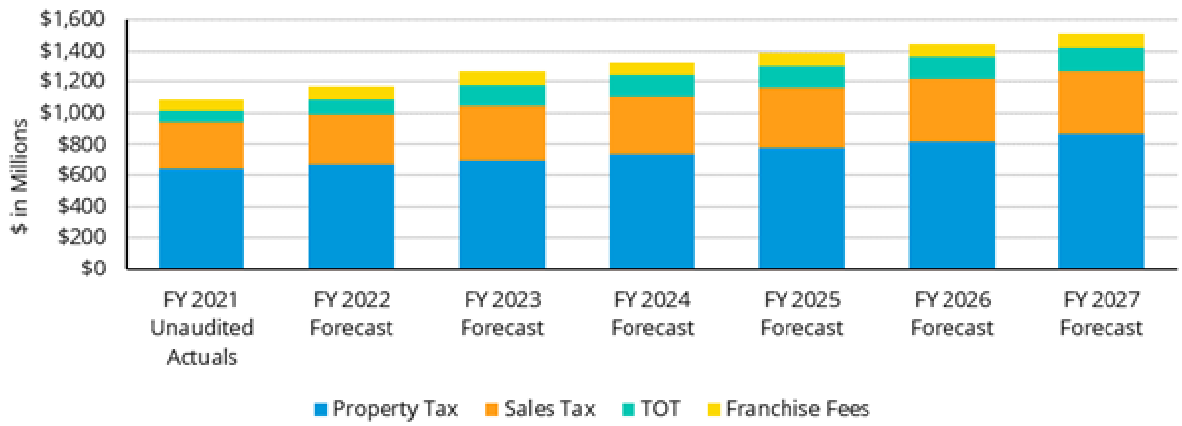
Baseline General Fund Revenues

The U.S. economy suffered some of the greatest economic impacts in history during the COVID-19 pandemic. The FY 2022 Adopted budget includes a steady recovery from the pandemic with projected growths in the City's major General Fund revenues. With the acceleration of vaccinations across the county and the decrease in COVID-19 infections, restrictions began to lift earlier than originally anticipated by the third quarter of FY 2021. The Outlook uses updated FY 2022 projections as the base for the five-year forecast. The revenue projections included in the FY 2022 First Quarter Report align with the updates included in the Outlook and continue to project robust revenue recovery through the end of the fiscal year. This Outlook projects the continuance of the economic recovery in FY 2022, and assumes total revenues reach full recovery from the pandemic by FY 2023; however, tourism revenue is anticipated to be slower to recover and not projected to surpass pre-pandemic levels until FY 2024.

It should be noted that in addition to growth rate percentages applied in each of the revenue categories, other adjustments have been included based on significant known and anticipated events that are detailed within each category. To assist in evaluating the potential variability to revenue projections, a "High" and "Low" projection scenario has been included for property tax, sales tax, and transient occupancy tax (TOT). It is important to note that the "High" and "Low" projections provide a range of possibilities within the current economic parameters and also include the potential impacts for a future economic recession.

The City's four major General Fund revenue sources, property tax, sales tax, TOT, and franchise fees, represent 67.0 percent of the City's General Fund FY 2022 Adopted Budget. As depicted in Figure 2.1, all four major revenue sources are projected to increase through the Outlook period; however, the annual rate of growth is expected to increase in the early years of the outlook period before normalizing in the outer years. The overall economic assumptions included in the report is in accordance with the information received from industry experts representing the four major revenue categories and overall regional economy, these include: the City's property tax consultant, HdL Coren & Cone, the City's sales tax consultant, Avenu Insights & Analytics, the San Diego Tourism Authority, San Diego Tourism Marketing District, San Diego Gas & Electric, and the UCLA Anderson Forecast and Beacon Economics reports. 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 below details the forecasted Outlook revenues, as well as recent actual revenues.

Figure 2.1 - Major General Fund Revenues



Property Tax

Property tax is the City's largest revenue source representing 38.6 percent of the General Fund FY 2022 Adopted Budget. The primary component of the property tax category is the 1.0 percent levy on the assessed value of all real property within the City limits. The property tax category also includes the Motor Vehicle License Fee (MVLF) backfill payment, which is a result of MVLF being reduced from 2.0 percent to 0.65 percent in 2005. Additionally, the category includes pass-through and residual property tax payments deposited into the Redevelopment Property Tax Trust Fund (RPTTF) due to the dissolution of Redevelopment Agencies (RDA) statewide.

Forecast

The FY 2022 property tax category is projected at $662.2 million, a $10.2 million decrease over the FY 2022 Adopted Budget and serves as the base for the Outlook projections. The FY 2022 projections include a decrease in projected receivables from the County's 1.0 percent levy on assessed valuations due to Proposition 13 growth limitations tied to California Consumer Price Index (CCPI). Proposition 13, passed by voters in 1979, and the California Revenue and Taxation Code Section 51, specify that a property's assessed value may increase at the prior year's October-to-October California Consumer Price Index rate, but cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value. The California Consumer Price Index impacts the assessed valuation of properties that do not sell or are not improved within a given year. The October 2019 to October 2020 CCPI data increased at 1.036 percent, therefore, assessed value for all properties not sold or improved, will only increase by CCPI of 1.036 percent and not the maximum of 2.0 percent that has been applied to most prior year's growth since the enactment of Proposition 13 in 1979. The FY 2022 projections also include a decrease in the MVLF back-fill payment, per the County's latest payment schedule and slight decrease in the RPTTF estimated payments. This is partially offset with an increase in the collection rate to 99.2 percent, based on the assumption that the City's property tax revenue collections will return to pre-pandemic levels. Consistent with the FY 2022 First Quarter Report, the FY 2022 Adopted Budget growth rate has been reduced to 4.00 percent due to a decline in projected 1.0 percent property tax receivables from the County's October 2021 estimate.

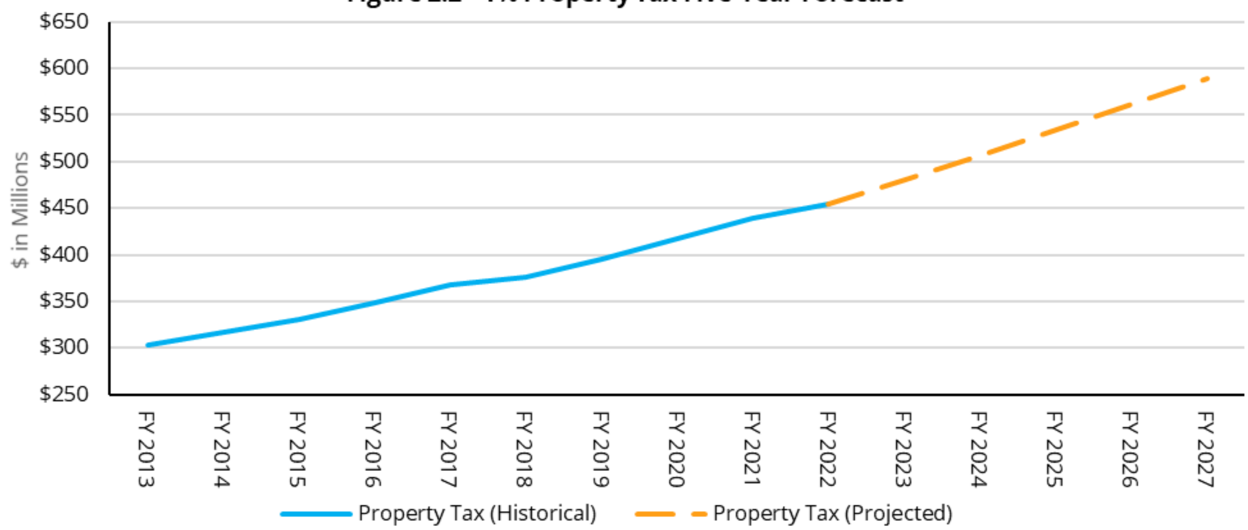
The following table shows the budget and year-end projection for FY 2022 and the forecast for FY 2023 through FY 2027 for revenue from property tax.

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

	FY 2022 Adopted	FY 2022 Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate	4.50%	4.00%	5.75%	5.75%	5.50%	5.25%	5.00%
Projection	$ 672.2	$ 662.0	$ 700.2	$ 740.2	$ 781.0	$ 823.1	$ 864.9

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

Figure 2.2 - 1% Property Tax Five-Year Forecast



Economic Trends

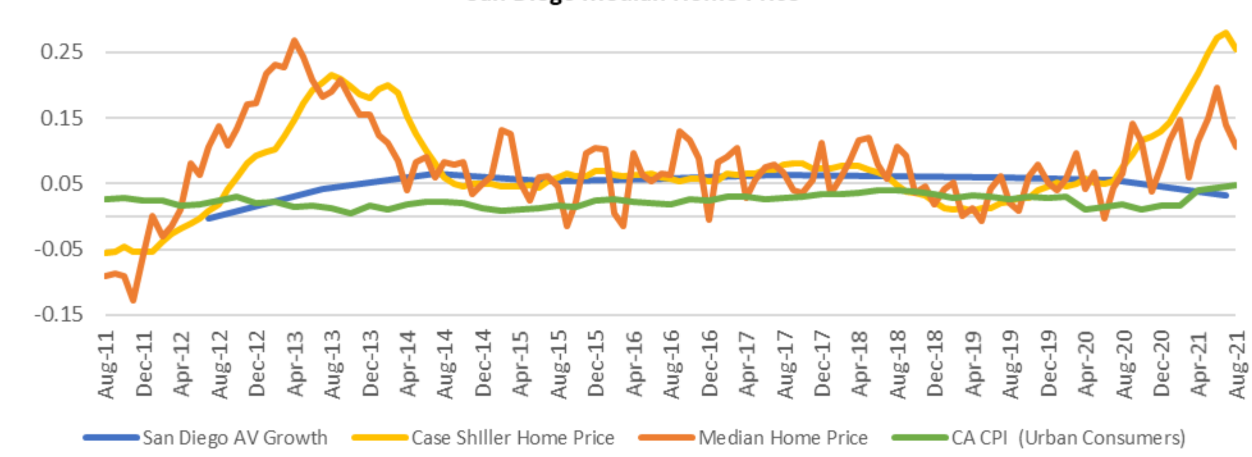
The major economic drivers of property tax revenue are the California Consumer Price Index (CCPI), home sales, home prices, and foreclosures and defaults.

As mentioned above, the CCPI plays an important part in the assessed valuation of properties that do not sell or are not improved within a given year. Although the October 2019 to October 2020 CCPI came in low at 1.036 percent which impacts current year projections, CCPI since October 2020 has been trending high and the Outlook anticipates CCPI to exceed the 2.0 percent cap in future years. When CCPI exceeds 2.0 percent, the 2.0 percent maximum that is specified in Proposition 13 applies to assessed value for all properties not sold or improved within the given year. The latest CCPI released by the California Department of Finance (DOF) was 299.815 as of August 2021, a 4.7 percent increase from the August 2020 CCPI of 286.388.

The City has experienced healthy growth in property sales as it relates to both home prices and home sales. Home prices continue to show growth, with an increase of 10.20 percent in the median home price from September 2020 to September 2021. The median home price reached a new, all-time high, at $750,000 as of June 2021 and has since reduced to $742,250 as of September 2021. Moreover, home sales have accelerated but have also began to slow, with year-to-date home sales, as of August 2021, increasing by only 1.9 percent compared to August 2020. The experienced growth in property sales is attributed to favorable lending conditions and pent-up demand.

The Case-Shiller graph depicted in Figure 2.3 displays the correlation of several economic factors described above since 2011 and the resulting impact on the City's assessed valuation. The graph shows that while the Case-Shiller Home Price Index and the median home price have fluctuated significantly over the years, the CCPI has remained relatively stable. As CCPI is 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 steadier than the Case-Shiller Home Price Index and the local median home price. Finally, the graph displays the lag of approximately 12-18 months between activity in the local real estate market and the resulting impact on the City's assessed valuation.

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



Based on property sales as early as September 2020 and an approximate 1.0 percent increase in the CCPI, the City's estimated assessed valuation will continue to see a positive increase for FY 2022. While foreclosures and notices of default have declined significantly when comparing September 2020 to September 2021 as a result of the statewide eviction moratorium put in place during the pandemic, they have begun to rise steadily throughout calendar year (CY) 2021. This trend will likely continue as these protections have recently ended as of September 30, 2021.

Other factors to consider in developing a revenue projection for property tax include mortgage rates, changes to federal tax policy, and property tax refunds. The 30-year mortgage rate has steadily decreased in recent months and economic uncertainty has influenced the federal funds rates to remain unchanged in this current calendar year. As a result of the effects of the COVID-19 pandemic and the risks to the economic outlook, the Federal Open Market Committee (FOMC) lowered the target range for federal funds rate to between 0 and 1/4 percent in March of 2020. According to a September 2021statement from the Federal Reserves, "the committee decided to keep the target range for the federal funds rate at between 0 and 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2.0 percent and is on track to moderately exceed 2.0 percent for some time[3]".

In addition to the above factors, due to the dissolution of the RDA, 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.

The outlook period estimates an increased growth of 5.75 percent beginning in FY 2023 through FY 2024 due to the housing boom that began shortly after the start of the pandemic; followed by return to trend of an annual decrease of 0.25 percent for the remaining years of the outlook period. The current growth rates incorporate 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 of the prior year's positive growth performance in the early years of the outlook period before normalizing in the outer years.

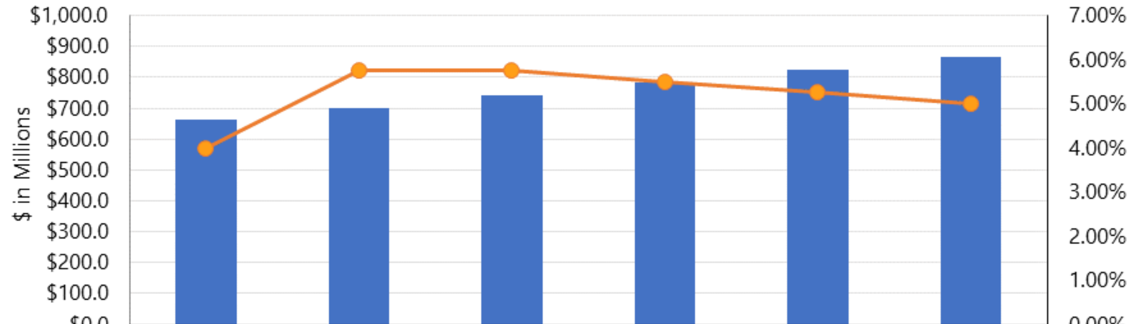
The following table and graph provide details on the components of the FY 2022 Adopted Budget for property tax and the forecasted property tax revenue for FY 2023 through FY 2027.

Table 2.2 - Property Tax Components ($ in Millions)

	FY 2022 Adopted	FY 2022 Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate	4.50%	4.00%	5.75%	5.75%	5.50%	5.25%	5.00%
1% Property Tax	$ 460.4	$ 454.5	$ 479.9	$ 506.9	$ 534.1	$ 561.8	$ 589.5
MVLF Backfill	$ 170.6	$ 167.8	$ 177.5	$ 187.7	$ 198.0	$ 208.4	$ 218.8
RPTTF Pass-Through Tax Sharing Payment	$ 10.4	$ 10.2	$ 10.7	$ 11.4	$ 12.0	$ 12.6	$ 13.2
RPTTF Residual Property Tax Payment	$ 30.9	$ 29.5	$ 32.1	$ 34.3	$ 36.9	$ 40.3	$ 43.4
Total Property Tax Projection	$ 672.2	$ 662.0	$ 700.2	$ 740.2	$ 781.0	$ 823.1	$ 864.9

[3] Federal Open Market Committee (FOMC) September 2021 Press Release

Figure 2.4 - Property Tax Revenue Projections: Fiscal Years 2023 - 2027
Projections including Redevelopment Property Tax Trust Fund (RPTTF)



	FY 2022 Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Projection	$ 662.0	$ 700.2	$ 740.2	$ 781.0	$ 823.1	$ 864.9
Growth Rate	4.00%	5.75%	5.75%	5.50%	5.25%	5.00%

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 2.5 reflects the current scenario as well as the “High” and “Low” scenario. In addition, Table 2.3 details the assumed growth rates for each scenario for FY 2023 through FY 2027.

