FISCAL YEAR 2019-2023
FIVE-YEAR FINANCIAL OUTLOOK

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NOVEMBER 2017

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EXECUTIVE SUMMARY

The City of San Diego Fiscal Year 2019-2023 Five-Year Financial Outlook (Outlook) is provided to guide long-range fiscal planning and serve as the framework for the development of the Fiscal Year (FY) 2019 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 2019-2023 Five-Year Financial 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 2019 Adopted Budget. To the extent projected expenditures exceed estimated revenues in any given year of the Outlook, the City will address these shortfalls through mitigating actions as described in the Potential Mitigation Actions section of the report. As required by the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2018.

SUMMARY OF KEY FINANCIAL DATA

Overall, the FY 2019-2023 Outlook forecasts revenue growth 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 revenues is anticipated to outpace growth in ongoing expenditures during the Outlook period; however, a short-term structural shortfall is forecasted once the following key factors are accounted for:

- Moderate growth in revenue
- Employee Organization Agreements entered into in FY 2015 and FY 2016
- Police Officers Association Tentative Agreement to be ratified in November 2017
- Critical Strategic Expenditures
- Reserve Contributions

As depicted in Table 1.1, and detailed in Attachment 1, projected expenditures exceed revenues in FY 2019 through 2021. Beginning in FY 2022, revenue growth is projected exceed anticipated expenditure growth.

Table 1.1 - Fiscal Year 2019-2023 Financial Outlook Summary of Key Financial Data ($ in Millions)	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023
Property Tax	$563.7	$590.2	$622.6	$651.6	$679.9
Sales Tax	$281.8	$289.7	$297.5	$305.5	$313.5
Transient Occupancy Tax	$130.6	$138.1	$145.8	$153.8	$162.0
Franchise Fees	$77.6	$79.0	$80.3	$81.6	$82.9
All Other Revenue Categories	$380.6	$389.2	$404.2	$415.1	$426.6
BASELINE GENERAL FUND REVENUES	**$1,434.3**	**$1,486.1**	**$1,550.4**	**$1,607.6**	**$1,664.8**
Salaries & Wages	$549.5	$550.4	$551.1	$551.0	$550.5
Recognized Employee Organization Agreements	$40.3	$66.6	$72.1	$72.1	$72.1
Retirement Actuarially Determined Contributions (ADC)	$227.5	$239.3	$248.5	$248.3	$248.3
All other Personnel Expenditures	$192.7	$197.3	$201.2	$203.2	$205.2
Non-Personnel Expenditures	$400.0	$409.6	$420.2	$433.3	$444.8
Charter Section 77.1 - Infrastructure Fund	$16.9	$17.7	$20.7	$19.2	$0.0
Reserve Contributions	$5.0	$14.9	$15.1	$17.4	$17.3
BASELINE GENERAL FUND EXPENDITURES	**$1,431.9**	**$1,495.7**	**$1,528.8**	**$1,544.5**	**$1,538.3**
BASELINE REVENUE (LESS)/ GREATER THAN EXPENDITURES	**$2.4**	**($9.6)**	**$21.6**	**$63.1**	**$126.5**
CRITICAL STRATEGIC EXPENDITURES	**$12.5**	**$25.0**	**$41.5**	**$57.5**	**$67.2**
(AMOUNT TO BE MITIGATED) / AVAILABLE RESOURCES	**($10.1)**	**($34.6)**	**($19.8)**	**$5.6**	**$59.3**

It should be noted that the Outlook does not forecast the result of any ballot initiatives, referendums, recalls, legal challenges, or any changes to current or tentative labor agreements.

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 2019-2023 Financial Outlook. The baseline projections section includes revenue and expenditure adjustments necessary to support current service levels provided by the City. The FY 2018 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: One-Time Resources and Uses of Funds.

Following the baseline projection discussion, the Critical Strategic Expenditures section quantifies department submissions that have been preliminarily identified as necessary in meeting core service levels and the City's strategic goals in FY 2019; however, these expenditures will be discussed and further refined during the FY 2019 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 2018.

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BASELINE PROJECTIONS

The Baseline Projections section identifies and discusses forecasted changes based on known and anticipated events at the time of the preparation of this report. This section first reviews forecasted growth rates for revenues, including an overview of the revenue category, key economic trends, and a discussion of varying scenarios that could impact the forecast for the major revenue categories. General Fund expenditures are reviewed thereafter, including major changes and growth assumptions within each category.

Unless otherwise noted, baseline projections assume growth based upon the FY 2018 base budget, which will differ from the FY 2018 Adopted Budget due to the removal of one-time resources and uses of funds. The Outlook discusses only the General Fund.

BASELINE GENERAL FUND REVENUES

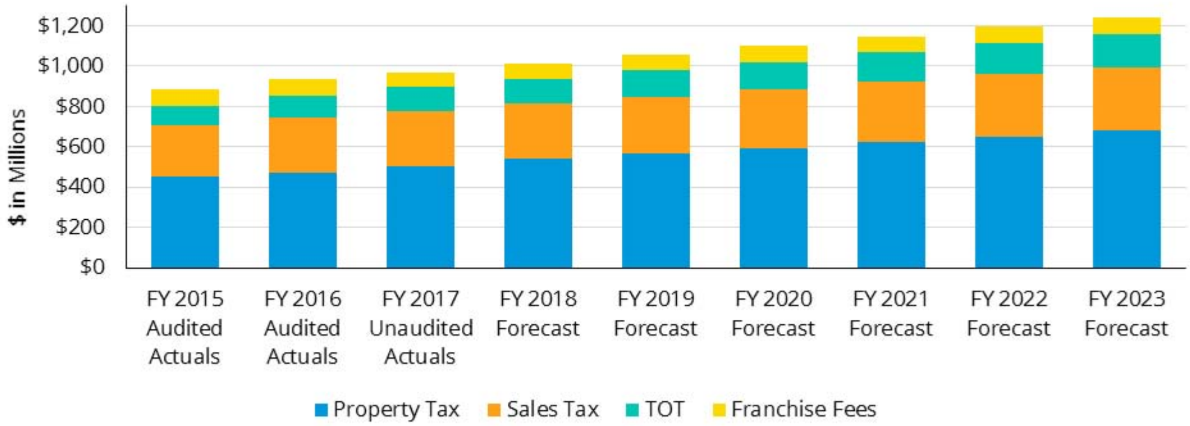
The following section provides details of the City of San Diego's FY 2019-2023 Five-Year Financial Outlook revenue projections. The details provided for each revenue category include a description of the revenue source, the economic indicators affecting the revenue source, the projected growth rates, 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 since 2009. This recovery period has exceeded the average duration 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, along with others, which are discussed later in the report.

