

The City of
SAN DIEGO



FISCAL YEAR 2018-2022
FIVE-YEAR FINANCIAL OUTLOOK



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NOVEMBER 2016

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EXECUTIVE SUMMARY

The City of San Diego Fiscal Year 2018-2022 Five-Year Financial Outlook is provided to guide long-range fiscal planning and serve as the framework for the development of the Fiscal Year (FY) 2018 Adopted Budget for the General Fund. The overall purpose of the report is to encourage discussion to effectively address the City's long-range needs as currently forecasted.

The FY 2018-2022 Five-Year Financial Outlook (Outlook) focuses on baseline revenues and expenditures, including quantifying new costs that are critical to accomplishing the City's strategic goals over the next five-year period. These goals include:

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

The Outlook is not a budget. The Outlook is a planning tool to assist in budget decisions and the allocation of General Fund resources required to meet the City's strategic goals that are critical to core services. The Outlook provides the City Council, key stakeholders, and the public with information in advance of the budget meetings to facilitate an informed discussion during the development of the FY 2018 Adopted Budget. Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2017.

SUMMARY OF KEY FINANCIAL DATA

Overall, the FY 2018-2022 Outlook forecasts revenue growth continues to soften, increasing moderately over the upcoming five years. Major General Fund revenues are anticipated to increase in each year of the Outlook; however, the rate of increase has slowed to a more moderate level. The Outlook also projects increases in nearly all expenditure categories.

Based upon baseline projections, growth in ongoing expenditures is anticipated to outpace growth in ongoing revenues in Fiscal Years 2018 and 2019. A short-term structural shortfall is forecasted once the following key factors are accounted for:

- Moderate growth in revenue
- Anticipated increase in the Retirement Actuarially Determined Contribution (ADC) to the San Diego City Employees Retirement System (SDCERS)
- Employee Organization Agreements entered into in FY 2015 and FY 2016
- Implementation of Charter Section 77.1 – Infrastructure Fund

As depicted in Table 1.1, and detailed in Attachment 1, a structural shortfall is anticipated in Fiscal Years 2018 and 2019. The table only summarizes baseline projections for revenues and expenditures and does not include any new expenditures. Beginning in Fiscal Year 2020, revenue growth is projected to have caught up with anticipated expenditure growth. However, projections for new expenditures are modest in FY 2020 through FY 2022.

Table 1.1 - Fiscal Year 2018-2022 Financial Outlook
Summary of Key Financial Data (\$ in Millions)

	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022
Property Tax	\$ 532.0	\$ 554.9	\$ 576.3	\$ 594.0	\$ 612.0
Sales Tax	270.8	275.9	281.2	286.9	292.6
Transient Occupancy Tax	120.1	126.6	133.1	139.7	146.2
Franchise Fees	82.8	83.6	84.4	85.8	87.3
All Other Revenue Categories	359.4	376.0	393.2	416.5	435.7
BASELINE GENERAL FUND REVENUES	\$ 1,365.1	\$ 1,417.0	\$ 1,468.2	\$ 1,522.9	\$ 1,573.8
Charter Section 77.1 - Infrastructure Fund	\$ 17.0	\$ 15.1	\$ 14.4	\$ 12.8	\$ 13.0
Salaries & Wages	\$ 537.3	\$ 537.5	\$ 538.5	\$ 539.0	\$ 538.1
Recognized Employee Organization Agreements	15.9	31.8	45.0	45.0	45.0
Retirement Actuarially Determined Contribution (ADC)	227.9	231.4	234.5	237.6	240.6
All Other Personnel Expenditures	188.8	191.9	193.8	195.7	197.7
Non-Personnel Expenditures	415.0	430.0	441.5	452.6	459.4
BASELINE GENERAL FUND EXPENDITURES	\$ 1,384.9	\$ 1,422.5	\$ 1,453.3	\$ 1,469.9	\$ 1,480.7
BASELINE REVENUE (LESS)/ GREATER THAN EXPENDITURES	\$ (36.9)	\$ (20.7)	\$ 0.5	\$ 40.1	\$ 80.1

It should be noted that the Outlook does not forecast the result of any ballot initiatives considered by voters on November 8, 2016.

REPORT OUTLINE

The Outlook includes a discussion on baseline projections for revenues and expenditures, summarizes upcoming critical strategic expenditures that will require additional resources, and identifies potential options that could be used to mitigate projected revenue shortfalls in the near term.

The baseline projections section of the Outlook primarily consists of the City's projections for the next five years for the General Fund's ongoing revenues and expenditures, as displayed in Table 1.1 – Fiscal Year 2018-2022 Financial Outlook. The baseline projections section includes revenue and expenditure adjustments necessary to support current service levels provided by the City. The FY 2017 Adopted Budget, with one-time revenues and expenditures removed, serves as the starting point for the baseline projections unless otherwise noted. One-time revenues and expenditures that have been removed from the baseline projections are detailed in Attachment 2: FY 2017 Adopted Budget – One-time Revenues and Expenditures.

Following the baseline projection discussion, the report outlines critical operational expenditures that are necessary to support core services and the City's strategic goals. Department submissions that require further examination are not identified in the Critical Strategic Expenditures section; however, these submissions may be discussed further during the FY 2018 Budget development process.

Finally, to address the anticipated near-term shortfall identified in the report, potential mitigation actions are discussed. No specific solution is identified, but rather concepts are reviewed that could mitigate the anticipated shortfall.

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2017.

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BASELINE PROJECTIONS

The Baseline Projections section identifies and discusses forecasted changes based on known and anticipated events at the current time. This section first reviews forecasted growth rates for base 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. Base expenditures are reviewed thereafter for the General Fund expenditure categories.

Unless otherwise noted, baseline projections assume growth based upon the Fiscal Year 2017 base budget, which will differ from the Fiscal Year 2017 Adopted Budget due to the removal of one-time sources and uses of funds. The Outlook discusses only the General Fund.

BASELINE GENERAL FUND REVENUES

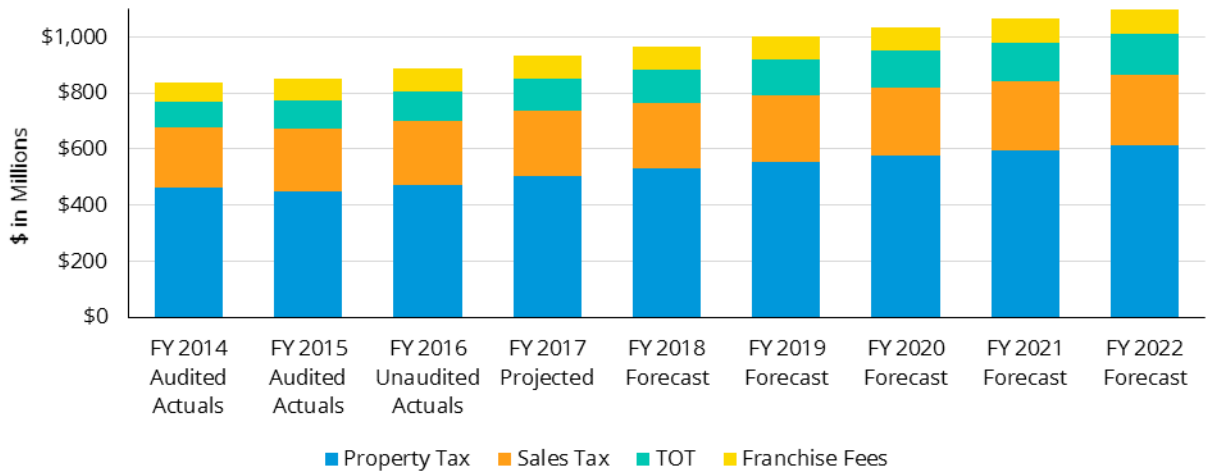
The following section provides details of the City of San Diego's FY 2018-2022 Five-Year Financial Outlook revenue projections. The details provided for each revenue category include a description of the revenue source, the economic indicators affecting the revenue source, the projected growth rates, and a scenario analysis that addresses any potential risks that may cause actual revenue receipts to vary from the projection for major General Fund revenue categories.

The U.S. economy never boomed or robustly bounced back from the Great Recession; rather the economy has improved slowly and steadily. The recovery period has exceeded the average and is the second longest in history. An economic recession, based on historical averages (approximately every five years) could occur during this Outlook period. However, such a prediction of when or the extent of such a recession is not within the scope of the Outlook, but it is an important risk factor to consider in addition to the other risks outlined in the Outlook.

It should be noted that in addition to growth rate percentages applied in each of the revenue categories, other adjustments have been included based on known and anticipated events that are detailed within each category. To assist in evaluating potential risks to revenue projections, a "High" and "Low" projection to quantify the impacts of potential risks or uncertainties has been included for Property Taxes, Sales Tax, and Transient Occupancy Tax.

The City's four major revenues sources, Property Tax, Sales Tax, Transient Occupancy Tax, and Franchise Fees, are 73.0 percent of the City's General Fund FY 2017 Adopted Budget. As depicted in Figure 2.1, all four major revenue sources are projected to increase through the Outlook period; however, the rate of increase is expected to slow in the outer years. This overall expectation and projection for the City's revenues is consistent with information received from the City's sales tax consultant (MuniServices, LLC), the San Diego Tourism Authority, and the UCLA Anderson Forecast. In addition to the major revenue projections, the baseline projections for the General Fund's other departmental revenue sources are based on various economic assumptions, known and anticipated events, and historical trend analysis.

Figure 2.1 - Major General Fund Revenues



PROPERTY TAX

Property Tax is the City’s largest revenue source representing 37.7 percent of the General Fund FY 2017 Adopted Budget. The primary component of the property tax category is the 1.0 percent levy on the assessed value of all real property within the City limits. The property tax category also includes the Motor Vehicle License Fee (MVLFF) backfill payment, which is a result of MVLFF being reduced from 2.0 percent to 0.65 percent in 2005. Additionally, the category includes pass-through and residual property tax payments as a result of the dissolution of Redevelopment Agencies (RDA) statewide.

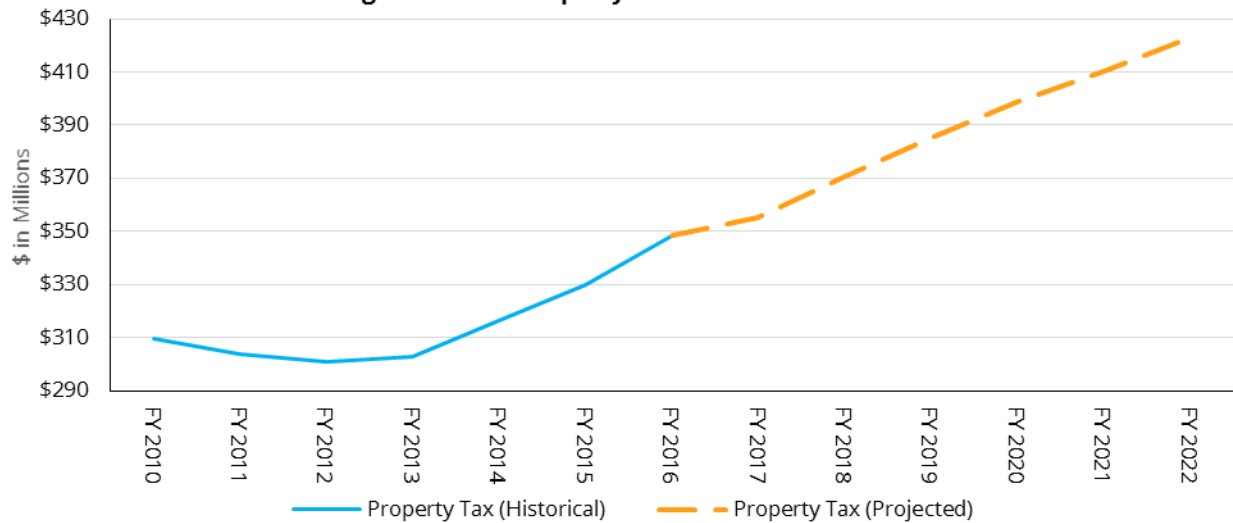
FORECAST

The following table shows the budget and year-end projection for FY 2017 and the forecast for FY 2018 through FY 2022 for revenue from property tax. The FY 2017 projection for the property tax category of \$505.0 million is a \$3.0 million increase over the FY 2017 Adopted Budget and serves as the base for the Outlook projections. In conjunction with the Fiscal Year 2017 First Quarter Budget Monitoring Report, the FY 2017 Adopted Budget growth rate of 5.25 percent has been revised based on updated assessed value data to 5.7 percent.

	FY 2017 Adopted	FY 2017 Projection	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate	5.25%	5.7%	5.0%	4.0%	3.5%	3.0%	3.0%
Projection	\$ 502.0	\$ 505.0	\$ 532.0	\$ 554.9	\$ 576.3	\$ 594.0	\$ 612.0

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

Figure 2.2 - 1% Property Tax Five-Year Forecast



ECONOMIC TRENDS

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

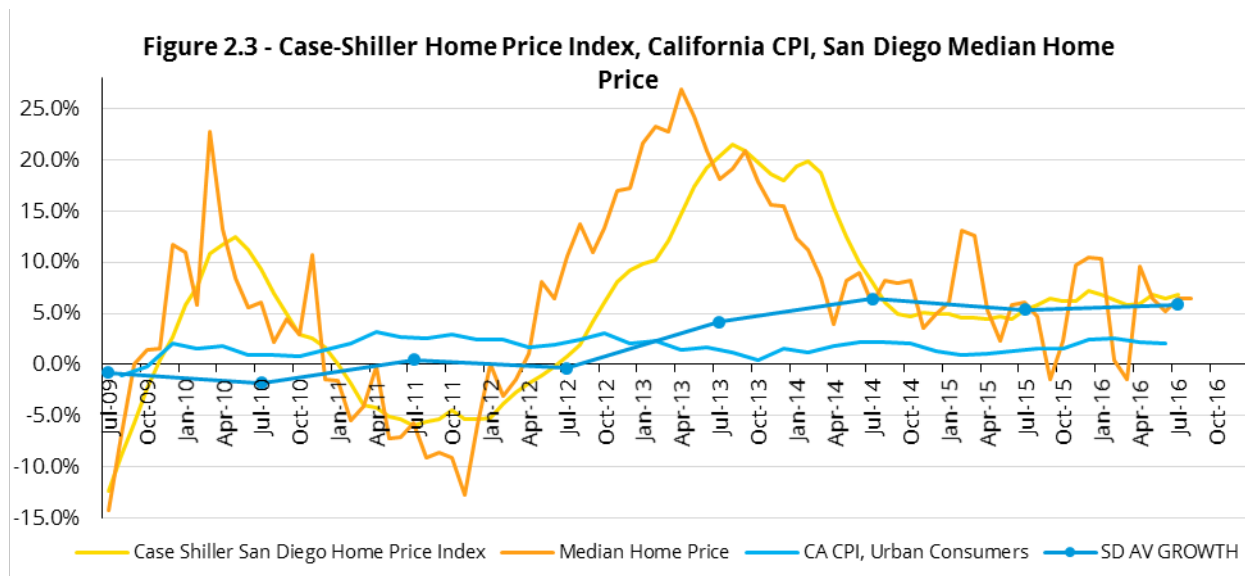
In compliance with Revenue and Taxation Code section 51, the San Diego County Assessor's Office uses the October CCPI to assess property values under Proposition 13. However, at the time of preparing this report, the October CCPI has not been released. The latest CCPI released by the California Department of Finance (DOF) was 256.204 for the month of August, a 1.93 percent increase from the August 2015 CCPI of 251.253. Assuming the CCPI holds constant, the assessed valuation of properties not improved or sold will increase by approximately 1.93 percent, below the maximum 2.0 percent threshold, for FY 2018.