Figure 2.5 - Property Tax Revenue Five-Year Forecast: Fiscal Years 2023 - 2027

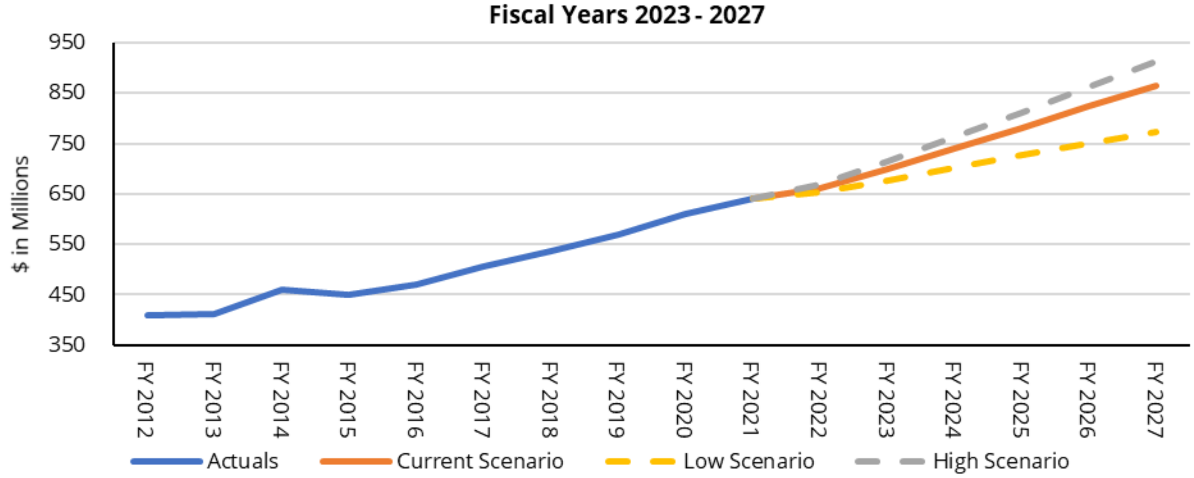


Table 2.3 - Property Tax Five-Year Forecast: Growth Rate Scenarios					
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Current Growth Rate	5.75%	5.75%	5.50%	5.25%	5.00%
High Growth Rate	6.75%	6.75%	6.50%	6.25%	6.00%
Low Growth Rate	3.75%	3.75%	3.50%	3.25%	3.00%

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. Due to 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 of the prior year's positive growth performance in the early years of the outlook period before normalizing in the outer years. The assumption incorporates the following housing statistics: an increase of 27.3 percent in home sales[4], 10.2 percent in home prices[4], and 26.2 percent in Case Shiller Home Price Index[5] when compared to the prior year.

The "Low" scenario assumes a correction to the housing market and a rapid increase in mortgage interest rates over the next five years. Increased mortgage rates raise the cost of home ownership, thereby slowing the number of home sales and median home price growth. Increased supply also has the potential to drive down median home prices, however, current market demands make excess housing supply unlikely in the near term. Further contributing to the "Low" scenario is that existing higher prices are changing home ownership behaviors and reducing turnover, and therefore reducing growth in assessed valuation. Higher interest rates and lower turnover will result in lower annual assessed valuation growth rates for FY 2023 through FY 2027. A "Low" scenario would reduce property tax projections by $23.2 million in FY 2023 and a cumulative total of $279.6 million throughout the outlook period.

A "High" scenario is projected to exist should homes sales and valuations continue at the current levels, with slightly restrained growth. While this scenario is less likely, interest rates would remain low over the next several years, continuing 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 years, while slowing in later years. A "High" scenario would increase property tax projections by $13.3 million in FY 2023 and a cumulative total of $152.5 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. A decrease in enforceable obligations due to a denial will increase the City's RPTTF residual payment throughout all fiscal years of the Outlook. A significant variable in the ROPS enforceable obligations is the dollar amount and terms of the repayment of various outstanding loan agreements.

[4] September 2020 & 2021, California Home Sale Activity by City, CoreLogic Report

[5] August 2020 & August 2021, San Diego Home Price NSA Index, S&P CoreLogic Case-Shiller

Sales Tax

The City's second largest revenue source is sales tax and represents 18.4 percent of the General Fund FY 2022 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 delivers goods into 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 following table displays the sales tax FY 2022 Adopted Budget, FY 2022 year-end projection, and the forecast for FY 2023 through FY 2027. As discussed in the FY 2022 First Quarter Report, the FY 2022 year-end projection for sales tax, of $331.8 million, represents an increase of $11.0 million over the FY 2022 Adopted Budget of $320.8 million. The FY 2022 projected increase is primarily attributed to higher than anticipated sales tax receipts collected in the first quarter and revisions to the sales tax base amount. The FY 2022 third quarter base was adjusted to reflect actual prior year sales tax, while the fourth quarter base was adjusted to reflect the three-year average of prior fourth quarter actuals to normalize the fourth quarter base following an unusual increase in prior fourth quarter actuals. These adjustments are considered in the baseline projections for the outlook period.

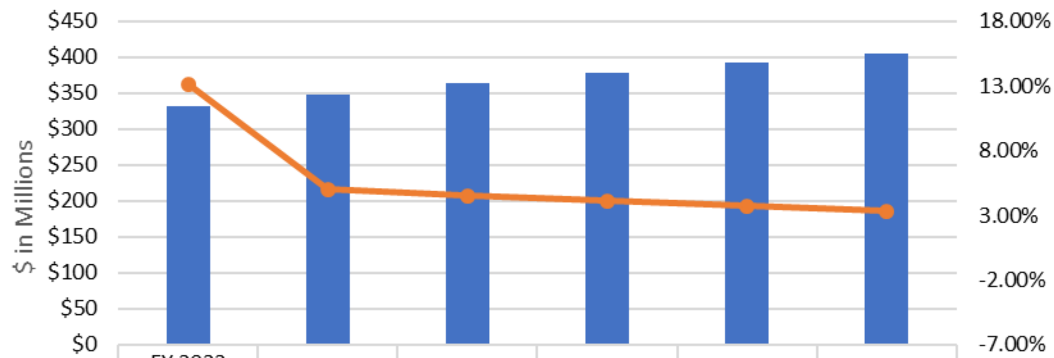
The sales tax forecast reflects a recovery from the COVID-19 pandemic beginning in FY 2021 and a return to pre-pandemic levels by FY 2022. The return to pre-pandemic levels, within 2 years from the start of the COVID-19 pandemic, is primarily attributed to less severe impacts from COVID-19 restrictions on business performance across various sectors than previously anticipated; and a result of better than anticipated consumer behavior during the COVID-19 pandemic, including the use of government stimuli by consumers on taxable goods and a significant increase in online sales. This was further supported by the robust rebound of California's economy following an expansion of vaccination efforts, and a full reopening of its economy earlier than expected, in the last quarter of FY 2021, which fostered consumers' willingness to spend on taxable goods. The outlook stabilizes this robust growth in the near term and continues to taper off and return to historical averages in the outer years due to the uncertainty of sustained growth and stability. These growth rates are in alignment with the City's sales tax consultant, Avenu Insights & Analytics, September 2021 forecast.

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

	FY 2022 Adopted	FY 2022 Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate	13.16%	13.16%	5.00%	4.50%	4.10%	3.70%	3.30%
Projection	$ 320.8	$ 331.8	$ 348.4	$ 364.1	$ 379.0	$ 393.0	$ 406.0

This Section Intentionally Left Blank

Figure 2.6 - Sales Tax Revenue Projection: Fiscal Years 2023 - 2027



	FY 2022 Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Projection	$ 331.8	$ 348.4	$ 364.1	$ 379.0	$ 393.0	$ 406.0
Growth Rate	13.16%	5.00%	4.50%	4.10%	3.70%	3.30%

Economic Trends

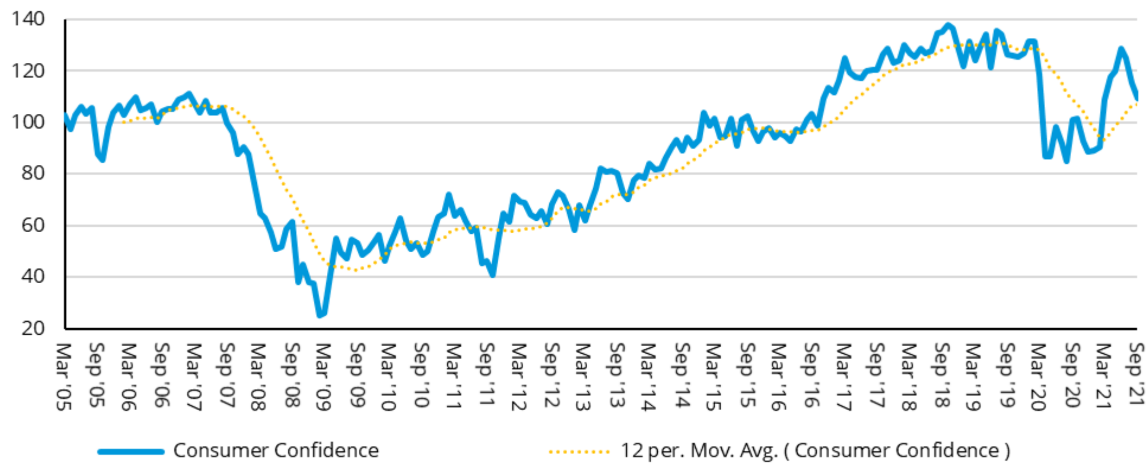
The major local economic drivers of the City's sales tax include the unemployment rate, consumer confidence, and consumer spending. As preliminarily reported by the California Employment Development Department, as of September 2021, the City's unemployment rate is 5.3 percent; a decrease from the 8.8 percent unemployment rate recorded in September 2020 and the lowest unemployment rate since the COVID-19 pandemic began. While the unemployment rate continues to be above pre-pandemic levels, enhanced unemployment benefits and additional federal funding, including stimulus checks, have increased consumer's disposable income, with much of this income saved and spent on taxable goods. Notably, despite the expiration of enhanced unemployment benefits and federal relief, there has not been a corresponding decrease in unemployment. However, this will continue to be closely monitored as savings and disposable income decrease.

Moreover, consumer confidence, a measurement of the consumer's willingness to spend, has experienced recent fluctuation. As noted in the FY 2022 First Quarter Report, year-over year data is improving; however, recent month-to-month consumer confidence is experiencing fluctuation that will need to be closely monitored. In June 2021, consumer confidence was measured at 128.9, indicative of improvement and optimism as it was slightly below pre-pandemic levels of 132.6 in February 2020. However, as of September 2021, consumer confidence has decreased to 109.3.

Consumer spending, a major driver of sales tax is dependent on the level of employment and consumer confidence.

This Section Intentionally Left Blank

Figure 2.7 - Consumer Confidence



Source: The Conference Board – Consumer Confidence Survey ®

The forecast for sales tax reflects improved business activity from various sectors, as well as a significant growth in county pool sales tax receipts. Local business activity, including business sectors like construction, transportation, and business to business have seen growth year-over-year and are anticipated to experience moderate growth during the outlook period. Moreover, there is an increasing trend in consumers shifting from instore (brick and mortar) purchases to online sales. 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 instore 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, and further increased by the pandemic.

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 utilizing the most recent projections from the City's sales tax consultant. Figure 2.8 reflects the current scenario as well as the "High" and "Low" scenario. In addition, Table 2.5 details the assumed growth rates for each scenario for FY 2023 through FY 2027.

This Section Intentionally Left Blank

Figure 2.8 - Sales Tax Projections: Fiscal Years 2023 - 2027

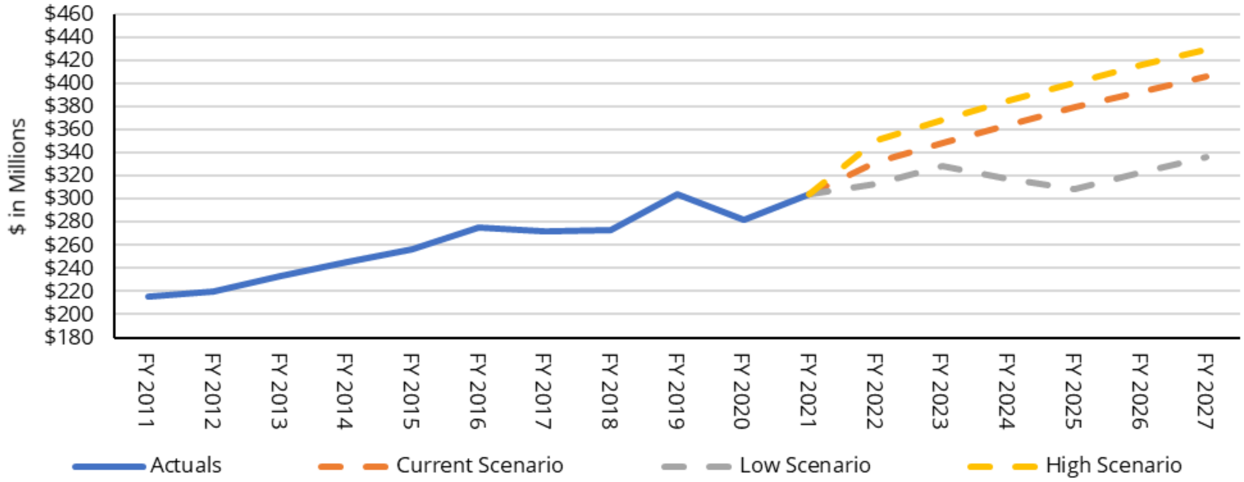


Table 2.5 - Sales Tax Five-Year Forecast: Growth Rate Scenarios

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Current Growth Rates	5.00%	4.50%	4.10%	3.70%	3.30%
High Growth Rates	11.08%	10.56%	10.10%	9.65%	9.25%
Low Growth Rates	-1.10%	-8.86%	-15.16%	-14.83%	-14.55%

The "Low" scenario depicts a recession scenario which would begin in FY 2024 and last for two years before beginning to recover in FY 2026. This scenario also considers impacts from the recent supply chain disruptions, inflation, higher unemployment and lower consumer confidence in the local and State economies, and further increased transition to online sales reducing point of sales transactions for brick and mortar stores within the City limits. A "Low" scenario would reduce sales tax projections by $20.2 million in FY 2023 and a cumulative total of $277.3 million throughout the outlook period.

The "High" scenario includes sustained growth in consumer confidence and back to pre-pandemic level of unemployment. A "High" scenario would increase sales tax projections by $20.2 million in FY 2023 and a cumulative total of $109.0 million throughout the outlook period.

