The City of SAN DIEGO

FISCAL YEAR 2024-2028
FIVE-YEAR FINANCIAL OUTLOOK

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EXECUTIVE SUMMARY

The City of San Diego Fiscal Year 2024-2028 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) 2024 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 service levels as reflected in the FY 2023 Adopted Budget. In addition to the baseline forecast, this year's Outlook includes projected costs for new facilities and planned commitments. The Outlook was developed based on information available and known at the time of the preparation of the report; however, risks to the projections include events that may or will occur during the outlook period whose outcomes are unpredictable or cannot be reasonably quantified at this time. The Outlook discusses some of these risks and priorities in the *Other Assumptions and Considerations* section of this report.

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 coming year's General Fund budget allocations. To the extent projected expenditures exceed estimated revenues in any given year of the Outlook, the City will need to address these shortfalls through mitigating actions. As described in the *Available Funding Sources* section of the Report, there is $52.1 million in available American Rescue Plan Act funding and $72.1 million in unassigned fund balance in excess of reserves (Excess Equity), which can be used to help mitigate some of these deficits. However, there are many additional priorities, services and operational needs beyond those included in this report. Given the limited and one-time nature of the City's available funding sources, the City will need to explore additional mitigating actions in future years, which could include budget reductions or the pursuit of additional one-time and ongoing revenue options. In addition, revenue projections are based on current economic indicators, historical trends, industry research, and information from the City's Property Tax and Sales Tax consultants. To the extent any of the underlying assumptions change, actual revenues could change significantly.

Any new expenditures assumed in the Outlook for FY 2024 will be considered during the upcoming FY 2024 Budget Development process and will be dependent upon available resources and consistent with the priorities outlined in the City's Strategic Plan, which include the following five priority areas of focus:

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

The FY 2024 budget process will incorporate budgeting through an equity lens with a focus on addressing disparities , and will also consider the City Council's budget priorities, as outlined in [IBA Report 22-28: FY 2024 City Council Budget Priorities](). As required by the City Charter, the Mayor will present a balanced budget to the City Council by April 15, 2023. The decisions made for the FY 2024 budget will have an impact on the entire outlook period and will be reflected in the FY 2025-2029 Five-Year Financial Outlook Report.

Summary of Key Financial Assumptions in Baseline

The Outlook forecasts the continuance of the economic recovery in FY 2023, which began at the end of FY 2021. The Outlook forecasts baseline revenues to exceed pre-pandemic levels in FY 2023 and grow moderately through the outlook years. The Outlook also projects moderate increases in baseline expenditures required to maintain the City's service levels as reflected in the FY 2023 Adopted Budget, and is based on anticipated growth in each expenditure category. Any anticipated growth is highlighted within each baseline revenue and expenditure category throughout the Outlook.

As discussed later in the report, the Outlook was developed based on information available and known at the time of the preparation of the report. Projections were developed using economic and industry research, available data, and reasonable assumptions; however, risks to the projections include events that may or will occur during the outlook period whose outcomes are unpredictable or cannot be reasonably quantified at this time. Examples of these events include an economic downturn, fiscal impacts from the reversal of Proposition B and the transition of employees who choose to enter the pension system, 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 – Fiscal Year 2024 – 2028 Financial Outlook, Summary of Key Financial Data**, a projected baseline shortfall, in which baseline expenditures exceed baseline revenues, is projected in FY 2024 through FY 2026. The baseline revenue growth is projected to exceed anticipated expenditure growth by FY 2027.

The following points highlight key assumptions included in the Outlook:

- Salary increases included for all current negotiated MOUs and an assumed 3.05 percent salary increase for pending MOU negotiations in future years; 3.05 percent is aligned with SDCERS actuarial assumptions;
- Pension contribution or annual Actuarially Determined Contribution (ADC) general increase as projected in the San Diego City Employees' Retirement System (SDCERS) City of San Diego Actuarial Valuation Report as of June 30, 2021, estimated amortization of FY 2022 investment losses, and estimated amortization of Proposition B related Unfunded Actuarial Liability;
- Additional Transient Occupancy Tax (TOT) reimbursements of General Fund departments for eligible costs supporting the safety and maintenance of visitor-related facilities;
- Charter required Proposition H (Infrastructure Fund) contributions assumed throughout the outlook period; and

- General Fund reserve contributions throughout the outlook period in order to reach reserve target levels of 16.7 percent by FY 2030.

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

Table 1.1 - Fiscal Year 2024-2028 Financial Outlook
Summary of Key Financial Data ($ in Millions)

	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028
Property Tax	$745.8	$782.2	$817.0	$853.8	$891.6
Sales Tax	$394.1	$403.1	$418.5	$434.4	$448.7
Transient Occupancy Tax	$155.8	$162.0	$168.5	$175.2	$182.1
Franchise Fees	$100.2	$101.3	$102.4	$94.2	$95.1
All Other Revenue Categories	$485.2	$506.8	$511.0	$528.6	$531.9
BASELINE GENERAL FUND REVENUES	**$1,881.1**	**$1,955.4**	**$2,017.3**	**$2,086.1**	**$2,149.4**
Salaries & Wages (Current MOUs)	$809.6	$813.8	$820.1	$814.6	$815.6
Salaries & Wages (Assumed General Wage Increases at 3.05% Annually)	$12.3	$35.9	$60.2	$85.3	$111.1
Retirement Actuarially Determined Contributions (ADC)	$310.4	$308.8	$311.5	$314.3	$317.2
Estimated Amortization of Proposition B Unfunded Liability	$8.0	$8.0	$8.0	$8.0	$8.0
All other Personnel Expenditures	$213.3	$214.2	$215.2	$216.1	$217.0
Non-Personnel Expenditures	$544.5	$559.4	$581.3	$599.8	$624.5
Charter Section 77.1 - Infrastructure Fund Contribution	$21.9	$17.9	$20.7	$24.7	$26.7
Reserve Contributions	$11.7	$20.0	$21.2	$22.6	$23.3
BASELINE GENERAL FUND EXPENDITURES	**$1,931.6**	**$1,978.0**	**$2,038.1**	**$2,085.4**	**$2,143.3**
BASELINE (SHORTFALL)/SURPLUS	**($50.5)**	**($22.6)**	**($20.9)**	**$0.7**	**$6.1**

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Report Outline

The Outlook includes a discussion of General Fund baseline projections for revenues and expenditures, necessary to maintain the City's current service levels. The *Baseline Projections* section of the Outlook consists of the City's projections for the next five fiscal years for ongoing revenues and expenditures, as displayed in **Table 1.1 – Fiscal Year 2024 – 2028 Financial Outlook, Summary of Key Financial Data**. The Baseline Projections section includes baseline revenue and expenditure growth, and anticipated adjustments to the FY 2023 Adopted Budget. Examples of anticipated adjustments in the baseline projections include the removal of one-time resources and expenditures included in the FY 2023 Adopted Budget.

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

- New Library, Fire-Rescue, and Parks and Recreation facilities scheduled to open within the outlook period;
- Planned expenditures for upgrading the City's current Enterprise Resource Planning system, SAP;
- The projected future net impact to the General Fund of maintaining current homelessness programs and services if additional resources (i.e., grants) are not identified; and
- Debt service commitments made with the approval of the Water Infrastructure Finance and Innovation Act (WIFIA) program loan.

The Outlook Report also identifies available funding sources that could be used to mitigate projected revenue shortfalls in the *Available Funding Sources* section of the Report. The available funding sources consist of American Rescue Plan Act (ARPA) funds, which must be used by December 31, 2024, and available Excess Equity as reported in the FY 2023 First Quarter Budget Monitoring Report (FY 2023 First Quarter Report). Both of which could help address the revenue shortfalls projected in subsequent years to fund one-time expenditures.

Lastly, 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 pension cost increases due to the reversal of Proposition B, potential new State or federal funding, passing of ballot measures, the City's Compensation Philosophy and Recruitment and Retention Efforts, fiscal impacts from implementing the City's Climate Action Plan, changes to current labor agreements, and incorporating critical enhancements for stormwater and road repair needs. Any new expenditures or enhancements to services will be considered during the upcoming FY 2024 budget development process and will be dependent upon available resources and consistent with the priorities outlined in the City's Strategic Plan.

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration by April 15, 2023.

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BASELINE PROJECTIONS

The *Baseline Projections* section describes forecasted General Fund revenue and expenditure changes based on growth assumptions and anticipated adjustments to the FY 2023 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 upon the FY 2023 Adopted Budget with one-time resources and expenditures removed. **Attachment 1: One-Time Resources and Expenditures** further details these one-time resources and expenditures.

Baseline General Fund Revenues

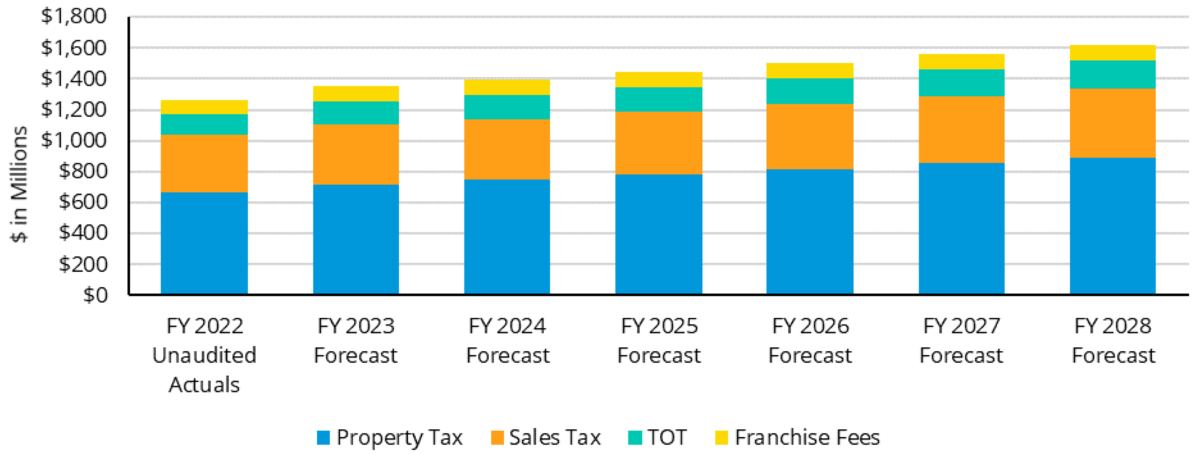
The following section provides details on the Outlook's baseline General Fund revenue projections. The details provided for each revenue category include a description of the revenue source, factors impacting the revenue source, and the projected growth rates.

Following the COVID-19 pandemic, which initially halted the City's economy, the City's revenue sources have rapidly recovered, and are anticipated to grow at moderate rates throughout the outlook period when compared to the robust growth that has followed the peak of the COVID-19 pandemic. Similar to the FY 2023 Adopted Budget, the Outlook's revenue forecast balances current favorable, yet softening, economic conditions with moderate growth in the City's General Fund revenues.

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

The City's four major General Fund revenue sources, property tax, sales tax, TOT, and franchise fees, represent 67.6 percent of the City's FY 2023 Adopted Budget for the General Fund. As depicted in **Figure 2.1 – Major General Fund Revenues**, all four major revenue sources are projected to increase throughout the outlook period. Consistent with the FY 2023 First Quarter Report, the Outlook uses updated major revenue projections as the baseline for the Outlook forecast, which accounts for projected growth beyond what is budgeted in the FY 2023 Adopted Budget. The overall economic assumptions included in the report are in line with information received from industry experts representing the four major revenue categories and overall regional economy, including: the City's property tax consultant, HdL Coren & Cone; the City's sales tax consultant, Avenu Insights & Analytics; the San Diego Tourism Authority; the San Diego Tourism Marketing District; San Diego Gas & Electric; the UCLA Anderson Forecast; and Beacon Economics report. In addition to the major revenue projections, the baseline projections for the General Fund's other departmental revenue sources are based on various economic assumptions, known and anticipated events, and historical trend analyses.

Figure 2.1 - Major General Fund Revenues



Property Tax

Property Tax is the City's largest revenue source representing 36.2 percent of the General Fund FY 2023 Adopted Budget. The primary component of the Property Tax category is the 1.0 percent levy on the assessed value of all real property within City limits. The Property Tax category also includes the Motor Vehicle License Fee (MVLF) backfill payment, which is property tax revenue received from the State of California to replace the MVLF that was repealed in 2004. Additionally, the category includes pass-through and residual property tax payments deposited into the Redevelopment Property Tax Trust Fund (RPTTF) due to the dissolution of Redevelopment Agencies (RDAs) statewide.

Forecast

The Outlook for Property Tax assumes growth based upon the updated FY 2023 projection for property tax included in the FY 2023 First Quarter Report and economic assumptions available at the time of the preparation of this report. **Table 2.1 - Property Tax Five-Year Forecast** displays the FY 2023 Adopted Budget and year-end projection, as well as the forecast for FY 2024 through FY 2028 for the Property Tax category.

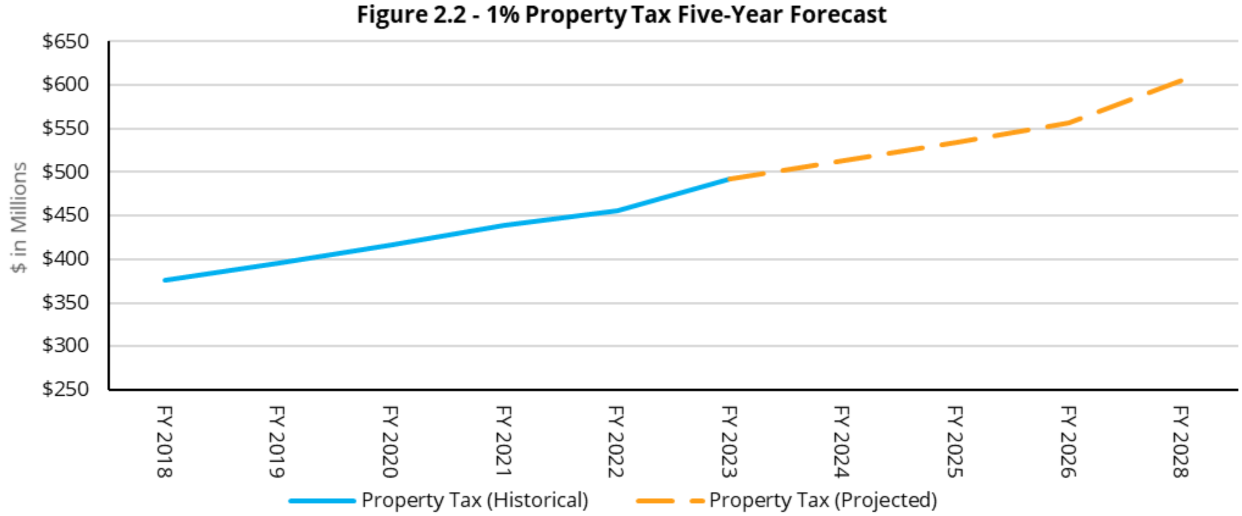
Table 2.1 - Property Tax Five-Year Forecast
($ in Millions)

	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate	6.0%	6.0%	5.3%	4.3%	4.3%	4.4%	4.4%
Projection	$ 706.2	$ 720.4	$ 745.8	$ 782.2	$ 817.0	$ 853.8	$ 891.6

As reported in the FY 2023 First Quarter Report, the Property Tax category is projected at $720.4 million, which represents an increase of $14.2 million from the FY 2023 Adopted Budget and serves as the baseline for the Outlook forecast. Due to a lag between the time assessed valuation is set by the County Assessor's Office and Property Tax revenue is received by the City, property tax growth for FY 2023 is based on real estate activity through calendar year 2021. This projection includes increases in home sales, the assessed value of properties, the redevelopment and new construction of residential and non-residential properties, and the restoration of assessed value for properties previously assessed at a lesser value under Proposition 8—Proposition 8 allows for the temporary reduction of assessed value and the increase in restorations seen in FY 2023 is primarily attributed to the increase in home values. The FY 2023 projection also reflects a decrease in the collection rate for 1% property tax collections from 99.2 percent to 99.1 percent to align with the actual collection rate in FY 2022**.** Moreover, the FY 2023 projection includes an increase in the MVLF back-fill payment based on the most recent calculation and payment schedule provided by the County of San Diego. These adjustments are considered in the baseline projections for the outlook period.

The growth that is applied to the FY 2023 First Quarter projection to develop the Outlook forecast is based on an analysis of the relationship of property tax to assessed values and assessed valuation growth, followed by adjustments based on the assumptions and economic factors discussed in the *Economic Trends* section below. The forecast also includes the sale of an RDA property anticipated to close in FY 2024, with a one-time distribution of $219,000, which represents the City's estimated share of the net proceeds. **Figure 2.2 – 1% Property Tax Five-Year Forecast** represents the historical and projected 1.0 percent property tax amounts.