The City of San Diego has experienced positive growth in home prices, with an increase of 6.4 percent in the median home price from August 2015 to August 2016. Despite the rise in home prices, the growth in the number of home sales has slowed. Home sales year-to-date as of August 2016 have increased by 1.0 percent compared home sales year-to-date as of August 2015.

Based on property sales that have occurred as of August 2016 and an approximate 1.93 percent increase in the CCPI, it is estimated the City's assessed valuation will see a positive increase in assessed valuation for FY 2018

- In addition to positive home price growth in the City, there are year-to-date declines of 13.3 percent in notices of default and declines of 28.9 percent in foreclosures in the County of San Diego as of September 2016
- The Case-Shiller home price index as of August 2016 is 227.86, a 5.9 percent increase over the August 2015 index of 215.22

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



Other factors to consider in developing a revenue projection for property tax include mortgage rates and property tax refunds. Over the past year, interest rates have remained relatively level as the economy continues to improve. However, recent strengthening in the economy, specifically the labor market and increasing inflation, supports the case for a rise in mortgage rates which will further contribute to a restrained housing market. While property tax revenue growth is expected to remain positive throughout the Outlook period, property tax growth is anticipated to return to more normal levels of growth in outer years.

Additionally, as the economy has continued to improve, fewer property owners have requested reassessments, indicating that more property valuations are fairly valued and a larger portion of assessed valuation growth will continue at the Prop 13 limited maximum growth rate of two percent. Therefore, with the slowdown of property sales and anticipated mortgage rate increases, fewer home sales will drive the growth in assessed value, and resulting in a more restrained growth in property tax.

As a result of the dissolution of the RDA, pass-through and residual property tax payments to the City from the Redevelopment Property Tax Trust Fund (RPTTF) are included in the property tax forecast. These payments are difficult to predict based on various factors described below. 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

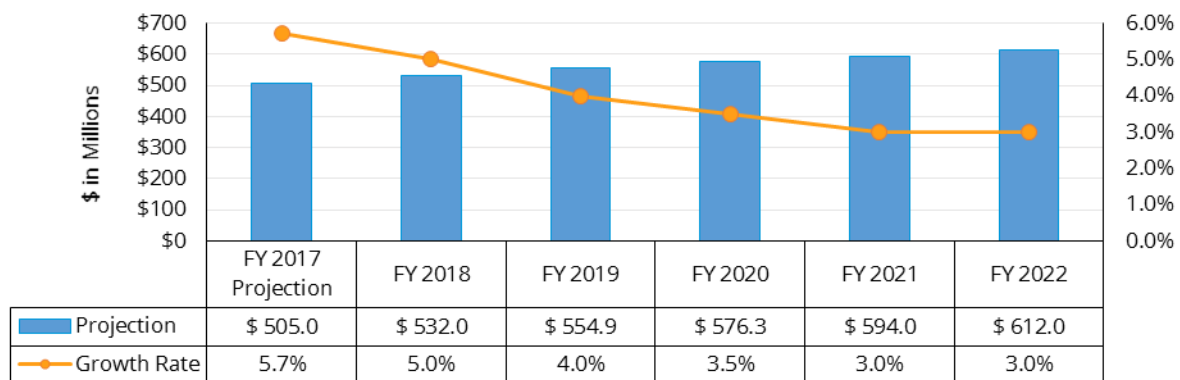
proportionate share of funds remaining in the RPTTF after the Recognized Obligation Payment Schedule (ROPS) requirements have been met.

The following table and graph provides details on the components of the FY 2017 Adopted Budget for property tax and the forecasted property tax revenue for FY 2018 through FY 2022.

Table 2.2 - Property Tax Components (\$ in Millions)							
	FY 2017 Adopted	FY 2017 Projection	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate	5.25%	5.7%	5.0%	4.0%	3.5%	3.0%	3.0%
1% Property Tax	\$ 352.6	\$ 355.3	\$ 372.4	\$ 387.0	\$ 400.4	\$ 412.4	\$ 424.7
MVLF Backfill	\$ 128.4	\$ 129.3	\$ 135.8	\$ 141.2	\$ 146.1	\$ 150.5	\$ 155.0
RPTTF Pass-Through Tax Sharing Payment	\$ 6.2	\$ 5.1	\$ 5.4	\$ 5.6	\$ 5.8	\$ 5.9	\$ 6.1
RPTTF Residual Property Tax Payment	\$ 14.8	\$ 15.4	\$ 18.5	\$ 21.1	\$ 24.0	\$ 25.2	\$ 26.1
Total Property Tax Projection	\$ 502.0	\$ 505.0	\$ 532.0	\$ 554.9	\$ 576.3	\$ 594.0	\$ 612.0

Figure 2.4 - Property Tax Revenue Projections: Fiscal Years 2018 - 2022

Projections including Redevelopment Property Tax Trust Fund (RPTTF)



SCENARIO ANALYSIS

The factors described above combine to make up the projection; however, should one or several of these factors not perform as projected, property tax revenues will vary from the current projection. To account for variances in these factors, “High” and “Low” projections were also prepared utilizing analysis of historical property tax receipts.

The current scenario is based on the economic assumption that the growth in the CCPI will be 1.93 percent in the remaining fiscal years. Moreover, the “Low” scenario assumes that mortgage interest rates will increase rapidly in 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. In addition, the “Low” scenario assumes that due to the higher than anticipated positive assessed valuation growth in FY 2014 through FY 2017, increases in the median home price, and home sales count, not as many homes will see as large of a reassessment in FY 2018 as in previous years. This will lead to lower annual assessed valuation growth rates for FY 2018 through FY 2022 of 2.7 percent across all years.

A “High” scenario is projected to exist should homes sales and valuations continue at the current levels for the next two years, with slightly restrained growth for FY 2020 through FY 2022. In this scenario, interest rates would rise slowly over the next several years, continuing high demand for housing and tightening inventory, further fueled by continued growth in higher income labor markets. These conditions would likely yield a “High” property tax scenario environment. The projections for a “High” scenario maintain growth levels of 5.0 percent through FY 2019, with slightly lower growth rates for FY 2020 to 2022.

Figure 2.5 reflects the current scenario as well as the “High” and “Low” scenario. In addition, Table 2.3 details the assumed growth rates for each scenario for Fiscal Years 2017 through 2022.

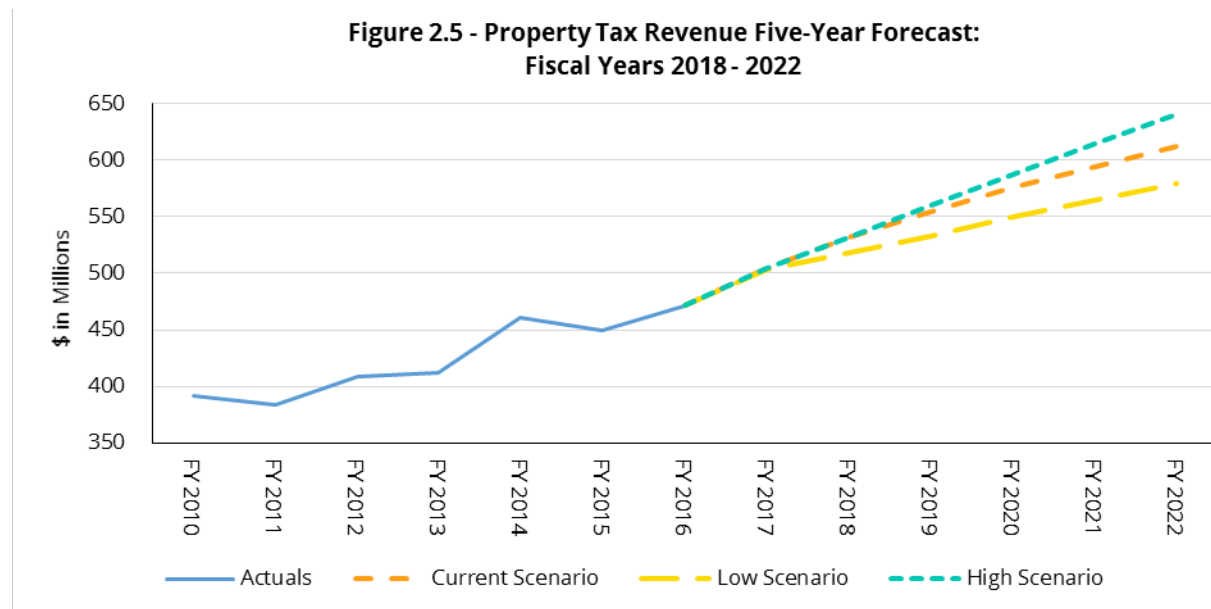


Table 2.3 - Property Tax Five-Year Forecast: Growth Rate Scenarios						
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Current Growth Rate	5.70%	5.00%	4.00%	3.50%	3.00%	3.00%
High Growth Rate	5.70%	5.00%	5.00%	4.50%	4.50%	4.25%
Low Growth Rate	5.25%	2.65%	2.65%	2.65%	2.65%	2.65%

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

Lastly, there is also an outstanding legal challenge between the County of San Diego and various local entities within the County that may influence the property tax forecast for the City. The dispute involves how the RPTTF residual payments are calculated and distributed every six months. The trial

court’s decision in favor of the City and other local entities is currently on appeal, and an appellate decision is expected sometime in 2017 or 2018. If the trial court’s decision is upheld, the City would be compensated for any past underpayment of RPTTF residual amounts and would receive an increase in RPTTF residual payments going forward throughout the Outlook period. The parties have not undertaken the complex task of calculating the amount of alleged underpayments of RPTTF residual amounts to date, but the underpayments to the City are believed to be significant (potentially in the tens of millions of dollars to date).

SALES TAX

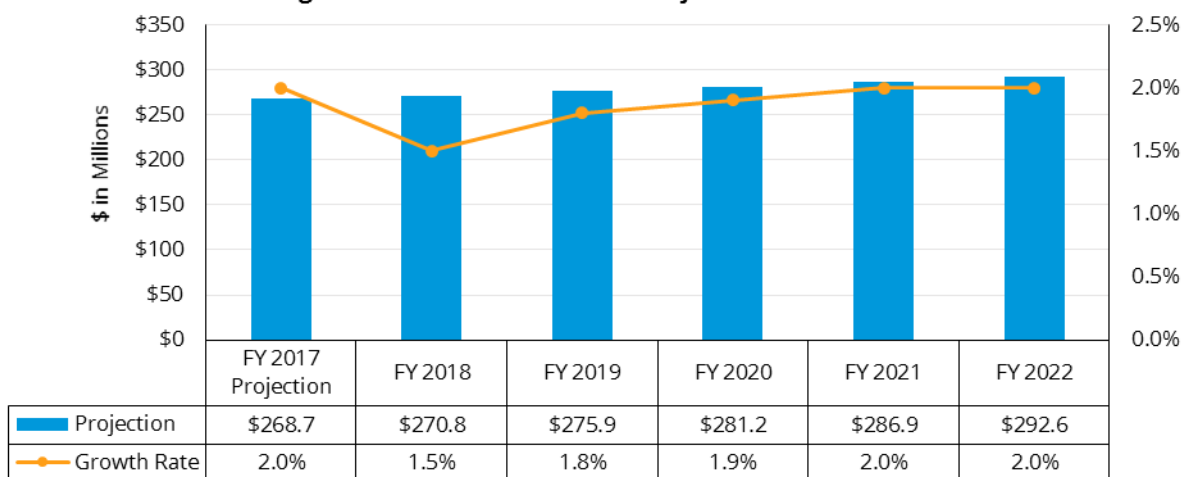
The City’s second largest revenue source is sales tax and represents 20.5 percent of the General Fund FY 2017 Adopted Budget. Sales tax is collected at the point of sale and remitted to the State Board of Equalization, which allocates tax revenue owed to the City in monthly payments. The total citywide sales tax rate in San Diego is 8.0 percent, of which the City receives 1.0 percent.

FORECAST

The following table displays the budget and year-end projection for FY 2017 and the forecast for FY 2018 through FY 2022 for revenue from sales tax. The FY 2017 projection for sales tax of \$268.7 million is a \$4.1 million decrease from the FY 2017 Adopted Budget and serves as the base for the Outlook projections. In conjunction with the Fiscal Year 2017 First Quarter Budget Monitoring Report, the FY 2017 Adopted Budget growth rate of 3.5 percent has been revised downward based on current data to 2.0 percent.

Table 2.4 - Sales Tax Five-Year Forecast (\$ in Millions)							
	FY 2017 Adopted	FY 2017 Projection	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate	3.5%	2.0%	1.5%	1.8%	1.9%	2.0%	2.0%
Projection	\$ 272.8	\$ 268.7	\$ 270.8	\$ 275.9	\$ 281.2	\$ 286.9	\$ 292.6

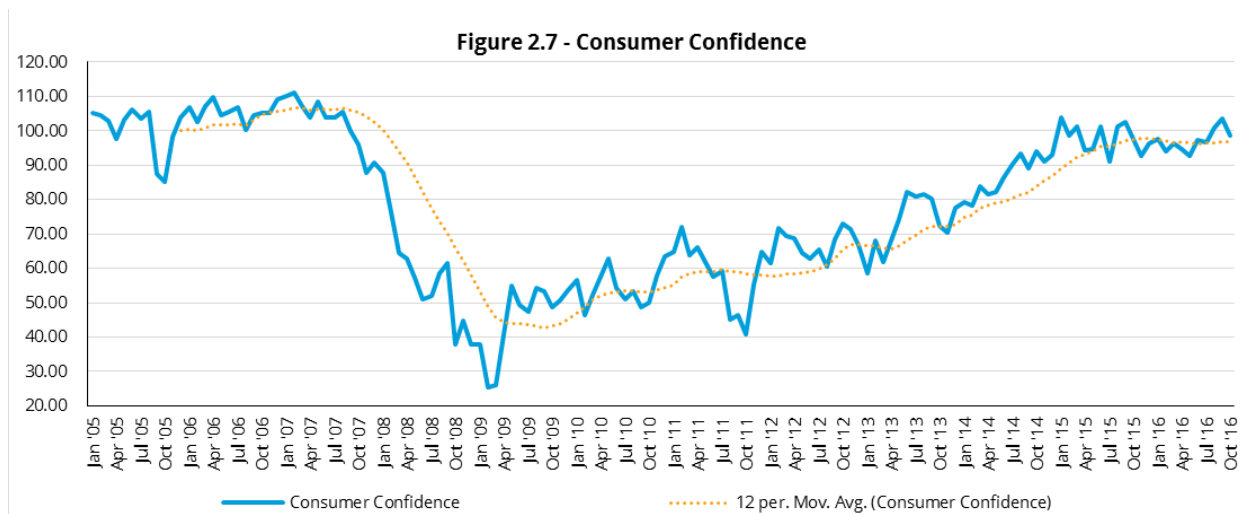
Figure 2.6 - Sales Tax Revenue Projection: Fiscal Years 2018 - 2022



ECONOMIC TRENDS

The major local economic drivers of the City's sales tax include the unemployment rate, consumer confidence, and consumer spending. The sales tax projection for FY 2018 assumes that the unemployment rate will continue to remain within its historical average for the region experienced prior to the Great Recession (between 4.0 - 5.0 percent). As of August 2016, the City of San Diego unemployment rate was 4.8 percent, compared to a rate of 4.9 percent in August 2015, as reported by the California Employment Development Department. Consumer confidence, a measurement of the consumer's willingness to spend, had experienced significant growth from 2009 to 2015, where it peaked in January 2015 at 103.8, and has been trending down to a level of 98.6 as of October 2016.