This Section Intentionally Left Blank

Transient Occupancy Tax (TOT)

TOT represents 5.5 percent of the City's General Fund FY 2022 Adopted Budget. TOT is levied at 10.5 cents per dollar of taxable rent for a transient's stay of less than one month. TOT is levied on properties such as hotels, Short Term Residential Occupancy (STRO) locations, and Recreational Vehicle (RV) parks. The Outlook does not include any potential impacts from the STRO ordinance revisions. The use of TOT is guided by the City's Municipal Code which stipulates that of the 10.5 cents of collected TOT, 5.5 cents is to be applied toward general governmental purposes, 4.0 cents towards promoting the City as a tourist destination, and the remaining 1.0 cent towards any purposes approved by the City Council. TOT from RV parks are levied at 10.5 cents which is directed entirely towards general governmental purposes.

Forecast

The following table displays the General Fund TOT budget and year-end projection for FY 2022 and the forecast for FY 2023 through FY 2027. The FY 2022 projection for total citywide TOT receipts is $214.6 million. The General Fund's 5.5 cent portion of total TOT projected receipts is $113.0 million and serves as the base for the Outlook projections. Consistent with the FY 2022 First Quarter Budget Monitoring Report, the FY 2022 growth rate has been updated to account for the projected growth in tourism activity.

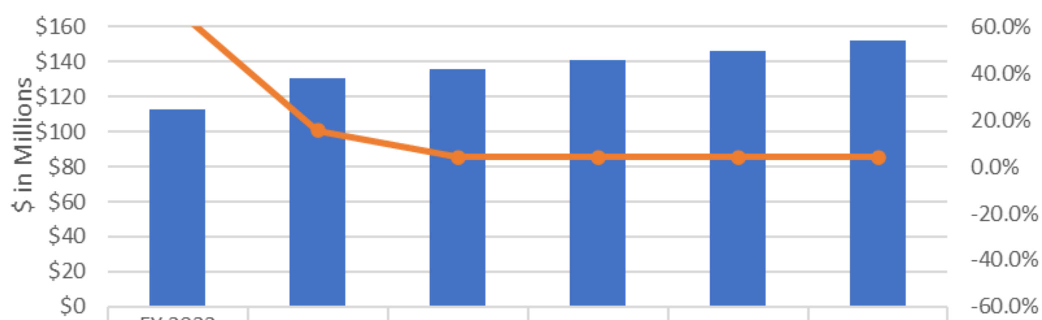
Table 2.6 - Transient Occupancy Tax (TOT) Five-Year Forecast
($ in Millions)

	FY 2022 Adopted	FY 2022 Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate	62.5%	67.3%	15.3%	4.0%	4.0%	4.0%	4.0%
Projection	$ 95.5	$ 113.0	$ 130.2	$ 135.3	$ 140.7	$ 146.2	$ 152.1

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

The five-year forecast for TOT was calculated using historical actuals, including recent data and growth assumptions, and relevant economic indicators. Figure 2.9 below represents the growth rates generated by the analysis which were then applied to projected TOT receipts.

Figure 2.9 - Transient Occupancy Tax (TOT) General Fund Revenue Projection: Fiscal Years 2023 - 2027



	FY 2022 Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Projection	$ 113.0	$ 130.2	$ 135.3	$ 140.7	$ 146.2	$ 152.1
Growth Rate	67.3%	15.3%	4.0%	4.0%	4.0%	4.0%

As depicted in Figure 2.9, TOT is projected to have continued yet tempered growth for the outlook period. The recovery of TOT revenue from the COVID-19 pandemic is recognized as beginning in the last quarter of FY 2021 and forecasted to surpass pre-pandemic levels by FY 2024. The FY 2023 growth rate is based on the average assumed growth for calendar years 2022 and 2023, which is consistent with information received from the City's industry experts, including the San Diego Tourism Authority, Tourism Economics, and San Diego Tourism Marketing District; before stabilizing to a 4.0 percent average growth for the remaining outer years. The recovery from the COVID-19 pandemic is supported by the robust full reopening of California's economy in June 2021; encouraged by high vaccination rates and public health measures; pent-up demand for leisure and hospitality services; and the easing of group travel restrictions, which includes the return of non-essential travel from Mexico with the U.S./Mexico border reopening for vaccinated individuals starting November 8, 2021.

Economic Trends

The primary economic drivers for TOT revenues are room rates, occupancy, and overnight visitor growth. According to the San Diego County Travel Forecast, which is prepared for the San Diego Tourism Authority (SDTA) by Tourism Economics, overnight visits, room supply, and room demand are projected to reflect improved growth in calendar year 2022; while growth remains below pre-pandemic levels, the gap is considerably reduced. This is depicted by calendar year in the table below.

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

	CY 2019	CY 2020	CY 2021	CY 2022
Room Demand (Growth)	-0.3%	-41.2%	35.8%	22.9%
Occupancy	76.6%	48.7%	61.4%	74.0%
Avg. Daily Room Rate	$ 166.08	$ 129.81	$ 158.28	$ 160.75

Source: San Diego County Tourism Authority and Tourism Economics

Overall, the City is projected to see continued growth in TOT revenue throughout the outlook period, reaching pre-pandemic levels by FY 2024.

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 utilizing data 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 between a 15.0 percent margin of variability. Figure 2.10 reflects the current scenario as well as the "High" and "Low" scenario. In addition, Table 2.8 details the assumed growth projections for each scenario for FY 2023 through FY 2027.

This Section Intentionally Left Blank

Figure 2.10 - Transient Occupancy Tax (TOT) Projections: Fiscal Years 2023 - 2027

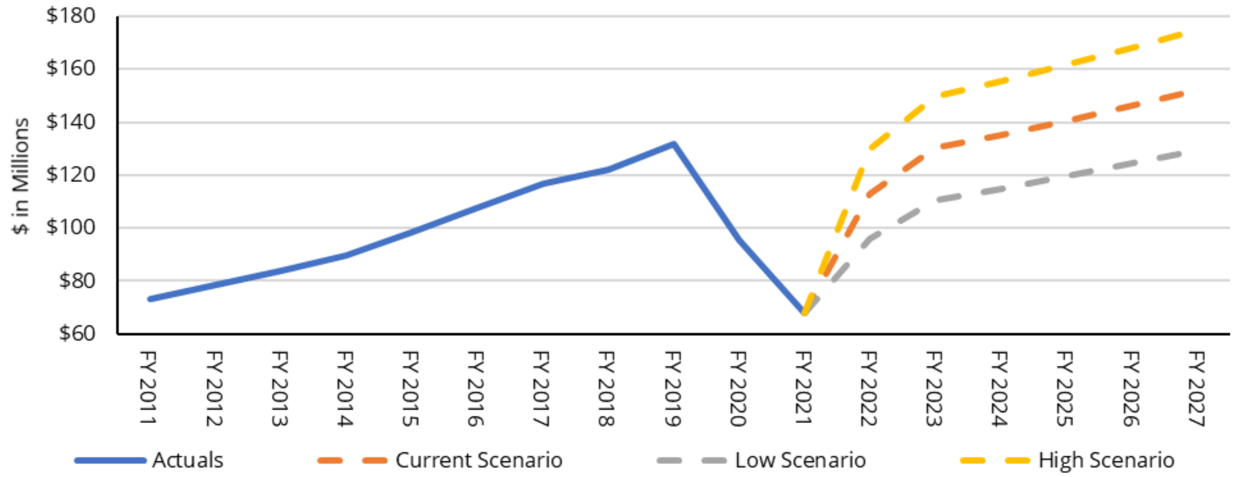


Table 2.8 - Transient Occupancy Tax (TOT) Five-Year Forecast: Growth Scenarios ($ in Millions)

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Current Projection	$ 130.2	$ 135.3	$ 140.7	$ 146.2	$ 152.1
High Scenario Projection	$ 149.7	$ 155.6	$ 161.8	$ 168.2	$ 174.9
Low Scenario Projection	$ 110.6	$ 115.0	$ 119.6	$ 124.3	$ 129.3

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

A "Low" scenario would reduce TOT projections by $19.5 million in FY 2023 and a cumulative total of $105.7 million throughout the outlook period. A "High" scenario would increase TOT projections by $19.5 million in FY 2023 and a cumulative total of $105.7 million throughout the outlook period.

This Section Intentionally Left Blank

Franchise Fees

Revenue from franchise fees makes up 4.6 percent of the City's General Fund FY 2022 Adopted Budget. Theses 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.

Forecast

The following table displays the budget and year-end projection for FY 2022 and the forecast for FY 2023 through FY 2027 for revenue from franchise fees. The FY 2022 first quarter projection for franchise fees of $80.0 million serves as the base for the Outlook projections.

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

	FY 2022 Adopted	FY 2022 Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Electricity/Gas Growth Rate	1.91%	1.91%	7.36%	2.68%	2.61%	2.55%	2.48%
Cable Growth Rate	-4.65%	-4.65%	-4.04%	-4.04%	-4.04%	-4.04%	-4.04%
Projection	$ 80.0	$ 80.0	$ 85.3	$ 85.6	$ 86.6	$ 87.6	$ 86.6

Franchise fee growth rates were projected utilizing historical year-end actuals and information received from SDG&E on market conditions and various factors impacting revenue collected, as well as supplemental information from the newly formed Community Choice Aggregator (CCA), San Diego Community Power.

Economic Trends

SDG&E and cable companies are the largest contributors to Franchise Fees, generating approximately 82.0 percent of Franchise Fee revenue. The growth rate for SDG&E electricity and gas sales is expected to increase above trend in FY 2023 and then remain constant for the outer years of the outlook period.

San Diego Gas and Electric

Increased revenue from SDG&E is expected primarily due to 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. Other key variables that impact franchise fee revenue include: solar installations, increased energy efficiencies, building decarbonization, 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. Figure 2.11 below depicts how each of these key variables can impact total franchise fee revenue collected from SDG&E.

Rate structures for utility companies are derived from internal analysis and external processes via regulatory agencies who set and review the revenue requirements and energy sales through public proceedings. Sales forecast applications are submitted to the governing authority, California Public Utilities Commission (CPUC). This application informs regulators of SDG&E's current estimates related to customer energy usage and provides the proposed forecast in order to help set electricity rates. In addition, SDG&E has a separate but related annual filing that determines and approves SDG&E's cost of procuring energy for customers called the Energy Resources Recovery Account (ERRA) filing. In October 2002, the CPUC established the ERRA proceeding through which we can recover costs like fuel and purchased power. If there are under or over collections at the end of the year, these are charged or credited to customers' bills.[1] Effective November 1, 2021, SDG&E implemented a rate adjustment and anticipates continued assessments and adjustments throughout calendar year 2022.

With the recent implementation of the CCA through San Diego Community Power (SDCP), San Diego can now offer an alternative for cleaner energy. San Diego Community Power provides two service options, PowerOn at 50 percent renewable energy or Power100 at 100 percent renewable energy. Note, in an effort to make progress towards the City's Climate Action Plan goal of 100% renewable power by 2035, the City of San Diego opted to up its service to Power100 for the City's municipal accounts in March of 2021. Gas and electric services are composed of three major components: generation, transmission, and distribution. While San Diego Community Power is now an option for the generation of clean energy, SDG&E maintains the management of the transmission and distribution. Overall, additional decreases in sales could be driven by energy efficiency initiatives and distributed generation.

Figure 2.11 - SDG&E Franchise Fee Revenue Variables

Source: SDG&E September 2021

Cable Companies

Franchise fees from cable companies are expected to decrease due to the increasing loss of market share to digital competitors. Cable franchise fees are expected to decrease by 4.0 percent during the outlook period. The increasing loss of market share is expected to continue in the outer years as several new digital content providers are expected to enter the market and significantly impact the cable market share. The forecast for cable revenue assumes the current franchise fee agreement.

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. Note, 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. It should be noted that adequate data sets on these individual factors for all San Diego cable companies are not yet available to City staff. As a result, 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 0.6 percent of the City's General Fund FY 2022 Adopted Budget.

Forecast

The following table displays the FY 2022 Adopted Budget and the forecast for FY 2023 through FY 2027 for property transfer tax. The FY 2022 projection for property transfer tax is projected slightly above what was received in FY 2021 and serves as the basis for the Outlook projections.

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

	FY 2022 Adopted	FY 2022 Projection	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate	0.0%	0.82%	0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 11.2	$ 13.8	$ 13.8	$ 13.8	$ 13.8	$ 13.8	$ 13.8

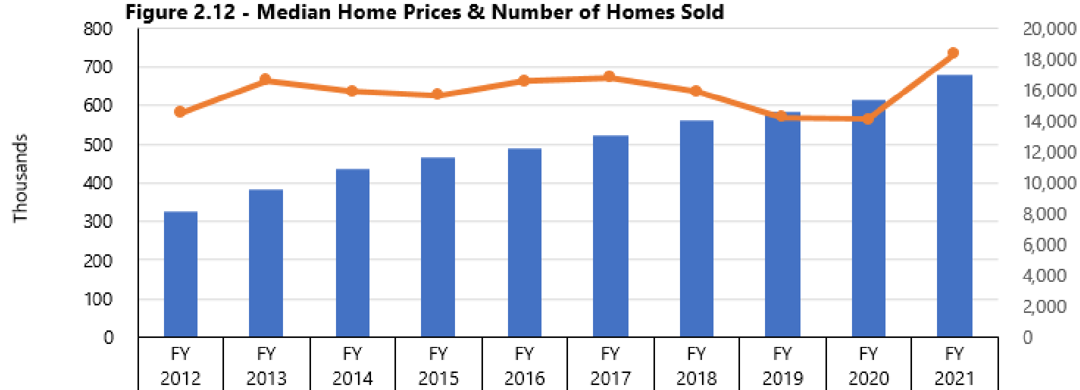
Property transfer tax estimates were developed using FY 2021 actual activity to reflect positive trends in economic drivers for property transfer tax and projected to future years to reflect current economic conditions. The major economic drivers for property transfer tax are volume of property sales and home prices. No growth rate was projected in the outer years as a result of inconsistent historical trends.

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 rapidly grow over the past year, as well as the growth in the number of home sales when comparing current year-to-date data with the same time period last year. Figure 2.12 below illustrates the median home prices and number of homes sold. Property Transfer Tax revenue is anticipated to remain flat for the outlook period due to inconsistencies in historical receipts and unpredictable growth rates.

This Section Intentionally Left Blank

Figure 2.12 - Median Home Prices & Number of Homes Sold



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Median Home Price	323,896	384,167	434,218	464,375	488,188	524,208	562,917	585,750	613,917	678,167
Number of Homes Sold	14,539	16,639	15,950	15,669	16,597	16,829	15,952	14,243	14,118	18,364

Source: DQNews/CoreLogic

Licenses and Permits

The Licenses and Permits category includes revenue associated with regulating certain activities within the City and other revenues such as business certificate fees, rental unit certificate fees, parking meter collections, alarm permit fees, and special event permits. Licenses and Permits represent 2.5 percent of the City's General Fund FY 2022 Adopted Budget.

The following table displays the FY 2022 Adopted Budget and the forecast for FY 2023 through FY 2027 for revenue from licenses and permits.