Figure 2.2 - 1% Property Tax Five-Year Forecast



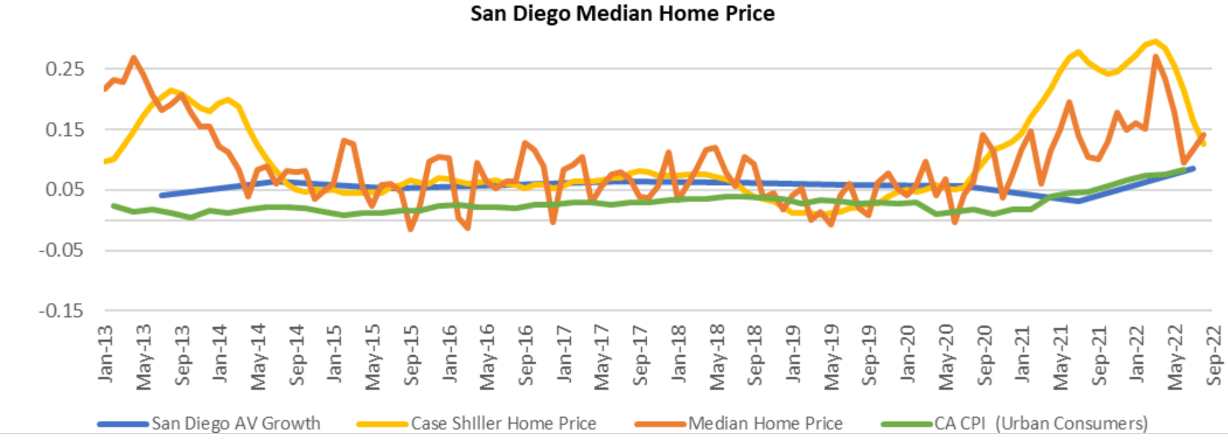
Economic Trends

The major economic drivers of Property Tax revenue are the California Consumer Price Index (CCPI), home sales, home prices, foreclosures, and defaults. The CCPI plays an important part in the assessed valuation of properties that do not sell or are not improved within a given year—the CCPI limits assessed valuation growth under Proposition 13 which specifies that a property's value may increase at the rate of the CCPI but cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value. In compliance with Revenue and Taxation Code section 51, the San Diego County Assessor's Office uses the October CCPI to assess property values under Proposition 13. However, at the time that this report was prepared, the October 2022 CCPI had not yet been released.

The latest CCPI released by the California Department of Finance (DOF) is as of August 2022 at 322.275, which is a 7.5 percent increase from the August 2021 CCPI of 299.815. As a result, the Outlook applies the 2.0 percent maximum that is specified in Proposition 13 to the assessed value of all properties not sold or improved within the given year.

At the beginning of the calendar year, the City experienced high growth in both home prices and home sales before slowing in recent months. The median home price reached an all-time high of $860,000 as of May 2022; however, the median home price has since dropped to $825,000 as of September 2022. Moreover, home sales have also begun to slow, with year-to-date home sales as of September 2022 decreasing by 28.3 percent when compared to year-to-date home sales as of September 2021. The experienced decline in property sales is attributed to increasing interest rates resulting in unfavorable lending conditions, which when coupled with high median home prices, has further reduced the affordability of homes in the region. **Figure 2.3 – Case-Shiller Home Price Index, California CPI, San Diego Median Home Price** displays the correlation of several economic factors described above since 2013 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 steady when compared to the Case-Shiller Home Price Index and the local median home price. Notably, the graph displays a lag of approximately 12-18 months between activity in the local real estate market and the resulting impact on the City's assessed valuation, as noted earlier in the *Property Tax Forecast* section.

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



In recent months, both foreclosures and notices of defaults have steadily increased with the lifting of statewide eviction moratoriums. While the annual percentage change increase is significant, the year-to-date counts of foreclosures and notices of defaults are still below historic norms. The increasing trend is anticipated to result in a return to historically normal levels.

Other factors considered in the development of revenue projections for Property Tax include mortgage rates, changes to federal tax policy, and property tax refunds. The 30-year mortgage rate has steadily increased in recent months as record high inflation has led the Federal Reserve to increase the federal funds rates in an effort to combat record high inflation and bring the Consumer Price Index (CPI) to a target rate of 2.0 percent. In September 2022, the Federal Open Market Committee (FOMC) increased the target range for federal funds rate to between 3 and 3-1/4 percent. Subsequently, on November 2, 2022, the FOMC further raised the federal funds rate to 3-3/4 to 4 percent. In their November 2022 statement, the Federal Reserves stated that:

> "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 3-3/4 to 4 percent. The Committee anticipates that ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time. In determining the pace of future increases in the target range, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments…"[1]

In addition to the above factors, due to the dissolution of RDAs, pass–through and residual property tax payments to the City from the RPTTF are included in the Property Tax forecast. Pass-through payments are agreements between former redevelopment areas and the local entities to provide payments from the RPTTF deposits to local entities. The residual property tax payment is the City's proportionate share of funds remaining in the RPTTF after the Recognized Obligation Payment Schedule (ROPS) requirements have been met. As ROPS obligations are paid off, residual RPTTF revenues will grow. **Table 2.2 – Property Tax Components** and **Figure 2.4 – Property Tax Revenue Projections: Fiscal Years 2024 - 2028** provide details on the components of the FY 2023 Adopted Budget and year-end projection, as well as the forecasted Property Tax revenue for FY 2024 through FY 2028 for Property Tax. The current growth rates incorporate a 12-18-month lag time between the time that the assessed valuation is set by the County Assessor's Office and the time that Property Tax revenue is received by the City. It is anticipated that Property Tax will see the impacts from the current year trends in FY 2024 before normalizing in the outer years.

Table 2.2 - Property Tax Components
($ in Millions)

	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate	6.0%	6.0%	5.3%	4.3%	4.3%	4.4%	4.4%
1% Property Tax	$ 478.7	$ 491.8	$ 512.8	$ 534.4	$ 557.1	$ 581.0	$ 605.9
MVLF Backfill	$ 178.6	$ 181.1	$ 190.7	$ 198.9	$ 207.5	$ 216.5	$ 225.9
RPTTF Pass-Through Tax Sharing Payment	$ 10.9	$ 10.9	$ 11.4	$ 11.9	$ 12.4	$ 13.0	$ 13.6
RPTTF Residual Property Tax Payment	$ 38.1	$ 36.6	$ 30.8	$ 37.0	$ 40.0	$ 43.3	$ 46.2
Total Property Tax Projection	$ 706.2	$ 720.4	$ 745.8	$ 782.2	$ 817.0	$ 853.8	$ 891.6

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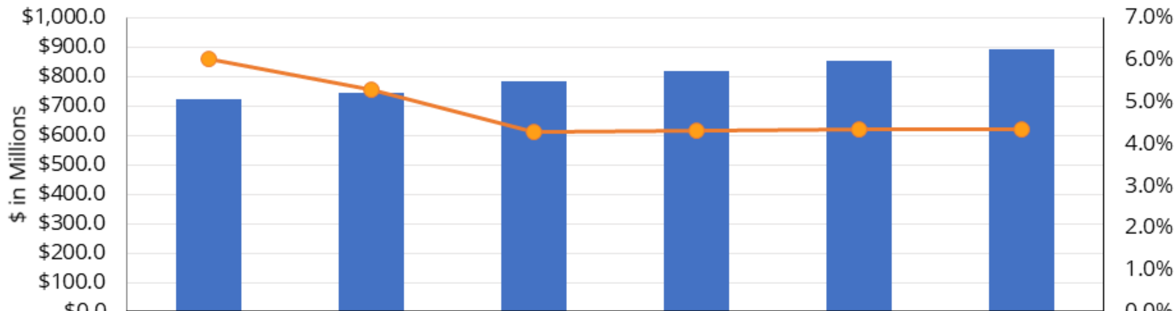
[1] Federal Reserve Press Release. Federal Open Market Committee (FOMC). November 2, 2022.

Figure 2.4 - Property Tax Revenue Projections: Fiscal Years 2024 - 2028
Projections including Redevelopment Property Tax Trust Fund (RPTTF)



	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Projection	$ 720.4	$ 745.8	$ 782.2	$ 817.0	$ 853.8	$ 891.6
Growth Rate	6.0%	5.3%	4.3%	4.3%	4.4%	4.4%

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 – Property Tax Revenue Five-Year Forecast: Fiscal Years 2024 - 2028** reflects the current scenario as well as the "High" and "Low" scenario. In addition, **Table 2.3 - Property Tax Five-Year Forecast: Growth Rate Scenarios** details the assumed growth rates for each scenario for FY 2024 through FY 2028.

Figure 2.5 - Property Tax Revenue Five-Year Forecast: Fiscal Years 2024 - 2028

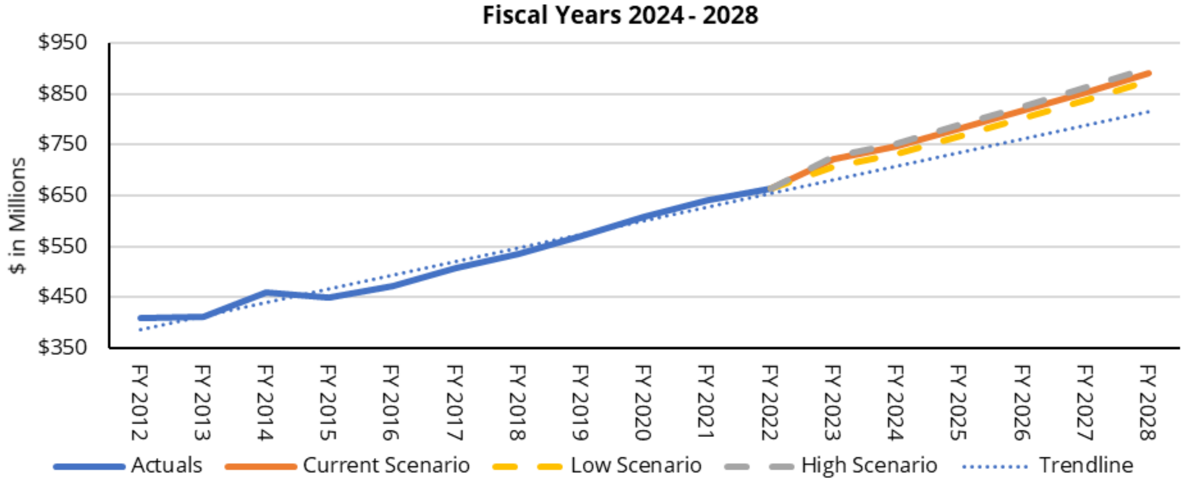


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Table 2.3 - Property Tax Five-Year Forecast: Growth Rate Scenarios					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Current Growth Rate	5.3%	4.3%	4.3%	4.4%	4.4%
High Growth Rate	6.3%	5.3%	5.3%	5.4%	5.4%
Low Growth Rate	3.3%	2.3%	2.3%	2.4%	2.4%

The current growth rates were developed based on the most recent housing market conditions and data available at the time of the preparation of the report. As a result of the 12-18-month lag time for this growth to be recognized in the City's Assessed Valuation, it is expected that Property Tax will see the impacts from current year trends in FY 2024 before normalizing in the outer years. The assumption incorporates the following housing statistics: a decrease of 28.3 percent in year-to-date home sales[2] and 8.6 percent in home prices[2] as of September 2022.

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 would result in lower annual assessed valuation growth rates for FY 2024 through FY 2028. A "Low" scenario would reduce Property Tax projections by $14.2 million in FY 2024 and a cumulative total of $78.3 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 at the current level or potentially decrease 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 $7.1 million in FY 2024 and a cumulative total of $39.1 million throughout the outlook period.

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

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[2] California Home Sale Activity by City. CoreLogic Report. August 2021 & 2022.

Sales Tax

The City's second largest revenue source is sales tax and represents 19.5 percent of the General Fund FY 2023 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 Outlook for Sales Tax assumes growth based upon the updated FY 2023 projection for Sales Tax included in the FY 2023 First Quarter Report and economic assumptions available at the time of the preparation of this report. **Table 2.4 – Sales Tax Five-Year Forecast** displays the FY 2023 Adopted Budget and year-end projection, as well as the forecast for FY 2024 through FY 2028 for the Sales Tax category.

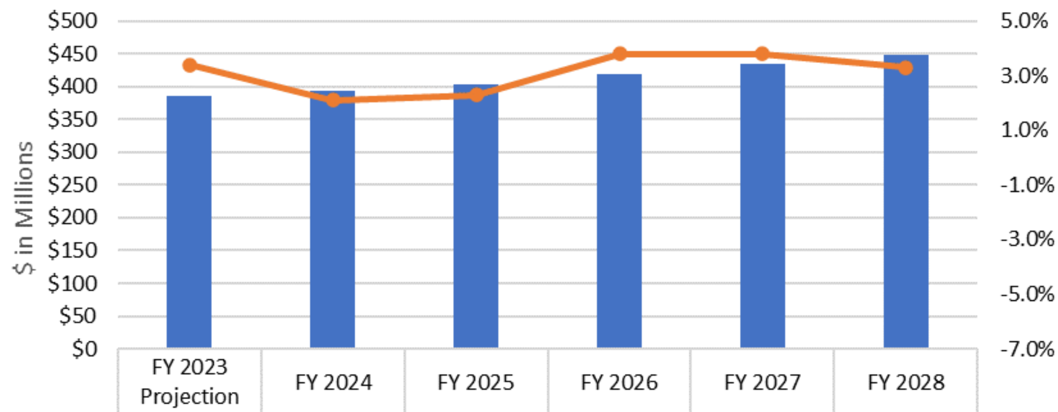
Table 2.4 - Sales Tax Five-Year Forecast ($ in Millions)

	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate	3.0%	3.4%	2.1%	2.3%	3.8%	3.8%	3.3%
Projection	$ 380.2	$ 386.0	$ 394.1	$ 403.1	$ 418.5	$ 434.4	$ 448.7

As reported in the FY 2023 First Quarter Report, the Sales Tax category is projected at $386.0 million, which represents an increase of $5.7 million from the FY 2023 Adopted Budget. The FY 2023 projected increase is primarily attributed to higher than anticipated sales tax receipts collected in the first quarter and revisions to the growth rate from 3.0 percent to 3.4 percent following updated information provided by the City's sales tax consultant, Avenu Insights & Analytics. The growth rate increase is primarily due to sustained consumer spending realized in the first quarter and the increasing impact of inflation on taxable goods. These adjustments are considered in the baseline projections for the outlook period.

The Sales Tax baseline is increased by growth rates that are considered moderate when compared to the accelerated growth and recovery experienced following the COVID-19 pandemic. The moderate growth is based on a "soft-landing" scenario that assumes the Federal Reserve will accomplish a "soft landing" of the economy as it shifts the target range for the federal funds rate in an attempt to combat persistent inflation. To reflect this scenario, the Outlook includes moderate growth in the near term before returning to historically normal growth in the outer years. These growth rates are consistent with the City's sales tax consultant, Avenu Insights & Analytics' September 2022 forecast. **Figure 2.6 – Sales Tax Revenue Projection: Fiscal Years 2024 - 2028** displays the relationship between the projected Sales Tax receipts and the forecasted growth rates.

Figure 2.6 - Sales Tax Revenue Projection: Fiscal Years 2024 - 2028



	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Projection	$ 386.0	$ 394.1	$ 403.1	$ 418.5	$ 434.4	$ 448.7
Growth Rate	3.4%	2.1%	2.3%	3.8%	3.8%	3.3%

Economic Trends

The primary economic drivers for spending and growth in sales tax receipts include the unemployment rate and consumer confidence, which drive consumer spending, and the San Diego Consumer Price Index (CPI). As preliminarily reported by the California Employment Development Department, the September 2022 unemployment rate for the City of San Diego is 2.9 percent; an improvement from the 5.3 percent unemployment rate recorded in September 2021. The City's unemployment rate recovered in the second quarter of calendar year 2022, reaching pre-pandemic levels, which has contributed to moderate increases in sales tax receipts in FY 2023.