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 tax, sales tax, and transient occupancy tax.

The City's four major revenues sources, property tax, sales tax, transient occupancy tax, and franchise fees, represent 71.5 percent of the City's General Fund FY 2018 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 based on actual trends, and is consistent with information received from the City's sales tax consultant (MuniServices, LLC), the San Diego Tourism Authority, Beacon Economics, the UCLA Anderson Forecast, and the State of California's Legislative Analyst's Office Economic Outlook. 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 below details the forecasted Outlook revenues as well as recent actual revenues.

Figure 2.1 - Major General Fund Revenues



PROPERTY TAX

Property tax is the City's largest revenue source representing 38.0 percent of the General Fund FY 2018 Adopted Budget. The primary component of the property tax category is the 1.0 percent levy on the assessed value of all real property within the City limits. The property tax category also includes the Motor Vehicle License Fee (MVLF) backfill payment, which is a result of MVLF being reduced from 2.0 percent to 0.65 percent in 2005. Additionally, the category includes pass-through and residual property tax payments as a result of the dissolution of Redevelopment Agencies (RDA) statewide.

FORECAST

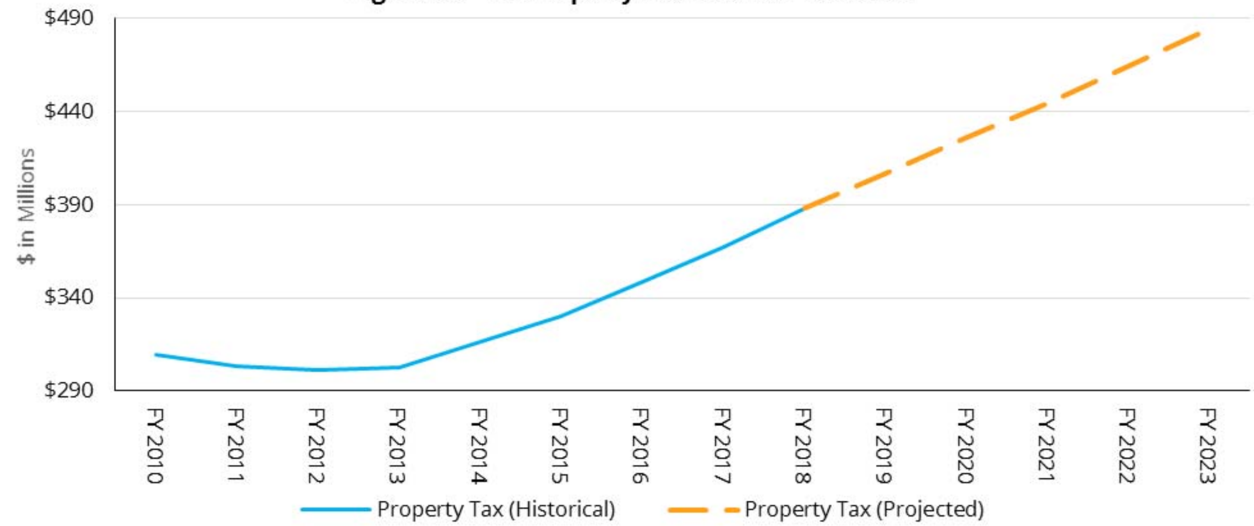
The following table shows the budget and year-end projection for FY 2018 and the forecast for FY 2019 through FY 2023 for revenue from property tax. The FY 2018 projection for the property tax category of $539.3 million is a $4.7 million increase over the FY 2018 Adopted Budget and serves as the base for the Outlook projections. In conjunction with the FY 2018 First Quarter Budget Monitoring Report, the FY 2018 Adopted Budget growth rate of 5.0 percent has been revised to 6.0 percent based on final assessed valuation data for FY 2018.

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

	FY 2018 Adopted	FY 2018 Projection	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate	5.00%	6.00%	5.00%	4.75%	4.50%	4.50%	4.25%
Projection	$ 534.6	$ 539.3	$ 563.7	$ 590.2	$ 622.6	$ 651.6	$ 679.9

The forecast for property tax was determined using an analysis of the relationship of property tax 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 which specifies that a property's value may increase at the rate of the CCPI, but cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value.

In compliance with Revenue and Taxation Code section 51, the San Diego County Assessor's Office uses the October CCPI to assess property values under Proposition 13. However, at the time of preparing this report, the October CCPI has not been released. The latest CCPI released by the California Department of Finance (DOF) was 263.473 as of August 2017, a 2.88 percent increase from the August 2016 CCPI of 256.097. Assuming the CCPI holds constant, the assessed valuation of properties not improved or sold will increase by 2.0 percent for FY 2019, the maximum allowable increase.