Sales tax revenue is primarily driven by consumer spending. Given decreasing consumer confidence, a slowdown in consumer spending is expected, and therefore a reduction in the growth in sales tax revenues to the City. Furthermore, as consumers shift from in-store to online sales, the City receives a smaller portion of those sales tax revenues. Sales tax revenues from online sales are distributed to the City through the county pool at a current rate of 0.48 percent compared to 1.0 percent for point of sales transactions within the City.



Since 2014, oil prices have been low, and have reduced sales tax revenue from fuel and gasoline sales. Recently oil prices have begun to rise. While fuel prices are anticipated to remain relatively low in the near future, over the next five years growth is anticipated in this sector.

The forecast is supported by the recent unemployment and consumer confidence indicators. Consumer confidence has leveled off with a slight downward trend and unemployment has stabilized near its historical lows, has recently trended up. Lastly, sales tax revenues collected in the first quarter of FY 2017 were lower than expected. In the long term it is anticipated that there will be increases in the growth rate for sales tax revenue towards the CCPI growth rates as these economic indicators stabilize along with an anticipated rise in oil prices.

SCENARIO ANALYSIS

The number of 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, a “High” and “Low” projection were prepared for the Outlook period.

The “Low” scenario reflects higher unemployment and lower consumer confidence in the local and State economies. This scenario also reflects continued transition to online sales reducing point of sales transactions for brick and mortar stores within the City limits. Additionally, this projection assumes continuation of low oil prices further reducing sales tax revenue. Lastly, the “Low” scenario assumes a rise in the federal lending rates, which would increase the cost to purchase vehicles. Correspondingly this scenario anticipates a reduction in City receipts from the auto sales industry. The “Low” projection forecasts growth in sales tax from 0.0 percent to 1.0 percent from FY 2018 to FY 2022.

The “High” Scenario includes increases in consumer confidence, low unemployment, and higher acceleration in fuel price growth from the lows experienced in the past year, therefore improving sales tax growth rates from 2.0 percent to 3.0 percent over the Outlook period.

Figure 2.8 and Table 2.5 depict historical data as well as the Current, “High”, and “Low” forecast scenarios for sales tax projections for FY 2018 through 2022.

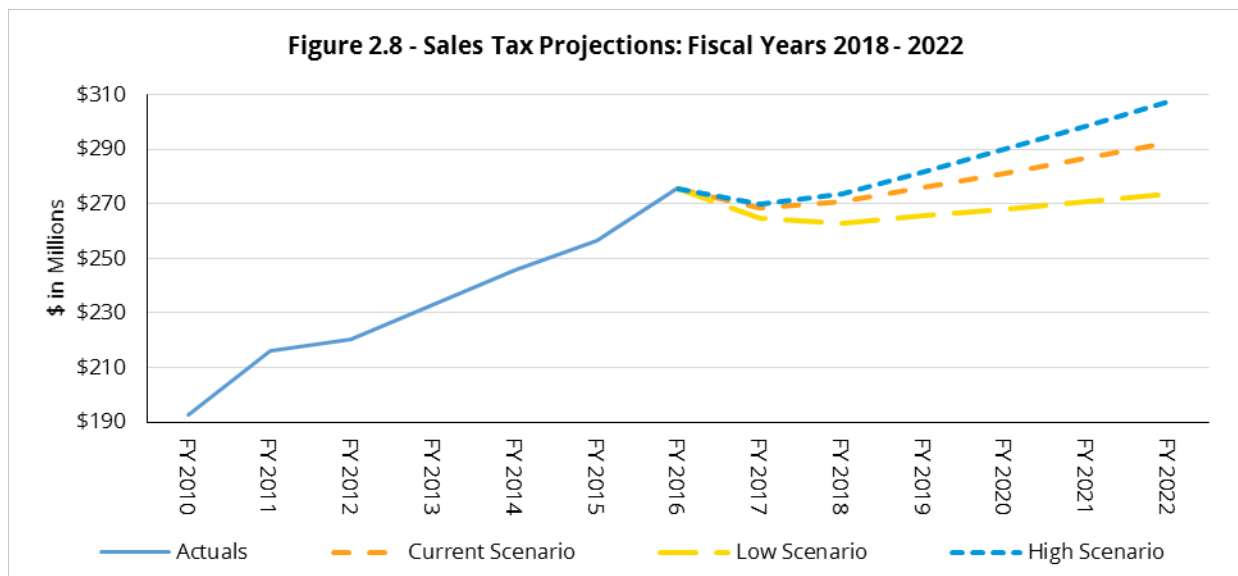


Table 2.5 - Sales Tax Five-Year Forecast: Growth Rate Scenarios						
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Current Growth Rates	2.0%	1.5%	1.8%	1.9%	2.0%	2.0%
High Growth Rates	2.5%	2.0%	2.8%	2.9%	3.0%	3.0%
Low Growth Rates	0.5%	0.0%	0.8%	0.9%	1.0%	1.0%

TRANSIENT OCCUPANCY TAX (TOT)

The Transient Occupancy Tax makes up 8.5 percent of the City’s General Fund FY 2017 Adopted Budget. TOT is levied at 10.5 cents per dollar on taxable rent for a transient’s stay of less than one month. The use of TOT is guided by the City’s Municipal Code which stipulates that of the 10.5 cents

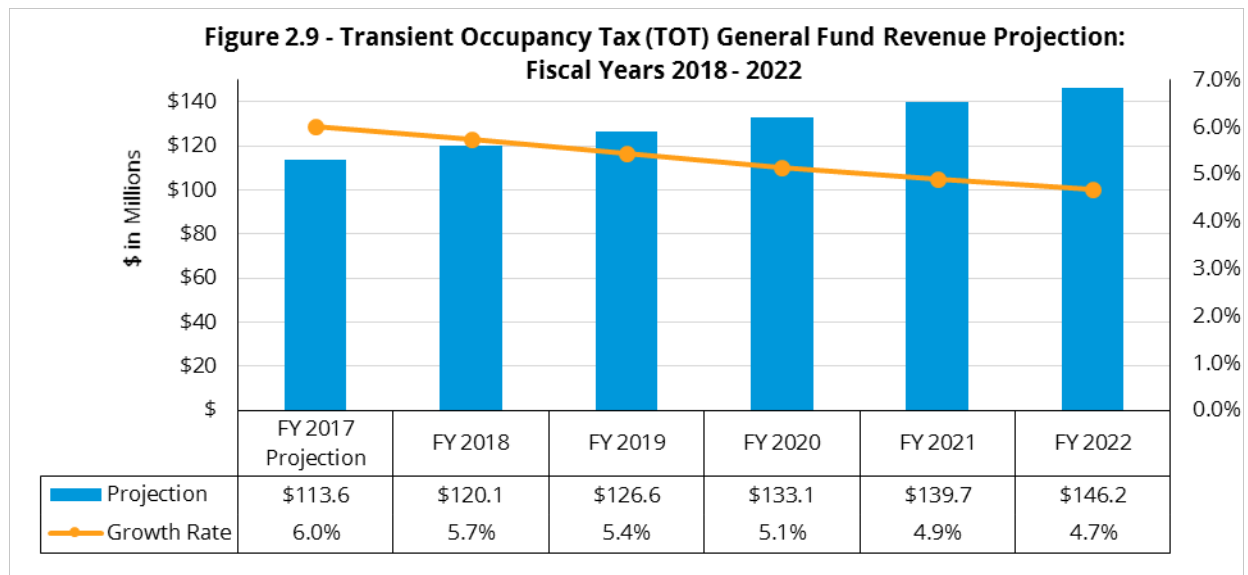
of collected TOT, 5.5 cents is to be applied toward general governmental purposes, 4.0 cents towards promoting the City as a tourist destination, and the remaining 1.0 cent towards any purposes approved by the City Council.

FORECAST

The following table displays the budget and year-end projection for FY 2017 and the forecast for FY 2018 through FY 2022 for revenue from TOT. The FY 2017 projection for total Citywide TOT receipts is \$216.8 million. The General Fund's 5.5 cent portion of total TOT projected receipts is \$113.6 million and serves as the base for the Outlook projections. For the FY 17 First Quarter Budget Monitoring Report, there is no change in the assumed growth rate.

Table 2.6 - Transient Occupancy Tax (TOT) Five-Year Forecast							
	FY 2017 Adopted	FY 2017 Projection	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate	6.0%	6.0%	5.7%	5.4%	5.1%	4.9%	4.7%
Projection	\$ 113.2	\$ 113.6	\$ 120.1	\$ 126.6	\$ 133.1	\$ 139.7	\$ 146.2

The five-year forecast for TOT was calculated using historical actuals and relevant economic indicators. The resulting graph below reflects the growth rates generated by the analysis which were then applied to actual TOT receipts from FY 2016.



As depicted in the graph above, TOT revenue is projected to have continued but softening growth for the five-year period. The growth rates for TOT are projected to soften from 5.7 percent in FY 2018 to 4.7 percent in FY 2022.

ECONOMIC TRENDS

Room rates, average occupancy rates, and overnight visitor growth are the primary economic indicators that provide insight as to how TOT revenue will perform in the coming fiscal years. The amount of TOT receipts the City expects corresponds to room rates. The expected growth rate in TOT

correlates to room demand. According to the San Diego County Travel Forecast prepared for the San Diego Tourism Authority by Tourism Economics overnight visits, room supply, and room demand are projected to grow in calendar year 2017 before experiencing a long term easing of growth. This is depicted in the chart below.

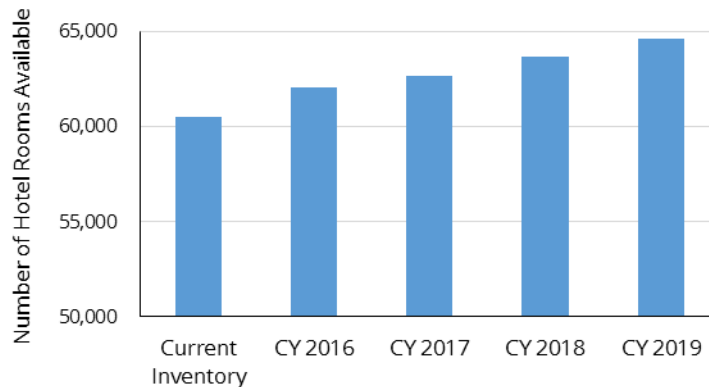
Table 2.7 - San Diego Tourism Summary Outlook (Annual % Growth)					
	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020
Visits	1.4%	1.8%	1.7%	1.4%	1.5%
Overnight	1.4%	1.9%	2.1%	1.5%	1.6%
Hotel Sector					
Room Supply	1.8%	1.6%	1.1%	1.5%	1.1%
Room Demand	1.7%	3.0%	1.8%	1.1%	1.3%
Occupancy	76.3%	77.3%	77.9%	77.6%	77.8%
Avg. Daily Room Rate	\$ 154.77	\$ 159.16	\$ 165.44	\$ 171.05	\$ 177.65

Source: San Diego Tourism Authority and Tourism Economics

New hotel projects within the City will add to the supply of hotel room inventory and increase the City's TOT revenue. The supply of rooms, as shown in Figure 2.10, is expected to show overall growth through calendar year 2019. Data beyond 2019 is not currently available.

The City is projected to see continued growth in TOT revenue as a result of the long-term projected increases in the supply of rooms and room rates, balanced by the softening of growth in annual overnight visitors and room demand.

Figure 2.10 - Total Projected Hotel Rooms in San Diego CY 2016 - 2019



Source: San Diego Tourism Authority and Tourism Economics

SCENARIO ANALYSIS

Any changes to major economic drivers or indicators could have a corresponding change in TOT revenues. To account for variances in these factors, a "High" and "Low" projection were prepared for the Outlook period.

The "Low" forecast looked at several fiscal years where TOT revenues experienced low or negative growth and generated a forecast based on those actuals. The "Low" forecast scenario has annual growth in TOT revenues increasing to 5.3 percent in FY 2018 and softening to 4.4 percent in FY 2022.

The "High" forecast looked at several fiscal years of high sustained growth in TOT revenues and generated a projection based on those actuals. As seen in Figure 2.11, the "High" forecast scenario

has the annual growth in TOT revenues increasing 7.3 percent in FY 2018 and softening to 5.7 percent in FY 2022.

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

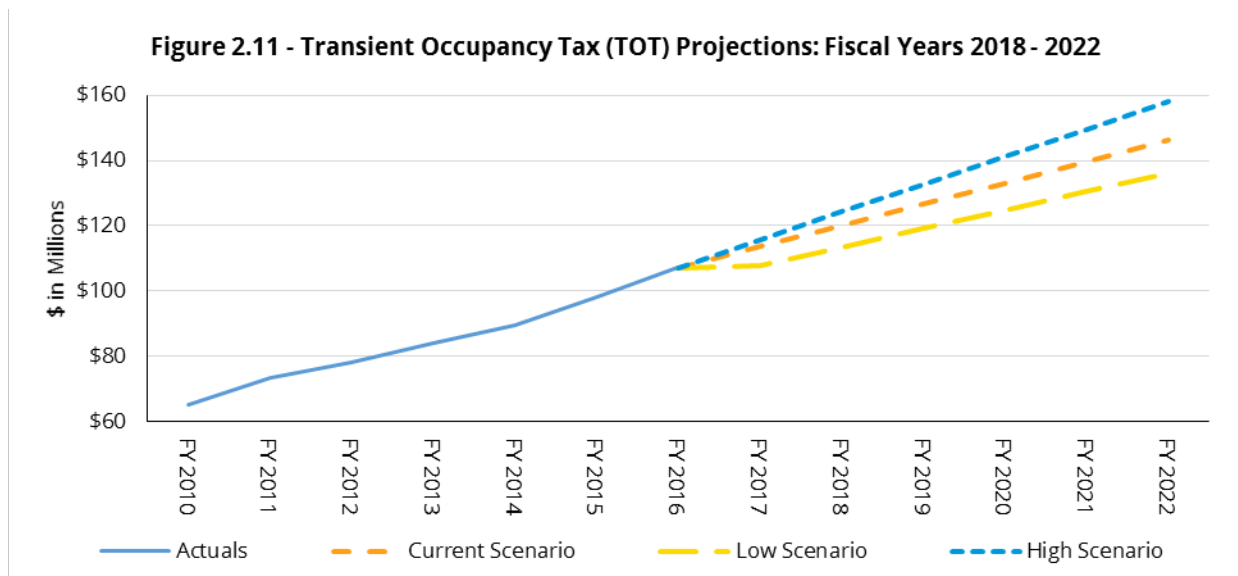


Table 2.8 - Transient Occupancy Tax (TOT) Five-Year Forecast: Growth Rate Scenarios						
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Current Growth Rates	6.0%	5.7%	5.4%	5.1%	4.9%	4.7%
High Growth Rates	7.9%	7.3%	6.8%	6.4%	6.0%	5.7%
Low Growth Rates	0.5%	5.3%	5.0%	4.8%	4.6%	4.4%

FRANCHISE FEES

Revenue from Franchise Fees makes up 6.2 percent of the City's General Fund FY 2017 Adopted Budget and results from agreements with private utility companies in exchange for use of the City's rights-of-way. Currently, San Diego Gas and Electric (SDG&E), Cox Communications, Time Warner Cable, and AT&T pay a franchise fee to the City. In addition, the City collects franchise fees from private refuse haulers that conduct business within the City limits. The revenue received from the agreements with utility companies is based on a percentage of gross sales while the revenue received from refuse haulers is based on tonnage.