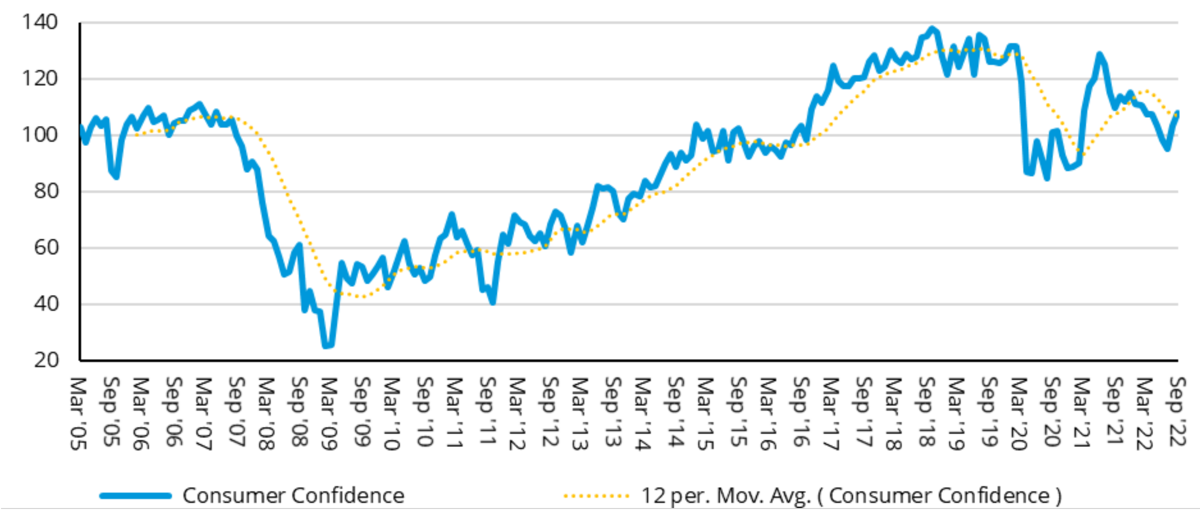
Moreover, consumer confidence, a measurement of consumers' willingness to spend, continues to fluctuate month-over-month as consumers respond to reservations regarding the current state of the economy, including persistent inflation and rising interest rates. Prior to the pandemic, in February 2020, consumer confidence was measured at 132.6, which dropped considerably during the pandemic, before peaking again at 128.9 in June 2021. The June 2021 consumer confidence numbers were close to pre-pandemic levels, and indicative of improvement and optimism as COVID-19 restrictions were lifted and vaccination levels increased. However, as of September 2022, consumer confidence has decreased to 108.0, but has demonstrated slight improvement from the recent low, measured at 95.3 in July 2022.

Sustained consumer spending, despite decreased consumer confidence, is attributed to a strong labor market; "excess savings" accumulated since the inception of the COVID-19 pandemic; and behaviors such as the "revenge buying" phenomena[3]—"revenge buying" is used to describe higher consumer spending, above normal levels, as a form of consumer indulgence following an adverse event like the COVID-19 pandemic. While consumer spending has remained strong, industry experts have begun to see a shift in consumption patterns in the form of reduced purchase quantity, particularly for goods, as a result of rising prices; however, total spending remains relatively flat and is sustained by the rising cost of goods resulting from elevated and persistent inflation.

[3] The UCLA Anderson Forecast for the Nation and California. UCLA Anderson Forecast. September 2022. Page 22

The San Diego Consumer Price Index (CPI), a metric that measures costs across many consumer items, increased by 8.2 percent from 324.138 in September 2021 to 350.721 in September 2022—continuing to inch towards record high inflation. This level of elevated inflation is consistent with recent economic reports, including the UCLA Anderson Forecast September 2022 Economic Forecast, which assumes elevated inflation will now extend through FY 2024.

Figure 2.7 - Consumer Confidence



Source: The Conference Board – Consumer Confidence Survey ®

The forecast for sales tax reflects improved business activity from various sectors. Local business activity, including business sectors like food products, general retail, and transportation 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 in-store (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 in-store point of sale City sales tax revenues, which reduces the portion of sales tax revenue received by the City. This trend towards online sales is evidenced by the significant percentage of the City's total sales tax revenue received from the county pool steadily increasing over the past several years, 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 using the City's sales tax consultant's optimistic and conservative projections. **Figure 2.8 – Sales Tax Projections: Fiscal Years 2024 - 2028** reflects the current scenario as well as the "High" and "Low" scenario. In addition, **Table 2.5 - Sales Tax Five-Year Forecast: Growth Scenarios** details the assumed projections for each scenario for FY 2024 through FY 2028.

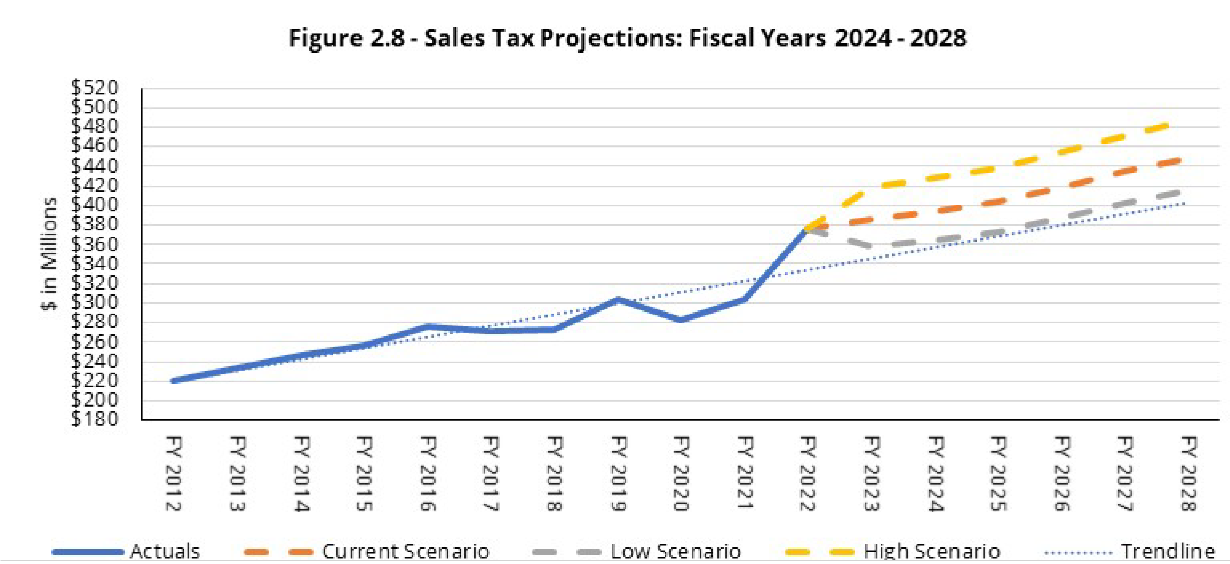


Table 2.5 - Sales Tax Five-Year Forecast: Growth Scenarios ($ in Millions)					
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Current Projection	$ 394.1	$ 403.1	$ 418.5	$ 434.4	$ 448.7
High Scenario Projection	$ 427.9	$ 437.6	$ 454.1	$ 471.1	$ 486.8
Low Scenario Projection	$ 365.2	$ 373.6	$ 387.6	$ 402.1	$ 415.5

The "Low" scenario reflects the City sales tax consultant's conservative projections based on a "soft-landing" scenario. This scenario considers impacts from persistent high inflation, consumers' willingness to cut back on spending, higher unemployment, and lower consumer confidence in the local and State economies. A "Low" scenario would reduce sales tax projections by $28.9 million in FY 2024 and a cumulative total of $154.7 million throughout the outlook period.

The "High" scenario reflects the City sales tax consultant's optimistic projections, in which persistent high inflation, higher unemployment, and low consumer confidence would not have an impact on consumer spending. A "High" scenario would increase sales tax projections by $33.8 million in FY 2024 and a cumulative total of $178.7 million throughout the outlook period.

Transient Occupancy Tax (TOT)

TOT represents 6.9 percent of the City's General Fund FY 2023 Adopted Budget. TOT is levied at 10.5 cents per dollar on taxable rent for a transient's stay of less than one month in properties such as hotels, Short Term Residential Occupancy (STRO) locations, and Recreational Vehicle (RV) parks. The use of TOT is guided by the City's Municipal Code which stipulates that of the 10.5 cents of collected TOT, 5.5 cents is to be applied toward general governmental purposes, 4.0 cents towards promoting the City as a tourist destination, and the remaining 1.0 cent towards any purposes approved by the City Council. TOT from RV parks are levied at 10.5 cents which is directed entirely towards general governmental purposes.

Forecast

The Outlook for TOT assumes growth based upon the updated projection included in the FY 2023 First Quarter Report, and economic assumptions available at the time of the preparation of this report. **Table 2.6 – Transient Occupancy Tax (TOT) Five-Year Forecast** displays the General Fund TOT budget and year-end projection for FY 2023, and the forecast for FY 2024 through FY 2028.

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

	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate	5.5%	9.9%	4.0%	4.0%	4.0%	4.0%	4.0%
Projection	$ 135.2	$ 149.9	$ 155.8	$ 162.0	$ 168.5	$ 175.2	$ 182.1

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

As reported in the FY 2023 First Quarter Report, total citywide TOT receipts are projected at $284.8 million; the General Fund's 5.5 cent portion of the total TOT projected receipts is $149.9 million, which represents an increase of $14.7 million from the FY 2023 Adopted Budget, and serves as the baseline for the Outlook forecast. This increase is primarily attributed to higher than anticipated average daily room rates and revenue per available room, driven by continued pent-up demand for leisure travel and the return of business and group travel. While continued improvement in leisure travel and the gradual return of business and group travel was anticipated, the impact that demand has had on room rates, while also sustaining occupancy and room demand growth, was not anticipated. These adjustments are considered in the baseline projections for the outlook period.

A constant growth rate of 4.0 percent is applied to FY 2024 through FY 2028 based on the assumption that TOT growth will begin to trend moderately when compared to the accelerated and robust growth experienced in recent years following the peak of the COVID-19 pandemic. While growth in TOT revenue has been robust in recent years and largely driven by pent-up demand for leisure travel, relevant economic indicators, which are further described in the *Economic Trends* section below, and assumptions by economists, indicate that spending on leisure and hospitality services will begin to ease[4]. The growth rate of 4.0 percent balances these indices and anticipated trends with continued, yet tempered, growth. The 4.0 percent growth rate is based on historical average year-over-year growth prior to the pandemic.

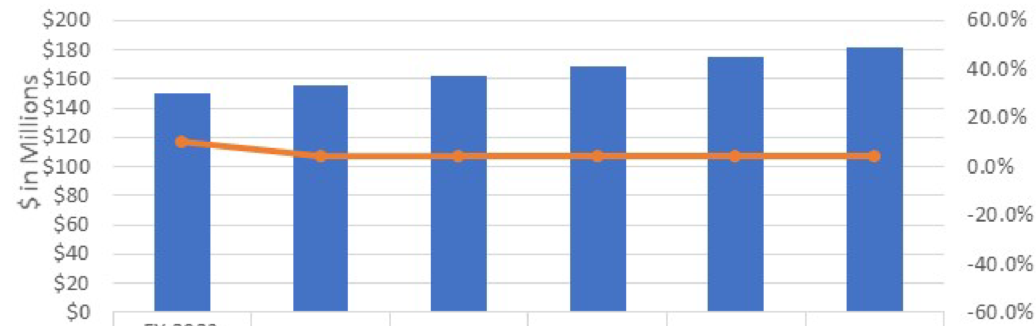
Of note, the Outlook does not include potential impacts from recent STRO ordinance revisions, which limit the number of short-term residential occupancy in dwelling units. At the time these regulations were considered, the Independent Budget Analyst's Office estimated "potential loss of TOT to be between 14% to 23% of total TOT collected from STROs. In CY 2019, these percentages would have translated to a reduction ranging from $4.4 million to $7.3 million of the total TOT collected from STROs ($31.5 million)."[5] Estimates associated with this loss in revenue are expected to be better known at the time of the development of the FY 2024 budget; however, since impacts from these

[4] San Diego Lodging Forecast Update, October 2022. San Diego Tourism Authority website.
[5] The Independent Budget Analysts Office. "Impacts of Proposed Short-term Residential Occupancy (STRO) Regulations on TOT Revenue". February 2021.

regulations are not included in the TOT projection in the Outlook, these updated regulations pose an additional risk to the numbers included in this report.

Figure 2.9 – Transient Occupancy Tax (TOT) General Fund Revenue Projection: Fiscal Years 2024 - 2028 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 2024 - 2028



	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Projection	$ 149.9	$ 155.8	$ 162.0	$ 168.5	$ 175.2	$ 182.1
Growth Rate	9.9%	4.0%	4.0%	4.0%	4.0%	4.0%

Economic Trends

The primary economic drivers for TOT revenues are room rates, occupancy, and average daily room rate growth. According to the San Diego Lodging Forecast Update, which was prepared for the San Diego Tourism Authority (SDTA) by Tourism Economics in October 2022, overnight visits, room supply, and room demand are projected to reflect continued growth in calendar year 2022 before experiencing an easing of growth in calendar year 2023. **Table 2.7 – San Diego County Tourism Industry** summarizes the projected growth in relevant economic indicators below.

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

	CY 2020	CY 2021	CY 2022	CY 2023
Room Demand (Growth)	-41.3%	36.0%	19.2%	2.8%
Occupancy	48.6%	61.7%	73.2%	74.7%
Avg. Daily Room Rate	$ 130.69	$ 164.88	$ 197.72	$ 192.79

Source: San Diego Lodging Forecast Update, October 2022. By Tourism Economics for San Diego Tourism Authority.

As shown in **Table 2.7 – San Diego County Tourism Industry,** when compared to calendar year 2022, the growth of economic indicators that drive TOT revenues is anticipated to ease in calendar year 2023. When compared to calendar year 2022, room demand is anticipated to increase by 2.8 percent. As reported in the San Diego Lodging Forecast Update, this growth rate balances the assumption that business and group demand will continue to recover, while demand in leisure travel will ease and perform slightly below calendar year 2022—it is assumed that consumers will curtail spending on travel in response to reservations regarding the current state of the economy, including persistent inflation and rising interest rates. When compared to calendar year 2022, occupancy is anticipated to remain relatively unchanged in calendar year 2023. Moreover, the average daily room rate, while still strong, is anticipated to decline slightly. Subsequently, with the anticipated easing of growth in these economic indicators, the Outlook forecasts a moderate growth rate of 4.0 percent throughout the outlook period, reflecting continued performance at normalized levels.

Scenario Analysis

The factors described above combine to make up the TOT projection; nonetheless, any changes to major economic drivers or indicators could have a corresponding change in TOT revenues. To account for variances in these factors, "High" and "Low" projections were prepared using a variability margin of error. This is not a representation of economic assumptions, rather a variability factor used to calculate how revenues can differentiate with a 10.0 percent margin of variability. **Figure 2.10 – Transient Occupancy Tax (TOT) Projections: Fiscal Years 2024 - 2028**, reflects the current scenario as well as the "High" and "Low" scenario. In addition, **Table 2.8 – Transient Occupancy Tax (TOT) Five-Year Forecast: Growth Scenarios** details the assumed projections for each scenario for FY 2024 through FY 2028.

Figure 2.10 - Transient Occupancy Tax (TOT) Projections: Fiscal Years 2024 - 2028

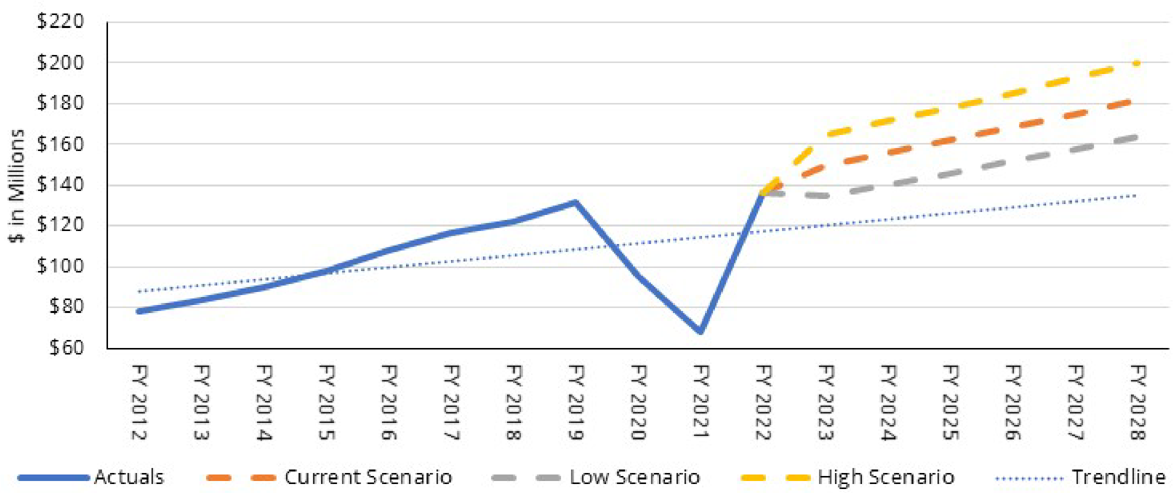


Table 2.8 - Transient Occupancy Tax (TOT) Five-Year Forecast: Growth Scenarios ($ in Millions)

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Current Projection	$ 155.8	$ 162.0	$ 168.5	$ 175.2	$ 182.1
High Scenario Projection	$ 171.4	$ 178.2	$ 185.3	$ 192.7	$ 200.3
Low Scenario Projection	$ 140.3	$ 145.8	$ 151.6	$ 157.6	$ 163.9

A "Low" scenario would reduce TOT projections by $15.6 million in FY 2024 and a cumulative total of $84.4 million throughout the outlook period. Potential factors that would negatively impact TOT projections include decreased consumer discretionary spending on items such as leisure travel due to continued elevated inflation; the unemployment rate increasing; and future travel restrictions put in place in response to public health concerns. As noted in the San Diego Lodging Forecast Update released in October 2022, "even as uncertainty around the pandemic and the spread of COVID-19 variants has eased considerably, there remains uncertainty around inflation, rising borrowing costs, consumer finances and the economic recovery more generally, which have implications for the timeline for a full return of business transient, group, and international travel"[6].