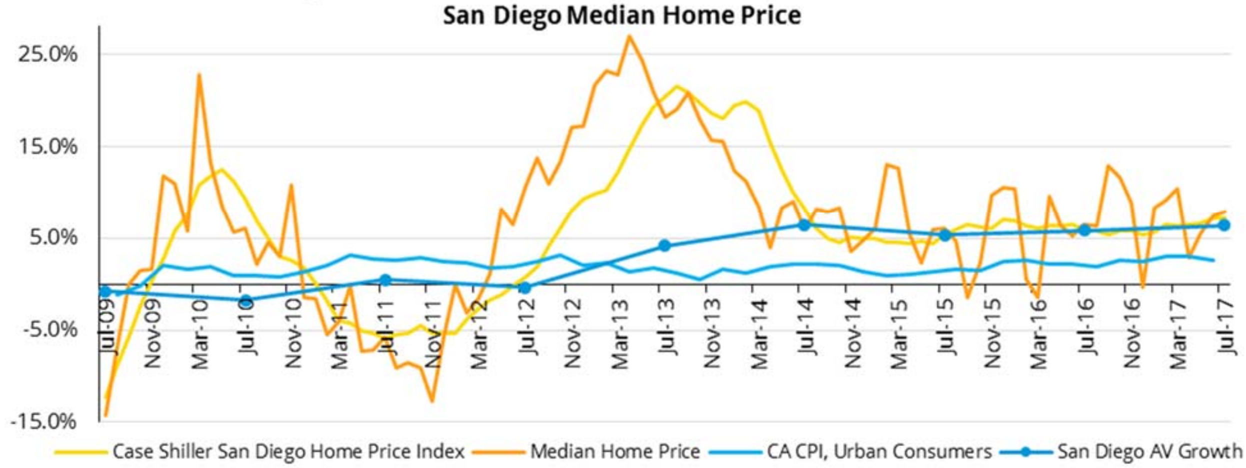
The City has experienced positive growth in home prices, with an increase of 6.8 percent in the median home price from August 2016 to August 2017. Despite the rise in home prices, the growth in the number of home sales has slowed. Home sales year-to-date as of August 2017 have decreased by 3.9 percent compared to year-to-date as of August 2016.

Based on property sales that have occurred as of August 2017 and an approximate 2.0 percent increase in the CCPI, it is estimated the City's assessed valuation will see a positive increase in assessed valuation for FY 2019.

- In addition to positive home price growth in the City, there are year-to-date declines in notices of default and foreclosures of 23.2 and 37.0 percent, respectively, in the County of San Diego as of September 2017.
- The Case-Shiller home price index as of July 2017 is 243.6, a 7.1 percent increase over the August 2016 index of 227.8.

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.

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



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 low. However, continued strength in the economy supports the case for a rise in mortgage rates which would likely 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 slowly return to lower levels of growth in outer years.

Additionally, as the economy has continued to improve, fewer property owners have requested reassessments, indicating that more properties are fairly valued and a larger portion of assessed valuation growth will continue at the Proposition 13 limited maximum growth rate of 2.0 percent.

Therefore, with the slowdown of property sales, anticipated mortgage rate increases, and fewer reassessments of property values, the growth in property tax is expected to slow.

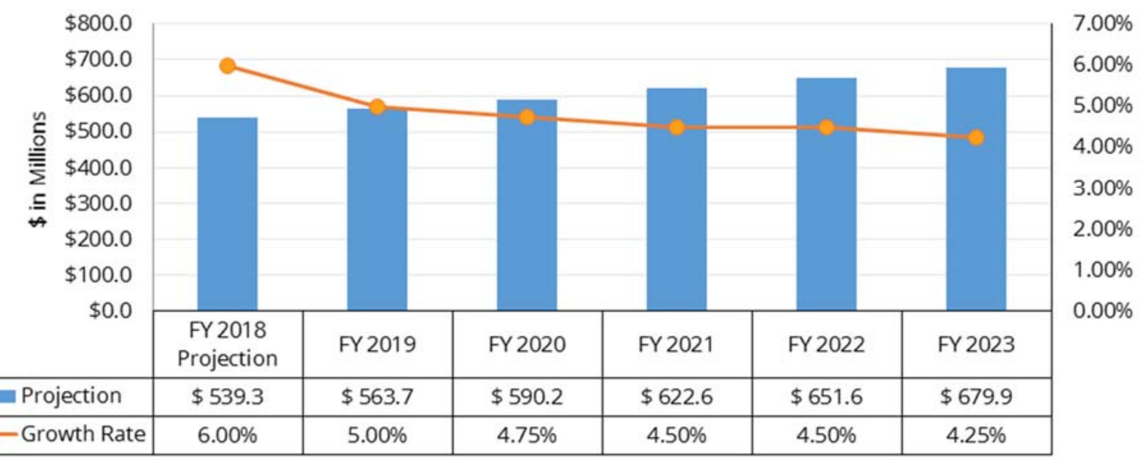
As a result of the dissolution of the RDA, pass–through and residual property tax payments to the City from the Redevelopment Property Tax Trust Fund (RPTTF) are included in the property tax forecast. Pass-through payments are agreements between former redevelopment areas and the local entities to provide 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 2018 Adopted Budget for property tax and the forecasted property tax revenue for FY 2019 through FY 2023.

Table 2.2 - Property Tax Components ($ in Millions)							
	FY 2018 Adopted	FY 2018 Projection	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate	5.00%	6.00%	5.00%	4.75%	4.50%	4.50%	4.25%
1% Property Tax	$ 372.0	$ 374.7	$ 393.0	$ 411.6	$ 430.2	$ 449.6	$ 468.8
MVLF Backfill	$ 135.8	$ 137.5	$ 144.4	$ 151.2	$ 158.0	$ 165.1	$ 172.2
RPTTF Pass-Through Tax Sharing Payment	$ 8.3	$ 6.7	$ 7.0	$ 7.3	$ 7.7	$ 8.0	$ 8.3
RPTTF Residual Property Tax Payment	$ 18.5	$ 20.5	$ 19.4	$ 20.1	$ 26.7	$ 28.9	$ 30.6
Total Property Tax Projection	$ 534.6	$ 539.3	$ 563.7	$ 590.2	$ 622.6	$ 651.6	$ 679.9

Figure 2.4 - Property Tax Revenue Projections: Fiscal Years 2019 - 2023

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 "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 from FY 2014 through FY 2018, increases in the median home price, and home sales count, not as many homes will see as large of a reassessment in FY 2019 as in previous years. This will lead to lower annual assessed valuation growth rates for FY 2019 through FY 2023 of 3.0 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 2021 through FY 2023. 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 in the near-term reflect higher levels of growth similar to those seen in recent years, while slowing in the later years.