FORECAST

The following table displays the budget and year-end projection for FY 2017 and the forecast for FY 2018 through FY 2022 for revenue from franchise fees. The FY 2017 projection for franchise fees of \$82.2 million is a \$0.4 million decrease from the FY 2017 Adopted Budget and serves as the base for

the Outlook projections. For the FY 17 First Quarter Budget Monitoring Report, there is no change in the assumed growth rate.

Table 2.9 - Franchise Fees Five-Year Forecast (\$ in Millions)							
	FY 2017 Adopted	FY 2017 Projection	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
SDG&E Growth Rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Cable Growth Rate	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Projection	\$ 82.6	\$ 82.2	\$ 82.8	\$ 83.6	\$ 84.4	\$ 85.8	\$ 87.3

Franchise fee revenue growth rates were projected utilizing historical year-end actuals. These growth rates were then applied to FY 2017 first quarter projection in order to develop the five-year projections.

ECONOMIC TRENDS

Generating approximately 82.2 percent of Franchise Fees, SDG&E and cable companies are the largest contributors of Franchise Fees. The growth rate for SDG&E is expected to remain flat for the forecast period. Franchise fees from cable companies are expected to grow 1.0 percent annually for the forecast period based on a historical analysis of actual revenues.

Additionally, the Outlook takes into account the redistribution of revenue from the General Fund to the Recycling Fund per the Sycamore Canyon Landfill Franchise Agreement. Franchise fee revenue received at the Sycamore Canyon Landfill is currently distributed 60/40 between the General Fund and Recycling Fund. Over the next three fiscal years, the distribution to the General Fund will reduce by 20 percent annually.

SCENARIO ANALYSIS

Given the significance of franchise fee revenue from SDG&E and cable, changes to any of the economic factors for these revenue sources could alter future projections. In the case of SDG&E, changes in price or consumption of electricity can cause fluctuations in revenue growth. SDG&E is currently implementing a phased-in electric rate restructure to be completed in 2020. The General Fund impact is unknown at this time. For cable revenue, variances in subscription levels and pricing may impact franchise fee growth.

PROPERTY TRANSFER TAX

Property transfer tax is levied on the sale of real property. The County of San Diego collects \$1.10 per \$1,000 of the sale price when any real property is sold, of which the City receives half, or \$0.55 per \$1,000. Property Transfer Tax revenue is remitted to the City on a monthly basis, and represents 0.7 percent of the City's General Fund FY 2017 Adopted Budget.

FORECAST

The following table displays the budget and year-end projection for FY 2017 and the forecast for FY 2018 through FY 2022 for revenue from property transfer tax. The FY 2017 projection for property transfer tax of \$10.3 million is a \$0.8 million increase from the FY 2017 Adopted Budget and serves as

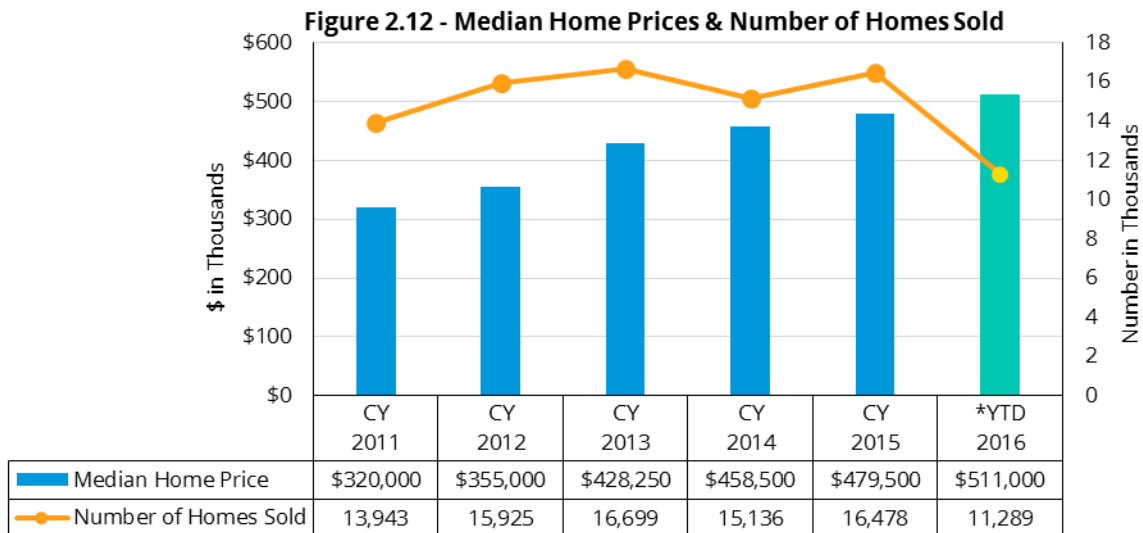
the base for the Outlook projections. There is no change in the assumed growth rate from the FY 17 First Quarter Budget Monitoring Report.

Table 2.10 - Property Transfer Tax Five-Year Forecast (\$ in Millions)							
	FY 2017 Adopted	FY 2017 Projection	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate	3.0%	3.0%	3.0%	2.5%	2.5%	2.5%	2.5%
Projection	\$ 9.6	\$ 10.3	\$ 10.6	\$ 10.9	\$ 11.2	\$ 11.5	\$ 11.8

Property Transfer Tax growth rates were developed using 10 years of historical receipts and growth rates.

ECONOMIC TRENDS

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



* Year to Date Home Sales as of August 2016
Source: DQNews/CoreLogic

LICENSES AND PERMITS

The Licenses and Permits category includes revenue for the purpose of recovering costs associated with regulating an activity and other revenues such as business certificate fees, rental unit certificate fees, parking meter collections, alarm permit fees, and special event permits. Licenses and Permits represent 1.8 percent of the City's General Fund FY 2017 Adopted Budget.

The following table displays the FY 2017 Adopted Budget and the forecast for FY 2018 through FY 2022 for revenue from licenses and permits.

Table 2.11 - Licenses and Permits Five-Year Forecast (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate		2.0%	2.0%	2.0%	2.0%	2.0%
Projection	\$ 23.9	\$ 24.4	\$ 24.8	\$ 25.3	\$ 25.9	\$ 26.4

A consistent growth rate of 2.0 percent is applied from FY 2018 to FY 2022. The Outlook reflects revenue adjustments based on five years of historical data.

FINES, FORFEITURES, AND PENALTIES

The Fines, Forfeitures, and Penalties category includes revenue generated from the violation of laws or regulations, such as California Vehicle Code violations, City parking and ordinance violations, negligent impounds, collection referrals, and litigation awards. This revenue source represents approximately 2.2 percent of the City's General Fund FY 2017 Adopted Budget.

The following table displays the FY 2017 Adopted Budget and the forecast for FY 2018 through FY 2022 for revenue from fines, forfeitures, and penalties.

Table 2.12 - Fines, Forfeitures and Penalties Five-Year Forecast (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth rate		0.5%	0.5%	0.5%	0.5%	0.5%
Projection	\$ 29.8	\$ 29.9	\$ 30.1	\$ 30.2	\$ 30.4	\$ 30.5

Revenue from fines, forfeitures, and penalties is projected to increase at a constant rate of 0.5 percent for FY 2018 through FY 2022 based on historical averages over the last ten years.

REVENUE FROM MONEY AND PROPERTY

The Revenue from the Money and Property category primarily consists of rental revenue generated from City-owned properties including Mission Bay, Pueblo Lands, and the Midway properties. This revenue source represents 4.1 percent of the City's General Fund FY 2017 Adopted Budget.

The following table displays the FY 2017 Adopted Budget and the forecast for FY 2018 through FY 2022 for revenue from the Revenue from Money and Property category.

Figure 2.13 - Revenue from Money and Property Five-Year Forecast (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate		3.25%	3.25%	3.25%	3.25%	3.25%
Projection	\$ 55.7	\$ 54.5	\$ 56.2	\$ 58.1	\$ 60.0	\$ 61.9

A growth rate of 3.25 percent is applied from FY 2018 to FY 2022 based on the annual growth rate from historical revenues.

This category also includes interest earnings. Interest rates have remained historically low since the financial crisis of 2008. The federal funds rate has remained at a target of 0.00 to 0.50 percent during the entire period even as economic activity has expanded, with the only one increase in seven years occurring in December 2015. It is expected that the Federal Open Market Committee (FOMC) is likely to begin raising interest rates sometime in late 2016 or calendar year 2017. The result will be a gradual rise in interest earnings beginning in FY 2017 or FY 2018. It should be noted that interest rates are market driven and subject to a number of uncontrollable or unpredictable factors, resulting in outcomes different from the projections in the Outlook.

A reduction in the amount of \$3.0 million was made for one-time funds budgeted in FY 2017 for a new percentage ground lease. Additional adjustments to the Revenue from Money and Property category include revenue from Mission Bay rents and concessions which the Real Estate Assets Department projects to increase during the Outlook period. Per Proposition C (approved by the voters in November 2008) and City Charter Section 55.2, \$20.0 million of Mission Bay rents and concessions will remain in the General Fund. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Park Improvements Fund and the Mission Bay Improvements Fund. The San Diego Regional Park Improvements Fund is to receive 25.0 percent of revenues in excess of the threshold amount or \$2.5 million, whichever is greater, with 75.0 percent or the remaining amount allocated to the Mission Bay Improvements Fund. The Outlook does not make any assumption in regard to the outcome of the ballot initiative being considered to increase the allocation to regional parks by 10.0 percent to 35.0 percent.

Furthermore, it should be noted that in December 2016 the Council will be considering an action to annex 121 acres of county property in Southeastern San Diego (primarily comprised of the Greenwood Memorial Park). In consideration of assuming additional storm water maintenance and monitoring costs for the property, the City would receive \$13.6 million. It is expected that if this is approved by the City and Local Agency Formation Committee (LAFCO) the funds would be received in FY 2017. These funds are not included in the forecast for Revenue from Money and Property.

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, including court crime lab revenue, urban search and rescue grants, and service level agreements. This revenue source represents 0.6 percent of the City's General Fund FY 2017 Adopted Budget.

Table 2.14 displays the FY 2017 Adopted Budget and the forecast for FY 2018 through FY 2022 for revenue from federal and other agencies.

Table 2.14 - Revenue From Federal and Other Agencies Five-Year Forecast (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	\$ 8.1	\$ 8.1	\$ 8.1	\$ 8.1	\$ 8.1	\$ 8.1

No adjustments or growth is projected within the Revenue from Federal and Other Agencies category for the FY 2018 through FY 2022 Outlook period.

CHARGES FOR SERVICES

The revenue forecasted in the Charges for Services category is comprised of cost reimbursements for services rendered to public and other City 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 10.3 percent of the City's General Fund FY 2017 Adopted Budget.

The following table displays the FY 2017 Adopted Budget and the forecast for FY 2018 through FY 2022 for revenue from charges for services.

Table 2.15 - Charges for Services Five-Year Forecast (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate		6.5%	2.3%	2.1%	0.6%	0.4%
Projection	\$ 136.5	\$ 138.5	\$ 148.4	\$ 156.3	\$ 169.6	\$ 178.5

The projected growth for Charges for Services is attributable to the projected TOT revenue, net of Special Promotional Program expenditures for the safety and maintenance of visitor related facilities. A one-time adjustment was also made for Infrastructure Asset Management (IAM) projects and other miscellaneous one-time revenues, reducing the Charges for Services by \$2.2 million.

OTHER REVENUE

The Other Revenue category includes library donations, ambulance fuel reimbursements, corporate sponsorships, and other miscellaneous revenues. This revenue source represents 0.3 percent of the City's General Fund FY 2017 Adopted Budget.

The following table displays the FY 2017 Adopted Budget and the forecast for FY 2018 through FY 2022 for revenue from other sources.

Table 2.16 - Other Revenue Five-Year Forecast (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	\$ 4.3	\$ 4.3	\$ 2.3	\$ 2.3	\$ 2.3	\$ 2.3

The growth rate for Other Revenue is projected to remain flat for all five fiscal years. However, beginning in FY 2019, Other Revenue will decrease by \$2.0 million due to end of the \$10.0 million donation from the Friends of the Library that was utilized in increments of \$2 million annually for the first five years of operations of the New Central Library.

TRANSFERS IN

The Transfers In category represents transfers to the General Fund from non-general funds and other agencies. The major components in this category are transfers from the Safety Sales Tax, EMS, Storm Drain, Gas Tax and TransNet Funds, the one-cent TOT revenue transfer from the Transient Occupancy Tax Fund, and the backfill of the tobacco securitized revenue. This revenue source represents 6.9 percent of the City's General Fund FY 2017 Adopted Budget.

Table 2.17 displays the FY 2017 Adopted Budget and the forecast for FY 2018 through FY 2022 for revenue from transfers in.

Table 2.17 - Transfers In Five-Year Forecast (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	\$ 91.4	\$ 89.0	\$ 95.1	\$ 101.7	\$ 108.8	\$ 116.3

No growth rate is applied to the Transfers In category for the Outlook period; however, the FY 2018 projection includes the removal of \$8.0 million in one-time revenues that were included in the FY 2017 Adopted Budget. The one-time revenues being removed from the projection include a transfer of fund balance from the Storm Drain Fund and the Tobacco Settlement Revenue Fund.

In addition to the removal of one-time revenues, the FY 2017 projection reflects adjustments due to the transfers in from the Automated Container Fund and from the Bayside Fire Station Capital Improvement Project. The Automated Container Fund will reimburse the General Fund \$0.6 million provided by the General Fund in FY 2008 and FY 2009. In FY 2017, \$5.0 million will be transferred into General Fund from the Bayside Fire Station Capital Improvement Project. General Fund money was budgeted in FY 2016 as a funding source for the Bayside Fire Station but as a result of cash management initiatives, this source has been replaced with other eligible cash identified during the 2016 RDA bond refunding due diligence review.

The transfers in from the TransNet, Gas Tax, and Safety Sales Tax Funds are also adjusted based on the projection for each respective revenue. TransNet revenues are based on a forecast prepared by SANDAG. Gas Tax growth rates were based on the Sales Tax growth rates. Safety Sales Tax reimbursements to the Police and Fire-Rescue Departments are projected to increase consistent with sales tax revenue, as this revenue is a component of the Citywide sales tax rate. Transfers in was also adjusted for revenue to be received from non-general fund department's proportionate share of office space rent for a new lease-to-own agreement at 101 Ash Street.

Safety sales tax revenue is derived from a half-cent sales tax resulting from the enactment of Proposition 172 in 1994. Annually, a certain amount of safety sales tax revenue is allocated to the Fire and Lifeguard Facilities Fund for the payment of debt obligations associated with Fire and Lifeguard

facility improvements. The remaining revenue is distributed to the General Fund equally between the Police and Fire-Rescue Departments' budgets to support public safety needs.