A "High" scenario would increase TOT projections by $15.6 million in FY 2024 and a cumulative total of $84.4 million throughout the outlook period. Potential factors that would positively impact TOT projections include greater demand for business, group, and international travel – in which these sectors have not fully recovered from the pandemic and an increase in the number of conventions and special events held across the City.

Franchise Fees

Revenue from franchise fees makes up 4.9 percent of the City's General Fund FY 2023 Adopted Budget. These revenues are based on agreements with private utility companies in exchange for the use of the City's rights-of-way. Currently, San Diego Gas and Electric (SDG&E), Cox Communications, Spectrum (formerly Time Warner Cable), and AT&T pay a franchise fee to the City. The City also collects franchise fees from private refuse haulers that conduct business within the City limits. The fee received from the agreements with utility companies is based on a percentage of gross revenue while the fee received from refuse haulers is based on tonnage.

SDG&E and cable companies are the largest contributors to Franchise Fees, generating approximately 75.4 percent of Franchise Fee revenue. The growth rate for SDG&E electricity and gas sales is expected to increase above trend in FY 2024 to account for projected electricity and gas rate increases, expected to go into effect in January 2023, followed by growth at a rate of 2.0 percent for the outer years of the outlook period, based on a five-year average of historical revenue growth.

Additionally, the City receives annual bid payments as part of the recently negotiated agreement with SDG&E for the first five years of the agreement. The FY 2023 Adopted Budget includes an installment payment of $8.1 million, which represents the General Fund portion of the total $10.8 million, followed by annual installments with a 3.38 percent interest rate applied through FY 2026 of the Outlook.

Forecast

The Outlook for Franchise Fees assumes growth based upon the updated FY 2023 projection for Franchise Fees and economic assumptions available at the time of the preparation of this report. The FY 2023 projection includes all General Fund franchise fees, including the Major General Fund revenue portion projected in the FY 2023 First Quarter Report. **Table 2.9 – Franchise Fees Five-Year Forecast** displays the budget and year-end projection for FY 2023 and the forecast for FY 2024 through FY 2028 for revenue from franchise fees.

[6] San Diego Lodging Forecast Update, October 2022. San Diego Tourism Authority website.

Table 2.9 - Franchise Fees Five-Year Forecast ($ in Millions)							
	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Electricity/Gas Growth Rate	7.4%	7.4%	8.1%	2.0%	2.0%	2.0%	2.0%
Cable Growth Rate	-4.8%	-4.8%	-4.6%	-4.6%	-4.6%	-4.6%	-4.6%
Projection	$ 95.6	$ 96.3	$ 100.2	$ 101.3	$ 102.4	$ 94.2	$ 95.1

The Franchise Fees category is projected at $96.3 million which represents an increase of $730,000 from the FY 2023 Adopted Budget, primarily attributed to an increase in refuse hauler tonnage collection.

Franchise Fees growth rates are projected independently, using historical actuals and relevant information respective to each of the franchise fees—the aggregate of these assumptions results in the total forecast for the Franchise Fees category. Most notably, the growth rate for gas and electricity rates considers an increase in gas and electricity rates based on current market conditions and various factors impacting revenue collected. The City receives an annual cleanup payment from SDG&E in February at which time the revenue projections will be updated. The cable growth rates consider the continuing loss of market share to digital competitors that do not have franchise fees levied against them. These assumptions are further elaborated on in the *Economic Trends* section below.

Economic Trends

San Diego Gas and Electric

SDG&E is proposing a rate adjustment that would go into effect January 1, 2023, if approved. Therefore, increased revenue from SDG&E is expected in FY 2024 primarily due to the anticipated rate increases. The rates assume an 8.2 percent increase for electricity and 5.5 percent increase for gas. Additionally, increases in electric vehicles, additional housing supply, and increases in investments in the safety and reliability of infrastructure of the energy market and accelerated transition to clean energy through new technology and regional electrification efforts can also contribute to the increases in revenue. Other key variables that impact franchise fee revenue include: solar installations, increased energy efficiencies, building decarbonization, Community Choice Aggregation (CCA) and other rate savings, changes in rate structures, legislative and regulatory mandates, energy storage, and variable weather patterns including fire activity within a given year. **Figure 2.11 – SDG&E Franchise Fee Revenue Variables** depicts how each of these key variables can impact total franchise fee revenue collected from SDG&E.

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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 4.6 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 have entered the market in recent years and significantly impacted 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. Since adequate data sets on these individual factors for all San Diego cable companies are not yet available to City staff, cable projections are based on historical actuals and overall fluctuations in these factors.

Property Transfer Tax

Property Transfer Tax is levied on the sale of real property. The County of San Diego collects $1.10 per $1,000 of the sale price when any real property is sold, of which the City receives half, or $0.55 per $1,000. Property Transfer Tax revenue is remitted to the City monthly and represents 0.8 percent of the City's General Fund FY 2023 Adopted Budget.

Forecast

Table 2.10 – Property Transfer Tax Five-Tear Forecast displays the FY 2023 Adopted Budget and year-end projection, as well as the forecast for FY 2024 through FY 2028 for Property Transfer Tax.

The FY 2023 projection for Property Transfer Tax is projected slightly below the FY 2023 Adopted Budget and serves as the basis for the Outlook projections.

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

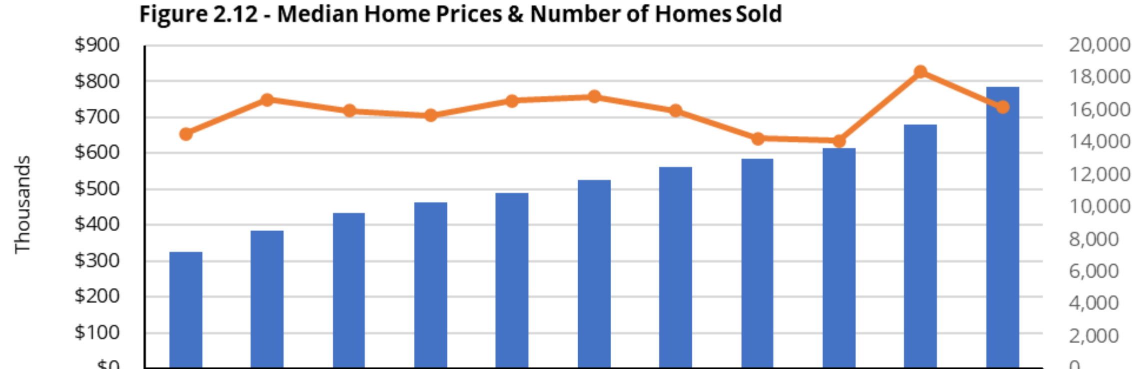
	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate	6.0%	-6.9%	0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 15.5	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2

Property Transfer Tax estimates were developed using current apportionment reports received from the County of San Diego. With the recent interest rate increases approved by the FOMC, both home prices and home sales are expected to have more restrained growth in FY 2023. 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 and number of home sales had continued to rapidly grow over the past year; however, there has been a significant decline in the number of home sales when comparing current year-to-date data with the same time period last year. **Figure 2.12 – Median Home Prices & Number of Homes Sold** illustrates the median home prices and number of homes sold. Property Transfer Tax revenue is anticipated to remain flat for the remaining outlook period due to inconsistencies in historical receipts and unpredictable growth rates.

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	FY 2022
Median Home Price	$323,896	$384,167	$434,218	$464,375	$488,188	$524,208	$562,917	$585,750	$613,917	$678,167	$785,188
Number of Homes Sold	14,539	16,639	15,950	15,669	16,597	16,829	15,952	14,243	14,118	18,364	16,172

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 2.9 percent of the City's General Fund FY 2023 Adopted Budget.

Table 2.11 – Licenses and Permits Five-Year Forecast displays the FY 2023 Adopted Budget and the forecast for FY 2024 through FY 2028 for revenue from licenses and permits.

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

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate		3.1%	3.1%	3.1%	3.1%	3.1%
Projection	$ 56.5	$ 47.0	$ 58.2	$ 53.2	$ 62.6	$ 56.7

A constant growth rate of 3.1 percent is applied from FY 2024 to FY 2028 based on a three-year average of historical revenue growth. Within this category, Cannabis Tax and Short-Term Rental Compliance are projected separately from the 3.1 percent growth rate and then aggregated with other revenue from Licenses and Permits. The forecast for FY 2024 reflects a $9.5 million decrease from the FY 2023 Adopted Budget primarily due to the removal of $8.1 million in licensing and application revenue associated with the implementation of the Short-Term Residential Occupancy Compliance Program, which are collected every two years, and a decline of $1.7 million in Cannabis Business Taxes paid by outlets.

Cannabis Business 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 levies a gross receipts tax of 8.0 percent on for-profit cannabis sales, production, and distribution. The gross receipt tax was lowered to 2.0 percent for cannabis production facilities. The gross receipt tax of 8.0 percent remains unchanged for retail outlets.

To develop the Outlook projections, actual sales data from FY 2022 was 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 applied. The projection for cultivation, manufacturing, and distribution of cannabis was calculated following a similar methodology. **Figure 2.13 Cannabis Business Tax Revenue**, below, depicts the forecasted growth for cannabis business tax revenue, which is expected to remain steady through the outlook period. As the industry continues to evolve, the City will continue to monitor and update projections from all cannabis businesses, as needed.

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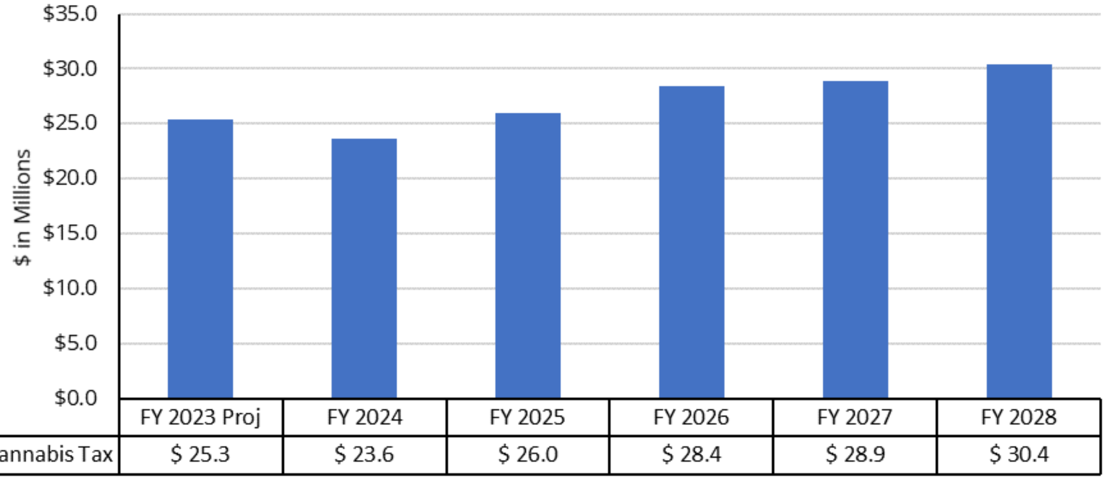
Figure 2.13 Cannabis Business Tax Revenue
Fiscal Years 2024 - 2028



Short-Term Residential Occupancy (STRO) Compliance

Included within the Licenses and Permits category is business tax received from permit and application revenue associated with the Short-Term Residential Occupancy (STRO) Compliance Program. The purpose of the STRO Compliance Program is to regulate the number of short-term residential occupancy in dwelling units to balance the need to preserve neighborhood quality of life with the protection of private property rights. This program was approved by the City Council on October 25, 2021. Licenses are valid for a two-year period and license fees are due the beginning of January every two years after applications are submitted and a lottery on those applications occurs. This results in a cyclical revenue projection of approximately $8.1 million in FYs 2023, 2025, and 2027.

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 1.8 percent of the City's General Fund FY 2023 Adopted Budget.

Table 2.12 – Fines, Forfeitures and Penalties Five-Year Forecast displays the FY 2023 Adopted Budget and the forecast for FY 2024 through FY 2028 for revenue from fines, forfeitures, and penalties.

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

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth rate		3.2%	3.2%	3.2%	3.2%	3.2%
Projection	$ 34.5	$ 35.6	$ 36.7	$ 37.9	$ 39.1	$ 40.4

Revenue from fines, forfeitures, and penalties are projected at a constant rate of 3.2 percent growth for FY 2024 through FY 2028. The growth rate was developed based on overall historical growth in this category. Any future fee increases, including parking citation fees, approved by City Council can have the potential to further impact the forecasted revenue in the outlook period.

Revenue from Money and Property

The Revenue from Money and Property category primarily consists of interest from city investments and rental revenue generated from City-owned properties including Mission Bay Park, Balboa Park, City Pueblo Lands, and Torrey Pines Golf Course. This revenue source represents 3.3 percent of the City's General Fund FY 2023 Adopted Budget.

Table 2.13 – Revenue from Money and Property Five-Year Forecast displays the FY 2023 Adopted Budget and the forecast for FY 2024 through FY 2028 for the Revenue from Money and Property category.

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

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate		1.7%	1.7%	1.7%	1.7%	1.7%
Projection	$ 63.9	$ 69.5	$ 73.7	$ 76.2	$ 78.8	$ 81.4

A growth rate of 1.7 percent is applied from FY 2024 to FY 2028 based on overall historical growth in this category. Within this category, office space rent, and Mission Bay Park rents and concessions are projected separately from the 1.7 percent growth rate and then aggregated with other revenue from money and property.

Interest on pooled investments is projected on the current General Fund participation level in the treasury pool based on an average of actuals. Due to recent market conditions and changes in Federal Funds rates, a decrease of $2.0 million is anticipated in the FY 2024 forecast, followed by a 1.7 percent growth year-over-year.

Office space rent revenue is received from non-general fund departments occupying General Fund owned buildings. Revenues received in this category are based on the rental agreements and occupancy levels for those departments, which are anticipated to remain relatively consistent throughout the outlook period.

Revenue from Money and Property includes revenue from Mission Bay Park rents and concessions. Per City Charter Section 55.2, the threshold amount of $20.0 million of Mission Bay Park 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 Park 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 0.3 percent of the City's General Fund FY 2023 Adopted Budget.

Table 2.14 – Revenue from Federal and Other Agencies Five-Year Forecast displays the FY 2023 Adopted Budget and the forecast for FY 2024 through FY 2028 for Revenue from Federal and Other Agencies.

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

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 5.3	$ 4.2	$ 4.2	$ 4.2	$ 4.2	$ 4.2

The forecast for FY 2024 reflects a decrease of $1.1 million from the FY 2023 Adopted Budget. This decrease is primarily due to the removal of $1.1 million in one-time revenue from the Emergency Connectivity Fund to support the SD Access 4 All, Digital Equity Program.

Zero-growth is applied to the Revenue from Federal and Other Agencies category as no additional State or federal assistance above the baseline projection is anticipated throughout the outlook period—any federal or other agency assistance beyond $4.2 million was not known at the time of the preparation of the report. Notably, funding from the American Rescue Plan Act (ARPA) is budgeted under the Transfers In category. ARPA was signed into law on March 11, 2021 in response to the COVID-19 pandemic and the City received a total of $299.7 million in ARPA funds. A total of $100.0 million was used in FY 2022, $147.6 million is budgeted for use in the FY 2023 Adopted Budget, and the remaining $52.1 million is expected to be used by December 2024.

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 10.4 percent of the City's General Fund FY 2023 Adopted Budget.

Table 2.15 – Charges for Services Five-Year Forecast displays the FY 2023 Adopted Budget and the forecast for FY 2024 through FY 2028 for revenue from Charges for Services.

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

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 203.5	$ 220.8	$ 224.4	$ 228.4	$ 231.2	$ 234.9

While a zero-growth rate is applied to the Charges for Services category, select commitments including reimbursements from other funds, are projected independently and then aggregated with other revenues in the Charges for Services category. Reimbursements to the General Fund from the TOT fund are anticipated to increase by a net of $12.1 million in FY 2024. This increase is directly tied to the forecasted increase in the TOT major revenue category—as total TOT revenues increase in the outlook period, additional funds become available for reimbursement to the General Fund to support qualifying tourism related activities in accordance with Council Policy 100-03. Moreover, based on increases forecasted in the Salary and Wages category, reimbursements from other funds are anticipated to increase by $6.0 million.

Other Revenue

The Other Revenue category includes ambulance fuel reimbursements, corporate sponsorships, unclaimed monies, and other miscellaneous revenues. This revenue source represents 0.1 percent of the City's General Fund FY 2023 Adopted Budget.

Table 2.16 – Other Revenue Five-Year Forecast displays the FY 2023 Adopted Budget and the forecast for FY 2024 through FY 2028 for revenue from other sources.

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

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 2.1	$ 2.1	$ 2.1	$ 2.1	$ 2.1	$ 2.1

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

Transfers In

The Transfers In category primarily represents transfers to the General Fund from non-general funds. The major components in this category are transfers from the Public Safety Services Fund, Gas Tax and TransNet funds, and the one-cent TOT revenue transfer from the TOT Fund. This revenue source represents 12.8 percent of the City's General Fund FY 2023 Adopted Budget.