Figure 2.5 reflects the current scenario as well as the "High" and "Low" scenario. In addition, Table 2.3 details the assumed growth rates for each scenario for FY 2018 through FY 2023.

Figure 2.5 - Property Tax Revenue Five-Year Forecast: Fiscal Years 2019 - 2023

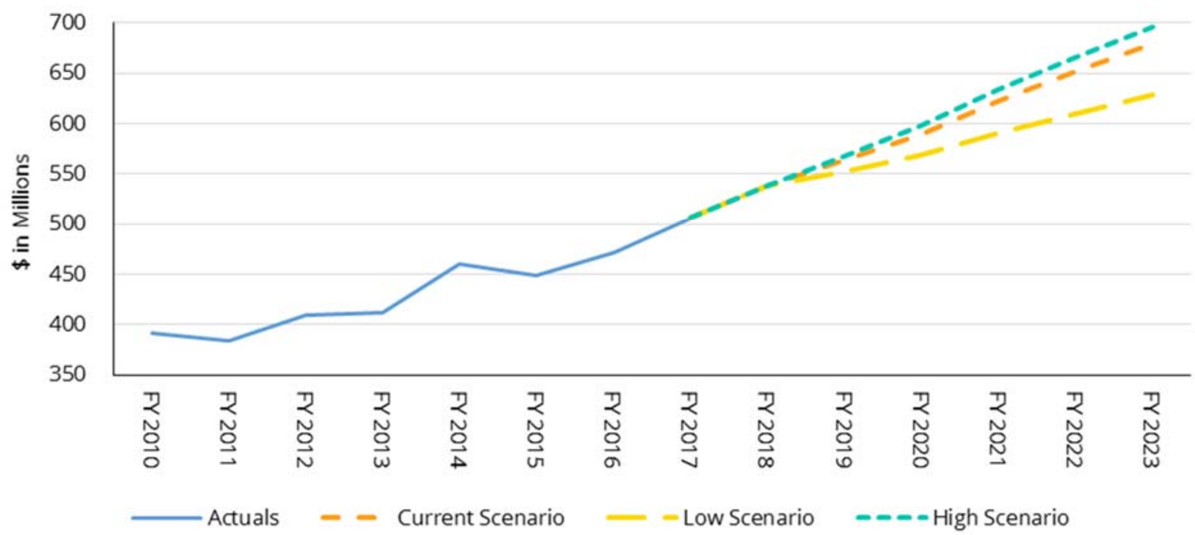


Table 2.3 - Property Tax Five-Year Forecast: Growth Rate Scenarios

	FY 2018 Projection	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Current Growth Rate	6.00%	5.00%	4.75%	4.50%	4.50%	4.25%
High Growth Rate	6.00%	5.75%	5.50%	5.00%	4.75%	4.50%
Low Growth Rate	6.00%	3.00%	3.00%	3.00%	3.00%	3.00%

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 and lead to an increase in the RPTTF residual balance available for distribution to local entities. A decrease in enforceable obligations due to a denial will increase the City's RPTTF residual payment throughout all fiscal years of the Outlook. A significant variable in the ROPS enforceable obligations is the dollar amount and terms of the repayment of various outstanding loan agreements.

Lastly, there are two outstanding legal challenges that may influence the property tax forecast for the City. First, a dispute between the County of San Diego and various local entities within the County, 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 in late 2018 or early 2019. 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. Currently, the alleged underpayments are estimated to be at least $35.0 million.

The second dispute involves the San Diego County Office of Education and other school districts against numerous city successor agencies including the City of San Diego Successor Agency regarding the distribution of funds from the RPTTF to taxing entities. Should the school districts receive a favorable decision, the City liability is estimated to be between $2.0 to $13.0 million.

SALES TAX

The City's second largest revenue source is sales tax and represents 19.6 percent of the General Fund FY 2018 Adopted Budget. Sales tax is collected at the point of sale and remitted to the California Department of Tax and Fee Administration (formerly, 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 of all point of sale transactions within the City.

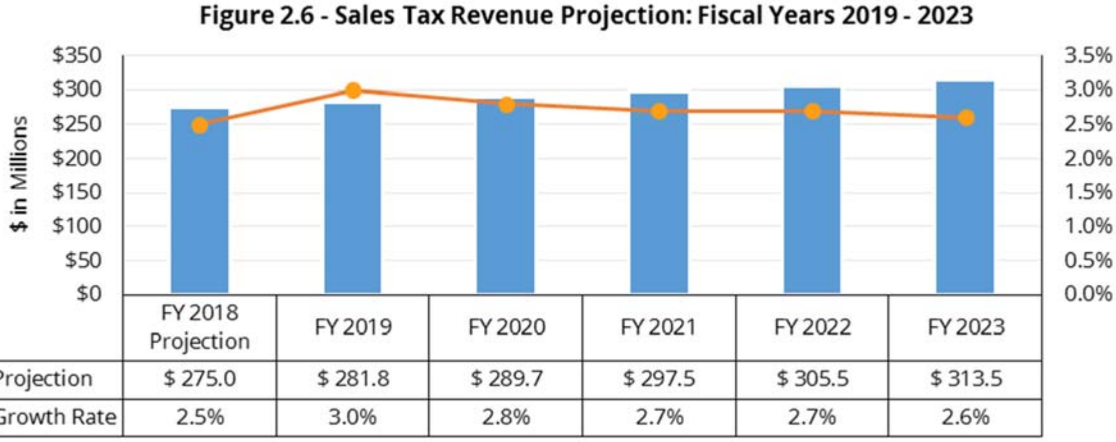
FORECAST

The following table displays the budget and year-end projection for FY 2018 as well as the forecast for FY 2019 through FY 2023 for revenue from sales tax. The FY 2018 projection for sales tax of $275.0 million, slightly lower than the FY 2018 Adopted Budget, serves as the base for the Outlook projections. For the FY 2018 First Quarter Budget Monitoring Report, there is no change in the budgeted growth rate.