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BASELINE EXPENDITURES

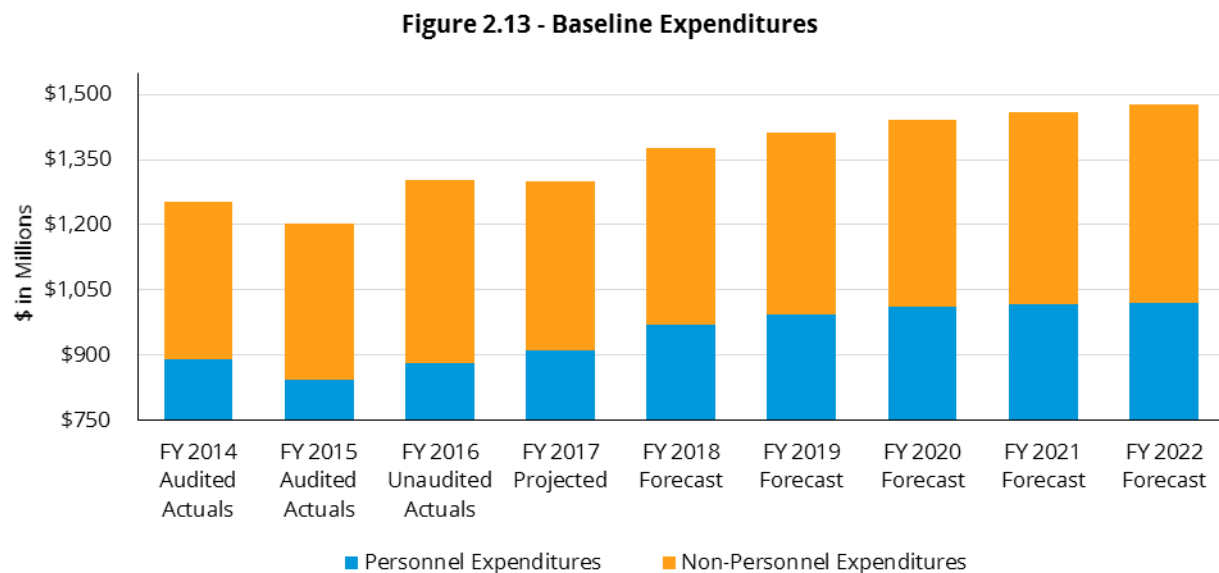
General Fund expenditures are comprised of both personnel and non-personnel expenditures including debt service and other non-discretionary payments.

Personnel expenses represent 68.1 percent of the City's General Fund FY 2017 Adopted Budget. This section discusses the following key components of personnel expenses: Salaries and Wages, the cost of multi-year recognized employee organization agreements; the City's pension payment or Actuarially Determined Contribution (ADC); flexible benefits, retiree health or Other Post-Employment Benefits (OPEB); workers' compensation; Supplemental Pension Savings Plan (SPSP); and other fringe benefits.

Baseline personnel expenses are projected to increase during the Outlook period, primarily as a result of the inclusion of pensionable and non-pensionable compensation increases resulting from negotiated agreements between the City and its recognized labor organizations. Additionally, the City's pension payment will significantly increase in the first year of the forecast due to updated actuarial assumptions that are expected to be included in the June 30, 2016 annual actuarial valuation report currently being prepared for SDCERS.

Projections for ongoing non-personnel expenses are also included in the baseline projections and are based on anticipated events and historical trend analysis. Beyond inflationary increases in supplies, contracts, energy and utilities, the most significant non-personnel expense is for reserve contributions consistent with in the City's Reserve Policy.

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



SALARIES AND WAGES

The Salaries and Wages category is the largest General Fund expenditure category and is comprised of regular salaries and wages, special pays, overtime, step increases, and vacation pay in lieu. The FY 2017 Adopted Budget for General Fund salaries and wages was \$534.5 million and included 7,530.69 full-time equivalents (FTEs). The following table displays the FY 2017 Adopted Budget and the forecast for FY 2018 through FY 2022 for salaries and wages.

Table 2.18 - Salaries and Wages (\$ in Millions)						
	FY 2017 Adopted ¹	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Projection	\$ 534.5	\$ 537.3	\$ 537.5	\$ 538.5	\$ 539.0	\$ 538.1

¹ FY2017 Adopted excludes expenses related to agreements with the City's recognized employee organizations which are reflected in the Recognized Employee Organization Agreements section.

Adjustments within the Salaries and Wages category incorporate only those expenditures associated with staff included in the FY 2017 Adopted Budget. Position additions identified for FY 2018-2022 to support critical strategic expenditures are discussed later in this report.

Step increases included in the Outlook are equal to the average of the amount budgeted for step increases over the past three fiscal years. The amount projected for step increases is anticipated to remain constant, at \$2.1 million annually, throughout the Outlook period.

The Salaries and Wages category also includes an adjustment for annual leave payouts for Deferred Retirement Option Plan (DROP) members, which are projected based on DROP participants' exit dates and projected annual leave balances. While a portion of future leave liability expense will be absorbed in departmental budgets, there are a large 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 resulting projected terminal leave payout amounts for FY 2018 through FY 2022 are displayed in the table below.

One-time Salaries and Wages expenditures budgeted in FY 2017 totaling \$0.3 million have been removed.

Table 2.19 - Annual Leave (DROP) (\$ in Millions)					
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Projected Number of Retirees	115	131	167	181	149
Projection	\$ 3.7	\$ 3.9	\$ 4.9	\$ 5.3	\$ 4.5

An estimate for the number of DROP participants anticipated to retire in FY 2022 is not yet available as DROP is a five-year program. Therefore, the FY 2022 projected number of retirees and the Terminal Leave (DROP) projection are based on the averages of the FY 2018 through FY 2021.

RECOGNIZED EMPLOYEE ORGANIZATION AGREEMENTS

In FY 2015 and FY 2016, the City and its Recognized Employee Organizations entered into separate Memoranda of Understanding as summarized below. These multi-year agreements expire in FY 2020, with the exception of the agreement with the Deputy City Attorneys Association of San Diego (DCAA), which expires in FY 2019.

Table 2.20 - Multi-Year Employee Organization Agreements						
	San Diego Municipal Employees Association (MEA)	San Diego Police Officers Association (POA)	San Diego City Firefighters, I.A.F.F. Local 145 (Local 145)	American Federation of State, County and Municipal Employees, AFL-CIO (Local 127)	Deputy City Attorneys Association of San Diego (DCAA)	California Teamsters Local 911 (Local 911)
Agreement Date	July 1, 2016	July 1, 2015	July 1, 2016	July 1, 2016	July 1, 2016	July 1, 2016
Agreement Period	FY 2017 - FY 2020	FY 2016 - FY 2020	FY 2017 - FY 2020	FY 2017 - FY 2020	FY 2017 - FY 2019	FY 2017 - FY 2020
Resolution	R-310513	R-309578	R-310508	R-310513	R-310511	R-310512

The specific terms of these agreements vary by Recognized Employee Organization and include increases to salary and flexible benefits as summarized below:

- Non pensionable pay increases in FY 2018 totaling \$14.4 million
- Pensionable compensation increases in FY 2019 and 2020 \$16.6 million and \$30.3 million, respectively
- New parental leave program
- Tuition reimbursement increase
- Parking reimbursement increase
- Special salary adjustments for specific positions to address recruitment and retention

The table below summarizes the total increase in costs associated with the Recognized Employee Organization agreements.

Table 2.21 - Five-Year Employee Recognized Organization Agreements & Unclassified Employee Contracts (\$ in Millions)						
	FY 2017 Adopted Budget FTE	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
DCCA	150.40	\$ 0.2	\$ 1.2	\$ 1.2	\$ 1.2	\$ 1.2
Local 127	1,020.77	1.5	2.9	4.3	4.3	4.3
Local 145	917.00	2.5	5.7	8.9	8.9	8.9
Teamsters 911	168.39	0.2	0.8	1.1	1.1	1.1
POA	2,032.35	6.7	9.6	12.1	12.1	12.1
MEA	2,685.48	4.0	9.0	13.2	13.2	13.2
Unrepresented	556.30	0.8	2.5	4.2	4.2	4.2
Total	7,530.69	\$ 15.9	\$ 31.8	\$ 45.0	\$ 45.0	\$ 45.0

Renegotiations for successor memoranda of understanding with the City's Recognized Employee Organizations may impact the City's expenditure projections following FY 2020.

RETIREMENT ACTUARIALLY DETERMINED CONTRIBUTION (ADC)

The pension payment or Actuarially Determined Contribution (ADC) paid by the City in FY 2017 was based on the San Diego City Employees Retirement System (SDCERS) Actuarial Valuation Report prepared by the system actuary, Cheiron, as of June 30, 2015.

The City's FY 2017 ADC payment was \$261.1 million, with \$191.2 million allocated to the General Fund. Based on revised estimates following an experience study of the assumptions used in the valuations for SDCERS, the ADC for FY 2018 is projected to be \$311.3 million, an increase of \$50.2 million or 19.2 percent. The General Fund allocation is expected to be \$227.9 million or 73.2 percent of the City's total ADC, representing an increase of \$36.7 million to the General Fund. The final amount of the City's FY 2018 ADC payment will not be known until the June 30, 2016 actuarial valuation report is released, which is expected to be presented to the SDCERS Board of Administration in January 2017.

The 2016 Actuarial Report will also project future pension payments based on certain actuarial assumptions, including investment earnings of 7.0 percent. The Outlook includes preliminary estimates for the ADC through the Outlook period that were presented to the SDCERS Board in September 2016 when the 2010-2015 Experience Study was approved. These ADC estimates are subject to change in the final June 30, 2016 Actuarial Report expected to be adopted by the SDCERS Board in early 2017.

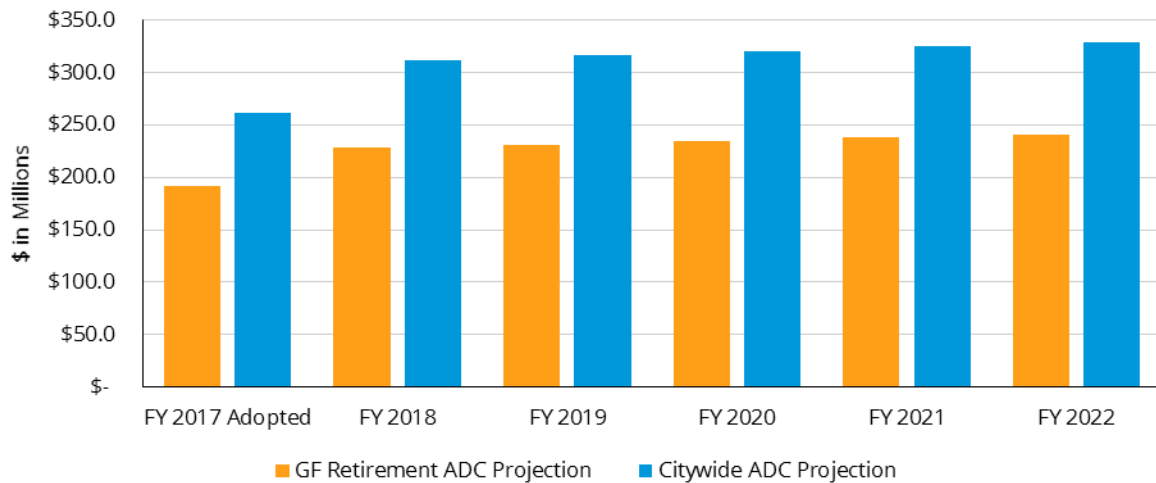
The FY 2018 Adopted Budget will include the full ADC amount determined by the actuary in the 2016 valuation report.

The following table displays both the Citywide ADC and the General Fund's proportionate share for FY 2018 through FY 2022. Table 2.22 incorporates preliminary projections of the ADC from the SDCERS actuary.

Table 2.22 - ADC Pension Payment (\$ in Millions)							
	FY 2017 Adopted	FY 17 GF %	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
GF ADC Estimate	\$ 191.2	73.2%	\$ 227.9	\$ 231.4	\$ 234.5	\$ 237.6	\$ 240.6
Citywide ADC Estimate	\$ 261.1		\$ 311.3	\$ 316.0	\$ 320.3	\$ 324.5	\$ 328.6

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Figure 2.14 - Retirement ADC



ADC ASSUMPTIONS

On September 9, 2016, the SDCERS Board of Administration (Board) approved a 2010-2015 Study of Plan Experience prepared by Cheiron (Study). The Study involved historical analysis of pension plan assumptions, including economic assumptions, such as the rate of investment return and salary inflation, as well as demographic assumptions, including retirement and mortality rates. The SDCERS actuary made several recommendations to the Board to adopt new actuarial assumptions based on the Study. The most significant recommendation was to adopt updated public sector mortality tables and a new method to project mortality which increased the plan’s FY 2018 unfunded liability by \$480 million (from \$1.99 billion to \$2.47 billion).

Economic assumptions recommended in the Study include maintaining the discount rate of 7.0 percent approved by the Board in 2015, an inflation rate of 3.05 percent, wage inflation of 0.0 percent for FY 2015 through FY 2018, cost-of-living increases capped at 2.0 percent. Changes to actuarial demographic assumptions recommended in the Study were related to fewer retirements, terminations, and disabilities based on the observed experience of plan participants.

The Study provided several options to the SDCERS Board to incorporate the new mortality assumptions. The SDCERS Board approved all actuarial assumption changes in the Study, including the new mortality tables and mortality projection method, but did not approve a “phased-in” approach to smooth the related increases to the ADC. Therefore, the estimated increased ADC costs presented by the SDCERS actuary are included in the Outlook period of FY 2018-2022 as material to the Outlook expenditure projections. These estimated increased pension payments are subject to change based on the June 30, 2016 Actuarial Valuation.

Risks associated with the projection of ADC payments include primarily the uncertainty of investment earnings to meet the 7.0 percent current discount rate assumption and future reductions to the discount rate, followed by wage increases above price inflation, and further reductions in the rates for mortality, termination, and disability.

EMPLOYEE FLEXIBLE BENEFITS

Flexible benefits is an Internal Revenue Service (IRS) qualified benefits program offered to all eligible employees. The program 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 an individual credit amount on a biweekly basis for use in the Flexible Benefits Plan Program. The credit each employee receives varies by employee association, standard working hours, years of service and other factors.

Flexible benefits include optional and required benefits, such as medical, dental, vision, and basic life insurance plans. For the FY 2017 Adopted Budget, \$79.9 million was budgeted in flexible benefits. The following table displays the projection for flexible benefits for FY 2018 through FY 2028.

Table 2.23 - Flexible Benefits (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Projection	\$ 79.9	\$ 79.9	\$ 79.9	\$ 79.9	\$ 79.9	\$ 79.9

¹ FY2017 Adopted excludes expenses related to the City's MOU with POA which are reflected in the Multi-year Employee Organization Agreements section

Flexible benefit costs are fixed by position, and total flexible benefit costs vary as the number of positions change. As a result, the Flexible Benefits projection is held constant throughout the Outlook period since all position additions are reflected within the Critical Strategic Expenditures section of the Outlook. Increases in Flexible Benefit costs related to the Recognized Employee Organizations agreements are discussed in that section of the Outlook.

Additionally, the City is engaging with the Recognized Employee Organizations on compliance with Affordable Care Act (ACA) provisions.