Table 2.17 – Transfers In Five-Year Forecast displays the FY 2023 Adopted Budget and the forecast for FY 2024 through FY 2028 for revenue from Transfers In.

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

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 250.4	$ 90.9	$ 92.3	$ 93.8	$ 95.5	$ 97.1

The forecast for FY 2024 reflects a decrease of $159.4 million from the FY 2023 Adopted Budget. This decrease is primarily due to the removal of $164.6 million in one-time revenue sources from the baseline projection including: $147.6 million in ARPA funding, $9.0 million from the Monsanto class action settlement, and the use of $7.9 million from the Pension Payment Stabilization Reserve.

A growth rate is not applied to the Transfers In category as each transfer is independent of one another and individually projected. The one-time removals noted above are primarily offset by increases in the 1-cent TOT transfer and Safety Sales Tax—the remaining transfers in budgeted in this category are anticipated to remain relatively unchanged throughout the outlook period, including the transfers in from the Gas Tax and TransNet funds.

The 1-cent TOT transfer is anticipated to increase by $3.8 million based on the current total TOT revenue projection, of which 1-cent of the revenue is allocated to the General Fund to be used for any purpose that the City Council may direct. As total TOT revenues increase in the outlook period, the respective 1-cent allocation to the General Fund increases accordingly.

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

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Baseline General Fund Expenditures

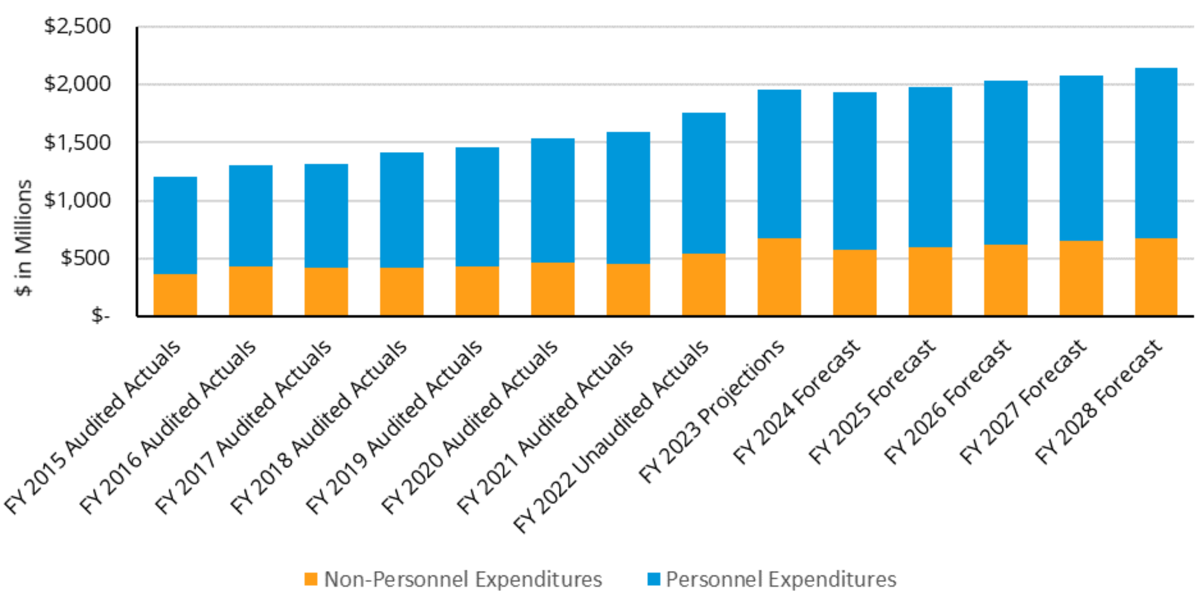
General Fund expenditures are comprised of both personnel and non-personnel expenditures including Salaries and Wages, Supplies, and Contracts & Services. Unless otherwise noted, baseline projections assume growth based upon the FY 2023 Adopted Budget with the removal of one-time expenditures. **Attachment 1: One-Time Resources and Expenditures** further details the one-time resources that have been removed from the baseline projections.

Personnel expenditures represent 69.5 percent of the City's General Fund FY 2023 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); employee 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 during the Outlook period, due to growth in salaries and wages resulting from current agreements between the City and its Recognized Employee Organizations (REOs); increases in the retirement Actuarially Determined Contribution (ADC); and the estimated amortization of Proposition B unfunded liability.

Projections for ongoing non-personnel expenses are also included in the baseline projections and include significant anticipated adjustments required to maintain the City's service levels as reflected in the FY 2023 Adopted Budget.

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

Figure 2.14 - Baseline Expenditures



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Salaries and Wages

The Salaries and Wages category is the largest General Fund expenditure category and is comprised of regular salaries and wages, budgeted personnel expenditure savings, annual leave payouts, step increases, special pays, overtime, and vacation pay-in-lieu. This category includes the General Fund cost of salaries and wages for the current Memoranda of Understanding (MOUs) with each of the City's Recognized Employee Organizations (REOs). In addition, this Outlook assumes an additional 3.05 percent annual general wage increase following the current MOUs with each REO in the City.

The FY 2023 Adopted Budget for General Fund salaries and wages was $767.0 million and included 8,336.39 full-time equivalents (FTE). **Table 2.18 – Salaries and Wages – Current MOUs** displays the FY 2023 Adopted Budget and the forecast for FY 2024 through FY 2028 for salaries and wages, but does not include assumed future salary increases or the estimated increase for terminal pay associated with the number of Deferred Retirement Option Plan (DROP) participants. These assumptions will be discussed in the subsequent tables.

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

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Projection	$ 765.2	$ 808.3	$ 811.7	$ 811.8	$ 811.9	$ 812.0

Adjustments within the Salaries and Wages category incorporate only expenditures associated with positions included in the FY 2023 Adopted Budget—including the annualization of positions that were prorated in the FY 2023 Adopted Budget. The Salaries and Wages category includes an increase in FY 2024 attributed to current MOUs with REOs, 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.

As previously noted, the Outlook assumes a general wage increase of 3.05 percent for all REO groups following current MOUs. **Table 2.19 – Salaries and Wages – Assumed General Wage Increases at 3.05% Annually** displays the FY 2024 through FY 2028 forecast for the assumed 3.05 percent annual general wage increase. The 3.05 percent annual general wage increase is consistent with the salary inflation assumptions included in the SDCERS actuarial report. The final negotiated salary compensations will be reported in the FY 2023 Adopted Budget once those fiscal impacts have been determined. Note, any future negotiated general wage increases that deviate from the 3.05 percent assumption will impact future year personnel costs included in the outlook period. The *City's Compensation Philosophy - Recruitment and Retention Efforts* under the *Other Assumptions and Considerations* section of this report, further elaborates on these potential costs.

Table 2.19 - Salaries and Wages - Assumed General Wage Increases at 3.05% Annually ($ in Millions)						
	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Projection	$ -	$ 12.3	$ 35.9	$ 60.2	$ 85.3	$ 111.1

The Salaries and Wages category also includes an adjustment for annual leave payouts for 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 2024 through FY 2028 are displayed in **Table 2.20 – Salaries and Wages (Annual Leave - DROP)**.

Table 2.20 - Salaries and Wages (Annual Leave - DROP) ($ in Millions)						
	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Projection	$ 1.8	$ 1.3	$ 2.1	$ 8.3	$ 2.7	$ 3.6

The number of DROP participants anticipated to retire in FY 2028 is not yet available as DROP is a five-year program. Therefore, the FY 2028 projected number of retirees and the Terminal Leave (DROP) projection are based on the averages of FY 2024 through FY 2027 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 number of 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, 2022 for FY 2023 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, 2021, which was released in December 2021.

The City's FY 2023 ADC payment was $384.3 million, of which $283.8 million was allocated to the General Fund. Based on the current Actuarial Valuation Report, the ADC for FY 2024 is projected to be $400.1 million, an increase of $15.8 million, or 4.1 percent. The General Fund allocation, which is based on the General Fund/Non-General Fund split included in the FY 2023 Adopted Budget, is expected to be $295.5 million, or 73.9 percent of the City's total ADC. This represents an increase of $11.7 million from the FY 2023 Adopted Budget.

In addition to the Actuarial Valuation Report from SDCERS, the City received estimates from Buck, an actuarial consulting firm, with estimated increases to the City's ADC payment related to FY 2022 investment losses, beginning in FY 2024 and continuing through the outlook period. In addition, the Outlook includes increases in the ADC related to the amortization of the Unfunded Actuarial Liability related to Proposition B, which are discussed in more detail in the next section of this report.

The revised estimated total ADC for FY 2024 is now projected at $420.2 million, an increase of $35.9 million. Subsequently, the revised General Fund allocation is projected at $310.4 million, or 73.9 percent of the City's total ADC, an increase of $26.5 million. The percent of the ADC allocated to the

General Fund will also be impacted since the current allocation is based on employee participation in SDCERS prior to Proposition B employees joining SDCERS. The final General Fund allocation will not be known until the participation count is finalized for the members participating in the City's pension system and the allocation is recalculated based on the distribution of Proposition B employees across the City's multiple funds. The increases in the ADC payment are partially offset by a decrease in SPSP-H contributions for employees that join SDCERS.

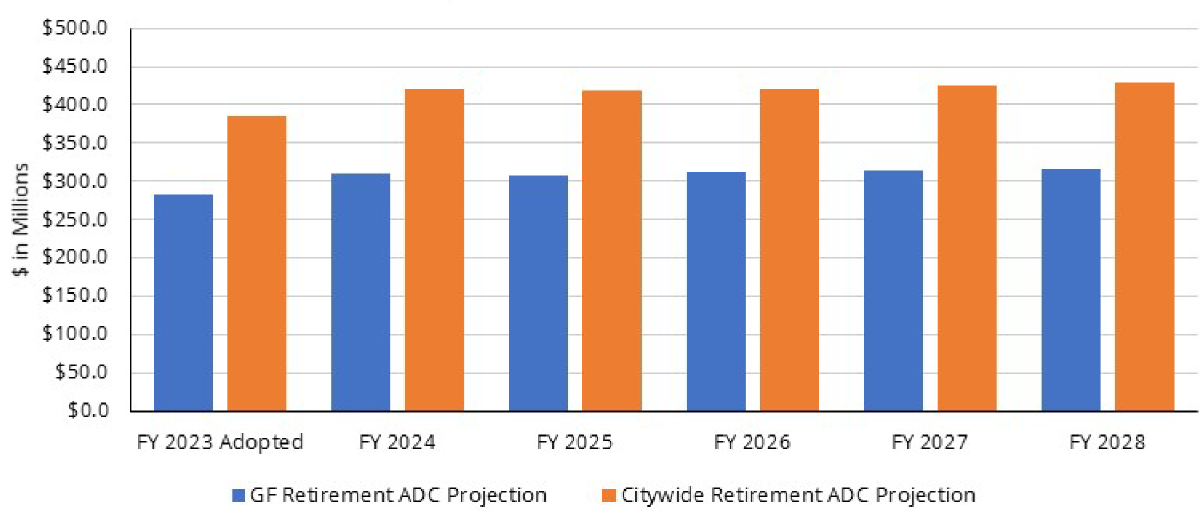
The final amount of the City's FY 2024 ADC payment will not be known until the June 30, 2022, actuarial valuation report is released in December, and presented to the SDCERS Board of Administration in January.

Table 2.21 – ADC Pension Payment and **Figure 2.15 - Retirement ADC** display the citywide ADC and the General Fund's proportionate share for FY 2023 through FY 2028, based on the June 30, 2021 SDCERS Actuary Valuation Report and estimated amortization of investment losses from Buck Consultants.

Table 2.21 - ADC Pension Payment
($ in Millions)

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF ADC Estimate (73.9%)	$ 283.8	$ 310.4	$ 308.8	$ 311.5	$ 314.3	$ 317.2
Citywide ADC Estimate	$ 384.3	$ 420.2	$ 418.1	$ 421.8	$ 425.6	$ 429.4

Figure 2.15 - Retirement ADC



Amortization of Proposition B Unfunded Liability

On November 4, 2022, Cheiron, an actuarial consulting firm hired by SDCERS, presented to the SDCERS Board funding options and estimated costs for the members specified herein associated with the unwinding of Proposition B, and entering into the pension system. There are two cost components that will need to be decided on: 1) the unpaid Normal cost for FY 2022 and FY 2023 of $37.9 million, of which the General Fund is responsible for an estimated $23.1 million; and 2) the Unfunded Actuarial Liability (UAL) of approximately $119.2 million generated by the contribution shortfall after assets were transferred from employees' SPSP-H accounts to SDCERS, of which the General Fund is responsible for $66.1 million. The City is responsible for any underfunding shortfall. The City has budgeted sufficient funds in FY 2023 to cover the missed FY 2022 and FY 2023 Normal costs. If SDCERS chooses to bill the City for the missed Normal Costs as part of the FY 2024 ADC, the City may elect to pay the FY 2022 and FY 2023 portion of Normal Costs early or wait to pay it until it is due on July 1, 2023. SDCERS's actuary is recommending that the $119.2 million UAL be amortized over 20 years, as that is the projected average remaining years of service of Proposition B employees. The SDCERS Board is expected to adopt this recommendation in January 2023. Alternatively, the SDCERS Board could allow the UAL to be amortized as an experience loss over 15 years or request that the City pay the UAL upfront.

Table 2.22 – Estimated Amortization of Proposition B Unfunded Liability provides the citywide and General Fund estimates of these costs, based on a 20-year amortization and with 73.9 percent allocated to the General Fund. The actual allocation of the General Fund is still yet to be determined until the final participation count has been verified; therefore, any fluctuations in the percentage allocation to the General Fund will impact the General Fund's portion of the costs.

Table 2.22 - Estimated Amortization of Proposition B Unfunded Liability
($ in Millions)

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF Estimate (73.9%)	$ -	$ 8.0	$ 8.0	$ 8.0	$ 8.0	$ 8.0
Citywide Estimate	$ -	$ 10.8	$ 10.8	$ 10.8	$ 10.8	$ 10.8

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 2023 Adopted Budget, $97.2 million was budgeted in flexible benefits. **Table 2.23 – Flexible Benefits** displays the projection for flexible benefits for FY 2024 through FY 2028.

Table 2.23 - Flexible Benefits
($ in Millions)

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Projection	$ 97.2	$ 97.2	$ 97.2	$ 97.2	$ 97.2	$ 97.2

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 $43.4 million. The General Fund portion is determined by the percentage of FTE positions budgeted within the General Fund versus non-General Funds. Per OPEB cost projections, the General Fund's proportionate share of the OPEB payment is projected to remain constant throughout the FY 2024 through FY 2028 outlook period.

Table 2.24 – Other Post Employment Benefits (OPEB) displays the OPEB projection for the General Fund's proportionate share for FY 2024 through FY 2028.

Table 2.24 - Other Post Employment Benefits (OPEB)
($ in Millions)

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GF OPEB Projection (66.4%)	$ 43.4	$ 43.4	$ 43.4	$ 43.4	$ 43.4	$ 43.4

Workers' Compensation

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

The City's workers' compensation expenses are comprised of two components. Operating expenses are the first component, which covers the costs of current medical expenses and claims. The second component covers contributions to the Workers' Compensation Reserve. **Table 2.25 – Workers' Compensation** displays the General Fund's projected share of 83.2 percent of Workers' Compensation expenses.

Table 2.25 - Workers' Compensation
($ in Millions)

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Operating	$ 29.6	$ 29.8	$ 30.7	$ 31.6	$ 32.5	$ 33.4
Reserves	$ -	$ 1.4	$ 1.0	$ 0.9	$ 0.9	$ 0.9
Total	$ 29.6	$ 31.2	$ 31.7	$ 32.5	$ 33.4	$ 34.3

The projections for operating expenses are based on actual prior year experience and forecasted to increase by 2.9 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. Employees hired between July 1, 2009 and

July 20, 2012 were previously not eligible for entry into SPSP, but rather a hybrid retirement plan which included 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 matched. Employees, other than sworn police officers hired between July 20, 2012, and July 9, 2021, were placed in the SPSP-H Plan, which is an interim defined contribution retirement plan for benefited employees; however, with the reversal of Proposition B, all employees in the SPSP-H Plan have be given the option to join SDCERS. The City has reached agreements regarding the unwinding of Proposition B with the affected REOs. In accordance with the agreements, most eligible employees that were in the interim SPSP-H Plan were transferred to SDCERS and will no longer participate in the SPSP-H Plan. The agreements provided MEA and Local 127 represented employees with a one-time, irrevocable option to remain participants in an amended SPSP-H plan in lieu of participating in SDCERS. Employees represented by DCAA, Local 911, and Local 145 must participate in SDCERS. The agreements do not provide these employees with an option to remain participants in the modified SPSP-H Plan. Because most of these employees will now be participating in SDCERS, the full employer contributions for the SPSP-H Plan will no longer be expended. Instead, the majority of these funds will be used to pay for the transition costs related to the unwinding of Proposition B and the ongoing Normal Costs associated with the SDCERS retirement plans.