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

	FY 2018 Adopted	FY 2018 Projection	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate	2.5%	2.5%	3.0%	2.8%	2.7%	2.7%	2.6%
Projection	$ 275.3	$ 275.0	$ 281.8	$ 289.7	$ 297.5	$ 305.5	$ 313.5

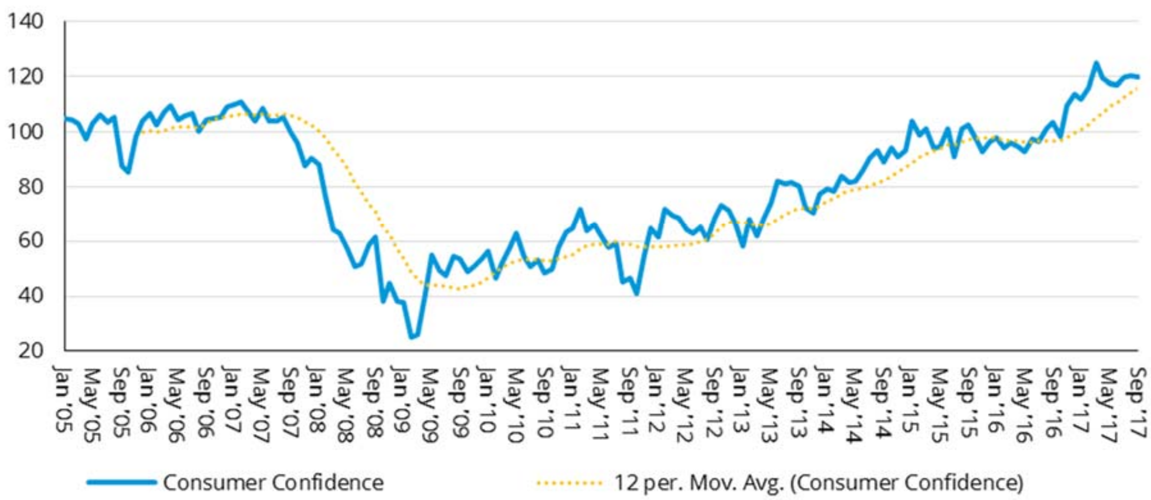
Figure 2.6 - Sales Tax Revenue Projection: Fiscal Years 2019 - 2023



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 2017, the City unemployment rate was 4.5 percent, compared to a rate of 4.7 percent in August 2016, as reported by the California Employment Development Department. Consumer confidence, a measurement of the consumer's willingness to spend, had experienced significant growth since 2009, reaching an all-time high in March 2017 at 124.9 before settling at 119.8 in September 2017.

Figure 2.7 - Consumer Confidence



Sales tax revenue is primarily driven by consumer spending. While consumer confidence has steadily increased in the last seven years, it is unclear how long this sustained trend will continue. Furthermore, as consumers continue to shift from in-store to online sales, the City receives a smaller portion of those sales tax revenues. Sales tax revenues from online sales Countywide 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.

The forecast for sales tax reflects the stability in employment and consistent growth in consumer confidence, and therefore, continues with moderate strength in the near term while tapering off in the outer years due to uncertainty of the sustained growth and stability. Retail sales in brick and mortar stores are expected to remain relatively flat during the Outlook period. This is expected to be offset partially by growth in the county pool, reflecting the shift from brick and mortar to online sales. The food products category (including restaurants), and the transportation category (including fuel and automobile sales) are also expected to lead the growth in the sales tax during the Outlook period.

This forecast is consistent with recent reports from Beacon Economics and the UCLA Anderson Forecast. Both have reported that California is operating at near full employment with stable economic fundamentals over the next two years while housing and labor shortages will continue to constrain growth in California.

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, "High" and "Low" projections 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 an increased transition to online sales reducing point of sales transactions for brick and mortar stores within the City limits. Additionally, this projection assumes reduction of oil prices further reducing sales tax revenue from fuel sales. 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 2.9 percent to 2.5 percent from FY 2019 to FY 2023.

The "High" scenario includes sustained growth in consumer confidence, continuing low unemployment, constrained by housing availability and full employment already having been achieved.

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 2019 through 2023.