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Other Post-Employment Benefits (OPEB) represent the cost of retiree healthcare. The Retiree Health or Other Post-Employment Benefits (OPEB) Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2015 was approximately \$537.3 million and the annual required contribution was determined to be \$47.3 million.

In FY 2012, the City entered into a 15-year memorandum of understanding with each of the Recognized Employee Organizations regarding reforms to the retiree healthcare benefit for health-eligible employees. The agreements set the City's OPEB contribution at \$57.8 million for FY 2013 through FY 2015, with annual increases of up to 2.5 percent based on actuarial valuations prepared by Buck Consultants, which may be renegotiated after FY 2015. The following table displays both the Citywide OPEB projection and the General Fund's proportionate share for FY 2018 through FY 2022.

Table 2.24 - Other Post Employment Benefits (OPEB) (\$ in Millions)							
	FY 2017 Adopted	FY17 GF %	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate		65.8%	2.5%	2.5%	2.5%	2.5%	2.5%
GF OPEB Projection	\$ 39.9		\$ 40.9	\$ 41.9	\$ 43.0	\$ 44.1	\$ 45.2
Citywide OPEB Projection	\$ 60.7		\$ 62.2	\$ 63.8	\$ 65.4	\$ 67.0	\$ 68.7

The FY 2017 Adopted Budget included \$39.9 million for the General Fund portion of OPEB. The General Fund portion is determined by the percentage of FTE positions budgeted within the General Fund versus non-general funds. The General Fund's proportionate share of the OPEB payment is projected to increase by 2.5 percent annually for FY 2018 through FY 2022.

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 of San Diego.

The City's Workers' Compensation expenses are comprised of two components. Operating expenses are the first component, which covers the cost of current medical expenses and claims, while the second component covers contributions to the Workers' Compensation Reserve. The following table displays the General Fund's projected share of Workers' Compensation expenses for FY 2018 through FY 2022.

Figure 2.25 - Workers' Compensation (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Operating	\$ 22.6	\$ 23.4	\$ 24.2	\$ 25.0	\$ 25.8	\$ 26.7
Reserves	\$ 2.1	\$ 2.9	\$ 2.9	\$ 1.8	\$ 1.8	\$ 1.9
Total	\$ 24.7	\$ 26.3	\$ 27.1	\$ 26.8	\$ 27.6	\$ 28.5

The projections for operating expenses are based on actual prior year experience and forecasted to increase by 3.3 percent annually. 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). SPSP accounts provide a way for eligible employees to add to savings for retirement income with contributions matched by the City. Employee eligibility for SPSP is determined by hire date and labor organization. Employees hired between July 1, 2009 and July 20, 2012 are not eligible for entry into SPSP but rather were placed in 401(a) and retiree medical trust plans. Employees hired after the July 20, 2012 effective date of Proposition B, other than sworn police officers, are placed in the SPSP-H Plan, which is being used as an Interim Defined Contribution Retirement Plan for benefited employees. Eligible new hires who are non-safety employees are required to contribute 9.2 percent of compensation to the plan, which is matched by a 9.2 percent employer contribution. For safety employees, the mandatory

employee and matching employer contribution is 11.0 percent of compensation. The following table displays the projection for SPSP for FY 2018 through FY 2022.

Table 2.26 - Supplemental Pension Savings Plan (SPSP) (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Projection	\$ 16.5	\$ 16.7	\$ 17.2	\$ 17.7	\$ 17.7	\$ 17.7

SPSP is a fringe benefit that is projected based on a percentage of employees' salaries. In the FY 2017 Adopted Budget, SPSP was approximately 3.1 percent of General Fund salaries. For the Outlook period, SPSP as a percentage of salaries is projected to remain consistent at 3.1 percent since the baseline for salaries does not project additional new employees. New employee costs including fringe are included in Critical Strategic Expenditures. A minor increase from the FY 2017 Adopted Budget to the FY 2018 through FY 2022 projections is a result of anticipated salary step increases, which are included within the Salaries and Wages category. Additionally, this projection is based on the number of employees that were enrolled in the SPSP-H Plan during the development of the FY 2017 Adopted Budget. All position additions included in the Critical Strategic Expenditures section of this report are based on the assumption that new employees are hired post Proposition B.

OTHER FRINGE BENEFITS

The Other Fringe Benefits category is comprised of Long-Term Disability, Medicare, Retiree Medical Trust, 401(a) contributions, Retirement DROP contributions, Employee Offset Savings, Risk Management Administration, and Unemployment Insurance expenditures. The following table displays the projection for Other Fringe Benefits for FY 2018 through FY 2022.

Table 2.27 - Other Fringe Benefits (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Projection	\$ 24.6	\$ 24.9	\$ 25.6	\$ 26.3	\$ 26.3	\$ 26.3

Other Fringe Benefits are projected based on a percentage of employees' salaries. In the FY 2017 Adopted Budget, Other Fringe Benefits were approximately 4.6 percent of General Fund salaries. For the Outlook period, Other Fringe Benefits as a percentage of salaries are projected to remain consistent at 4.6 percent. A minor increase from the FY 2017 Adopted Budget to the FY 2018 through FY 2022 projections is a result of anticipated salary step increases and salary annual leave payouts included within the Salaries and Wages category.

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

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

SUPPLIES

The Supplies category includes costs for office supplies, books, tools, uniforms, safety supplies, and building and electrical materials. The following table displays the FY 2018 through FY 2022 projections for the Supplies category.

Table 2.28 - Supplies (\$ in millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate		3.5%	3.5%	3.5%	3.5%	3.5%
Projection	\$ 35.9	\$ 31.3	\$ 32.4	\$ 33.6	\$ 34.7	\$ 35.9

The Fiscal Year 2017 Adopted Budget includes \$5.6 million in one-time expenditures for office relocation/tenant improvements and police officer recruitment and retention. These one-time expenditures have been removed from the FY 2018 through FY 2022 baseline projections. Additionally, a 3.5 percent increase has been applied for FY 2018 through FY 2022 based on historical average increases in the Supplies category over the past several years.

CONTRACTS

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

The FY 2018 Projection is \$238.9 million, which is a \$1.3 million dollar decrease from FY 2017 Adopted Budget of \$240.2 million. The following table displays the FY 2018 through FY 2022 projections for the Contracts category.

Table 2.29 - Contracts (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate		3.5%	3.5%	3.5%	3.5%	3.5%
Projection	\$ 240.2	\$ 238.9	\$ 246.5	\$ 252.7	\$ 261.0	\$ 267.6

The annual growth rate of 3.5 percent is based on a historical analysis, and other adjustments made on known and anticipated events. The FY 2017 Adopted Budget included \$11.3 million in one-time expenditures within the Contracts category, primarily for facility condition assessments, elections, a one-time transfer to the Public Liability Fund, park improvement projects, storm drain channel program, Kinder-Morgan litigation, moving expenses, and tenant improvements.

Additionally, for FY 2018 through FY 2022, Contracts was adjusted for the following items:

- Increased expenditures related to the lease purchase of the 101 Ash Street building in the amount of \$7.2 million
- Reduction of \$3.0 million in one-time paygo expenses for public liability
- Adjustments for general election costs for Fiscal Years 2019 and 2021
- Council redistricting after the 2020 census in the amount of \$200,000

INFORMATION TECHNOLOGY

The Information Technology category includes both discretionary expenses and non-discretionary allocations to General Fund departments. The Information Technology category includes the costs related to hardware and software maintenance, help desk support, and other information technology (IT) services. The following table displays the FY 2018 through FY 2022 projections for the Information Technology category.

Table 2.30 - Information Technology (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate		2.0%	2.0%	2.0%	2.0%	2.0%
Projection	\$ 28.8	\$ 32.5	\$ 31.6	\$ 32.3	\$ 33.0	\$ 35.1

The projections include estimates of IT costs related to desktop support, networks, data-centers, and applications for FY 2018 through FY 2022, and all other base IT costs are inflated by the California Consumer Price Index. An adjustment for one-time fixed costs for transition of IT network services in the amount of \$1.5 million is also included.

ENERGY AND UTILITIES

The Energy and Utilities category includes the General Fund's costs for electricity, fuel, and other utility and energy expenses. The following table displays the FY 2018 through FY 2022 projections for the Energy and Utilities category.

Table 2.31 - Energy and Utilities (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate		3.4%	3.1%	3.5%	2.1%	2.1%
Projection	\$ 46.9	\$ 48.5	\$ 50.0	\$ 51.7	\$ 52.8	\$ 53.9

The Energy and Utility category is projected to increase by 3.4 percent in FY 2018 and will continue to grow in the later years at a lower rate of 2.1 percent starting in FY 2021. Since the Energy and Utility category includes various costs, each cost component has a different applicable rate. Electricity and fuel are projected to increase at a constant rate by 2.2 percent and 3.8 percent, respectively. These growth rates are based the Annual Energy Outlook 2016 report prepared by the U.S. Energy Information Administration. Water rates, on the other hand, are determined by the Public Utilities Department. In FY 2016, City Council approved the adjustments to increase the water rate to 6.9 percent in FY 2017, 6.9 percent in FY 2018, 5.0 percent in FY 2019 and 7.0 percent in FY 2020. As a result, the growth rate for the Energy and Utility category represents a weighted growth rate that was calculated after applying the corresponding growth rate for each component.

RESERVE CONTRIBUTIONS

The City's Reserve Fund Policy requires that the reserve funds are maintained at certain levels. The City's Reserves include the General Fund Reserve (Emergency Reserve and Stability Reserve), Pension

Payment Stabilization Reserve, Public Liability Fund Reserve, Long-Term Disability Fund Reserve, and Workers' Compensation Fund Reserve.

Table 2.32 details the FY 2017 projected reserve balance in the funds, the percentage targets, and contribution forecasted to maintain the City's reserve funds.

Table 2.32 - Reserve Target Levels (\$ in Millions)						
	FY 2017 Proj.	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022
General Fund Target (%)	14.75%	15.25%	15.75%	16.25%	16.70%	16.70%
General Fund Reserve Level (\$)	\$ 172.3	\$ 180.6	\$ 193.4	\$ 206.8	\$ 220.7	\$ 228.4
General Fund Contribution Amount		\$ 8.3	\$ 12.8	\$ 13.4	\$ 13.9	\$ 7.7
Pension Stability Target (%)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Pension Stability Reserve Level (\$)	\$ 16.0	\$ 16.2	\$ 17.3	\$ 18.5	\$ 18.8	\$ 19.0
Pension Stability Contribution Amount		\$ 0.2	\$ 1.2	\$ 1.2	\$ 0.3	\$ 0.2
Public Liability Target (%) ¹	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Public Liability Reserve Level (\$)	\$ 39.5	\$ 39.5	\$ 39.5	\$ 39.5	\$ 39.5	\$ 39.5
Public Liability Contribution Amount		-	-	-	-	-
Long-Term Disability Fund Target (%) ²	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Disability Fund Reserve Level (\$)	\$ 17.7	\$ 17.7	\$ 17.7	\$ 17.7	\$ 17.7	\$ 17.7
Long-Term Disability Contribution Amount		-	-	-	-	-
Workers' Compensation Target (%)	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Workers' Compensation Reserve Level (\$)	\$ 58.7	\$ 62.3	\$ 65.9	\$ 68.1	\$ 70.3	\$ 72.6
Workers' Compensation Contribution Amount		\$ 3.6	\$ 3.6	\$ 2.2	\$ 2.2	\$ 2.3
Workers' Compensation Contribution Amount (GF)		\$ 2.9	\$ 2.9	\$ 1.8	\$ 1.8	\$ 1.9

¹ Public Liability Reserve is currently 51% funded

² Long-Term Disability Reserve is currently 161% funded

Contributions are forecasted for three of the reserve funds. In FY 2017, the Public Liability Reserve Target is at its target level of 50 percent of outstanding claims and no additional contributions are anticipated in the Outlook period. The Long-Term Disability Fund exceeds its target level of 100 percent of outstanding claims.

As discussed in the Other Fringe Benefits section of this report, the City is developing a long-term death and disability benefit plan for employees hired on or after July 20, 2012. The use of excess equity in the Long-Term Disability Fund is an option to fund the death and disability plan. No additional contributions to the Long-Term Disability Fund are anticipated in the Outlook period.

OTHER EXPENDITURES

Expenses included in this category are debt service payments, transfers out to other funds, capital expenses, and other miscellaneous expenditures. The following table displays the FY 2018 through FY 2022 projections for the Other Expenditures Category.

Table 2.33 - Other Expenditures (\$ in Millions)						
	FY 2017 Adopted	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	\$ 55.1	\$ 55.4	\$ 55.5	\$ 56.6	\$ 57.0	\$ 58.9

The one-time expenditures included in the FY 2017 Adopted Budget are detailed below:

- \$7.6 million transfer to the General Fund Reserve
- \$2.8 million transfer to the Public Liability Reserve
- \$6.1 million for Sidewalks, Street Light Circuit Upgrades, Compressed Natural Gas Fueling Station, other rehabilitation and repairs
- \$1.7 million in capital expenses for Park and Recreation equipment, Transportation Storm Water, Police, and the implication costs of 311 Customer Experience and Service Delivery Program
- \$5.9 contribution to Capital Improvement Program (CIP) projects
- \$4.5 million of Fleet and IT fund balance used to pay non-discretionary expenses

Furthermore, in November 2016, the City Attorney's Office issued an opinion that revenue received from the De Anza Cove Mobile Home Park is Mission Bay Park Lease Revenues as defined in Charter section 55.2. As such, the revenues received should have been allocated in compliance with Charter Section 55.2. It is estimated that the General Fund will need to repay \$9.6 million to the San Diego Regional Park (25.0 percent) and Mission Bay (75.0 percent) Improvements Funds. This repayment is anticipated to be recognized in FY 2016 and therefore not included in the Outlook period. In addition, the amount may be mitigated, which would result in an impact less than the full \$9.6 million.

CHARTER SECTION 77.1 – INFRASTRUCTURE FUND

Passed by the voters on June 7, 2016, the City is required to place certain unrestricted General Fund revenues into an Infrastructure Fund to be used for new infrastructure costs, including financing costs, related to General Fund capital improvements such as streets, sidewalks and buildings, and the maintenance and repair of such improvements.

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

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

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

Table 2.34 - Infrastructure Deposits (\$ in Millions)					
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Projection	\$ 17.0	\$ 15.1	\$ 14.4	\$ 12.8	\$ 13.0

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 2018 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. However, the following Critical Strategic Expenditures identified in the Outlook could be eligible infrastructure expenses:

- Deferred Capital Bonds issued during the Outlook period
- Costs to complete the Compressed Natural Gas (CNG) Fueling Station which allows the conversion of the City's fleet of refuse and recycling vehicles from diesel to natural gas
- Infrastructure Asset Management (IAM) implementation costs

The Outlook identifies the infrastructure fund deposits separately; however, the deposits will be recorded as an expenditure in the "Transfers Out" category in future fiscal years.

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CRITICAL STRATEGIC EXPENDITURES

The Outlook identifies future potential critical needs for the City that are supported by the general fund. Such critical needs encompass a number of issues such as critical operational funding, state and federal mandates, legal obligations, and new facilities. It should be repeated, the Outlook is not a budget. The purpose of this section is the identification of future known needs and the estimated fiscal impact as currently assumed. The expenditures identified in this section are not included in the shortfall defined in the Baseline section.