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

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate		3.79%	3.79%	3.79%	3.79%	3.79%
Projection	$ 43.5	$ 49.0	$ 51.5	$ 55.1	$ 57.7	$ 59.1

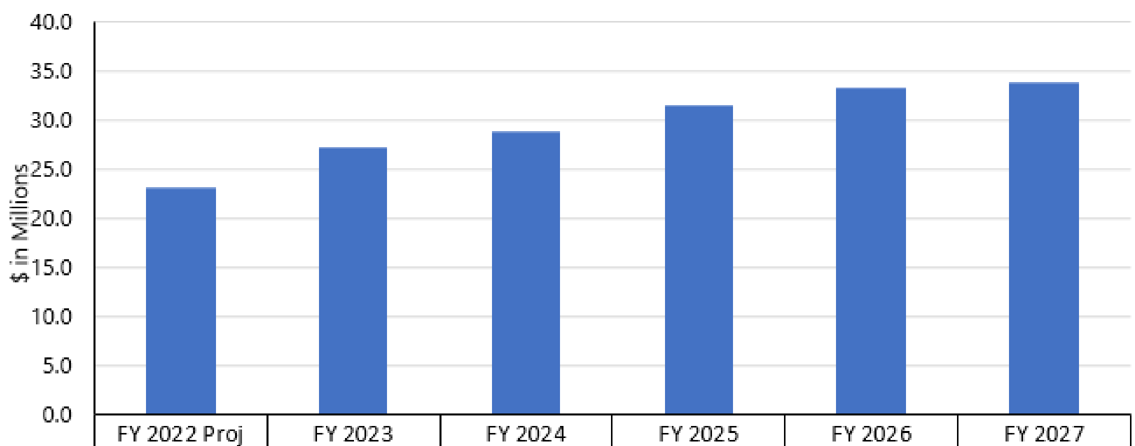
A constant growth rate of 3.79 percent is applied from FY 2023 to FY 2027 based on a three-year average of historical revenue growth and adjusting impacted accounts in FY 2023 by 3.05 percent based on preliminary rates submitted from the City's FY 2023 Comprehensive User Fee Study. The Outlook reflects revenue adjustments based on historical data as well as projections from Cannabis Tax.

Cannabis Tax

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

To develop the Outlook projections, actual sales data from existing cannabis in FY 2021 were used to develop an average of monthly taxable sales per outlet. This figure was then scaled to the number of dispensaries projected in each fiscal year in the forecast period and the tax rate of 8.0 percent applied. The projection for cultivation, manufacturing, and distribution of cannabis was calculated following a similar methodology. The graph below, depicts the forecasted growth for cannabis business tax revenue. As the industry matures, the City will continue to monitor and update projections from all cannabis businesses.

Figure 2.13 Cannabis Tax Revenue
Fiscal Years 2023 - 2027



	FY 2022 Proj	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Cannabis Tax	$ 23.1	$ 27.1	$ 28.8	$ 31.5	$ 33.3	$ 33.8

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 1.6 percent of the City's General Fund FY 2022 Adopted Budget.

The following table displays the FY 2022 Adopted Budget and the forecast for FY 2023 through FY 2027 for revenue from fines, forfeitures, and penalties.

Table 2.12 - Fines, Forfeitures and Penalties Five-Year Forecast ($ in Millions)						
	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth rate		0.00%	0.00%	0.00%	0.00%	0.00%
Projection	$ 27.5	$ 33.2	$ 33.2	$ 33.2	$ 33.2	$ 33.2

Revenue from fines, forfeitures, and penalties is projected at zero percent growth for FY 2023 through FY 2027 and adjusting impacted accounts in FY 2023 by 3.05 percent based on preliminary rates submitted from the City's FY 2023 Comprehensive User Fee Study. The City's user fees are currently being evaluated by each servicing Department and final rates will be submitted and proposed as part of the FY 2023 Proposed Budget.

Revenue from Money and Property

The Revenue from Money and Property category primarily consists of interest from city investments and rental revenue generated from City-owned properties including Mission Bay Park, Balboa Park, City Pueblo Lands, and Torrey Pines Golf Course. This revenue source represents 3.6 percent of the City's General Fund FY 2022 Adopted Budget.

The following table displays the FY 2022 Adopted Budget and the forecast for FY 2023 through FY 2027 for the Revenue from Money and Property category.

Table 2.13 - Revenue from Money and Property Five-Year Forecast ($ in Millions)						
	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate		0.96%	0.96%	0.96%	0.96%	0.96%
Projection	$ 62.3	$ 64.7	$ 62.3	$ 66.2	$ 66.5	$ 66.8

A growth rate of 0.96 percent is applied from FY 2023 to FY 2027 based on the annual growth rate from historical revenues. Within this category, office space rent, and Mission Bay Park Concessions are projected separately from the 0.96 percent growth rate and then aggregated with other revenue from money and property.

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

Revenue from money and property includes revenue from Mission Bay rents and concessions. Per City Charter Section 55.2, the threshold amount of $20.0 million of Mission Bay rents and concessions will remain in the General Fund. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Parks Improvement Fund and the Mission Bay Park Improvement Fund and is reflected in the Transfers Out section of this Report. The Outlook projects that Mission Bay rents and concessions revenue will exceed $20.0 million. The San Diego Regional Parks Improvement Fund is to receive 35.0 percent of revenues in excess of the threshold amount or $3.5 million, whichever is greater, with 65.0 percent or the remaining amount allocated to the Mission Bay Park Improvement Fund.

Revenue from Federal and Other Agencies

The Revenue from Federal and Other Agencies category includes federal and state grants, and reimbursements to the City from other agencies, such as court crime lab revenue, urban search and rescue grants, and service level agreements. This revenue source represents 0.5 percent of the City's General Fund FY 2022 Adopted Budget.

Table 2.14 displays the FY 2022 Adopted Budget and the forecast for FY 2023 through FY 2027 for Revenue from Federal and Other Agencies.

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

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 7.8	$ 6.8	$ 6.8	$ 6.8	$ 6.8	$ 6.8

This revenue category is not anticipating any additional state or federal assistance above FY 2022 levels. The American Rescue Plan Act (ARPA) was signed into law on March 11, 2021 in response to the COVID-19 pandemic. The City is expected to receive a total of $299.7 million in ARPA funds. A total of $149.3 million was budgeted for use in the FY 2022 Adopted budget, with the remaining funds of $150.4 million expected to be used by December 2024. The funds are budgeted under the Transfers In Category of this report. As a result, a zero-growth rate is applied to the Revenue from Federal and Other Agencies category for FY 2023 to FY 2027 since any federal or other agency assistance beyond $6.8 million is not known at the time of the preparation of the report.

Charges for Services

The revenue forecasted in the Charges for Services category is primarily comprised of cost reimbursements for services rendered by the General Fund to non-general funds. This category includes the 4.0 cent TOT reimbursements to the General Fund, General Government Services Billings (GGSB), and other user fee revenues. This revenue source represents 9.0 percent of the City's General Fund FY 2022 Adopted Budget.

The following table displays the FY 2022 Adopted Budget and the forecast for FY 2023 through FY 2027 for revenue from charges for services.

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

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 156.8	$ 180.9	$ 188.7	$ 195.5	$ 202.2	$ 207.9

While a zero-growth rate is applied to the Charges for Services category in FY 2023 to FY 2027, the projected increase in the category is primarily attributable to an increase for the 4.0 cent TOT reimbursements to the General Fund. As TOT revenues are projected to increase in the outlook period, additional funds become available for transfer to the General Fund for reimbursement of qualified tourism related activities in accordance with Council Policy 100-03. As a result, the revenue increase in FY 2023 is primarily due to an increase of $19.5 million in the 4.0 cent TOT reimbursement to the General Fund and $4.6 million in salary and wages reimbursements as a result of salary increases projected for all the City's REOs included in the Outlook assumptions.

This Section Intentionally Left Blank

Other Revenue

The Other Revenue category includes ambulance fuel reimbursements, corporate sponsorships, unclaimed monies and other miscellaneous revenues. This revenue source represents 0.2 percent of the City's General Fund FY 2022 Adopted Budget.

The following table displays the FY 2022 Adopted Budget and the forecast for FY 2023 through FY 2027 for revenue from other sources.

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

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 2.8	$ 2.8	$ 2.8	$ 2.8	$ 2.8	$ 2.8

The growth rate for Other Revenue is projected to remain flat through the outlook period, based on historical and anticipated growth.

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 taxes and TransNet funds, SDG&E minimum bid payment of $10.5 million as stated in the new 10-year franchise agreement with City and the one-cent TOT revenue transfer from the TOT Fund. This revenue source represents 15.1 percent of the City's General Fund FY 2022 Adopted Budget.

Table 2.17 displays the FY 2022 Adopted Budget and the forecast for FY 2023 through FY 2027 for revenue from Transfers-In.

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

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 263.1	$ 97.9	$ 99.8	$ 101.7	$ 103.6	$ 105.5

A growth rate is not applied to the Transfers-In category as each transfer is unique and individually projected. For example, growth in transfers-in from sources such as 1-cent TOT transfer and Safety Sales Tax are independent of one another and are based on their respective growth rate.

The forecast for FY 2023 reflects a $165.1 million decrease from the FY 2022 Adopted Budget primarily due to the removal of $149.3 million in one-time American Rescue Plan Act (ARPA) funding; $9.0 million in a one-time class action settlement; $7.9 million in use of Pension Stability Reserve balance; $3.0 million in one-time refund from the County Registrar of Voters; $1.1 million one-time transfer from the Stadium Fund following the closure of the fund; $775,000 in one-time transfer from the Redevelopment Property Tax Trust Fund (RPTTF); and $607,000 in one-time safety sales tax fund balance transfer.

After the removal of the $607,000 one-time use of fund balance, safety sales tax reimbursements to the Police and Fire-Rescue Departments are projected to moderately increase through 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.

The decreases above are partially offset with a $6.3 million increase in the 1-cent TOT. The increase in 1-cent TOT transfer is based on the current TOT revenue projections and allocates 1-cent of the revenue to the General Fund to be used for any purpose the City Council may direct. TOT is projected to increase through the Outlook period.

This Section Intentionally Left Blank

This Page Intentionally Left Blank

Baseline General Fund Expenditures

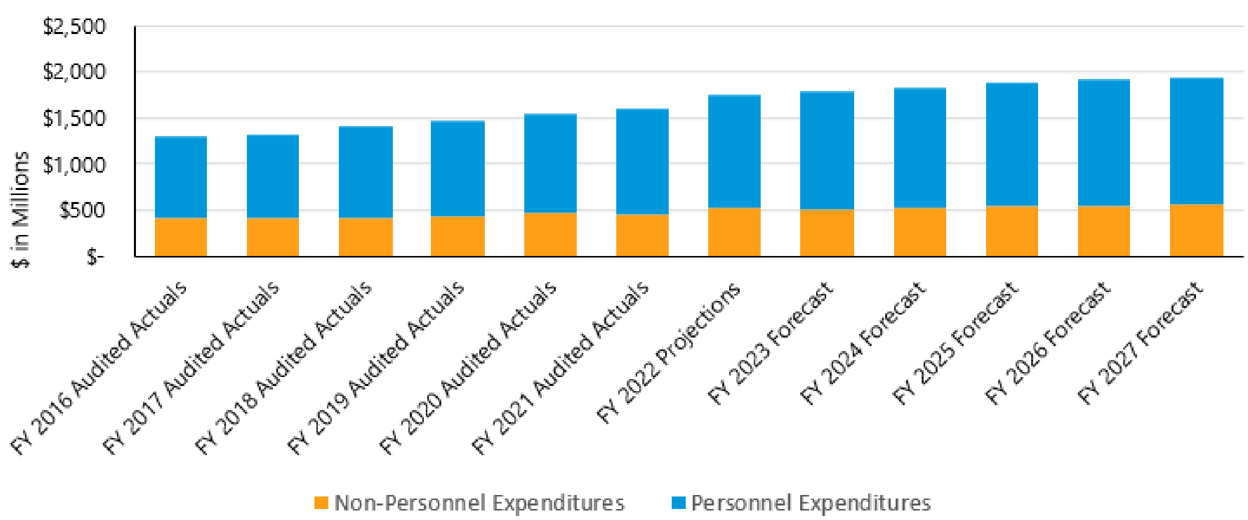
General Fund expenditures are comprised of both personnel and non-personnel expenditures including debt service and other non-discretionary payments. Unless otherwise noted, baseline projections assume growth based upon the FY 2022 Adopted Budget with the removal of one-time expenditures. One-time expenditures in the FY 2022 Adopted Budget that have been removed from the baseline projections are detailed in Attachment 1: One-Time Resources and Expenditures.

Personnel expenditures represent 69.6 percent of the City's General Fund FY 2022 Adopted Budget. This section discusses the following key components of personnel expenses: Salaries and Wages; the City's annual pension payment or Actuarially Determined Contribution (ADC); flexible benefits, retiree healthcare or Other Post-Employment Benefits (OPEB); workers' compensation; Supplemental Pension Savings Plan (SPSP); and other fringe benefits. Baseline personnel expenses are projected to increase slightly during the Outlook period, due to the growth in salaries and wages resulting from agreements in previous fiscal years between the City and its Recognized Employee Organizations (REOs) and increases in retirement Actuarially Determined Contribution (ADC) and workers' compensation costs.

Projections for ongoing non-personnel expenses are also included in the baseline projections and include significant anticipated adjustments required to maintain current service levels.

Figure 2.14 depicts the 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, special pays, overtime, step increases, and vacation pay-in-lieu. This category includes the General Fund cost of salaries and wages for the current Memoranda of Understanding (MOU) with each of the City's Recognized Employee Organizations (REOs). In addition, this Outlook assumes an additional 3.05 percent annual general salary increase following the current MOUs with each REO in the City.

The FY 2022 Adopted Budget for General Fund salaries and wages was $680.9 million and included 7,731.03 full-time equivalents (FTE). Table 2.18 displays the FY 2022 Adopted Budget and the forecast for FY 2023 through FY 2027 for salaries and wages.

Adjustments within the Salaries and Wages category incorporate only expenditures associated with positions included in the FY 2022 Adopted Budget. The Salaries and Wages category includes an increase in FY 2023 attributed to current MOUs with REOs, annual leave payouts, and anticipated salary step increases. Step increases included in the Outlook are equal to the average of the amount budgeted for step increases over the past three fiscal years. The amount projected for step increases is anticipated to remain constant, at $2.5 million annually, throughout the outlook period.

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

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Projection	$ 680.9	$ 712.2	$ 716.7	$ 719.1	$ 724.5	$ 719.4

As previously stated, the Outlook assumes a general salary increase of 3.05 percent for all REO groups following current MOUs. The 3.05 percent annual general salary increase is consistent with assumption included in the SDCERS actuarial report. The final negotiated salary compensations will be reported in the next budget document once those fiscal impacts have been determined. Note, any future negotiated salary increases that deviate from the 3.05 percent assumption will impact future year personnel costs included in the outlook period.

Table 2.19 - Salaries and Wages - Assumed General Salary Increases at 3.05% Annually
($ in Millions)

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Projection	$ -	$ 9.9	$ 30.6	$ 51.8	$ 73.7	$ 96.3

The Salaries and Wages category also includes an adjustment for annual leave payouts for Deferred Retirement Option Plan (DROP) members, which are projected based on DROP participants' exit dates and projected annual leave balances. While a portion of future leave liability expense will be absorbed in departmental budgets, there remains a significant number of employees with high leave balances expected to retire over the next several years. The number of DROP participants anticipated to retire and the projected terminal leave payouts for FY 2023 through FY 2027 are displayed in Table 2.20 below.

Table 2.20 - Salaries and Wages (Annual Leave -DROP) ($ in Millions)						
	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Projection	$ 2.3	$ 2.2	$ 2.3	$ 4.7	$ 9.8	$ 4.8

The number of DROP participants anticipated to retire in FY 2027 is not yet available as DROP is a five-year program. Therefore, the FY 2027 projected number of retirees and the Terminal Leave (DROP) projection are based on the averages of FY 2023 through FY 2026 with a smoothing approach due to the significant number of retirees who have entered DROP as a result of the pandemic and anticipating a significant amount retirees exiting prior to the five-year timeframe.

Retirement Actuarially Determined Contribution (ADC)

The pension payment or Actuarially Determined Contribution (ADC) paid by the City on July 1, 2021 for FY 2022 was based on the most recent San Diego City Employee's Retirement System (SDCERS) Actuarial Valuation Report prepared by the system actuary, Cheiron, as of June 30, 2020 which was released in December 2020.