Figure 2.8 - Sales Tax Projections: Fiscal Years 2019 - 2023

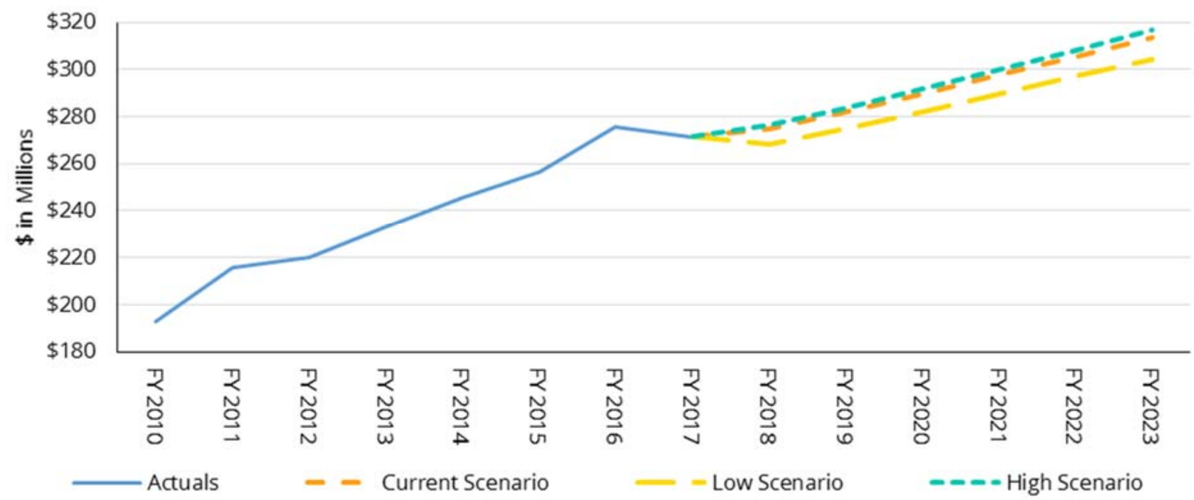


Table 2.5 - Sales Tax Five-Year Forecast: Growth Rate Scenarios						
	FY 2018 Projection	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Current Growth Rates	2.5%	3.0%	2.8%	2.7%	2.7%	2.6%
High Growth Rates	3.0%	3.1%	2.9%	2.8%	2.8%	2.7%
Low Growth Rates	0.0%	2.9%	2.7%	2.6%	2.6%	2.5%

TRANSIENT OCCUPANCY TAX (TOT)

Transient occupancy tax makes up 8.6 percent of the City's General Fund FY 2018 Adopted Budget. TOT is levied at 10.5 cents per dollar of 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 2018 and the forecast for FY 2019 through FY 2023 for revenue from TOT. The FY 2018 projection for total Citywide TOT receipts is $216.8 million. The General Fund's 5.5 cent portion of total TOT projected receipts is $123.3 million and serves as the base for the Outlook projections. For the FY 2018 First Quarter Budget Monitoring Report, there is no change in the budgeted growth rate.

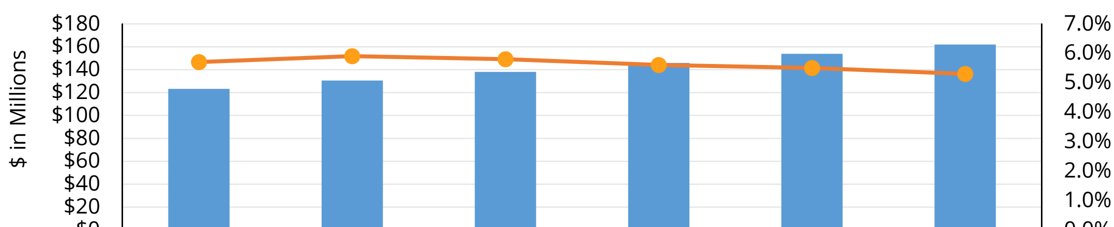
Table 2.6 - Transient Occupancy Tax (TOT) Five-Year Forecast ($ in Millions)

	FY 2018 Adopted	FY 2018 Projection	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate	5.7%	5.7%	5.9%	5.8%	5.6%	5.5%	5.3%
Projection	$ 121.1	$ 123.3	$ 130.6	$ 138.1	$ 145.8	$ 153.8	$ 162.0

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

The five-year forecast for TOT was calculated using historical actuals 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 2017.

Figure 2.9 - Transient Occupancy Tax (TOT) General Fund Revenue Projection: Fiscal Years 2019 - 2023



	FY 2018 Projection	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Projection	$ 123.3	$ 130.6	$ 138.1	$ 145.8	$ 153.8	$ 162.0
Growth Rate	5.7%	5.9%	5.8%	5.6%	5.5%	5.3%

As depicted in the graph above, TOT revenue is projected to have continued but tempered growth for the five-year period. The growth rates for TOT are projected to reduce from 5.9 percent in FY 2019 to 5.3 percent in FY 2023.

ECONOMIC TRENDS

Room rates, occupancy, and overnight visitor growth are the primary economic indicators that provide insight as to how TOT revenue will perform in the coming fiscal years. 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 table below.

Table 2.7 - San Diego Tourism Summary Outlook (Annual % Growth)

	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021
Visits	0.6%	1.2%	1.5%	1.5%	1.8%
Overnight	1.1%	1.5%	1.6%	1.5%	2.2%
Hotel Sector					
Room Supply	1.4%	3.1%	2.1%	1.8%	1.5%
Room Demand	2.5%	2.2%	1.9%	2.1%	2.1%
Occupancy	77.9%	77.2%	77.1%	77.3%	77.8%
Avg. Daily Room Rate	$ 159.95	$ 167.32	$ 172.39	$ 178.21	$ 179.88

Source: San Diego Tourism Authority and Tourism Economics

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, however, at slower rate of growth in the outer years.

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.

Analysis of historical TOT activity compared to hotel and visitor data (TOT Indicators) was used to develop a model to be used in conjunction with the San Diego Tourism Authority’s forecast to develop the current forecast as well as a “High” and “Low” scenario.

The “Low” forecast looked at long-term TOT indicators which included periods of low or negative growth and applied the averages over the long-term of each TOT indicator to the model to forecast TOT growth rates. The “Low” forecast scenario has annual growth in TOT revenues increasing by 3.3 percent in FY 2019 and softening to 3.1 percent in FY 2023.

The “High” forecast assumed the continuation of activity similar to past three years which had sustained strong growth in TOT revenues. The averages of each TOT indicator during this period were applied to the model to generate the “High” Growth rates. As seen in Figure 2.10, the “High” forecast scenario has the annual growth in TOT revenues increasing 7.6 percent in FY 2019 and softening to 6.7 percent in FY 2023.

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.