Employees selecting to participate 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. **Table 2.26 – Supplemental Pension Savings Plan (SPSP)** displays the projection for SPSP for FY 2024 through FY 2028, which includes those selecting to participate in the SPSP-H Plan, as well as hourly employees.

Table 2.26 - Supplemental Pension Savings Plan (SPSP)
($ in Millions)

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Projection	$ 25.6	$ 9.4	$ 9.4	$ 9.4	$ 9.4	$ 9.4

In the FY 2023 Adopted Budget, SPSP was approximately 3.3 percent of General Fund salaries. For the outlook period, SPSP as a percentage of salaries is projected to decrease to 1.1 percent with the change in the number of employees choosing to participate in the plan, which is still being finalized.

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 2.27 – Other Fringe Benefits** displays the FY 2023 Adopted Budget and the forecast for FY 2024 through FY 2028 for the Other Fringe Benefits category.

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Table 2.27 - Other Fringe Benefits ($ in Millions)						
	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Projection	$ 31.7	$ 33.5	$ 33.5	$ 33.5	$ 33.6	$ 33.6

Other Fringe Benefits are projected based on a percentage of employees' salaries. In the FY 2023 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 2.28 - Supplies** displays the FY 2023 Adopted Budget and the forecast for FY 2024 through FY 2028 for the Supplies category.

Table 2.28 - Supplies ($ in millions)						
	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate		4.1%	3.3%	3.3%	3.3%	3.3%
Projection	$ 38.9	$ 38.7	$ 40.0	$ 41.3	$ 42.6	$ 44.0

The FY 2023 Adopted Budget includes one-time expenditures of $1.7 million. The following summarizes the primary one-time expenditures that have been removed from the baseline projections:

- $600,000 to support shelter capacity expansion of homelessness programs and services; and
- $500,000 to support the organic waste program and enforcement mandated by Senate Bill 1383.

The Supplies baseline projection is then increased by the forecasted growth in the CPI to measure the average change of costs over the outlook period—the forecast for CPI growth is based on the UCLA Anderson Forecast – September 2022 Economic Forecast.

Contracts & Services

Contracts & Services are a non-personnel expenditure category that consists of both internal and external contracts and services. External contracts and services are provided by outside companies and/or agencies and include the cost of professional consultant fees, insurance, rent, legal and membership fees, tree trimming, and landscaping services. Internal contracts and services consist of services that are provided internally (by a City fund or Department), and include items like refuse disposal fees, fleet vehicle usage and assignment fees, print shop services, and IT support services including the SAP support allocation and the Information Technology Services transfer. **Table 2.29 – Contracts & Services** displays the FY 2023 Adopted Budget and the forecast for FY 2024 through FY 2028 for the Contracts & Services category.

Table 2.29 - Contracts & Services ($ in Millions)						
	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate		4.1%	3.3%	3.3%	3.3%	3.3%
Projection	$ 360.9	$ 303.5	$ 313.0	$ 323.7	$ 338.8	$ 351.4

The FY 2023 Adopted Budget included $71.0 million in one-time expenditures within the Contracts & Services category. The following summarizes the majority of one-time expenditures that have been removed from the baseline projections:

- $28.0 million in pension payment transition costs for post-Proposition B employees;
- $13.2 million to support various Homelessness Strategies and Solutions programs and services;
- $10.7 million to support various Stormwater Department programs including capital improvements projects, expansion of street sweeping operations, and education and outreach efforts;
- $6.0 million in vehicle purchases to support various programs including the Street Vending Ordinance, New Facilities, graffiti abatement, and increased trash collection; and
- $3.6 million transfer to the Housing Stability Fund.

The Contracts & Services baseline projection is increased by the forecasted growth in the CPI to measure the average change of costs over the outlook period—the forecast for CPI growth is based on the UCLA Anderson Forecast – September 2022 Economic Forecast. Within this category, select commitments including Fleet assignment and usage fees, and public liability costs, are projected separately from the CPI growth rate and then aggregated with other expenditures in the Contracts & Services category.

Vehicle usage fees are projected to increase by about $2.5 million and assignment fees are projected to increase by a total of $600,000 in FY 2024. This is primarily due to the projected need to replace approximately 2,200 vehicles during this outlook period coupled with the use of remaining fund balance in the vehicle replacement funds in FY 2023. To note, the vehicle replacement projection does not include the potential increased costs for electric vehicles, which is unknown at this time. The *Fleet Electrification and Charging Infrastructure* section under the *Other Assumptions and Considerations* section of this Report, provides an additional update on the City's fleet electrification study and implementation.

Public liability insurance premiums are projected to increase by $4.5 million in FY 2024 based on a 20.0 percent growth rate, then by 15.0 percent for the remainder of the outlook period to cover the projected growth in the General Liability and Optional Excess Insurance Program. The public liability claims and non-claims are projected to increase by $800,000 in FY 2024, and are anticipated to remain consistent through the outlook period based on the recent three-year average of public liability operating expenditures.

Information Technology

The Information Technology category includes both discretionary expenditures and non-discretionary allocations to General Fund departments. The Information Technology category includes the costs related to hardware and software maintenance, help desk support, and other information technology (IT) services. **Table 2.30 – Information Technology** displays the FY 2023 Adopted Budget and the forecast for FY 2024 through FY 2028 for the Information Technology category.

Table 2.30 - Information Technology ($ in Millions)						
	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate		4.1%	3.3%	3.3%	3.3%	3.3%
Projection	$ 61.1	$ 58.9	$ 59.5	$ 60.1	$ 60.8	$ 61.4

The FY 2023 Adopted Budget includes one-time expenditures of $2.9 million in the Information Technology category. The following summarizes the primary one-time expenditures that have been removed from the baseline projections:

- $1.8 million in software, licensing, and professional IT services; and
- $1.1 million in broadband access expansion to support the SD Access 4, All Digital Equity Program.

The baseline discretionary costs are then increased by the forecasted growth in the CPI to measure the average change of costs over the outlook period—the forecast for CPI growth is based on the UCLA Anderson Forecast – September 2022 Economic Forecast. Conversely, no growth rate increase is applied to the baseline non-discretionary accounts due to recent contractual agreements, in which no significant change in expenditures are anticipated throughout the outlook period.

Energy and Utilities

The Energy and Utilities category includes the General Fund's costs for electricity, fuel, and other utility and energy expenses. **Table 2.31 – Energy and Utilities** displays the FY 2023 Adopted Budget and the forecast for FY 2024 through FY 2028 for the Energy and Utilities category.

Table 2.31 - Energy and Utilities ($ in Millions)						
	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate		-1.2%	1.7%	4.0%	4.3%	4.2%
Projection	$ 55.5	$ 54.8	$ 55.7	$ 58.0	$ 60.5	$ 63.0

Each cost component of the Energy and Utilities category has a different applicable growth rate. The majority of the rates for each category are based on the Annual Energy Outlook 2022 Report prepared by the U.S. Energy Information Administration; and forecasted CPI growth based on the UCLA Anderson Forecast – September 2022 Economic Forecast. Fuel growth rates are developed by the General Services Department for fuel and renewable diesel. Fuel growth rates range from -1.3 percent to 5.9 percent depending on the year and the type of fuel. Electrical growth rates range from -0.5 percent to 4.6 percent.

The Public Utilities Department (PUD) developed the water and wastewater growth rates and are consistent with the assumptions contained in the PUD Five-Year Outlook. PUD determines the water and wastewater rates through a process prescribed by State law, which requires a Cost of Service analysis and Council approval of any rate adjustments at a public hearing. The wastewater charges range between 3.5 percent and 4.5 percent throughout the outlook period—growth in FY 2024 is anticipated at 4.0 percent. The water charges assume general City demand remains consistent through the outlook period and that rate increases will range between 4.0 percent and 8.3 percent throughout the outlook period—growth in FY 2024 is anticipated at 4.0 percent.

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

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Other Expenditures

Expenditures in the Other Expenditures category include 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. **Table 2.33 – Other Expenditures** displays the FY 2023 Adopted Budget and FY 2024 through FY 2028 projections for the Other Expenditures Category.

Table 2.33 - Other Expenditures
($ in Millions)

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 130.2	$ 88.5	$ 91.2	$ 98.2	$ 97.2	$ 104.7

The FY 2023 Adopted Budget included $50.2 million in one-time expenditures within the Other Expenditures category. The following summarizes the most notable one-time expenditures that have been removed from the baseline projections:

- $40.2 million transfer to support the Capital Improvements Program, including $29.7 million for facilities improvements, flood resilience infrastructure, and stormwater green infrastructure;
- $5.8 million in proceeds from the sale of Tailgate Park transferred to the Bridge to Home Program;
- $1.2 million in additional vehicles to support encampment abatement response times and increased sidewalk sanitation; and
- $1.1 million in equipment and vehicles to support parking enforcement efforts, including code compliance for 72-hour parking violations.

Debt Service

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 developed by the Department of Finance, the Department of Information Technology, and the Sustainability & Mobility Department.

The Five-Year Outlook includes projected long-term bond issuances totaling $355.0 million and related debt service costs from FY 2024 through FY 2028. This includes the projected $175.0 million Lease Revenue Bond issuance in 2023 with debt service beginning in FY 2024, as well as continued, full use of the Lease Revenue Commercial Paper (CP) Program. The debt service projections also include subsequent bond issuances of $90.0 million each in FY 2025 and FY 2027 to pay down ("take-out") future outstanding CP notes and related financing costs. The debt service associated with these future bond issuances is projected to begin in FY 2026 and FY 2028 respectively. 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.

As of the date of this report, City Council has appropriated a total of $407.6 million in existing and future debt financing for critical capital needs through two appropriation actions. The first is the $293.0 million debt appropriation item approved in August 2021 for baseline CIP expenditures as well as large capital equipment and vehicle purchases including the Public Safety Radios Modernization Project, replacement Fire Engines and SB 1383 Implementation capital costs (new refuse packers and green/organics containers). The second action includes appropriations related to the 101 Ash St and Civic Center Plaza properties settlement agreement in July 2022, which appropriated $45.9 million for the purchase of CCP and $68.7 million to backfill CIP project funding used for the purchase of the 101 Ash Street property. These appropriation actions fund critical capital expenditures such as approximately $23.9 million budgeted for City facility improvements and $64.3 million budgeted for street improvements. To fund these priority needs, $56.5 million in bond proceeds from the 2021A Lease Revenue Bonds (issued in June 2021) have been utilized. The proceeds from the projected $355.0 million of lease revenue bonds described above are expected to fund the remaining projects included in the $407.6 million appropriation actions.

In addition to the $355.0 million in lease revenue bonds, the Five-Year Outlook includes financing of priority Stormwater projects utilizing the $359.2 million WIFIA loan and projected lease revenue bonds issuances of $146.3 million each in FY 2025 and FY 2027 to fund future required City matching funds for the Stormwater WIFIA loan. The Stormwater WIFIA loan and associated projected lease revenue bond issuances are not included in the baseline; however, are included in the *Priorities Beyond Baseline Expenditures* section of this Report.

The General Fund Fleet Replacement program is funded with the City's Equipment and Vehicle Financing Program (EVFP). The Outlook includes borrowing of approximately $150.0 million via EVFP to fund the General Fund annual fleet replacement needs and four new electric fire engines.

Other than the capital improvements discussed above, the Outlook does not include any additional debt funding for future capital improvements such as street improvements, streetlights, sidewalks, and City facility improvements, or potential new financing needs for implementation of the 2022 Climate Action Plan and homelessness solutions.

Lastly, the debt service associated with the General Fund PC replacement lease is included in this category. The program continues to update the General Fund departments' computers and supports mobile and telework capabilities. The project financials were provided by the Department of Information Technology (DoIT) and are 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 approximately $1.0 million each year for the outlook period. The forecast anticipates adding $250,000 in annual lease payments in most years of the outlook period reflecting potential increases in borrowing costs.

Reserve Contributions

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

The General Fund Reserve is comprised of the Emergency and Stability Reserves. The Emergency Reserve is maintained to sustain General Fund operations in the case of a public emergency or catastrophic event. The Stability Reserve is maintained to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. The FY 2023 Adopted Budget includes a one-time contribution of $1.5 million to the General Fund Reserves. The Outlook currently includes a plan to contribute $5.0 million in FY 2024, and contributions ranging from $19.1 million to $22.3 million in FYs 2025 through 2028, with the goal of reaching the reserve target of 16.7 percent by FY 2030. The Department of Finance is currently working on a plan to replenish the General Fund Reserves, which is anticipated to be brought forward to the Budget & Government Efficiency Committee in November 2022, and the City Council in December 2022.

The Pension 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 up to 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 expected increases to the ADC due to the reversal of Proposition B, the FY 2023 Adopted Budget includes the use of $7.9 million from the Pension Reserve. The plan to replenish the Pension Reserve will be brought forward to City Council along with the plan to replenish the General Fund Reserves.

The Public Liability Fund Reserve is maintained at 50.0 percent of the value of outstanding public liability claims. The Public Liability Fund Reserve anticipates a reserve contribution of $5.0 million in FY 2024 to reach the target level of 50.0 percent of outstanding claims. No additional contributions are anticipated in FY 2025 through FY 2028.

The Long-Term Disability Fund Reserve is maintained at 100.0 percent of the value of outstanding claims. The Outlook projects a $400,000 reserve contribution in FY 2024, due to assumed incremental changes in the three-year average of outstanding actuarial liabilities. No additional contributions are anticipated in FY 2025 through FY 2028.

The Workers' Compensation Fund Reserve is maintained at 12.0 percent of the value of outstanding claims. The Outlook projects a General Fund contribution of $1.4 million in FY 2024 and additional contributions in each year of the remaining Outlook years due to assumed incremental changes in the three-year average of outstanding actuarial liabilities.

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Table 2.32 - Reserve Target Levels
($ in Millions)

	FY 2023 Proj.	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028
General Fund Target (%)	14.3%	13.6%	13.6%	14.1%	14.7%	15.4%
General Fund Reserve Target ($)	$ 207.1	$ 212.1	$ 231.2	$ 251.5	$ 273.3	$ 295.6
General Fund Reserve Level Projection ($)	$ 207.1	$ 212.1	$ 231.2	$ 251.5	$ 273.3	$ 295.6
General Fund Contribution Amount	$ 1.5	$ 5.0	$ 19.1	$ 20.3	$ 21.7	$ 22.3
Pension Stability Target (%)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
General Fund Pension Stability Reserve Target ($)	$ 23.4	$ 24.2	$ 24.1	$ 24.8	$ 24.9	$ 25.1
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 ($)	$ 38.8	$ 38.8	$ 38.8	$ 38.8	$ 38.8	$ 38.8
Public Liability Reserve Level Projection ($)	$ 33.8	$ 38.8	$ 38.8	$ 38.8	$ 38.8	$ 38.8
Public Liability Contribution Amount	$ -	$ 5.0	$ -	$ -	$ -	$ -
Long-Term Disability Fund Target (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Disability Fund Reserve Target($)	$ 4.9	$ 4.9	$ 4.9	$ 4.9	$ 4.9	$ 4.9
Long-Term Disability Fund Reserve Level Projection ($)	$ 4.3	$ 4.9	$ 4.9	$ 4.9	$ 4.9	$ 4.9
Long-Term Disability Contribution Amount	$ -	$ 0.6	$ -	$ -	$ -	$ -
Long-Term Disability Contribution Amount (GF)	$ -	$ 0.4	$ -	$ -	$ -	$ -
Workers' Compensation Target (%)	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Workers' Compensation Reserve Target ($)	$ 34.2	$ 35.2	$ 36.4	$ 37.4	$ 38.5	$ 39.6
Workers' Compensation Reserve Level Projection ($)	$ 33.6	$ 35.2	$ 36.4	$ 37.4	$ 38.5	$ 39.6
Workers' Compensation Contribution Amount	$ -	$ 1.6	$ 1.1	$ 1.1	$ 1.1	$ 1.1
Workers' Compensation Contribution Amount (GF)	$ -	$ 1.4	$ 1.0	$ 0.9	$ 0.9	$ 0.9

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Charter Section 77.1 – Infrastructure Fund

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

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

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

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

The Infrastructure Fund is programmed on a year-by-year basis for one-time expenditures and therefore the transfer to the fund is considered one-time in nature. As a result, $28.4 million in one-time expenditures was removed when developing the Outlook baseline; the Outlook then projects Infrastructure Fund deposits throughout the Outlook pursuant to the City Charter for each Outlook year. **Table 2.34 – Infrastructure Fund Deposits**, reflects the projected contributions for FY 2024 through FY 2028. The forecast represents the portion of the deposit calculation only required from the sales tax increment, as no new deposits are anticipated for the General Fund pension cost savings.