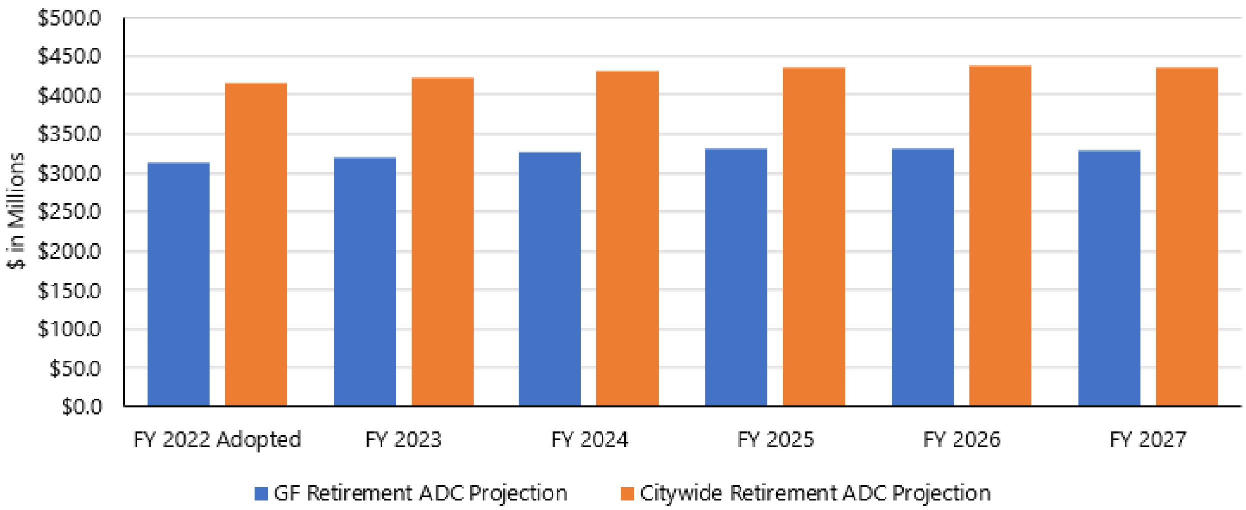
The City's FY 2022 ADC payment was $414.9 million, of which $314.5 million was allocated to the General Fund. Based on the current Actuarial Valuation Report, the ADC for FY 2023 is projected to be $423.1 million, an increase of $8.2 million or 2.0 percent. The General Fund allocation is expected to be $320.7 million or 75.8 percent of the City's total ADC, representing an increase of $6.2 million to the General Fund. The final amount of the City's FY 2023 ADC payment will not be known until the June 30, 2021, actuarial valuation report is released, which is expected to be presented to the SDCERS Board of Administration in January 2022.

Changes in the ADC payment are anticipated as a result of asset experience gains from better-than-expected investment performance, potential increases due to liability experience losses from deviations in salary assumptions and the effects of the unwinding of Proposition B. In early 2021, the California Superior Court invalidated Proposition B in a *quo warranto* proceeding. Proposition B was a pension reform initiative amending the San Diego City Charter ("Charter") that was approved on June 5, 2012. While in effect, Proposition B prevented all employees hired on or after July 20, 2012, other than sworn police officers, from participating in the City's defined benefit plan. The City must now comply with the Court's order to strike the Proposition B provisions from the Charter and conform the San Diego Municipal Code and any related enactments accordingly. The Make-Whole Provision ordered by the Court requires the City to pay the affected employees' compensation and retirement benefits they would have received prior to Proposition B going into effect, offset by the value of the benefits received since the Proposition took effect. The methodology and ultimate costs are still in negotiation with the REOs. These impacts will likely result in a higher ADC payment; however, the exact amount will not be known until the meet and confer process with the REOs is complete. Any increase in the ADC payment will be offset by a decrease in SPSP-H contributions for employees that join SDCERS. The percent of the ADC allocated to the General Fund will also be impacted since the allocation is based on employee participation in SDCERS.

Table 2.21 displays both the citywide ADC and the General Fund's proportionate share for FY 2022 through FY 2027 and is based on the June 30, 2020, SDCERS Actuary Valuation Report.

Table 2.21 - ADC Pension Payment ($ in Millions)						
	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF ADC Estimate (75.8%)	$ 277.7	$ 320.7	$ 326.2	$ 330.8	$ 331.4	$ 329.5
Citywide ADC Estimate	$ 365.6	$ 423.1	$ 430.4	$ 436.4	$ 437.2	$ 434.7

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 on a biweekly basis 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 2022 Adopted Budget, $91.6 million was budgeted in flexible benefits. Table 2.22 displays the projection for flexible benefits for FY 2023 through FY 2027.

Table 2.22 - Flexible Benefits ($ in Millions)						
	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Projection	$ 91.6	$ 91.6	$ 91.6	$ 91.6	$ 91.6	$ 91.6

Individual flexible benefit costs vary by each employee's benefits selection and the total flexible benefit cost varies by the total number of employees. As a result, the Flexible Benefits projection is held constant throughout the outlook period since position additions are not included as part of the baseline projections.

Other Post-Employment Benefits (OPEB)

Other Post-Employment Benefits (OPEB) represent the cost of retiree healthcare. The annual retiree healthcare benefit contribution was calculated at $65.4 million, of which, the General Fund portion is $42.9 million. The General Fund portion is determined by the percentage of FTE positions budgeted within the General Fund versus non-general funds. The General Fund's proportionate share of the OPEB payment is projected to remain constant for the outer years per OPEB cost projections. The General Fund's proportionate share of the OPEB payment is projected to remain constant for the outer years per OPEB cost projections.

The following table displays the OPEB projection for the General Fund's proportionate share for FY 2023 through FY 2027.

Table 2.23 - Other Post Employment Benefits (OPEB)
($ in Millions)

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
GF OPEB Projection (65.6%)	$ 42.9	$ 42.9	$ 42.9	$ 42.9	$ 42.9	$ 42.9

Workers' Compensation

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

The City's workers' compensation expenses are comprised of two components. Operating expenses are the first component, which covers the costs of current medical expenses and claims. The second component covers contributions to the Workers' Compensation Reserve. Table 2.24 displays the General Fund's projected share of 86.0 percent of Workers' Compensation expenses.

Table 2.24 - Workers' Compensation
($ in Millions)

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Operating	$ 29.9	$ 29.7	$ 30.3	$ 31.0	$ 31.6	$ 32.2
Reserves	$ -	$ 0.1	$ 0.6	$ 0.6	$ 0.6	$ 0.6
Total	$ 29.9	$ 29.8	$ 30.9	$ 31.6	$ 32.2	$ 32.9

The projections for operating expenses are based on actual prior year experience and forecasted to increase by 2.10 percent annually based on the Consumer Price Index for Medical Care. Additional information on the Workers' Compensation Reserve can be found in the Reserve Contributions section of this report.

Supplemental Pension Savings Plan (SPSP)

In January 1982, the City established the Supplemental Pension Savings Plan (SPSP), a defined contribution plan. This benefit provides a way for eligible employees to supplement retirement income, with employee contributions matched by the City. Employee eligibility for SPSP is determined by hire date and labor organization. Employees hired between July 1, 2009 and July 20, 2012 are not eligible for entry into SPSP, but rather 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. Employees, other than sworn police officers hired between July 20, 2012, and July 9, 2021, were placed in the SPSP-H Plan, which is being used as an interim defined contribution retirement plan for benefited employees; however, with the recent reversal of Proposition B, all employees in the SPSP-H Plan will be given the option to join SDCERS. Note, the details of the transition, the methodology and ultimate costs of the reversal are subject to negotiations with the City's REOs and are still being determined. Employees currently participating in the SPSP-H Plan interim plan who are non-safety employees are required to contribute 9.2 percent of compensation to the plan, which is matched by a 9.2 percent employer contribution. For safety employees, the mandatory employee and matching employer contribution is 11.0 percent of compensation. The following table displays the projection for SPSP for FY 2023 through FY 2027.

Table 2.25 - Supplemental Pension Savings Plan (SPSP)
($ in Millions)

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Projection	$ 25.9	$ 25.9	$ 25.9	$ 25.9	$ 25.9	$ 25.9

The above costs will decrease significantly after Proposition B negotiations conclude and if those employees currently participating in the SPSP-H Plan join SDCERS. This reduction in SPSP costs will be offset by a corresponding increase in the normal cost component of the ADC. SPSP is a fringe benefit that is projected based on a percentage of employees' salaries. In the FY 2022 Adopted Budget, SPSP was approximately 3.8 percent of General Fund salaries. For the outlook period, SPSP as a percentage of salaries is projected to remain relatively consistent at 3.8 percent since the baseline for salaries and wages does not project additional new employees. New employee costs including fringe are included in the Department Service Level Improvements Requests section. Additionally, this projection is based on the number of employees that were enrolled in the SPSP-H Plan during the development of the FY 2022 Adopted Budget.

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 2.26 displays the projection for Other Fringe Benefits.

Table 2.26 - Other Fringe Benefits
($ in Millions)

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Projection	$ 28.5	$ 30.4	$ 30.4	$ 30.4	$ 30.4	$ 30.4

The Other Fringe Benefits are projected based on a percentage of employees' salaries. In the FY 2022 Adopted Budget, Other Fringe Benefits were approximately 4.2 percent of General Fund salaries. For the Outlook period, that percentage is projected to be consistent at 4.2 percent. Slight increases during the Outlook period are a result of salary increases included within the Salaries and Wages category.

Supplies

The Supplies category includes costs for office supplies, books, tools, uniforms, safety supplies, and building and electrical materials. Table 2.27 displays projections for the Supplies category.

Table 2.27 - Supplies ($ in millions)						
	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 32.4	$ 31.2	$ 31.2	$ 31.2	$ 31.2	$ 31.2

The FY 2022 Adopted Budget includes one-time expenditures of $1.2 million. The following summarizes the majority of one-time expenditures that have been removed from the baseline projections.

- $544,000 to support the organic waste program and enforcement mandated by Senate Bill 1383;
- $200,000 to support enforcement and posting of up to four existing routes of street sweeping routes per recommendation of the 2020 Street Sweeping Performance Audit;
- $140,000 for facility sanitation, provision of protective equipment, and as needed testing services as a result of the COVID-19 pandemic; and
- $120,000 for the Back to Work SD program associated with Summer Youth Programming.

Additionally, no growth rate increases have been applied based on historical decreases in the Supplies category over the past several years.

Contracts

Contracts are a non-personnel expense category that includes the cost of professional consultant fees, insurance, refuse disposal fees, fleet vehicle usage and assignment fees, rental expenses, and other expenses. Table 2.28 displays the projections for the Contracts category.

Table 2.28 - Contracts ($ in Millions)						
	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate		-5.6%	3.0%	1.8%	2.4%	3.4%
Projection	$ 269.5	$ 255.2	$ 263.1	$ 268.0	$ 274.5	$ 284.2

The FY 2022 Adopted Budget included $22.5 million in one-time expenditures within the Contracts category. The following summarizes the majority of one-time expenditures that have been removed from the baseline projections:

- $10.0 million to support various homelessness programs and services;
- $3.4 million to support programs and services related to Back to Work SD;

- $2.5 million for the development of the storm water funding strategy;
- $1.2 million support for new joint use facilities within the citywide park system;
- $1.0 million for a Public Power Feasibility Study;
- $900,000 for each Council district to support community projects, programs and services; and
- $700,000 for a Street Condition Assessment study.

Additionally, adjustments are made to the baseline for known and anticipated events including known public liability insurance costs, and projected Fleet assignment and usage fees. Vehicle usage fees are projected to increase by about $900,000 each fiscal year and assignment fees are projected to increase by a total of $7.3 million throughout the FY 2023 to FY 2027 outlook period. This is primarily due to the projected need to replace approximately 1,700 vehicles during this outlook period coupled with the use of remaining fund balance in the vehicle replacement funds in FY 2021. Public liability claims and non-claims are projected to increase by $3.4 million in FY 2023, and remain consistent through the outlook period, based on the recent three-year average of public liability operating expenditures. Insurance premiums are projected to increase by 15.0 percent in FY 2023 and throughout the outlook period to cover the projected growth in the General Liability and Optional Excess Insurance Program.

Information Technology

The Information Technology category includes both discretionary expenses and non-discretionary allocations to General Fund departments. The Information Technology category includes the costs related to hardware and software maintenance, help desk support, and other information technology (IT) services. Table 2.29 displays the projections for the Information Technology category.

Table 2.29 - Information Technology
($ in Millions)

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate		-8.7%	1.0%	0.6%	0.6%	-0.1%
Projection	$ 61.3	$ 56.0	$ 56.5	$ 56.8	$ 57.1	$ 57.1

IT discretionary costs are inflated by the California Consumer Price Index; while IT fixed costs are projected separately and then aggregated with the IT discretionary expenses.

The FY 2022 forecast has decreased by $5.3 million primarily due to one-time adjustments including $3.8 million in one-time new IT service provider transition costs, $500,000 in one-time Computer Aided Dispatch (CAD) Upgrade, and $395,000 in one-time Government Accounting Standards Board (GASB) 87 Compliance software.

Energy and Utilities

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

Table 2.30 - Energy and Utilities ($ in Millions)

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate		3.1%	2.2%	3.3%	3.5%	3.7%
Projection	$ 50.8	$ 52.4	$ 53.5	$ 55.3	$ 57.2	$ 59.3

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 2020 Report prepared by the U.S. Energy Information Administration. Fuel growth rates were developed by the Fleet Services Department for Fleet and fuel and renewable diesel. Fuel growth rates range from negative 2.57 percent to 9.8 percent depending on the year and the type of fuel. Electrical growth rates range from 0.2 percent to 4.4 percent. The City's Public Utilities Department (PUD) determined the water and wastewater growth rates that were used in the outlook. The wastewater charges decline from FY 2022 levels due to the reduction of commercial and industrial rates, which was calculated in the Cost of Service Study approved by Council in September 2021. These rates gradually increase each year after and are in line with the assumptions contained in the PUD Five-Year Outlook. The Water charges assume general city demand remains consistent through the outlook period and that rates increase 6.9 percent in FY 2023, 6.4 percent in FY 2024, 6.4 percent in FY 2025, 6.4 percent in FY 2026, 6.9 percent in FY 2027.

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.

This Section Intentionally Left Blank

Reserve Contributions

The City's Reserve Policy 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, 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. Due to the sudden decline in the City's Major General Fund revenues attributed to the COVID-19 pandemic, a General Fund Reserve contribution was not budgeted in the FY 2021 or FY 2022 Adopted Budget. The Outlook includes a continued recovery from the COVID-19 pandemic, and a significant growth in major General Fund revenues. As a result of these positive revenue projections, an annual contribution is forecasted in FY 2023 of $22.2 million, funding the reserve at 16.25 percent returning to the City's Reserve Policy target for FY 2023. The City anticipates reaching the 16.7 percent reserve target in FY 2025 based on the City's Reserve Policy.

The Pension Payment Stabilization Reserve was established to mitigate potential increases in the annual pension payment, the Actuarially Determined Contribution (ADC). Per the City's Reserve Policy, the City will fund and maintain a Pension reserve of 8.0 percent of the most recent three-year average of the ADC as reported in the most recent Actuarial Valuations Reports. As a result of the recent economic impacts of the COVID-19 pandemic and the increases to the ADC, the FY 2022 Adopted Budget includes the one-time use of the available Pension Stabilization Reserve of $7.9 million.

Public Liability Reserve is maintained at 50.0 percent of the value of outstanding public liability claims. The Public Liability Reserve anticipates a reserve contribution of $3.1 million to reach the target level of 50.0 percent of outstanding claims. No additional contributions are anticipated in FY 2024 through FY 2027.