Figure 2.10 - Transient Occupancy Tax (TOT) Projections: Fiscal Years 2019 - 2023

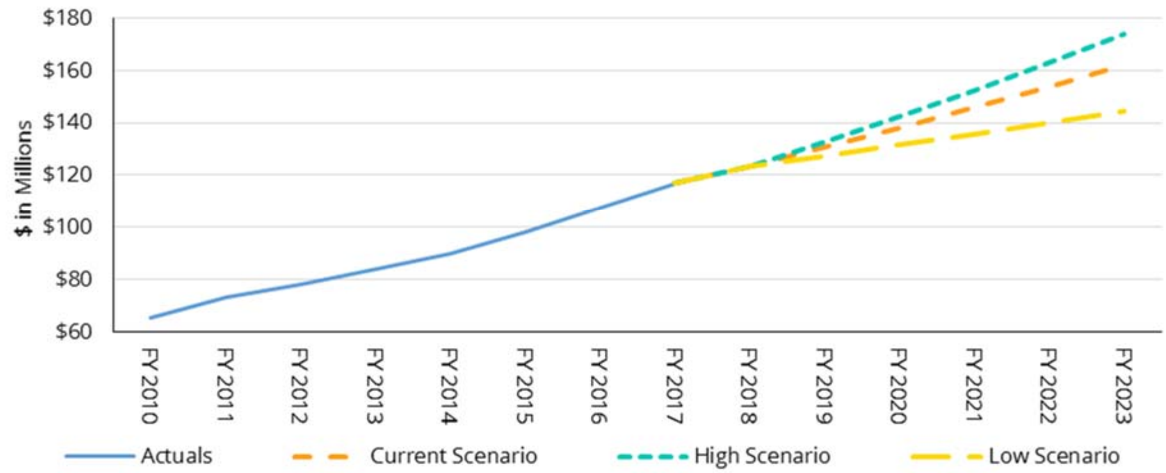


Table 2.8 - Transient Occupancy Tax (TOT) Five-Year Forecast: Growth Rate Scenarios						
	FY 2018 Projection	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Current Growth Rates	5.9%	5.9%	5.8%	5.6%	5.5%	5.3%
High Growth Rates	7.7%	7.6%	7.3%	7.1%	6.9%	6.7%
Low Growth Rates	3.1%	3.3%	3.3%	3.2%	3.2%	3.1%

FRANCHISE FEES

Revenue from franchise fees makes up 5.3 percent of the City's General Fund FY 2018 Adopted Budget and results from agreements with private utility companies in exchange for use of the City's right-of-ways. 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 2018 and the forecast for FY 2019 through FY 2023 for revenue from franchise fees. The FY 2018 projection for franchise fees of $75.1 million is as budgeted in the FY 2018 Adopted Budget and serves as the base for the Outlook projections. For the FY 2018 First Quarter Budget Monitoring Report, there is no change in the budgeted growth rate.

Table 2.9 - Franchise Fees Five-Year Forecast ($ in Millions)							
	FY 2018 Adopted	FY 2018 Projection	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
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%	0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 75.1	$ 75.6	$ 77.6	$ 79.0	$ 80.3	$ 81.6	$ 82.9

Franchise fee revenue growth rates were projected utilizing historical year-end actuals. These growth rates were then applied to FY 2018 first quarter projection and to each subsequent year in order to develop the five-year projections.

ECONOMIC TRENDS

Generating approximately 80.6 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 steady at 2.0 percent for the forecast period. Franchise fees from cable companies are expected to remain flat during the Outlook period.

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 40/60 between the General Fund and Recycling Fund. The General Fund's allocation will reduce by 20 percent to $0.7 million in FY 2019 and will be eliminated for FY 2020 and beyond.

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. Additionally, a new franchise agreement with SDG&E is anticipated to begin in FY 2021, which may change the terms of the franchise fee from that point going forward. The General Fund impact for these events 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 2018 Adopted Budget.

FORECAST

The following table displays the budget and year-end projection for FY 2018 and the forecast for FY 2019 through FY 2023 for revenue from property transfer tax. The FY 2018 projection for property transfer tax is as budgeted for FY 2018 Adopted Budget and serves as the base for the Outlook projections. For the FY 2018 First Quarter Budget Monitoring Report, there is no change in the budgeted amount of property transfer tax.

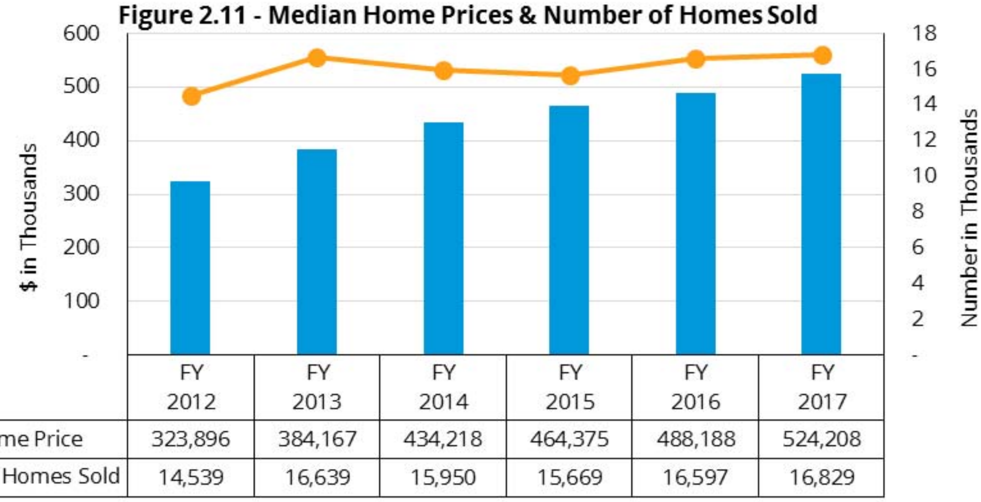
Table 2.10 - Property Transfer Tax Five-Year Forecast ($ in Millions)							
	FY 2018 Adopted	FY 2018 Projection	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate	3.0%	6.0%	4.0%	3.5%	3.0%	3.0%	3.0%
Projection	$ 10.1	$ 10.1	$ 10.5	$ 10.8	$ 11.2	$ 11.5	$ 11.8

Property transfer tax growth rates were developed using 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 the past several years, the growth in the 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.