Table 2.34 - Infrastructure Fund Deposits
($ in Millions)

	FY 2023 Adopted	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Projection	$ 28.4	$ 21.9	$ 17.9	$ 20.7	$ 24.7	$ 26.7

When compared to the FY 2023 budgeted Infrastructure Fund contribution, the FY 2024 forecasted contribution represents a decrease of $6.6 million, primarily attributed to recent inflation. The sales tax increment is calculated based on the annual change in sales tax revenue when compared to the sales tax baseline of FY 2016 actual receipts, adjusted by the CCPI. As the CCPI continues to increase, as seen in recent months, so does the sales tax base, which adjusts the annual projected contribution. The CCPI assumptions used to forecast the sales tax increment are consistent with the UCLA Anderson Forecast September 2022 Economic Forecast for CPI, which recognizes recent persistent inflation.

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 2024 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. The forecast includes ongoing and one-time costs associated with new facilities that are projected to open within the outlook period. Additionally, planned commitments are included in this section to account for commitments made by the Mayor and/or City Council. These include costs to upgrade the City's current enterprise resource planning system, SAP; to maintain the current service levels committed for homelessness programs and services; and make debt service payments committed to with the approval of the Water Infrastructure Finance and Innovation Act (WIFIA) program loan. These items are City priorities; however, the actual funding of these will be dependent on available resources at the time the FY 2024 Budget is developed.

The following sections quantify the projected funding needs for new facilities and planned commitments.

New Facilities

Table 2.35 - New Facilities

Department	FTE/Rev/Exp	FY2024	FY2025	FY2026	FY2027	FY2028
Library	FTE	9.00	9.00	9.00	9.00	9.00
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ 0.7	$ 0.9	$ 0.9	$ 1.1	$ 1.1
Parks and Recreation	FTE	23.00	56.25	64.25	65.75	69.75
	Revenue	$ -	$ 0.1	$ 0.1	$ 0.1	$ 0.1
	Expense	$ 5.0	$ 7.8	$ 8.2	$ 8.2	$ 9.3
Fire-Rescue	FTE	9.00	36.00	36.00	36.00	60.00
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ 2.6	$ 7.7	$ 7.9	$ 8.4	$ 14.3
	Total FTE	**41.00**	**101.25**	**109.25**	**110.75**	**138.75**
	Total Revenue	**$ -**	**$ 0.1**	**$ 0.1**	**$ 0.1**	**$ 0.1**
	Total Expense	**$ 8.3**	**$ 16.4**	**$ 17.0**	**$ 17.6**	**$ 24.7**

The Outlook identifies the funding needed to operate two new libraries and one library expansion, four new fire stations and 33 new parks and joint-use facilities, which are projected to open within the outlook period—this includes ongoing and one-time expenditures to operate these facilities. The following is a list of new libraries and fire stations projected to open during the outlook period, along with the year the facilities are projected to open:

Branch Libraries:

- FY 2024 – Pacific Highlands Branch Library
- FY 2027 – Ocean Beach Branch Library Expansion
- FY 2027 – Oak Park Branch Library

New Fire Stations:

- FY 2024 – Torrey Pines Fire Station
- FY 2025 – Black Mountain Ranch Fire Station
- FY 2025 – Fairmont Ave Fire Station
- FY 2028 – Otay Mesa Fire Station

The Outlook also identifies the staffing and operating costs for the operations and maintenance of parks and recreation facilities, including 21 new facilities and 12 new joint-use facilities. **Attachment 2 – New Facilities** identifies these facilities.

Planned Commitments

Table 2.36 - Planned Commitments						
Department	**FTE/Rev/Exp**	**FY2024**	**FY2025**	**FY2026**	**FY2027**	**FY2028**
Department of Information Technology	FTE	-	-	-	-	-
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ -	$ 0.9	$ 1.3	$ 4.4	$ 4.4
Homelessness Strategies and Solutions	FTE	-	-	-	-	-
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ 16.3	$ 54.0	$ 55.8	$ 57.7	$ 59.8
Stormwater	FTE	-	-	-	-	-
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ 0.7	$ 1.8	$ 12.4	$ 15.2	$ 29.9
	Total FTE	**-**	**-**	**-**	**-**	**-**
	Total Revenue	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
	Total Expense	**$ 17.0**	**$ 56.6**	**$ 69.5**	**$ 77.3**	**$ 94.1**

Department of Information Technology

Enterprise Resource Planning (ERP) System Modernization

The Outlook identifies funding needs in the Department of Information Technology for implementation costs associated with the City's current ERP system, SAP R/3, which will reach the end of life on December 31, 2027. The needed conversion to a fully-supported next-generation ERP System will require a significant effort involving a system re-implementation and enterprise-wide training and change management. The full project cost is estimated at $2.0 million in FY 2025, $3.0 million in FY 2026 and $10.0 million in FY 2027 and FY 2028; which would support licensing, system implementer, and City labor and change management costs. The amounts included in the Outlook represents approximately 44.0 percent of the total project costs for the General Fund portion of these implementation costs.

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Homelessness Strategies and Solutions Department

Homelessness Services

The Outlook identifies funding needs for existing programs in the City's Homelessness Strategies and Solutions Department, including outreach efforts, Homelessness Program for Engaged Education Resources (PEER) support, bridge shelters, shelter beds, safe parking, storage, and the family reunification program. Existing programs are currently funded by both ongoing and one-time General Fund and grant funding sources.

The Outlook's baseline removes $13.8 million in one-time General Fund funding and assumes both available and anticipated grant funding, including $27.5 million from the fourth round of Homeless Housing, Assistance and Prevention (HHAP) Grant Program[7]. No additional HHAP grant funding is projected starting in FY 2025, since the approval and funding status of HHAP grant funding has not been determined at this time. The combination of existing General Fund and anticipated grant funding still necessitates additional resources to fund continued and increased expenses throughout the outlook period. Barring alternative funding sources, the General Fund's commitment to maintain existing programs increases from a need of $16.3 million in FY 2024 to between $54.0 million and $59.8 million in FY 2025 through FY 2028.

Stormwater Department

Stormwater Debt Service

The City has entered into a master loan agreement with the United States Environmental Protection Agency (EPA) through the Water Infrastructure Finance and Innovation Act (WIFIA) program for $359.2 million. The WIFIA loan will finance 49 percent of priority capital improvement projects for the City's stormwater system. The other 51 percent ($373.8 million) match requirement will be the City's responsibility and is expected to be financed through various sources. Of the $373.8 million match requirement, $81.2 million is projected to come from non-general fund sources [including Transnet funds, grants and an approved State Revolving Fund (SRF) Loan], and $292.6 million is projected to come from General Fund backed Lease Revenue Bonds (LRBs) (with $146.3 million issued in FY 2025, and $146.3 million issued in FY 2027). The total commitment of the WIFIA loan and match requirement for stormwater capital improvement projects is $733.0 million.

The Stormwater Department, in collaboration with the Department of Finance, has calculated the future principal and interest payments associated with the WIFIA loan and match requirement financing over the outlook period. The Stormwater Department estimates that all $733.0 million for capital improvement projects will be invested by the end of FY 2028. The WIFIA loan assumes a 3.11 percent interest rate on a 34-year loan with interest payments beginning in FY 2024 and the first principal payment beginning in FY 2028. The LRBs assumes 4.0 percent interest on 30-year bonds, with the first interest and principal payment projected to begin in FY 2026.

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[7] On November 3, 2022, Governor Newsom announced the State will hold on providing the remaining third round of HHAP grant funding. The Governor plans to convene local leaders in mid-November to review the State's collective approach to homelessness and identify new strategies to better address the growing homelessness crisis, and the Outlook assumes that the halt on State grant funding will be resolved in advance of FY 2024.

AVAILABLE FUNDING SOURCES

The Outlook has identified the potential need for additional resources in order to fund new facilities, planned commitments, meet compliance requirements and 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 2024 budget to the City Council by April 15, 2023.

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 (ARPA) was signed into law on March 11, 2021, in response to the COVID-19 pandemic. The City received a total of $299.7 million in ARPA funds. A total of $100.0 million was used in FY 2022, and $147.6 million is budgeted for use in the FY 2023 Adopted Budget. The remaining funds of $52.1 million are 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 2023 First Quarter Report currently projects Excess Equity at $72.1 million. These funds could be used in FY 2023, if needed, or planned for use in future fiscal years to fund one-time expenditures. In addition, the First Quarter Budget Monitoring Report identified approximately $17.8 million in transition cost savings associated with the unwinding of Proposition B, of which approximately $9.2 million is related to the General Fund, and Major Revenues exceeding budgeted amounts by $35.4 million, offset by over budget overtime and non-discretionary costs. The First Quarter Budget Monitoring Report has a limited scope, only focusing on certain revenues and expenditures in the General Fund. The Department of Finance will develop a more comprehensive estimate, as part of the Mid-Year Budget Monitoring Report, which includes a projection of all General Fund revenues and expenditures.

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Revised Outlook Shortfall Beyond Baseline Expenditures

When new facilities and planned commitments are added to the baseline projections, there is a projected shortfall in each fiscal year within the outlook period. While the use of available resources, is sufficient to mitigate the shortfall in FY 2024, the shortfall persists in FY 2025 through FY 2028. The revised projections beyond the baseline expenditures require additional resources of $47.3 million in FY 2025 and a total of $361.3 million over the Outlook period.

As depicted in **Table 2.37 - Revised Outlook Surplus/Shortfall**, after adding the above referenced costs, projected expenditures exceed revenues throughout the entire outlook period from FY 2025 through FY 2028.

Table 2.37 - Revised Outlook Surplus/Shortfall
($ in Millions)

	Fiscal Year 2023 Adopted Budget	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028
BASELINE GENERAL FUND REVENUES	$ 1,955.0	$ 1,881.1	$ 1,955.4	$ 2,017.3	$ 2,086.1	$ 2,149.4
BASELINE GENERAL FUND EXPENDITURES	$ 1,955.0	$ 1,931.6	$ 1,978.0	$ 2,038.1	$ 2,085.4	$ 2,143.3
BASELINE SURPLUS / (SHORTFALL)	$ -	$ (50.5)	$ (22.6)	$ (20.9)	$ 0.7	$ 6.1
NEW FACILITIES		$ 8.3	$ 16.4	$ 17.0	$ 17.6	$ 24.6
PLANNED COMMITMENTS		$ 17.0	$ 56.6	$ 69.5	$ 77.3	$ 94.1
REVISED SURPLUS / (SHORTFALL)	$ -	$ (75.9)	$ (95.6)	$ (107.3)	$ (94.1)	$ (112.6)
RECOMMENDED USE OF AVAILABLE ARPA RESOURCE[1]	$ 147.6	$ 52.1	$ -	$ -	$ -	$ -
RECOMMENDED USE OF AVAILABLE FY 2021 EXCESS EQUITY[1]	$ 6.2	$ 23.8	$ 48.3	$ -	$ -	$ -
AVAILABLE RESOURCES	$ 153.8	$ 75.9	$ 48.3	$ -	$ -	$ -
AMOUNT TO BE MITIGATED AFTER USE OF AVAILABLE RESOURCES		$ 0.0	$ (47.3)	$ (107.3)	$ (94.1)	$ (112.6)

[1]The total ARPA allocation for the City of San Diego of $299.7 million was received in May 2021 and must be used by December 2024. The funds were allocated for provision of government services to the extent of the reduction in revenue due from the COVID-19 public health emergency relative to revenues collected in the most recent full fiscal year prior to the start of the public health emergency. In addition, the FY 2023 First Quarter Report estimates a total of $72.1 million in available Excess Equity.

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

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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.

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). Any variation between the assumptions used by the actuary and actual experience will increase or decrease the City's annual pension payment. These include fluctuations in the market and increases in salaries above 3.05%, among others. The City is currently in negotiations with various REOs regarding the MOUs for FY 2024; since those negotiations are in process, the associated fiscal impacts are not known at this time, and as a result are not included in the Outlook projections. Additionally, with the reversal of Proposition B, a significant number of employees will be entering SDCERS, potentially impacting the current allocation of the ADC between the General Fund and Non-General Funds. This impact may result in a higher or lower ADC payments for the General Fund.

Ballot Initiatives

Measure C

Measure C is a 2020 citizens' initiative that would raise the Tourism Occupancy Tax. The increased tax would support the expansion of the San Diego Convention Center, create a dedicated funding source for homelessness programs and services and address necessary road repairs across the City. The Measure was included on the March 3, 2020 ballot and required approval by two-thirds of San Diego voters; however, recent legal rulings indicate that a simple majority was needed to pass because it was a citizens initiative, not the two-thirds super majority vote needed for City sponsored initiatives. On April 6, 2021, the City Council voted to validate Measure C, to assist the City in addressing some of the most significant needs. The City of San Diego, as well as the residents of San Diego, have been waiting on a final decision from the courts on the validity of the measure in order to begin with implementation. If approved, this could generate an estimated ongoing revenue of $23.0 million beginning in FY 2025 for homelessness programs and services, which would help reduce the funding gap for existing programs and services, and could lessen impacts to the General Fund[8,9].

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[8] San Diego, California, Measure C, Lodging Tax for Convention Center Expansion, Street Repairs, and Homelessness Programs (March 2020). Ballotpedia.org. October 27, 2022

[9] San Diego Mayor's Press Release. Mayor Gloria's Statement on City Council Validating Measure to Expand Convention Center, Fund Homelessness Solutions, Repair Roads. Sandiego.gov. April 6, 2021

Repeal of the People's Ordinance

In 1919, San Diego voters approved the People's Ordinance, a measure requiring the City to pick up trash at single-family homes. On the November 8, 2022 ballot, San Diego residents had the opportunity to vote to amend the 100-year-old law. The proposed amendment to the Ordinance would allow the City to recover its costs for providing waste management services to eligible residents,- and could allow the City to provide additional services such as weekly recycling, bulky item pickup, and curbside replacement and delivery, at no extra charge. If approved, a Cost of Service Study would need to be conducted to determine the appropriate fee, followed by public notices and hearings. If a fee is established and implemented, this could generate an estimated ongoing revenue source of over $60.0 million each fiscal year[10]. The next steps will be determined once the final ballot count is certified by the San Diego County Registrar of Voters.

City's Compensation Philosophy and Recruitment and Retention Efforts

The City's Compensation Philosophy highlights the City's continuous efforts to promote a healthier work culture and aims to attract and retain highly qualified and high-performing employees who consistently exemplify the organization's values. In order to provide competitive, sustainable, and responsible compensation, the City's total compensation philosophy endeavors to pay City employees at least the market median for comparably situated public employees. The City's goal is to move toward the market median for all classifications that are currently under the market median. The goal of the City is to adjust base wages via negotiated general wage increases to keep pace with increases in cost of living, as measured by the Consumer Price Index, San Diego Area, for All Urban Customers (CPI-U) that is published by the Bureau of Labor Statistics. Any future negotiated salary increases that deviate from the 3.05 percent assumption included in the Outlook will impact future year personnel costs. For instance, a 1.0 percent general wage increase is estimated at $7.42 million for the General Fund. This estimate is based on the FY 2023 Adopted Budget and does not address known adjustments for FY 2024. Additionally, bargaining unit negotiations may include other costs, in additional to general wage increases, such as Special Salary Adjustments and flexible benefit increases, which are not included in the $7.42 million estimate.

The City is expected to receive an employee compensation study in January 2023. This study was commissioned in calendar year 2022 to inform recruitment and retention efforts and assist with the labor negotiation process. Based on the information included in this study, the City will be able to assess how recent general wage increases and special salary adjustments for multiple classifications over the last several years have impacted the competitiveness of employee salaries relative to comparably situated public agencies. From there, the City will be able to further develop a timeframe to reach the compensation market median contemplated in the Compensation Philosophy while also considering other budgetary priorities and economic conditions.

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[10] Measure B – Amends San Diego Municipal Code Section 66.0127 Related to Solid Waste Management Services. Sandiego.gov. Retrieved October 27, 2022

Climate Action Plan

The City of San Diego's Climate Action Plan (CAP) establishes a community-wide goal of net zero greenhouse gas emissions by 2035, committing San Diego to an accelerated trajectory for greenhouse gas reductions. Achieving net zero emissions will improve the air we breathe, the communities we live in, and our overall quality of life. San Diego is leading the way and the City has already begun work, including transitioning all City facilities to San Diego Community Power's 100% renewable energy service, funding early implementation steps, and partnering with labor organizations to complete a workforce impacts study.

The six strategies of the 2022 CAP are:

- Decarbonization of the Built Environment
- Access to Clean and Renewable Energy
- Mobility and Land Use
- Circular Economy and Clean Communities
- Resilient Infrastructure and Healthy Ecosystems
- Emerging Climate Actions

In the FY 2022 Adopted Budget, the City Council created the Climate Equity Fund to supplement funding for infrastructure projects in Communities of Concern, providing funding sources for projects where funding has been limited in the past. The City will continue to seek new funding sources to expand the capacity of the Climate Equity Fund.

An implementation plan will be drafted before the FY 2024 Proposed Budget is released, and moving forward, each department responsible for CAP actions will be required to provide annual work plans to show how they will carry out the plan's identified strategies. The implementation plan will create accountability and transparency by listing responsible departments, implementation pathways, and quantifiable metrics for success for each of the 211 discrete actions listed in the CAP. Going further, the Implementation plan will also feature an independent cost analysis conducted by the Energy Policy Initiatives Center (EPIC) in partnership with each of the CAP-implementing departments. While the independent cost analysis is designed to work in conjunction with the City's own budgeting process, the accounting methodologies differ in that the independent analysis will only capture additional costs that are directly associated with the CAP and will not include departmental operation costs that are not associated with CAP. Since the implementation plan and independent cost analysis are still in process, the costs associated with the 2022 Climate Action Plan are not included in the Outlook.