The Long-Term Disability Reserve is maintained at 100.0 percent of the value of outstanding claims. The Long-Term Disability Fund exceeds its target level of 100.0 percent of outstanding claims. The Outlook projects a $400,000 reserve contribution due to assumed incremental changes in the three-year average of outstanding actuarial liabilities.

The Workers' Compensation Reserve is maintained at 12.0 percent of the value of outstanding claims. The Workers' Compensation Reserve currently exceeds its target levels. The Outlook projects minor General Fund contributions due to assumed incremental changes in the three-year average of outstanding actuarial liabilities.

Table 2.31 - Reserve Target Levels ($ in Millions)						
	FY 2022 Proj.	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027
General Fund Target (%)	16.0%	16.3%	16.5%	16.7%	16.7%	16.7%
General Fund Reserve Target ($)	$ 220.4	$ 227.8	$ 245.5	$ 266.1	$ 281.7	$ 293.8
General Fund Reserve Level Projection ($)	$ 205.7	$ 227.8	$ 245.5	$ 266.1	$ 281.7	$ 293.8
General Fund Contribution Amount	$ -	$ 22.2	$ 17.7	$ 20.5	$ 15.6	$ 12.1
Pension Stability Target (%)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
General Fund Pension Stability Reserve Target ($)	$ 22.9	$ 24.3	$ 25.6	$ 26.1	$ 26.4	$ 26.4
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 ($)	$ 36.9	$ 36.9	$ 36.9	$ 36.9	$ 36.9	$ 36.9
Public Liability Reserve Level Projection ($)	$ 33.8	$ 36.9	$ 36.9	$ 36.9	$ 36.9	$ 36.9
Public Liability Contribution Amount	$ -	$ 3.1	$ -	$ -	$ -	$ -
Long-Term Disability Fund Target (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Disability Fund Reserve Target($)	$ 4.7	$ 4.7	$ 4.7	$ 4.7	$ 4.7	$ 4.7
Long-Term Disability Fund Reserve Level Projection ($)	$ 4.3	$ 4.7	$ 4.7	$ 4.7	$ 4.7	$ 4.7
Long-Term Disability Contribution Amount	$ -	$ 0.4	$ -	$ -	$ -	$ -
Workers' Compensation Target (%)	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Workers' Compensation Reserve Target ($)	$ 33.3	$ 34.0	$ 34.7	$ 35.4	$ 36.1	$ 36.8
Workers' Compensation Reserve Level Projection ($)	$ 33.9	$ 34.0	$ 34.7	$ 35.4	$ 36.1	$ 36.8
Workers' Compensation Contribution Amount	$ -	$ 0.1	$ 0.7	$ 0.7	$ 0.7	$ 0.7
Workers' Compensation Contribution Amount (GF)	$ -	$ 0.1	$ 0.6	$ 0.6	$ 0.6	$ 0.6

Other Expenditures

Expenses included in this category are debt service payments, transfers-out to other funds, capital expenses, and other miscellaneous expenditures. Adjustments are made only to account for anticipated transfers, and projected debt service amounts; therefore, no growth rate is assumed for all other expenditures in this category. The following table displays the FY 2023 through FY 2027 projections for the Other Expenditures Category.

Table 2.32 - Other Expenditures ($ in Millions)						
	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 115.3	$ 77.9	$ 79.3	$ 81.5	$ 81.3	$ 84.2

The FY 2022 Adopted Budget included $43.8 million in one-time expenditures within the Other Expenditures category. The following summarizes the majority of one-time expenditures that have been removed from the baseline projections:

- $10.2 million transfer for operational support of the San Diego Convention Center Corporation;
- $10.0 million for “Sexy” Streets Funding for communities of concern;

- $10.0 million to support Back to Work – Small Business Relief Funds;
- $5.4 million for facility upgrades to support citywide organics (greenery) collection mandated by Senate Bill 1383; and
- $1.8 million one-time transfer to the Capital Improvements Program (CIP) in support of various CIP projects.

Furthermore, updates to the City's existing debt service schedules, including commercial paper assumptions, PC Replacement, vehicle replacements and energy loans are included in the forecast based on projections provided by Debt Management, the Department of Information Technology and the Sustainability Department.

Pertaining to borrowing amounts and debt service costs over the outlook period, projections assume continued, as-needed use of the general fund backed commercial paper program. Projections also include a long-term bond issuance in FY 2023 of $105.0 million to pay down/refund the expected outstanding commercial paper notes at the time and to fund other capital projects. This bond issuance is anticipated to be approved in FY 2023 with debt service payments beginning in FY 2024. Moreover, projections assume a bond issuance in FY 2026 of $90.0 million to pay down/refund expected outstanding commercial paper notes with debt service payments beginning in FY 2027. The actual timing and size of each of these bond issuances will be further evaluated based on cash needs and market conditions closer to issuance.

Lastly, the debt service associated with the PC replacement lease is included in this category. The project financials were provided by the Department of Information Technology (DoIT) and is included in the baseline projection since this project will replace current work computers that are essential to maintaining current service levels. To support this project DoIT assumes entering into 5-year term leases in a principal amount of $1.0 million each year for the outlook period. The FY 2022 lease payments totaling $250,000 are included in the FY 2022 Adopted Budget. The forecast anticipates adding $250,000 annual lease payments each year FY2023 through FY2025 increasing to $350,000 annual lease payments in FY 2026 and FY 2027 reflecting potential increases in borrowing costs.

This Section Intentionally Left Blank

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 three following categories:

- Major revenue increment – an amount equal to 50.0 percent of the year over year growth in property tax revenues, unrestricted General Fund TOT, and unrestricted franchise fees for FY 2018 through FY 2022 only;
- Sales tax increment – an amount equal to the annual change in sales tax revenue when compared to the sales tax baseline (FY 2016) as inflated by the lesser of California Consumer Price Index (CCPI) or 2.0 percent; and
- General Fund Pension Cost Reduction – any amount if pension costs for any fiscal year that are less than the base year (FY 2016).

Table 2.33 shows the forecasted Infrastructure Fund deposits for the outlook period.

Table 2.33 - Infrastructure Deposits ($ in Millions)

	FY 2022 Adopted	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Projection	$ -	$ 18.4	$ 26.1	$ 33.0	$ 38.7	$ 43.1

The Infrastructure Fund is programmed on a year-by-year basis for one-time expenditures and therefore the transfer to the fund is considered one-time in nature. The Outlook then projects infrastructure deposits throughout the Outlook pursuant to the City Charter.

The City Council approved the waiver of Charter Section 77.1 in the FY 2022 budget as a result of projected fiscal impacts from the COVID-19 pandemic. The FY 2023 infrastructure contribution is projected at $18.4 million. This represents the portion of the deposit calculation only required from the sales tax increment. The projected sales tax revenue is expected to outpace the growth in the CCPI inflated sales tax baseline; therefore, a new deposit for the sales tax increment is forecasted in FY 2023 through FY 2027 of the Outlook. No new deposits are forecasted for the General Fund pension cost savings projected for these years. The major revenue increment contribution requirements ended in FY 2022.

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 2023 Proposed Budget presented by the Mayor will include the programs, projects, and services to be budgeted with infrastructure funds to comply with Charter Section 77.1.

Priorities Beyond Baseline Expenditures

In addition to the baseline forecast, the Outlook also includes projected costs for new facilities and planned commitments, new expenses associated with meeting compliance requirements and department service level improvement requests identified as areas of focus from the City's "Get it Done" application. These items require the addition of many key positions to meet the aspirational goals identified. Before adding additional positions to the annual budget, the City will first be evaluating the current vacancies and determine a plan to address the issues around the continuous high rate of vacancies for certain positions within the City and potential compensation disparity compared to other municipalities. The Table 2.34: Vacancy Analysis includes the number of vacancies by General Fund Department. Prior to addressing the critical needs in this section, the City will need to focus on recruitment and retention initiatives to attract and maintain high-quality workforce.

The following sections quantify critical needs and demonstrate the projected funding gap to meet planned commitments, comply with state mandates and bring services to core standard levels. These core standards will be fully outlined in the upcoming City's Strategic Plan.

The City's 2022 Strategic Plan (Strategic Plan) is currently under development and is scheduled to be released in January 2022. This plan articulates Mayor Gloria's vision for the City of San Diego and will cover five key priority areas including: Advance Mobility; Champion Sustainability; Create Homes for All of Us; Foster Regional Prosperity; and Serve Every Neighborhood. This five-year outlook has been developed in conjunction with the Strategic Plan as the budget is the primary vehicle by which the outcomes outlined in the Strategic Plan will be achieved.

Vacancy Analysis

The following table represents the current vacancies compared to the current filled positions and the total FTE by General Fund Department. Table 2.34

This Section Intentionally Left Blank

Table 2.34: Vacancy Analysis				
Department Name	**Filled**	**Vacant**	**Total FTE**	**Vacancy %**
City Attorney	356.25	28.00	384.25	7.29%
City Auditor	21.00	1.00	22.00	4.55%
City Clerk	40.00	7.00	47.00	14.89%
City Treasurer	102.00	12.00	114.00	10.53%
Commission on Police Practices	2.00	6.00	8.00	75.00%
Communications	28.00	8.00	36.00	22.22%
Compliance	12.00	3.00	15.00	20.00%
Council Administration	16.00	3.00	19.00	15.79%
Council District 1	9.00	1.00	10.00	10.00%
Council District 2	8.00	2.00	10.00	20.00%
Council District 3	10.00	0.00	10.00	0.00%
Council District 4	7.00	2.75	9.75	28.21%
Council District 5	8.00	2.00	10.00	20.00%
Council District 6	5.00	5.00	10.00	50.00%
Council District 7	8.00	2.00	10.00	20.00%
Council District 8	8.00	2.00	10.00	20.00%
Council District 9	10.00	0.00	10.00	0.00%
Debt Management	14.00	3.00	17.00	17.65%
Department of Finance	96.00	14.00	110.00	12.73%
Development Services	62.00	11.00	73.00	15.07%
Economic Development	47.00	7.00	54.00	12.96%
Environmental Services	142.98	81.32	224.30	36.26%
Ethics Commission	5.00	1.00	6.00	16.67%
Facilities Services	147.00	27.50	174.50	15.76%
Fire-Rescue	1149.00	146.00	1295.00	11.27%
Government Affairs	6.50	0.00	6.50	0.00%
Homelessness Strategies and Solutions	9.00	3.00	12.00	25.00%
Human Resources	28.00	6.00	34.00	17.65%
Library	323.00	69.50	392.50	17.71%
Office of Boards & Commissions	5.00	0.00	5.00	0.00%
Office of Emergency Services	13.00	5.00	18.00	27.78%
Office of Race & Equity	1.00	2.00	3.00	66.67%
Office of the Chief Operating Officer	10.00	2.75	12.75	21.57%
Office of the IBA	10.00	0.00	10.00	0.00%
Office of the Mayor	18.00	2.00	20.00	10.00%
Parks and Recreation	629.75	111.00	740.75	14.98%
Performance & Analytics	15.00	0.00	15.00	0.00%
Personnel	62.00	7.00	69.00	10.14%
Planning	40.75	11.00	51.75	21.26%
Police	2359.00	225.00	2584.00	8.71%
Purchasing & Contracting	25.00	18.00	43.00	41.86%
Real Estate Assets	26.00	0.00	26.00	0.00%
Storm Water	193.00	53.00	246.00	21.54%
Sustainability and Mobility	16.00	6.00	22.00	27.27%
Transportation	363.50	65.00	428.50	15.17%
Grand Total	**6466.73**	**961.82**	**7428.55**	**12.95%**

New Facilities and Planned Commitments

Table 2.35 - New Facilities and Planned Commitments ($ in Millions)							
Department	Description	FTE/Rev/Exp	FY2023	FY2024	FY2025	FY2026	FY2027
Library	New Library Facilities	FTE	9.50	10.50	10.50	10.50	10.50
		Revenue	$ -	$ -	$ -	$ -	$ -
		Expense	$ 0.77	$ 1.12	$ 1.15	$ 1.15	$ 1.15
Parks	New Park and joint Use Facilities	FTE	28.50	50.50	57.00	59.50	59.50
		Revenue	$ -	$ -	$ -	$ -	$ -
		Expense	$ 4.52	$ 7.13	$ 6.85	$ 6.97	$ 6.90
Fire-Rescue	New Fire Station Facilities	FTE	-	15.00	36.00	36.00	36.00
		Revenue	$ -	$ -	$ -	$ -	$ -
		Expense	$ -	$ 2.95	$ 6.81	$ 6.86	$ 6.86
Homelessness Services	Homelessness Services and Programs	FTE	3.00	3.00	3.00	3.00	3.00
		Revenue	$ 27.48	$ 32.90	$ 32.80	$ 32.80	$ 31.55
		Expense	$ 26.36	$ 32.90	$ 32.80	$ 32.80	$ 31.55
		Total FTE	**41.00**	**79.00**	**106.50**	**109.00**	**109.00**
		Total Revenue	**$ 27.48**	**$ 32.90**	**$ 32.80**	**$ 32.80**	**$ 31.55**
		Total Expense	**$ 31.65**	**$ 44.09**	**$ 47.61**	**$ 47.78**	**$ 46.46**

New Facilities

The Outlook identifies the funding needed for the addition of three new fire stations and two libraries. The Outlook includes the ongoing and one-time operational expenses for facilities that are scheduled to open within the Outlook period. The following are a list of new facilities, along with the scheduled year to open within the outlook period:

FY 2023 – Pacific Highlands Branch Library

FY 2024 – Torrey Pines Fire Station

FY 2024 – Ocean Beach Library

FY 2024 – Black Mountain Ranch Fire Station

FY 2025 – Fairmount Ave Fire Station

The Outlook also identifies the staffing and operating costs for the operation and maintenance of parks and recreation facilities, including 12 new facilities and 19 new Joint Use Facilities. Attachment 2 identifies these facilities.

Homelessness Strategies and Solutions

The Outlook identifies funding needs for existing programs in the City's Homelessness Strategies and Solutions Department and additional staffing for administrative and contractual compliance support. Existing homeless programs and services include outreach efforts, PEER support, bridge shelters, shelter beds, safe parking, storage, and the family reunification program.

While the second round of the Homeless Housing, Assistance and Prevention (HHAP) Grant Program and American Rescue Plan funding are anticipated to end, the forecast includes the recently accepted third round of HHAP program funding. The third round is anticipated at $27.5 million in FY 2023 and will be sufficient to cover continued and increased expenses throughout the Outlook period, resulting in a net zero impact to the General Fund. The net zero impact to the General Fund is anticipated throughout the outlook period as the HHAP 3.0 grant revenue continues and gradually increases throughout the outlook period.

This Section Intentionally Left Blank

Compliance Requirements

Table 2.36 - Compliance Requirements ($ in Millions)							
Department	**Description**	**FTE/Rev/Exp**	**FY2023**	**FY2024**	**FY2025**	**FY2026**	**FY2027**
Storm Water	Storm Water Compliance	FTE	227.00	262.00	282.00	297.00	305.00
		Revenue	$ 6.07	$ 9.87	$ 10.10	$ 10.22	$ 10.34
		Expense	$ 84.59	$ 70.18	$ 69.68	$ 83.02	$ 87.80
Environmental Services	SB 1383 - Organic Waste Program	FTE	92.47	94.47	107.47	107.47	107.47
		Revenue[1]	$ -	$ -	$ -	$ -	$ -
		Expense	$ 15.73	$ 14.19	$ 13.25	$ 13.24	$ 13.22
		Total FTE	**319.47**	**356.47**	**389.47**	**404.47**	**412.47**
		Total Revenue	**$ 6.07**	**$ 9.87**	**$ 10.10**	**$ 10.22**	**$ 10.34**
		Total Expense	**$ 100.32**	**$ 84.38**	**$ 82.93**	**$ 96.25**	**$ 101.02**

[1]A new budget bill, SB170, includes $60.0 million for grants to local jurisdictions to assist in implementation of SB 1383. However, the provisions of the grant are yet to be determined. Therefore, revenue associated with this grant is not included in the Outlook period.