CITY TREASURER

Request	FTE/Rev/Exp	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Administer the City's Earned Sick Leave & Minimum Wage	FTE	3.00	3.00	3.00	3.00	3.00
	Revenue	-	-	-	-	-
	Expense	68,735	80,182	91,630	91,630	91,630
Additional Revenue Audit positions for tax compliance for short-term rentals	FTE	5.00	5.00	5.00	5.00	5.00
	Revenue	462,030	463,327	474,625	474,625	474,625
	Expense	462,030	463,327	474,625	474,625	474,625
Dept. Total FTE		8.00	8.00	8.00	8.00	8.00
Dept. Total Revenue		462,030	463,327	474,625	474,625	474,625
Dept. Total Expense		530,765	543,510	566,254	566,254	566,254

The Outlook for the City's Treasurer Department supports the City's Strategic Plan to promote economic prosperity and safe and livable neighborhoods through services that improve the quality of life. The table above identifies the annualization of 3.00 FTEs and non-personnel expenditures for the administration and enforcement of the Earned Sick Leave and Minimum Wage Ordinance Program, which increased the minimum wage and number of earned sick days. The FY 2017 Adopted Budget included \$400,000 to support the Earned Sick Leave and Minimum Wage Ordinance Program, this amount represents the incremental increase above base. Additionally, 5.00 FTEs are identified for increased audits and resources needed for short-term vacation rental TOT tax compliance.

CITYWIDE PROGRAM EXPENDITURES

Request	FTE/Rev/Exp	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Citywide Debt Service	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	2,000,000	5,400,000	10,800,000	12,800,000	16,200,000
Dept. Total FTE		-	-	-	-	-
Dept. Total Revenue		-	-	-	-	-
Dept. Total Expense		2,000,000	5,400,000	10,800,000	12,800,000	16,200,000

The Outlook for Citywide Program identifies the issuance of deferred capital bonds on an 18-month basis. The associated debt service reflects three debt issuances of \$90 million projected to occur in FY 2018, FY 2020 and FY 2021. The schedule for issuance of long-term bond debt will be reevaluated each fiscal year as part of the budget development process. Additionally, as the City pursues a commercial paper program for the CIP, the timing of issuing long-term debt may be further adjusted based on cash needs.

ECONOMIC DEVELOPMENT

Request	FTE/Rev/Exp	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Reinvestment Initiative (Rel)	FTE	6.00	7.00	7.00	7.00	7.00
	Revenue	627,224	749,613	769,352	769,352	769,352
	Expense	674,216	797,989	819,113	819,113	819,113
Dept. Total FTE		6.00	7.00	7.00	7.00	7.00
Dept. Total Revenue		627,224	749,613	769,352	769,352	769,352
Dept. Total Expense		674,216	797,989	819,113	819,113	819,113

The Outlook for the City's Economic Development Department identifies support for the Reinvestment Initiative (Rel) by increasing financial management, project management, federal and state compliance through the addition of seven grant reimbursable positions. The purpose of the Rel is to reinvest recaptured CDBG Program Income in support of the Mayor's One San Diego Initiative, to create and sustain a resilient and economically prosperous City, and to encourage economic growth and investment in San Diego's emerging communities. Of these seven positions, three will be dedicated to managing fiscal, infrastructure, and administrative operations. The four remaining positions will ensure compliance with sustainability efforts, regulations, and existing contracts.

ENVIRONMENTAL SERVICES

Request	FTE/Rev/Exp	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
CNG Fueling Station Operating Costs	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	1,523,000	11,000	(278,000)	(637,000)	(835,000)
Fee Adjustments	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	295,000	590,000	1,210,000	1,210,000	1,210,000
Dept. Total FTE		-	-	-	-	-
Dept. Total Revenue		-	-	-	-	-
Dept. Total Expense		1,818,000	601,000	932,000	573,000	375,000

The Outlook for the City's Environmental Services Department identifies support of the City's Strategic Plan for investing in infrastructure and one of numerous initiatives that meet the City's Climate Action Plan. The table above identifies additional resources to complete the Compressed Natural Gas (CNG) Fueling Station at the Miramar Operations Center. The CNG fueling station will allow for the conversion of the City's fleet of refuse and recycling vehicles from diesel to natural gas. Once operational, the General Fund will benefit from this facility in the form of reduced fuel costs. Additionally, costs are identified to comply with policies that increased tipping fees and eliminated tipping fee discounts to City departments at the Miramar Landfill.

FIRE-RESCUE

Request	FTE/Rev/Exp	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Self-Contained Breathing Apparatus	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	835,000	1,669,000	1,669,000	1,669,000	1,669,000
APX Portable Radios	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	-	-	381,977	381,977	-
Fire Stations (Bayside, Black Mountain, North University, UCSD)	FTE	12.00	12.00	36.00	36.00	48.00
	Revenue	-	-	-	-	-
	Expense	1,622,471	1,671,446	5,166,018	6,016,018	6,888,024
	Dept. Total FTE	12.00	12.00	36.00	36.00	48.00
	Dept. Total Revenue	-	-	-	-	-
	Dept. Total Expense	2,457,471	3,340,446	7,216,995	8,066,995	8,557,024

The Outlook for the City's Fire-Rescue Department supports the City's Strategic Plan to foster safe and livable neighborhoods through timely and effective response in all communities. The table above shows the addition of four new fire stations as well as the replacement of all self-contained breathing apparatus (SCBA) inventory, air filling stations, and light and air apparatus. Additionally, the table identifies the purchase of APX portable radios for P25 compliance. The operational expenses for the following four fire stations are identified as the construction of the facilities is fully funded:

- FY 2018 - Bayside Fire Station
- FY 2020 – Black Mountain Fire Station and North University City Fire Station
- FY 2022 – UCSD Fire Station

FLEET OPERATIONS

Request	FTE/Rev/Exp	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Fleet Non-Discretionary Assignment Fees	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	2,507,768	3,146,948	2,760,444	7,225,538	7,342,358
	Dept. Total FTE	-	-	-	-	-
	Dept. Total Revenue	-	-	-	-	-
	Dept. Total Expense	2,507,768	3,146,948	2,760,444	7,225,538	7,342,358

The Outlook for the City's Fleet Operations Department supports the City's Strategic Plan and meets greenhouse gas emissions reduction goals identified in the Climate Action Plan. The table above identifies costs related to the General Fund component vehicle assignment fees to be transferred to the Fleet Operations Replacement Fund for planned replacement of the City's fleet. Potential replacements include critical pieces of the fleet, including police vehicles, fire trucks, street sweepers and trash trucks. Fleet to be replaced include critical Assignment fees provide all City departments with vehicle acquisition and fitting services.

INFORMATION TECHNOLOGY

Request	FTE/Rev/Exp	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Non-Discretionary IT	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	1,734,197	1,445,806	1,753,370	1,195,147	1,029,381
Dept. Total FTE		-	-	-	-	-
Dept. Total Revenue		-	-	-	-	-
Dept. Total Expense		1,734,197	1,445,806	1,753,370	1,195,147	1,029,381

The Outlook for the City's Department of Information Technology supports the City's Strategic Plan to ensure equipment and technology that allows employees to provide high quality public service. The table above identifies the General Fund costs associated with maintaining and improving existing software programs managed by the Department of IT.

INFRASTRUCTURE ASSET MANAGEMENT (IAM)

Request	FTE/Rev/Exp	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
IAM San Diego Project	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	1,461,467	1,618,101	1,618,101	1,618,101	1,618,101
Dept. Total FTE		-	-	-	-	-
Dept. Total Revenue		-	-	-	-	-
Dept. Total Expense		1,461,467	1,618,101	1,618,101	1,618,101	1,618,101

The Outlook identifies costs for Infrastructure Asset Management (IAM) software that supports the City's Strategic Plan to invest in infrastructure. The table above includes both the Public Works and Transportation and Storm Water Departments' portion of the Infrastructure Asset Management (IAM) implementation. IAM identifies the General Fund implementation costs and software maintenance; the General Fund represents 30 percent of the overall costs, the remaining is funded through the Public Utilities Department. This project will establish an integrated, real-time ERP asset management software solution that builds upon the existing Citywide ERP platform and will enable staff to conduct in-depth analysis of maintenance activities, develop effective predictive and preventative maintenance and capital renewal plans, and better leverage resources.

LIBRARY

Request	FTE/Rev/Exp	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Public Use PC Refresh	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	-	-	200,000	200,000	200,000
New Libraries (Mission Hills, San Ysidro, and Pacific Highlands Ranch)	FTE	-	12.17	12.17	12.17	10.55
	Revenue	-	-	-	-	-
	Expense	-	1,519,159	1,538,549	1,538,549	1,417,572
Dept. Total FTE		-	12.17	12.17	12.17	10.55
Dept. Total Revenue		-	-	-	-	-
Dept. Total Expense		-	1,519,159	1,738,549	1,738,549	1,617,572

The Outlook for the City's Library Department supports the City's Strategic Plan providing for equipment and technology to achieve high quality public service and foster services that improve quality of life. The table identifies costs that are necessary to replace all public-use computers. In addition, staffing and operating costs are identified for new facilities opening in FY 2019, which include New Mission Hills, San Ysidro, and New Pacific Highlands branch libraries.

PARK AND RECREATION

Request	FTE/Rev/Exp	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
New Facilities	FTE	10.31	30.16	43.19	47.81	50.22
	Revenue	-	20,000	45,000	45,000	45,000
	Expense	1,445,247	3,076,929	4,497,511	4,943,869	5,116,587
MADs Proposition 218 Compliance/General Benefit	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	136,058	192,861	252,504	315,129	380,885
Dept. Total FTE		10.31	30.16	43.19	47.81	50.22
Dept. Total Revenue		-	20,000	45,000	45,000	45,000
Dept. Total Expense		1,581,305	3,269,790	4,750,015	5,258,998	5,497,472

The Outlook for the City's Park & Recreation Department supports the City's Strategic Plan to promote economic prosperity with opportunity in every community. The table above identifies the addition of personnel and non-personnel expenditures for the operation and maintenance of 18 new facilities and 25 new play all day joint use facilities, as well as additional funding to maintain Balboa Park after completion of the Plaza de Panama project. Attachment 3 identifies these facilities. Additionally, the expenses to comply with Proposition 218 for the City's Maintenance Assessment Districts (MADS) are identified.

POLICE

Request	FTE/Rev/Exp	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Addition of Sworn Positions and Equipment	FTE	-	16.00	30.00	45.00	50.00
	Revenue	-	-	-	-	-
	Expense	-	2,233,486	3,831,843	5,624,265	5,922,406
Addition of Civilian Positions and Equipment	FTE	-	9.00	16.00	23.00	26.00
	Revenue	-	-	-	-	-
	Expense	-	673,862	1,202,575	1,715,181	1,934,869
Ongoing Costs Assoc. w/ Replacement of CAD System	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	782,848	1,122,848	1,132,848	1,137,848	1,162,848
Property Room Storage	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	(60,000)	(120,000)	(120,000)	(120,000)	(120,000)
NetRMS	FTE	-	-	-	-	-
	Revenue	670,104	107,351	178,493	178,493	178,492
	Expense	670,104	107,351	260,000	260,000	260,000
Dept. Total FTE		-	25.00	46.00	68.00	76.00
Dept. Total Revenue		670,104	107,351	178,493	178,493	178,492
Dept. Total Expense		1,392,952	4,017,547	6,307,267	8,617,294	9,160,123

The Outlook for the City's Police Department supports the City's Strategic Plan for fostering safe and livable neighborhoods through the protection of lives, property and the environment through timely and effective response in all communities. The table above identifies the addition of 50.00 sworn FTE positions and 26.00 civilian positions by Fiscal Year 2022. The expense for sworn positions includes body worn cameras, new vehicles, and other required police equipment. Also identified are lease expense savings from moving a storage facility to a City owned property and a State-grant reimbursable request to migrate from the current Criminal Records Management System (CRMS) to a Net Records Management System (NetRMS).

REAL ESTATE ASSETS

Request	FTE/Rev/Exp	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
CCP Reconfigurations	FTE	-	-	-	-	-
	Revenue	111,427	111,427	111,427	111,427	111,427
	Expense	2,800,000	1,800,000	1,800,000	1,800,000	900,000
	Dept. Total FTE	-	-	-	-	-
	Dept. Total Revenue	111,427	111,427	111,427	111,427	111,427
	Dept. Total Expense	2,800,000	1,800,000	1,800,000	1,800,000	900,000

As part of the continued effort to improve efficiency and maximize the use of space at Civic Center Plaza (CCP), the department has identified reconfiguration costs such as moving expenses, furniture, and information technology infrastructure to improve the facility. READ expects to receive reimbursements to the General Fund for use of the Civic Center Plaza facility by Non-General Fund departments.

OTHER CRITICAL STRATEGIC EXPENDITURES

In September 2016, the Transportation and Storm Water Department released a condition survey that determined that 60 percent of the City streets are in good condition, 34 percent are in fair condition, and 6 percent are in poor condition. This results in an Overall Condition Index (OCI) of 72 which exceeds the Mayor's goal (OCI 70).

One of the primary methods to maintain an OCI 70 is slurry seal, which has traditionally been funded via Gas Tax and Proposition 42 Replacement Funds. With the decline in fuel prices over the past few years, these sources of revenue have declined. As a result, the City must identify a new source of non-capital funding for slurry seal to maintain the OCI 70. For FY 2018, potential funding has been identified for planned slurry seal work; however, for FY 2019 through FY 2022, a potential unfunded need of \$20 - \$25 million annually exists. One potential source of funding to support slurry seal is Charter Section 77.1 - Infrastructure Fund. The department is still evaluating the work plan required to maintain OCI70 and an updated will be provided to the Infrastructure Committee.

Furthermore, the City has to comply with the Regional Water Quality Control Board (RWQCB) storm water permit requirements creating significant operational and capital needs. The Capital Improvement Program (CIP) needs for storm water flood risk management and water quality improvement projects have been identified and will be discussed in the Five-Year Capital Infrastructure Planning Outlook scheduled to be released in January 2016.

POTENTIAL MITIGATION ACTIONS

The Outlook has identified a structural shortfall as a result of the growth in ongoing expenditures outpacing growth in ongoing revenues. This shortfall is primarily caused by the unexpected increase in the City's pension payment, which was increased as a result of SDCERS Board action to adopt new mortality tables and not phase-in the payments. For the Mayor to present a balanced FY 2018 budget in April 2017 to the City Council, several mitigations, including budget reductions, will be considered. The following section presents potential measures to address the anticipated shortfall in FY 2018.

CITY RESERVE POLICY

Council Policy 100-20, adopted in April 2016, established a 16.7 percent target level for the General Fund Reserves (Emergency Reserve and Stability Reserve) by June 30, 2021. The baseline expenditures section of the Outlook incorporates the estimated contributions for the incremental increase in the General Fund Reserves as detailed in the Reserve Policy and summarized in the following table. The estimated reserve level amounts, based on the target percentages, are estimates at this time and may change once actual data is available for each respective fiscal year.