Facilities Deferred Maintenance and Energy Upgrades

The Department of General Services, Facilities Services Division, provides repair, modernization, and improvement services to over 1,700 municipal facilities comprised of 6.5 million square feet of floor space. The General Fund facilities needs are based on condition assessments which identify urgently needed system replacements (HVAC, elevators, etc.); Americans with Disabilities Act (ADA) upgrades; and proposed long-term plans for City-wide facilities including the City Administration Building, City Operations Building, Police, Fire-Rescue, Lifeguard, Library, Parks and Recreation and other City facilities. The long-term plan for a building or facility previously included rehabilitating, expanding, rebuilding (same or new location), disposing (demolishing or selling), repurposing, vacating, or leasing the facility to a tenant. Going forward, these plans will now include transitioning current and future City facilities to zero emissions in alignment with the City of San Diego's Climate Action Plan (CAP). As the majority of the deferred maintenance requirements are inclusive of building systems repairs and upgrades and directly tied to CAP, it is prudent to merge the requirements meeting both needs simultaneously. The Zero Emissions Municipal Building Policy and associated studies will provide data that will be used to generate projects and cost estimates, which can be allocated over the next 5-15 years. It is anticipated that further information regarding the CAP Implementation Plan, which includes the Zero Emissions Municipal Building Policy, will be made available in early calendar year 2023.

The most recent forecasts project funding needs to be approximately $618.0 million through FY 2027, of that, $23.5 million has been funded as of FY 2023. Future investments will be identified through each budget process based on available resources.

Fleet Electrification and Charging Infrastructure

The City is working to develop a City Fleet Vehicle Replacement and Electrification strategy consistent with the Municipal Energy Implementation Plan and state requirements for municipal electrification. Supporting actions include conducting a City fleet electrification study to determine the best siting, funding needs, and strategies including specific strategies for the Chollas operations yard. It also includes updating municipal parking yard electric infrastructure to support electric vehicle charging needs. The Department of General Services, Facilities Services Division is working on costs associated with this initiative and will bring forward a recommended funding strategy in the future.

General Fund Office Space Planning

The Department of Real Estate and Airport Management (DREAM) began planning for office space optimization needs in FY 2021. The City identified the need to analyze current office buildings owned and leased and overall space needs, the new remote/hybrid work environment, and associated costs. In FY 2022, DREAM requested funding for consultant services to conduct a downtown office space analysis as part of the FY 2023 budget. This will help the City determine the need for office space and costs by developing a program and strategy that utilizes city spaces more optimally through employing office sharing, hoteling, and remote/hybrid work models. The goal is for the consultant to provide a complete portfolio and workplace analysis, strategy, and pilot program.

The City is anticipated to finalize the contract with Jones Lang LaSalle in mid-November 2022 and initiate Phase I of the project in December 2022. The project consists of Phase I through IV: Phase I - Initiation & Current State Refinement, Phase II: Demand & Workplace Standards, Phase III: Pilot & Program Plan, and Phase IV: Pilot Program. The project is estimated to take 12-18 months and will provide the City with cost effective, recommended solutions to satisfy the City's office space needs. As a result, ultimate costs associated with this space planning will not be known until the completion of Phase IV: Pilot Program. A reassessment of total office space needs has become necessary as the City added 833.44 FTE via the FY 2023 Adopted Budget, coupled with the large adoption and utilization of hybrid work schedules within many City departments.

The City of San Diego is utilizing the global shift in workplace environment that has emerged from the COVID-19 pandemic to be a leader in the global conversation as it shapes its office portfolio.

Memoranda of Understanding (MOUs) with the City's Recognized Employee Organizations (REOs)

As previously discussed in the Salaries and Wages category section of this report, in anticipation of upcoming REO negotiations, the Outlook assumes a general wage increase of 3.05 percent for all REO groups, following current MOUs. The 3.05 percent annual general wage increase is consistent with the salary inflation assumptions included in the most recent SDCERS actuarial report. Any final negotiated wage compensations will be reported in the FY 2024 Adopted Budget once those fiscal impacts have been determined, and any future negotiated general wage increases that deviate from the 3.05 percent assumption will impact future year personnel costs included in the outlook period.

Stormwater Compliance

The Stormwater Department has identified significant funding needs for stormwater compliance to meet the obligations of the City's Municipal Permit, and 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 stormwater runoff.

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

- *Stormwater Funding Administration and Implementation*, including the addition of 40.00 FTE positions, associated non-personnel expenditures, and revenue in FY 2024 to support the CIP Program ramp up for the Water Infrastructure Finance and Innovation Act (WIFIA) loan.
- *Community Flood Risk Mitigation*, including the addition of 64.00 FTE positions, associated non-personnel expenditures and revenue in FY 2024 to support needs including a levee maintenance crew, efforts to address the backlog of channel maintenance, a dedicated team to automate and rehabilitate pump stations, and a team to perform urgent spot pipe repairs.
- *Water Quality Compliance,* including the addition of 71.00 FTE positions, associated non-personnel expenditures, and revenue in FY 2024 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 non-personnel expenditures to replace aging hardware, transition to innovative uses of dashboards and field tablets, and expand the use of SAP asset management.

The Stormwater Department is currently evaluating the viability of dedicated stormwater funding mechanisms and the final funding strategy update was presented to Council in February 2022. As of the writing of this report, no decision has been made on a potential tax or fee ballot measure.

City Street Repair Program

The Transportation Department manages the City's roadway infrastructure of approximately 2,662 centerline miles of asphalt streets, 120 centerline miles of concrete streets, and 204 miles of paved alleys. The City completed a pavement condition assessment survey in 2016 which showed an average roadway network Overall Condition Index (OCI) of 72. The Transportation Department's long-term goal is to maintain the City's street network in good condition which equates to an average network pavement OCI of 70 or above, or an estimated 98 miles of asphalt overlay or concrete street reconstruction, as well as 370 miles of slurry seal annually. Based on these targets, total contractual expenditures over the outlook period are projected to be $1.21 billion. This program has historically been funded by a variety of funding sources including debt financing, Gas Tax, TransNet, and street damage fee revenues. The cost to repair each mile of street has increased each year due to inflation and a number of other factors and the funding sources supporting this program have not increased at the same rate. Therefore, a greater reliance on debt financing will be necessary to fully fund the program. The Transportation Department is currently conducting a street pavement condition assessment and anticipates a deterioration in the overall street network OCI since the funding needed to maintain an average OCI of 70 has not been fully budgeted over the last few years. New funding estimates will be projected once the updated condition assessment is completed.

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CONCLUSION

The purpose of the Outlook is to provide a comprehensive forecast of the City's General Fund finances over the next five fiscal years and to serve as a framework for the development of the FY 2024 Adopted Budget. It is a long-range fiscal planning guide that focuses on baseline revenues and expenditures, while also considering new facilities and planned commitments beyond the baseline, to help guide future fiscal and policy decisions. The Outlook was developed based on information available and known at the time of the preparation of the report; however, risks to the projections include events that may or will occur during the outlook period whose outcomes are unpredictable or cannot be reasonably quantified at this time.

The projections included in the Outlook show the importance of developing multi-year strategies to correct the projected structural deficits, where ongoing expenditures exceed ongoing revenues. The projected shortfalls also demonstrate the need for additional ongoing available resources to support the critical needs of the City. Based on the forecast for baseline expenditures and revenues, growth in expenditures is anticipated to outpace the growth in revenues in FY 2024 through FY 2026. Forecasted baseline revenue growth is not anticipated to exceed forecasted baseline expenditure growth until FY 2027 and FY 2028. The shortfall in FY 2024 through FY 2026 is based on the following key factors:

- Reduction in one-time revenue sources used to support the FY 2023 Adopted Budget;
- Moderate growth in revenues when compared to the robust growth that has followed the height of the COVID-19 pandemic; and
- Projected growth in expenditures needed to maintain the City's service levels as reflected in the FY 2023 Adopted Budget.

The City can address these baseline shortfalls through a variety of mitigating actions such as the use of one-time ARPA funding, which must be used by December 31, 2024, and the use of Excess Equity. However, once forecasted costs for priorities beyond the baseline are included in the Outlook, including costs for new facilities and planned commitments, the forecasted shortfall is increased and extended through FY 2028. In addition to new facilities and planned commitments, there are many additional priorities, services and operational needs beyond those included in this report. Given the limited and one-time nature of the City's available funding sources, the City will need to explore additional mitigating actions in future years, which could include budget reductions, reducing reserve contributions, waiving contributions to the Infrastructure Fund or the pursuit of additional one-time and ongoing revenue options.

The Outlook is not a budget document and is intended to provide the City Council, key stakeholders, and the public with information to facilitate an informed discussion in preparation for the development of the FY 2024 Adopted Budget. Any new expenditures assumed in the Outlook for FY 2024 will be considered during the upcoming FY 2024 budget development process and will be dependent upon available resources and consistent with the priorities outlined in the City's Strategic Plan.

The FY 2024 budget process will incorporate budgeting through an equity lens with a focus on addressing disparities, and will also consider the City Council's budget priorities, as outlined in IBA Report 22-28: FY 2024 City Council Budget Priorities. As required by the City Charter, the Mayor will present a balanced budget to the City Council by April 15, 2023. The decisions made for the FY 2024 budget will have an impact on the entire outlook period and will be reflected in the FY 2025-2029 Five-Year Financial Outlook Report.

ATTACHMENT 1
ONE-TIME RESOURCES AND USES OF FUNDS

The tables below detail the one-time resources and expenditures that were included in the Fiscal Year 2023 Adopted Budget that were adjusted to develop FY 2024-2028 Five-Year Financial Outlook baseline budget.

One-Time Resources		
American Rescue Plan Act (ARPA)	$	147,633,704
Monsanto Class Action Settlement		9,000,000
Short-Term Residential Occupancy Program		8,113,121
Use of Pension Payment Stabilization Reserve		7,946,900
Transient Occupancy Tax (TOT) Fund Support		5,877,000
Property Tax Revenue		5,847,660
Budgeted Personnel Savings Associated with New Positions		5,760,628
Police Budgeted Personnel Savings		4,000,000
Mission Bay and Pueblo Lands Lease Revenues		2,111,292
Fleet Operating Fund Use of Fund Balance		2,979,251
Information Technology Funds' Use of Fund Balance		2,341,360
Reimbursable Revenue from Environmental Growth Funds		1,375,000
Broadband Access Expansion		1,115,520
HAAP - Revised Revenue Increase		232,676
Energy Conservation Fund Use of Fund Balance		84,426
Passport Acceptance Facility - Revised Revenue Decrease		(50,000)
General Services: Facilities Services Division - Revised Revenue Decrease		(1,000,000)
One-Time Resources Total	**$**	**203,368,538**

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One-Time Uses		
Transfer to the Capital Improvements Program (CIP)	$	40,198,276
Transfer to the Infrastructure Fund		28,444,223
Pension Payment Transition Costs for Post-Proposition B Employees		27,990,794
Operating costs for Homeless Shelters		6,192,014
Transfer to the Bridge to Home Program		5,847,660
Shelter Capacity Expansion		5,366,000
Watershed Master Planning Consulting, Vehicles, and IT Equipment		5,271,151
Transfer to the Public Liability Operating Fund		5,086,628
Extension of Shift Overtime		4,058,000
Housing Stability Fund		3,570,000
Vehicles and Sign Postage to Support Street Sweeping Efficiency & Expansion		3,112,059
Sidewalk Vending Ordinance		2,345,420
Support for State Senate Bill 1383		1,828,623
Vehicles and IT Equipment to Support Stormwater Pump Station Repair & Automation		1,722,490
General Fund Reserves		1,500,000
LGBTQ Youth Services and Shelters		1,500,000
Vehicles to Support Encampment Abatements and Sidewalk Sanitation		1,200,000
Broadband Access Expansion		1,115,520
Support for Stormwater Education and Outreach Program		1,005,922
Vehicles and Equipment to Support Parking Enforcement Efforts		936,000
Graffiti Abatement		899,625
Citywide Park Maintenance for New Facilities and Play All Day Sites		777,000
Back to Work - Connect 2 Careers		750,000
Deferred Maintenance of Animal Services Facilities		748,333
Consulting Services for Downtown Office Space Analysis		725,000
Small Business Enhancement Program		695,000
Vehicles to Support Traffic Signal Cabinet Replacement		663,900
Second Shift of Park Restroom Cleaning		610,000
Constituent Relations Management		594,000
Consulting Services for Sport Arena Development		500,000
Multidisciplinary Outreach Team Pilot		500,000
SD Access 4 All		500,000
Small Business Enhancement Program (SBEP)		500,000
Street Condition Assessment Consultant Services		500,000
Public Power Feasibility Study		400,000
Lease Administration Software		375,000
Evan V. Jones Parkade Electric Vehicle Charging Facilities		360,000
School District Joint-Use Agreement		335,008
Vehicles to Support Traffic Signal Loop Replacement		331,750

One-Time Uses (continued)	
Window Washing Services at Central Library	325,000
Boating Safety Unit Locker Room Trailer	300,000
Design for a New Traffic Management Center	300,000
Vehicles to Support New Parks and Recreation Facilities	272,000
Supplemental Position Additions	260,000
Computer Aided Dispatch (CAD) Upgrades	250,000
Human Resources - Consultant Study	250,000
Replace Exhaust Extraction Systems at Fire Stations	250,000
Vehicles to enforce 72-Hour Parking Violation	250,000
Business Cooperation Program	247,000
Economic Development Strategy	200,000
Marketing and Promotional Advertising	200,000
Rental Registry	200,000
Safe Camping Pilot Program	200,000
Street Racing and Sideshow Enforcement	200,000
Legal Services Contract – Commission on Police Practices	180,000
Restoration of Balboa Park Maintenance Special Projects Unit	168,000
Asbestos Remediation	150,000
Continuation of Pay Equity Study	150,000
Police Department's Promotional Examination Process	137,795
CleanSD Vehicles	135,000
Transportation Safety Compliance	104,900
City's Second Pay Equity Study	100,000
Climate Ambassadors Program	100,000
Executive Search Contract - Commission on Police Practices	100,000
Free4Me Pilot Program	100,000
Northern Garage Sleep Quarters	100,000
Park Security and Safety Enhancements	100,000
Police Recruitment	100,000
Tree Maintenance Support	96,000
Short-Term Rental Ordinance Enforcement	90,000
Air Bag Kits on Truck Companies	80,000
Administrative Support – Parks & Recreation	75,000
Supplemental Positions – Parks & Recreation	75,000
Code Compliance Support	61,450
Zuniga Jetty Shoal MOU - Citywide Program Expenditures	50,000
Security at Clay Park Restrooms	42,000
Public Works Dispatch Support	22,000
Illegal Dump Abatement Gator	20,000
TOT System Improvements	15,000
Substandard Housing	13,200
Recreation Programming Audit Recommendations	12,500
Support for Information Technology – Parks & Recreation	12,395
One-Time Uses Total	**$ 165,149,636**

ATTACHMENT 2
NEW FACILITIES

New Facilities	
Parks and Recreation	
Riviera Del Sol Neighborhood Park	2024
Salk Neighborhood Joint Use	2024
NTC/Esplanade	2024
Clairemont Canyons Academy Joint Use	2024
3 Roots Park	2024
Junipers Park	2024
North Central Square	2024
McGonigle Canyon Neighborhood Park	2024
Marston Middle Joint Use	2024
University Heights Dog park	2024
Olive Street Mini Park	2024
Memorial Senior Center	2024
Library	
Pacific Highlands Branch Library	2024
Fire-Rescue	
Torrey Pines Fire Station	2024
Parks and Recreation	
Pacific View Elementary Joint Use	2025
Perry Elementary School Joint Use	2025
Boone Elementary School Joint Use	2025
Whitman Elementary School	2025
Spreckels Elementary Joint Use	2025
Hickman Elementary Joint Use	2025
NTC Building 619	2025
Canon Street Pocket Park	2025
Hidden Trails Neighborhood Park	2025
Dennery Ranch Neighborhood Park	2025
East Village Green	2025
Mira Mesa Aquatic Center	2025
Fire-Rescue	
Black Mountain Ranch Fire Station	2025
Fairmount Avenue Fire Station	2025
Parks and Recreation	
Rowan Elementary Joint Use	2026
Pacific Beach Elementary Joint Use	2026
Eastbourne Neighborhood Park	2026
Shoal Creek Neighborhood Park	2026
Walden Neighborhood Park	2026
Lafayette Elementary Joint Use	2026
Library	
Ocean Beach Library	2027
Oak Park Library	2027
Parks and Recreation	
Southwest Neighborhood Park	2027
Parks and Recreation	
Epoca Neighborhood Park	2028
Martinez Neighborhood Park	2028
Fire-Rescue	
Otay Mesa Fire Station	2028