Storm water Compliance

The Outlook identifies funding to address various Stormwater Compliance needs to meet the compliance obligations of City's Municipal Permit and funding to address community flood risk service levels. In addition, many of these costs also address audit findings and recommendations as identified in the City Auditor's June 2018 Stormwater Audit Report. The Stormwater Department has been developing a long-term stormwater funding strategy to address these compliance requirements. The City's Municipal Permit is issued by the Regional Water Quality Control Board which is the State agency charged with implementing the federal Clean Water Act (Clean Water Act). The State Water Resources Control Board (SWRCB) delegates its authority to nine regional boards, which implement the Clean Water Act and the California Water Code in their respective regions. The Regional Water Quality Control Board San Diego Region (RWQCB) has jurisdiction over the San Diego area. The RWQCB issues the Municipal Storm Water National Pollutant Discharge Elimination System Permit (Municipal Permit) as required by the Clean Water Act. The City is currently operating under a Municipal Permit that was issued in May 2013, which expired in June 2018. The expired Municipal Permit will remain in effect until it is reissued and adopted by the RWQCB.

Under the Municipal Permit, the City must comply with water quality requirements established by the RWQCB by maintaining and operating storm drain systems, eliminating dry weather flows, and reducing pollutants in storm water runoff.

The following identify the goals and actions of the long-term storm water funding strategy:

- *Storm water Funding Administration and Implementations*, including the addition of 15.00 FTE and associated non-personnel and revenue in FY 2023 to implement funding strategy programs and the CIP Program ramp up for the Water Infrastructure Finance and Innovation Act (WIFIA) loan;
- *Community Flood Risk*, including the addition of 145.00 FTE and associated non-personnel and revenue in FY 2023 to support needs including a levee maintenance crew, efforts to address backlog of channel maintenance, dedicated team to automate and rehabilitate pump stations, and a team to perform urgent spot pipe repairs;

- *Water Quality Compliance,* including the addition of 65.00 FTE and associated non-personnel and revenue in FY 2023 to support various needs including dedicated street sweeping for cycle tracks and additional street sweeping routes, studies required by the San Diego Bay Investigative Order, a dedicated team for trash capture device installation and maintenance to meet State Trash Policy requirements, and various other needs;
- *IT and Innovation*, including the addition of 2.00 FTE and associated non-personnel expenditures to replace aging hardware, transitions to innovative use of dashboards and field tablets, and expand use of SAP asset management.

Storm water plans to invest $600.0 million for Capital Improvement projects over five years. Of the $600.0 million, 49.0 percent is supported by the WIFIA loan of $294.0 million (through disbursements of roughly $5.0 million in FY 2023, $105.0 million in FY 2024, $14.0 million in FY 2025, $45.0 million in FY 2026 and $125.0 million in FY 2027) and 51.0 percent is supported by other non-General Fund sources of $306.0 million. The $306.0 million of non-General Fund sources consist of Transnet funds, Grants, an approved State Revolving Fund (SRF) Loan for the Los Peñasquitos Lagoon restoration project, and previously issued Lease Revenue Bonds and/or commercial paper for various capital improvement projects. (The Los Peñasquitos Lagoon SRF Loan assumes 1.75 percent interest on 30-year loans). The remaining is to be financed by two issuances of Lease Revenue Bonds backed by the General Fund of $131.0 million each year in FY 2025 and FY 2026. The WIFIA Loan assumes 2.75 percent interest on a 34-year loan, and Storm water LRBs assumes 4.0 percent interest on 30-year bonds.

Stormwater Department is currently evaluating the viability dedicated stormwater funding mechanism and will provide an update to Environmental Committee on November 18, 2021.

SB1383 – Organic Waste Program

The Outlook includes expenditures to address Senate Bill 1383 compliance efforts. In September 2016, Governor Brown signed into law Senate Bill 1383 (SB 1383) establishing methane emissions reduction targets in a statewide effort to reduce emissions of Short-lived Climate Pollutants. SB 1383 establishes targets of a 50.0 percent reduction in the level of the statewide disposal of organic waste from 2020, with a 75.0 percent reduction by 2025. SB 1383 requires the City to have an adopted ordinance and enforcement mechanism by January 1, 2022. Complete implementation of SB 1383 requirements will be phased over several years, and include the addition of 107.47 FTE by FY 2027, including Sanitation Drivers 2s, Utility Workers, Code Compliance Officers, Recycling Specialist and other Supervisory positions; reporting software, consultant costs, and marketing and education outreach. A new budget bill, SB 170, includes $60.0 million for grants to local jurisdictions to assist in implementation of SB 1383. However, the bill has no details on how funds would be allocated to jurisdictions and the provisions of the grant are yet to be determined. Therefore, revenue associated with this grant is not included in the Outlook period.

This Page Intentionally Left Blank

Department Service Level Improvements

As an effort to improve the quality of services provided to the public, an additional select number of department service level improvements have been identified as areas of focus in the Outlook and for future budget planning. Note, there are many additional priorities, services and operational needs beyond those included in this report. However, the services and programs included in the Outlook are the most requested service level improvements identified through the City's "Get It Done" application. These were prioritized based on greatest demand from residents and slow response times. The requests outlined below illustrate the resources needed to raise current service levels for the "Get It Done" items to the service levels identified in each section. All department service level budget requests, including the one highlighted in this report, will be fully evaluated in the FY 2023 budget development process and will be considered based on available resources, the new Strategic Plan priorities and other critical operational needs.

Table 2.37 - Department Service Level Requests
($ in Millions)

Department	Description	FTE/Rev/Exp	FY2023	FY2024	FY2025	FY2026	FY2027
Police	72-hour Parking Complaints	FTE	6.00	6.00	6.00	6.00	6.00
		Revenue	$ -	$ -	$ -	$ -	$ -
		Expense	$ 0.72	$ 0.48	$ 0.48	$ 0.48	$ 0.48
Environmental Services	Missed Trash/Recycling Collections and Encampment Abatements	FTE	16.00	16.00	16.00	16.00	16.00
		Revenue	$ -	$ -	$ -	$ -	$ -
		Expense	$ 6.11	$ 4.68	$ 4.68	$ 4.68	$ 4.68
Parks & Recreation	Increase Garbage Can Collection	FTE	51.00	51.00	51.00	51.00	51.00
		Revenue	$ -	$ -	$ -	$ -	$ -
		Expense	$ 6.08	$ 3.63	$ 3.63	$ 3.63	$ 3.63
Transportation	Pothole Repairs Streetlight Repair and Maintenance Sidewalk Repair and Replacement Tree Maintenance and Planting Traffic Signal Repair Weed Abatement	FTE	118.00	190.00	215.00	229.00	240.00
		Revenue	$ 0.71	$ 0.71	$ 0.71	$ 0.71	$ 0.71
		Expense	$ 32.39	$ 33.10	$ 27.57	$ 28.13	$ 27.99
	Streets Resurfacing Program Funding	FTE	14.00	14.00	14.00	14.00	14.00
		Revenue	$ 1.40	$ 1.40	$ 1.40	$ 1.40	$ 1.40
		Expense	$ 19.46	$ 17.18	$ 15.56	$ 13.62	$ 11.48
		Total FTE	**205.00**	**277.00**	**302.00**	**316.00**	**327.00**
		Total Revenue	**$ 2.11**	**$ 2.11**	**$ 2.11**	**$ 2.11**	**$ 2.11**
		Total Expense	**$ 64.77**	**$ 59.06**	**$ 51.91**	**$ 50.55**	**$ 48.26**

Police Department

72 Hour Paring Complaints

The Outlook includes efforts to reduce parking complaint response times from current service levels of 45-60 days to 6 days. Per California Vehicle Code 22651k, a vehicle cannot be parked in the same location on any city street for more than 72 hours, or it can be impounded. The addition of 5.00 Police Code compliance Officers, 1.00 Word Processing Operator, and associated non-personnel expenditures will enable the Police Department to address 72-hour parking complaints within 6 days, including three days to mark the vehicle and three days to tow.

Environmental Services Department (ESD)

Missed Trash and Recycling Collections

The Outlook includes the addition of a collection crew to address missed collection reports for residents who receive City-provided refuse, recycling, and organic waste collection. Residents who receive this service, can report missing collections to the City via a Missed Collection Request form. This proposal would reduce current response times from 48-72 hours to 24 hours. Under the supervision of 1.00 Area Refuse Collection Supervisor, a crew of 7.00 Sanitation Driver 2's will operate Tuesday through Saturday from 10:00 AM to 6:30 PM, addressing missed collections reported from the previous day to effectively provide collection service within 24 hours. The proposal also includes 2.00 Fleet Technicians in the Fleet Operations Department budget to support the maintenance of refuse packers.

Encampment Abatements

The Outlook includes the addition of three abatement teams to improve current encampment abatement response times from 30 days to 14 days, and the addition of contractual expenditures for enhanced sidewalk sanitation. Encampment abatement requests can be reported through the City's "Get It Done" application and include the removal of temporary dwelling and/or an accumulation of belongings blocking a sidewalk or located within public open space or private property. The additional three teams are comprised of 3.00 Heavy Truck Driver 2's, 3.00 Code Compliance Officers, contracted labor crews (each including one Supervisor and seven Laborers), Neighborhood Policing overtime in the Police Department budget to support the safe operation of the ESD crews, and associated non-personnel expenditures for landfill fees. The three abatement teams will ensure sanitary and safe conditions in heavily impacted areas and the ability to address an estimated six to eight locations per day. This proposal will also increase sidewalk sanitation from two days per week to five days per week and provide the flexibility to add non-routinely scheduled locations in a timely manner, ensuring all sanitation requests reported through the City's "Get It Done" application can be addressed within 24 hours.

Parks and Recreation Department

Increase Garbage Can Collection

The Outlook includes funding needs to increase garbage can collection in high-use areas, including areas where special events are held. Currently, the city completes daily garbage can collections by 10am regardless of garbage volume. The addition of 51.00 FTE and associated non-personnel expenditures will expand garbage can collections to include afternoons and weekends to properly address garbage volumes. These areas include all community parks, Balboa Park, Mission Bay Park and Shoreline Parks in the Developed Regional Parks division and open space parklands and Chollas Lake encampment abatements in the Open Space Division.

Transportation Department

Table 2.38 - Transportation Department - Service Level Requests ($ in Millions)

Service	Current Service Level[1]	Service Level Requests	FTE/Rev/Exp	FY2023	FY2024	FY2025	FY2026	FY2027
Pothole Repairs	33 days	3 days	FTE	5.0	9.0	13.0	17.0	19.0
			Revenue	$ -	$ -	$ -	$ -	$ -
			Expense	$ 1.78	$ 2.45	$ 2.74	$ 3.03	$ 2.35
Streetlight Repair and Maintenance	230 days	3 days	FTE	15.0	24.0	32.0	36.0	39.0
			Revenue	$ -	$ -	$ -	$ -	$ -
			Expense	$ 4.96	$ 4.47	$ 3.35	$ 3.68	$ 3.94
Sidewalk Repair and Maintenance	Initial Patching/Ramping: 30 days Long Term Repair: Months to Year	Initial Patching/Ramping: 1 day Long Term Repair: 30 days	FTE	67.0	109.0	109.0	109.0	109.0
			Revenue	$ 0.71	$ 0.71	$ 0.71	$ 0.71	$ 0.71
			Expense	$ 17.73	$ 16.99	$ 11.93	$ 11.93	$ 11.93
Tree Maintenance and Planting	6 months	1 day (same day for high priority) 30 days (medium priority)	FTE	5.0	5.0	8.0	8.0	8.0
			Revenue	$ -	$ -	$ -	$ -	$ -
			Expense	$ 1.08	$ 1.67	$ 2.28	$ 1.73	$ 1.73
Traffic Signal Repair	1 day	30 minutes	FTE	18.0	27.0	31.0	35.0	39.0
			Revenue	$ -	$ -	$ -	$ -	$ -
			Expense	$ 4.66	$ 4.87	$ 4.65	$ 5.04	$ 5.43
Graffiti Abatement Program	32 days	2 days	FTE	4.0	8.0	10.0	12.0	14.0
			Revenue	$ -	$ -	$ -	$ -	$ -
			Expense	$ 1.38	$ 1.57	$ 1.41	$ 1.52	$ 1.41
Weed Abatement	128 days	7 days	FTE	4.0	8.0	12.0	12.0	12.0
			Revenue	$ -	$ -	$ -	$ -	$ -
			Expense	$ 0.80	$ 1.08	$ 1.21	$ 1.21	$ 1.21
Street Resurfacing Program Funding	200 miles	OCI of 70 (468 miles)	FTE	14.0	14.0	14.0	14.0	14.0
			Revenue	$ 1.40	$ 1.40	$ 1.40	$ 1.40	$ 1.40
			Expense	$ 19.46	$ 17.18	$ 15.56	$ 13.62	$ 11.48
			Total FTE	**132.00**	**204.00**	**229.00**	**243.00**	**254.00**
			Total Revenue	**$ 2.11**	**$ 2.11**	**$ 2.11**	**$ 2.11**	**$ 2.11**
			Total Expense	**$ 51.86**	**$ 50.27**	**$ 43.13**	**$ 41.76**	**$ 39.47**

[1]Current Service levels are from the Get It Done appliation data as of August 25, 2021 and based on prior 90 days of closed cases. Current Service Levels may not reflect the most current data as of November 2021.

The Transportation Department is comprised of three divisions: Right-of-Way Management, Street, and Traffic Engineering. The Right-of-Way Management Division manages the coordination of all projects within the public right-of-way to ensure all projects are reviewed, permitted, and inspected for quality assurance, as well as manages the City's Utilities Undergrounding Program. The Street Division is responsible for maintaining the City's street network, which includes maintenance and repair of street and alley surfaces, sidewalks, streetlights, traffic signals, traffic signs, pavement markings, guardrails, and other traffic safety devices. The Traffic Engineering Division manages the City's transportation network which provides the efficient movement of goods, services, and people, including evaluating and implementing capital and operational changes to improve traffic mobility and enhance safety for motorists, pedestrians, and cyclists.

City Officials have identified services provided by the department that currently do not meet core service level goals. A summary of these services and the funding needed in order to meet the City's aspirational service level goals is provided in Table: 2.38 Transportation Department – Service Level Requests. The requests include administrative and inventory support, and the following:

- *Pothole Repairs*, nine dedicated crews to support pothole repairs citywide;
- *Streetlight Repair and Maintenance*, two additional electrical crews to address streetlight maintenance and a GIS Analyst position to update the signal infrastructure maps;
- *Sidewalk Repair and Replacement*, nine dedicated ramping and concrete crews prioritizing work based on greatest need or risk, reimbursable staff to manage the ADA Compliance Curb Ramp program and CIP Program and additional funds to increase the slicing contract to address 40,000 locations per year;
- *Tree Maintenance and Planting*, additional positions to support tree trimming, planting, evaluation, and data collection, as well as additional funding for removal of dead palms and tree planting and watering;
- *Traffic Signal Repair*, additional positions to support establishment of one Traffic Signal Technician per 50 intersections, additional Senior Electrical Engineer to support hardware, pole and wiring replacements, and assessments, and additional GIS Analysts to update the traffic signal infrastructure maps;
- *Graffiti Abatement Program*, nine dedicated crews to prioritize work based on greatest need, and two additional support crews for high-volume locations;
- *Weed Abatement*, two dedicated crews to assist pesticide applicators and additional contractual services for medians, shoulders, sidewalks, and bike lanes; and
- *Street Resurfacing Program*, reimbursable positions for slurry seal and CIP projects and identifies the funding gap needed over the outlook period.