Table 4.1 - Reserve Target Levels (\$ in Millions)						
	FY 2017 Proj.	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022
General Fund Target (%)	14.75%	15.25%	15.75%	16.25%	16.70%	16.70%
General Fund Reserve Level (\$)	\$ 172.3	\$ 180.6	\$ 193.4	\$ 206.8	\$ 220.7	\$ 228.4
Pension Stability Target (%)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Pension Stability Reserve Level - GF (\$)	\$ 16.0	\$ 16.2	\$ 17.3	\$ 18.5	\$ 18.8	\$ 19.0
Public Liability Target (%) ¹	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Public Liability Reserve Level (\$)	\$ 39.5	\$ 39.5	\$ 39.5	\$ 39.5	\$ 39.5	\$ 39.5
Long-Term Disability Fund Target (%) ²	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Disability Fund Reserve Level (\$)	\$ 17.7	\$ 17.7	\$ 17.7	\$ 17.7	\$ 17.7	\$ 17.7
Workers' Compensation Target (%)	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Workers' Compensation Reserve Level (\$)	\$ 58.7	\$ 62.3	\$ 65.9	\$ 68.1	\$ 70.3	\$ 72.6

¹Public Liability Reserve is currently 51% funded

²Long-Term Disability Reserve is currently 161% funded

As shown above, the current Reserve Policy anticipates achieving the 16.7 percent target in FY 2021. An alternative could be considered to extend the time period in which the City achieves the target of 16.7 percent.

In addition, the Reserve Policy established a Pension Payment Stabilization Reserve (Pension Reserve) to mitigate service delivery risk due to the unanticipated increase in the annual pension payment, the Actuarially Determined Contribution (ADC). A potential mitigation to the \$36.7 million, or 19.2 percent, increase in the General Fund ADC payment for FY 2018 would be to use the Pension Reserve. The Reserve Policy further states that if used, the Mayor will prepare a plan no later than one year from the reserve action to replenish the Pension Reserve balance to the policy level.

The Workers' Compensation Fund, which funds medical and disability costs for job-related injury claims, is required to maintain reserves equal to 25 percent of a three-year average value of outstanding claims. Workers' compensation expenses tend to be smooth and show a gradual upward trend based on the increased liability, and are not volatile from year to year; therefore it may be appropriate to adjust this reserve to a value equivalent to one years' worth of paygo expenses. Workers Compensation Reserves are needed at an amount that is prudent to support any unexpected expenditures. It is important to note that the Workers' Compensation Reserve have never been drawn upon since it was established in 2007. The appropriate amount of cash to have on hand should be re-examined given nine years of history with the reserve.

In addition, the current Long-Term Disability Fund Reserve is funded beyond the target level of 100 percent of a three year average of outstanding claims' liability. Some amount of the excess funding will be needed to establish a new death and disability benefit for employees hired after Proposition B became effective in 2012, subject to negotiations with the employee organizations.

If this re-evaluation of the City's Reserve Policy results in modifications to the targets for Workers' Compensation and LTD, the funds could be reallocated to the General Fund Reserves without impacting the City's overall reserve levels that are reviewed by rating agencies. Any modifications to the City's Reserve Policy would require Council action. Financial Management plans to bring forward a full proposal to the Budget and Government Efficiency Committee in February 2017 to modify the City's General Fund Reserve Policy to reallocate reserve balances.

FUND BALANCE (EXCESS EQUITY)

In the FY 2017 First Quarter Budget Monitoring Report, the FY 2017 ending fund balance (excess equity) is projected to be \$20.3 million. The FY 2017 ending fund balance projection will be updated during the Fiscal Year 2017 Mid-Year Budget Monitoring Report once the audit of the General Fund is complete. These funds may be available during the Outlook period, but are one-time in nature and therefore are only available for one-time purposes.

CASH MANAGEMENT ACTIVITIES

The Capital Improvement Program (CIP) utilizes a variety of funding sources to support CIP projects, including unrestricted General Fund contributions, bond proceeds, development impacts fees, etc. As part of the City's ongoing process improvements, the appropriate alignment of the timing and use of funding sources is continuously reviewed. The overall intent is to (a) ensure projects have the necessary resources to continue without interruption; (b) issue bonds only when needed to fund identified projects; and (c) not encumber available resources (i.e. unrestricted General Fund contributions) that could be used for other eligible projects. The specific or potential financial impact to the General Fund has not been identified as the process is in the early stages of review.

In conclusion, these mitigation actions are one-time or short-term in nature, and will not be sufficient to address the forecasted shortfall due primarily to the unexpected increase in the City's pension payment. Financial Management will request budget reductions from all City departments as part of the upcoming FY 2018 Budget development process to ensure a balanced budget.

BUDGET REDUCTIONS

To address the projected shortfall, General Fund departments will be requested to submit budget reduction proposals totaling 3.5 percent of the department's Fiscal Year 2017 Adopted Budget. Any budget reduction proposals submitted for consideration are only proposals. All potential solutions to mitigate the projected revenue shortfall will be carefully considered to ensure the overall impact to the services provided is minimized and that the City continues to provide the high level of service that is expected.

Additionally, these departments are required to suspend all non-essential discretionary expenditures in FY 2017, as any savings generated in the current fiscal year will help mitigate the projected shortfall in FY 2018.

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CONCLUSION

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

Based upon baseline projections, growth in ongoing expenditures is anticipated to outpace growth in ongoing revenues in Fiscal Years 2018 and 2019. A structural shortfall is forecasted once the following key factors are accounted for:

- Moderate growth in revenue
- Anticipated increase in the Retirement Actuarially Determined Contribution (ADC) to the San Diego City Employees Retirement System (SDCERS)
- Employee Organization Agreements entered into in FY 2015 and FY 2016
- Implementation of Charter Section 77.1 – Infrastructure Fund

The Outlook provides the City Council, key stakeholders, and the public with information in advance of the budget meetings to facilitate an informed discussion during the development of the FY 2018 Adopted Budget.

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2017.

ATTACHMENT 1
FY 2018 – 2022 FIVE-YEAR FINANCIAL OUTLOOK
(in millions)

GENERAL FUND REVENUES	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022
Property Tax	\$ 532.0	\$ 554.9	\$ 576.3	\$ 594.0	\$ 612.0
Sales Tax	270.8	275.9	281.2	286.9	292.6
Transient Occupancy Tax	120.1	126.6	133.1	139.7	146.2
Franchise Fees	82.8	83.6	84.4	85.8	87.3
Property Transfer Tax	10.6	10.9	11.2	11.5	11.8
Licenses and Permits	24.4	24.8	25.3	25.9	26.4
Fines, Forfeitures and Penalties	29.9	30.1	30.2	30.4	30.5
Revenue from Money and Property	54.5	56.2	58.1	59.9	61.9
Revenue from Federal and Other Agencies	8.1	8.1	8.1	8.1	8.1
Charges for Services	138.5	148.4	156.3	169.6	178.5
Other Revenue	4.3	2.3	2.3	2.3	2.3
Transfers In	89.0	95.1	101.7	108.8	116.3
BASELINE GENERAL FUND REVENUES	\$ 1,365.1	\$ 1,416.9	\$ 1,468.2	\$ 1,522.9	\$ 1,573.8
Charter Section 77.1 - Infrastructure Fund	\$ 17.0	\$ 15.1	\$ 14.4	\$ 12.8	\$ 13.0
GENERAL FUND EXPENDITURES	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022
Salaries & Wages	\$ 537.3	\$ 537.5	\$ 538.5	\$ 539.0	\$ 538.1
Recognized Employee Organization Agreements	15.9	31.8	45.0	45.0	45.0
Retirement Actuarially Determined Contribution (ADC)	227.9	231.4	234.5	237.6	240.6
Employee Flexible Benefits	79.9	79.9	79.9	79.9	79.9
Other Post Employment Benefits (OPEB)	40.9	41.9	43.0	44.1	45.2
Workers' Compensation	26.4	27.1	26.8	27.6	28.5
Supplemental Pension Savings Plan (SPSP)	16.7	17.2	17.7	17.7	17.7
Other Fringe Benefits	24.9	25.6	26.3	26.3	26.3
Personnel Expenditures	\$ 969.9	\$ 992.5	\$ 1,011.8	\$ 1,017.3	\$ 1,021.4
Supplies	\$ 31.3	\$ 32.4	\$ 33.6	\$ 34.7	\$ 35.9
Contracts	238.9	246.5	252.7	261.0	267.6
Information Technology	32.5	31.6	32.3	33.0	35.1
Energy and Utilities	48.5	50.0	51.7	52.8	53.9
Reserve Contributions	8.5	14.0	14.5	14.2	7.9
Other Expenditures	55.4	55.5	56.6	57.0	58.9
Non-Personnel Expenditures	\$ 415.0	\$ 430.0	\$ 441.5	\$ 452.6	\$ 459.4
BASELINE GENERAL FUND EXPENDITURES	\$ 1,384.9	\$ 1,422.5	\$ 1,453.3	\$ 1,469.9	\$ 1,480.7
BASELINE REVENUES (LESS)/ GREATER THAN EXPENDITURES	\$ (36.9)	\$ (20.7)	\$ 0.5	\$ 40.1	\$ 80.1

ATTACHMENT 2

ONE-TIME RESOURCES AND EXPENDITURES

The tables below detail the one-time resources and expenditures that were included in the Fiscal Year 2017 Adopted Budget that were adjusted to develop FY 2018-2022 Five-Year Financial Outlook baseline budget.

One-Time Resources	
Transient Occupancy Tax Fund Balance	\$8,346,750
Return of General Fund CIP Contributions related to Bayside Firestation	5,000,000
Fleet Operating Fund Balance	3,824,719
Stonewood Garden Apartment Lease Agreement	2,952,000
Infrastructure Asset Management Project Reimbursements	1,682,987
Tobacco Securitized Fund Balance Transfer	1,068,569
Storm Drain Fund Balance	700,000
IT Funds Fund Balance	633,606
Automated Refuse Container Fund Payback	600,000
Funds with Excess Fund Balance	440,295
Urban Area Security Initiative Grant Revenue	338,216
Fire/Emergency Medical Services Transport Program Fund Balance	182,464
Reinspection Fees - Development Services	120,000
Event Fees related to Aquatics Program	20,000
Total	\$25,909,606

One-Time Expenditures

General Fund Reserves	7,600,000
Police Officer Recruitment and Retention	4,000,000
Transfer to Watershed Projects (CIP)	4,000,000
Public Liability Reserves	2,800,000
Office Relocation/ Tenant Improvements	2,631,193
Citywide Ballot Measures and Elections	1,773,583
Transfer to Sidewalk Repair/Replacement Projects	1,600,000
Transfer to Drainage Projects (CIP)	1,525,000
Rehabilitation of Thompson Medical Library/Eddy Auditorium at Balboa Park	1,500,000
Transfer to Street Light Circuit Upgrade Project	1,350,000
Vehicles for Catch Basin Cleaning	1,303,025
Vehicles for Pipe Repair Crew	1,200,000
Dump Trucks for Channel Cleaning and Street Paving	1,120,854
Transfer to Compressed Natural Gas Fueling Station Project	900,000
Citywide Public Facility Maintenance Projects	757,768
Improvement/Maintenance of Police Facilities	750,000
Vehicles for Facilities Repairs and Maintenance	619,000
Vehicles and Equipment for New and Enhanced Park & Recreation Facilities	598,305
Replacement of Artificial Turf (Pershing Middle School Joint Use Field)	500,000
Vehicles for Channel Inspection & Cleaning	415,000
Implementation Costs Related to 311 Service Delivery Program	400,000
Transfer to Sidewalk Repair and Replacement Projects (CIP)	400,000
Balboa Park Light Posts Replacement	350,000
Body Worn Cameras for Police Officers	300,000
City Administration Building (CAB) Carpet Replacement	255,000
Vactor Purchase for Catch Basin Cleaning	250,000
Elevator & Energy Feasibility Study for Police Facilities	250,000
Facilities Condition Assessment SAP/IAM	250,000
Kinder Morgan Litigation	250,000
Water Blaster for Transportation & Storm Water	250,000
Vehicles for Graffiti Abatement	190,000
Termination Pay for Departing Council Member Staff	177,868
Code Enforcement Abatement Fund Support	150,000
Consultant Services for the Otay Mesa Enhanced Infrastructure Financing District	150,000
Specialized Aircraft Tools	150,000
Vehicles for Open Space Acreage Expansion	136,800
Safety Supplies and Vehicles for Sworn Positions	126,000
Advanced Lifeguard Academy	113,350
Senior Center in North Clairmont	105,476
Vehicles for Canine Unit	100,000
Infrastructure Asset Management Training	75,384
Vehicle for Playground Outlay and Rubberized Surfacing	60,000

One-Time Expenditures (continued)	
Vehicle for Balboa Park Maintenance Supervisor	30,000
Contracts for the Maintenance of NEOGOV and CritiCall Interface	25,000
Vehicle to support the Street Preservation Ordinance	20,000
Vehicle for Streets Superintendent	16,900
Professional Services for the Infrastructure and Public Utilities Loan Program Unit	15,000
Supplies for OSHA Standards Training	7,000
Supplies for the Library Department	2,500
Reduction of Non-Personnel Expenditures Related to Department Reductions and Efficiency Savings	(102,064)
Total	41,447,942

ATTACHMENT 3 PARK AND RECREATION NEW FACILITIES

Park and Recreation New Facilities	
Carmel Valley NP - CIP S00642	2018
Cesar Solis CP (Formerly Pacific Breezes CP) - CIP S00649	2018
Encanto Elementary JU (PAD)	2018
Franklin Ridge Pocket Park	2018
Linda Vista Elementary JU (PAD)	2018
Marvin Elementary JU (PAD)	2018
Park de la Cruz Skate Park - CIP S15003	2018
Southcrest Trails NP - CIP S01071	2018
University Village Tot Lot - CIP S13005	2018
Wightman Street NP - CIP S00767	2018
14th Street Promenade	2019
Cañon Street Mini Park - CIP S16047	2019
Curie Elementary JU (PAD)	2019
East Village Green NP - CIP S16012	2019
Horton Elementary JU (PAD)	2019
Pacific Highlands Ranch CP - CIP S10079	2019
Pacific View (Lee) Elementary JU (PAD)	2019
Rolando Park Elementary JU (PAD) - CIP S15029	2019
Rowan Elementary JU (PAD)	2019
Standley Middle JU (PAD)	2019
Treana Mesa JU Sports Field - CIP S00971	2019
Valencia Park - CIP S11103	2019
Canyon Hills Resource Park Improvements - CIP S15006	2020
Hidden Trails NP - CIP S00995	2020
Innovation (MacDowell) Middle JU (PAD)	2020
Jonas Salk Neighborhood Park & Elementary School JU - CIP S14007	2020
Olive Street Mini Park - CIP S10051	2020
Organ Pavilion Park (in Balboa Park)	2020
Riviera Del Sol NP - CIP S00999	2020
Sandburg Elementary JU (PAD)	2020
Taft Middle JU (PAD) - CIP S15026	2020
Wangenheim Middle JU Facility - CIP S15007 (PAD)	2020
Audubon K-8 JU (PAD)	2021
Denney Ranch NP - CIP S00636	2021
Fairbrook NP - CIP S01083	2021

Park and Recreation New Facilities (continued)

Florence Elementary JU (PAD)	2021
Holmes Elementary JU (PAD)	2021
Johnson Elementary JU (PAD)	2021
Lafayette Elementary JU (PAD)	2021
Logan K-8 JU (PAD)	2021
Paradise Hills Elementary JU (PAD)	2021
Spreckels Elementary JU (PAD)	2021
Grant K-8 JU (PAD)	2022
Perkins K-8 JU (PAD)	2022
Tubman (Harriet) Village K-8 Charter JU (PAD) - CIP S13000	2022
Webster Elementary JU (PAD)	2022