This Section Intentionally Left Blank

AVAILABLE FUNDING SOURCES

The Outlook has identified the potential need for additional resources in order to fund new facilities, planned commitments, meet compliance requirements or to fund department service level requests. The following sections identify available funding sources that could be used to address potential revenue shortfalls. As required by the City Charter, the Mayor will present a balanced FY 2023 budget to City Council by April 15, 2022.

One-Time Resources

Any available resources that are one-time in nature are only available for one-time purposes.

American Rescue Plan Act (ARPA)

As stated earlier, the American Rescue Plan Act was signed into law on March 11, 2021, in response to the COVID-19 pandemic. The City is expected to receive a total of $299.7 million in ARPA funds. A total of $149.3 million was budgeted for use in the FY 2022 Adopted Budget, with the remaining funds planned to address the revenue shortfalls projected in subsequent years. The funds must be used by December 31, 2024.

Excess Equity

As stated earlier, the FY 2022 First Quarter Report currently projects Excess Equity at $26.7 million. These funds could be used in either FY 2022 if needed or planned for use in future fiscal years to fund one-time expenditures.

Use of Infrastructure Funds (Prop H)

In June 2016, voters approved Proposition H, requiring the City to dedicate specific sources of revenue to fund new General Fund infrastructure. The Outlook includes the continued expenses to maintain City Streets with an Overall Condition Assessment Index (OCI) of 70, the use of Infrastructure funds could be used to offset infrastructure eligible expenditures above the baseline. The action to partially fund the gap for City streets improvements with funds from the Infrastructure Fund can help reduce the net impact to the General Fund and alleviate funding for other City initiatives.

This Section Intentionally Left Blank

Revised Outlook Shortfall Beyond Baseline Expenditures

The above departmental requests, which include: new facilities, planned commitments, compliance requirements and department service level requests, when added to the baseline projections reflect an overall shortfall each fiscal year within the outlook period. Although baseline projections result in a baseline surplus in FY 2026 and FY 2027, with the additional funding of the departmental requests the revised projections would require additional resources of $97.9 million in FY 2023 and a total of $585.8 million over the outlook period.

As depicted in Table 2.39, after adding the above referenced costs, projected expenditures exceed revenues throughout the entire outlook period from FY 2023 through FY 2027.

Table 2.39: Revised Outlook Shortfall/Surplus Inclusive of Departmental Requests ($ in Millions)

	Fiscal Year 2022 Adopted Budget	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027
BASELINE GENERAL FUND REVENUES	$ 1,594.2	$ 1,713.2	$ 1,784.0	$ 1,862.3	$ 1,936.5	$ 2,005.5
BASELINE GENERAL FUND EXPENDITURES	$ 1,743.5	$ 1,780.0	$ 1,822.8	$ 1,870.5	$ 1,908.4	$ 1,940.4
BASELINE SURPLUS / (SHORTFALL)	$ (149.3)	$ (66.8)	$ (38.8)	$ (8.2)	$ 28.1	$ 65.2
RECOMMENDED USE OF AVAILABLE ARPA RESOURCE	$ 149.3	$ 103.3	$ 38.8	$ 8.2	$ -	$ -
RECOMMENDED USE OF AVAILABLE FY 2021 EXCESS EQUITY	$ -	$ 26.7	$ -	$ -	$ -	$ -
REVISED BASELINE SURPLUS / (SHORTFALL)	$ -	$ 63.2	$ -	$ -	$ 28.1	$ 65.2
NEW FACILITIES AND PLANNED COMMITMENTS		$ 4.2	$ 11.2	$ 14.8	$ 15.0	$ 14.9
COMPLIANCE REQUIREMENTS		$ 94.2	$ 74.5	$ 72.8	$ 86.0	$ 90.7
DEPARTMENT SERVICE LEVEL REQUESTS		$ 62.7	$ 57.0	$ 49.8	$ 48.4	$ 46.1
(AMOUNT TO BE MITIGATED) /AVAILABLE RESOURCES		$ (97.9)	$ (142.6)	$ (137.4)	$ (121.3)	$ (86.6)

This Section Intentionally Left Blank

This Page Intentionally Left Blank

OTHER ASSUMPTIONS AND CONSIDERATIONS

The Outlook was developed based on information available and known at the time of the preparation of the report. Projections were developed using 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. Previous sections of the report have discussed any assumptions that may result in a specific risk to the revenue and expenditure category projection. This section details other known assumptions or considerations.

Proposition B

Reversal of Proposition B, in early 2021, the California Superior Court invalidated Proposition B in a *quo warranto* proceeding. The City must now comply with the Court's order to strike the Proposition B provisions from the Charter and conform the San Diego Municipal Code and any related enactments accordingly. The Make-Whole Provision included in the Court order requires the City to pay the affected employees' compensation and retirement benefits they would have received prior to Proposition B going into effect, offset by the value of the benefits received. The methodology and ultimate costs are still in negotiation with the REOs, and the exact amount will not be known until the meet and confer process with the REOs is complete.

MOUs

As previously discussed in the Salaries and Wages category section of this report, the Outlook assumes a general salary increase of 3.05 percent for all REO groups following current MOUs in anticipation of the final MOU negotiations outcome. The 3.05 percent annual general salary increase is consistent with the assumption included in the SDCERS actuarial report. The final negotiated salary compensations will be reported in the next budget document once those fiscal impacts have been determined. Any future negotiated salary increases that deviate from the 3.05 percent assumption will impact future year personnel costs included in the outlook period.

Actuarially Determined Contribution (ADC)

There are many factors that can alter the Actuarially Determined Contribution (ADC) payment made by the City to the San Diego City Employees' Retirement System (SDCERS). Fluctuations in the market can impact employer contributions; as well as unanticipated increases in salaries can also alter the total ADC payment each fiscal year. The Outlook Report does not contain any projections related to potential changes to actuarial assumptions or impacts from the reversal of Proposition B that could result in significant impacts to the ADC payment. The methodology and ultimate costs are still in negotiation with the REOs. These impacts will result in a higher ADC payment; however, the exact amount will not be known until the meet and confer process with the REOs is complete.

Climate Action Plan

The City of San Diego's Climate Action Plan (CAP), set greenhouse gas emissions reduction targets of 15.0 percent reduction for 2020 and 50.0 percent reduction by 2035. The 2015 Climate Action Plan includes five strategic areas to reach the reduction targets:

- Energy and Water Efficient Buildings
- Clean and Renewable Energy
- Bicycling, Walking, Transit and Land Use
- Zero Waste
- Climate Resiliency

The City remains committed to keeping the economic, social, and environmental principles of sustainability at the forefront of decision-making. The City will continue to make progress towards achieving the climate action plan goals and will be releasing an update to the Climate Action Plan in early November 2021. Throughout Fiscal Year 2021, the Sustainability and Mobility Department conducted internal and external stakeholder outreach to inform the revisions included in the updated plan. In addition, as recommended in the 2021 Climate Action Plan Audit Report, a Staffing Analysis and Implementation Plan is underway to ensure the feasibility and actions needed to fully adopt the plan are addressed. The Sustainability and Mobility Department continue to coordinate with other departments to assess and identify needs, such as near-term staffing needs as included in the five-year outlooks for the enterprise funds. The CAP update anticipates to be fully adopted by spring 2022, followed by the completion of the CAP implementation plan. In Fiscal Year 2024, departments will develop individual department work plans to guide their respective roles in meeting the City's overarching climate action goals. Once the CAP Implementation Plan is completed, any known costs impacting the General Fund will be considered in future outlooks.

This Section Intentionally Left Blank

CONCLUSION

The Outlook guides long-range fiscal planning by focusing on baseline revenues and expenditures, including quantifying updates to maintain the City's current service levels as reflected in the FY 2022 Adopted Budget. In addition to the baseline revenue and expenditure projections, the Outlook includes an analysis and discussion of other departmental requests that would impact the bottom-line shortfall throughout the outlook period. The projections shown throughout this Outlook show the importance of developing multi-year strategies to correct the projected imbalances for expenditures and revenues. The projected shortfalls also demonstrate the need for additional ongoing available resources to support the critical needs of the City. Those decisions will be considered and implemented during the upcoming FY 2023 Budget Development process and will be dependent upon available resources, the City's new Strategic Plan priorities, compliance requirements and operational needs.

Based upon baseline projections, growth in ongoing expenditures is anticipated to outpace growth in ongoing revenues in FY 2023 through FY 2025. Beginning in FY 2026, revenue growth is projected to exceed anticipated expenditure growth. A shortfall is forecasted based on the following key factors:

- Moderate growth in revenue as the economy continues to recover from the impacts of the COVID-19 pandemic;
- Projected growth in expenditures; and
- Additional expenditures needed to support core standard service levels.

While the projected shortfalls shown in the Outlook in FY 2023 through FY 2025, reflect the difference in the City's projected revenues and expenditures if current service levels and policies were to continue, the use of available ARPA funds will help mitigate these projected shortfalls over the next three fiscal years. The Outlook also includes projected costs for priorities beyond the baseline and include costs for new facilities and planned commitments, new expenses associated with compliance requirements to meet regulatory mandates, and department service level goals identified as areas of focus from the City's "Get it Done" application. The City will address these shortfalls through a variety of mitigating actions such as the use of available fund balance above reserve levels (Excess Equity), or other necessary actions, including, but not limited to, budget reductions or use of reserves. The City of San Diego's charter requires that each year's budget be balanced. The Outlook provides the 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 and to develop a multi-year approach to prioritize and fund General Fund expenditures.

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2022.

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 2022 Adopted Budget that were adjusted to develop FY 2023-2027 Five-Year Financial Outlook baseline budget.

One-Time Resources	
American Rescue Plan	$ 149,345,466
Monsanto Class Action Settlement	9,000,000
Use of Pension Payment Stabilization Reserve	7,946,900
Refund from County Registrar of Voters (Transfer increase in ARP)	3,000,000
Transfer from the Climate Equity Fund	2,000,000
Transfer from Emergency Medical Services Fund	1,669,618
Transfer from Stadium Fund	1,137,218
FEMA Funding - Emergency Protective Measures	1,093,258
Transfer from the Redevelopment Property Tax Trust Fund (RPTTF)	775,000
Transfer from the Civil Penalty Fund to Support Code Enforcement	619,083
Environmental Growth Fund Reimbursements	614,318
Transfer from Public Safety Services and Debt Service Fund	608,640
New Emergency Medical Service Provider	443,718
Administration of HHAP Funding	339,071
Transfer from the Small Business Enhancement Program Fund	200,000
False Alarms Systems Replacement	82,500
Licensing/Inspections Reconciliation Software	24,000
Revised Revenue - Passport Fees	(50,000)
COVID-19 Revised Revenue - Police Regulated Business Permit	(287,461)
Revised Revenue - Collection Referral Fee	(500,000)
COVID-19 Revised Revenues - Inspection Services	(1,553,591)
COVID-19 Revised Revenues - Special Events, Parking Citations and SD Municipal Court	(6,795,765)
One-Time Resources Total	**$ 169,711,973**

This Section Intentionally Left Blank

One-Time Uses	
Support for San Diego Convention Center Corporation Operations	$ 10,196,440
Homlessness Programs Funding	10,000,000
Back to Work - Small Business Relief Funds	10,000,000
"Sexy" Streets Funding for Communities of Concern	10,000,000
Transfer to the Climate Equity Fund	6,965,178
State Bill 1383 - Facility Upgrades	5,936,498
IT Service Provider Transition Costs	3,755,196
Back to Work SD - Youth Programming	3,359,925
Stormwater Funding Strategy	2,500,000
New Joint Use Facilities	1,133,500
COVID-19 Public Safety Expenditures	1,012,276
Public Power Feasibility Study	1,000,000
Community Projects, Programs and Services	900,000
Back to Work SD - Connect2Careers	750,000
Streets Condition Assessment	700,000
Computer Aided Dispatch (CAD) Upgrade	500,000
New Streetlights	500,000
Storm Drain Pipe Repair	500,000
Keelly Street Park GDP	400,000
Government Accounting Standards Board (GASB) 87 Compliance	395,000
Oak Park Library Design	300,000
Stormwater Alternative Compliance Program	300,000
Transfer to the Concourse Parking Garages Operating Fund	293,898
Redistricting Commission	252,517
Design phase of the San Carlos Library	250,000
Unimproved Street - S. Bancroft Greely	250,000
Stormwater Integrated Planning Framework	250,000
Pay Equity Study Phase 2	250,000
Transfer to DSD for Small Business Support	222,467
Enforcement of Street Sweeping Routes	200,000
Replacement of the Exhaust Extraction System	180,000
Assistance to Firefighters Grant (AFG) City Cost Share	170,241
Animal Services Facility Deferred Maintenance	150,000
Constituent Relations Management Contract	135,000
New Office of the Commission on Police Practices	130,304
Advanced Lifeguard Academy	118,637
Consulting Services for the Sports Arena Development	112,475
Delinquent Accounts and Cashiering System	105,396
Barrio Logan Traffic Calming	100,000
Boston Avenue Linear Park GDP	100,000
Acquisition of Vehicles for the Ranger Program	83,000
False Alarms Systems Upgrade	82,500
Non-Personnel Expenditures for the Chollas Backup Dispatch Center	65,033
SDAccess4All Non-Personnel Expenditures	60,000
Building Repair and Maintenance for Facilities that provide Homeless Services	50,000
South University City Library Expansion	40,000
Licensing/Inspections Reconciliation Software	24,000
State Mandated Dig Alert	14,720
Debt Service Adjustment	(1,787,000)
One-Time Uses Total	**$ 73,007,201**

ATTACHMENT 2
NEW FACILITIES

New Facilities	
Parks and Recreation	
Dennery Ranch	2023
MBHS Tennis Courts Joint Use	2023
Wagenheim Joint Use Facility	2023
Taft Middle Joint Use	2023
Olive Street Mini Park	2023
Riviera Del Sol Neighborhood Park	2023
Hickman Elementary Joint Use	2023
East Village Green	2023
Salk Neighborhood Park	2023
Salk Neighborhood Joint Use	2023
Library	
Pacific Highlands Branch Library	2023
Parks and Recreation	
Hidden Trails Neighborhood Park	2024
Emerson Elementary Joint Use	2024
Burbank Elementary Joint Use	2024
Baker Elementary Joint Use	2024
Balboa Elementary Joint Use	2024
NTC Building 619	2024
NTC/Esplanade	2024
Lindbergh-Scheweitzer Joint Use	2024
3 Roots	2024
Junipers	2024
North Central Square	2024
McGonigle Canyon NP	2024
Marston Middle Joint Use	2024
Fire-Rescue	
Black Mountain Ranch Fire Station	2024
Torrey Pines Fire Station	2024
Library	
Ocean Beach Library	2024
Parks and Recreation	
Pacific View Elementary Joint Use	2025
Spreckels Elementary Joint Use	2025
Perry Elementary School Joint Use	2025
Boone Elementary School Joint Use	2025
Whitman Elementary School Joint Use	2025

New Facilities	
Fire-Rescue	
Fairmount Avenue Fire Station	2025
Parks and Recreation	
Rowan Elementary Joint Use	2026
Pacific Beach Elementary Joint Use	2026
Lafeyette Joint Use	2026