Figure 2.11 - Median Home Prices & Number of Homes Sold



Source: DQNews/CoreLogic

LICENSES AND PERMITS

The Licenses and Permits category includes revenue for the purpose of recovering costs associated with regulating certain activities within the City and other revenues such as business certificate fees, rental unit certificate fees, parking meter collections, alarm permit fees, and special event permits. Licenses and Permits represent 1.5 percent of the City's General Fund FY 2018 Adopted Budget.

The following table displays the FY 2018 Adopted Budget and the forecast for FY 2019 through FY 2023 for revenue from licenses and permits.

Table 2.11 - Licenses and Permits Five-Year Forecast ($ in Millions)						
	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate		2.0%	2.0%	2.0%	2.0%	2.0%
Projection	$ 21.7	$ 25.2	$ 30.0	$ 31.6	$ 33.3	$ 35.0

A constant growth rate of 2.0 percent is applied from FY 2019 to FY 2023. The Outlook reflects revenue adjustments based on five years of historical data.

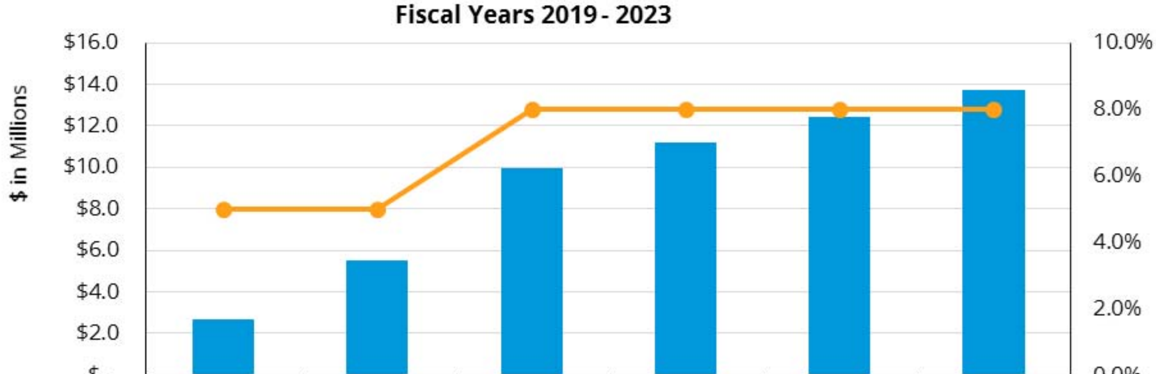
CANNABIS TAX

Included within the Licenses and Permits category is business tax received from the sale, distribution and cultivation of non-medical cannabis products. The State of California has authorized the sale of non-medical cannabis beginning January 1, 2018. The City Council has further authorized and regulated the sale of non-medical cannabis. The City will levy a gross receipts tax of 5.0 percent on non-medical cannabis sales, production, and distribution beginning January 1, 2018. This tax rate will increase to 8.0 percent in FY 2020.

To develop the projection, sales tax data from current medical dispensaries is used as the base and takes into account the tax rate change and a slight growth in the number of permitted dispensaries. However, this is a conservative approach and captures only revenue that will be received from the point-of-sale of non-medical cannabis and not the cultivation, production, or distribution. There are no data points to build a projection from because the cultivation, production, and distribution of non-medical cannabis are not currently subject to a tax.

Additionally, this projection does not contemplate potential changes to State, Federal, and local regulations including compliance with respect to non-medical cannabis and the payment of related taxes. As the industry matures, the City will continue to monitor and update projections from all cannabis businesses.

Figure 2.12 Cannabis Tax
Fiscal Years 2019 - 2023



	FY 2018 Projection	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Cannabis Tax	$2.7	$5.5	$9.9	$11.2	$12.4	$13.7
Tax Rate	5.0%	5.0%	8.0%	8.0%	8.0%	8.0%

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 2.3 percent of the City's General Fund FY 2018 Adopted Budget.

The following table displays the FY 2018 Adopted Budget and the forecast for FY 2019 through FY 2023 for revenue from fines, forfeitures, and penalties.

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

	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth rate		0.5%	0.5%	0.5%	0.5%	0.5%
Projection	$ 31.9	$ 32.0	$ 32.2	$ 32.3	$ 32.5	$ 32.7

Revenue from fines, forfeitures, and penalties is projected to increase at a constant rate of 0.5 percent for FY 2019 through FY 2023 based on historical averages.

REVENUE FROM MONEY AND PROPERTY

The Revenue from 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 2018 Adopted Budget.

The following table displays the FY 2018 Adopted Budget and the forecast for FY 2019 through FY 2023 for the Revenue from Money and Property category.

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

	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate		3.3%	3.3%	3.3%	3.3%	3.3%
Projection	$ 58.4	$ 60.3	$ 62.3	$ 64.3	$ 66.4	$ 68.6

A growth rate of 3.25 percent is applied from FY 2019 to FY 2023 based on the annual growth rate from historical revenues.

Revenue from Money and Property includes revenue from Mission Bay rents and concessions which the Real Estate Assets Department projects to increase during the Outlook period. Per City Charter Section 55.2 (as modified by the voters in November, 2016 through Measure J), the threshold amount of $20.0 million of Mission Bay rents and concessions will remain in the General Fund. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Parks Improvement Fund and the Mission Bay Park Improvement Fund. The San Diego Regional Parks Improvement Fund is to receive 35.0 percent of revenues in excess of the threshold amount or $3.5 million, whichever is greater, with 65.0 percent or the remaining amount allocated to the Mission Bay Park Improvement Fund.

REVENUE FROM FEDERAL AND OTHER AGENCIES

The Revenue from Federal and Other Agencies category includes federal and State grants, and reimbursements to the City from other agencies, including court crime lab revenue, urban search and rescue grants, and service level agreements. This revenue source represents 0.3 percent of the City's General Fund FY 2018 Adopted Budget.

Table 2.14 displays the FY 2018 Adopted Budget and the forecast for FY 2019 through FY 2023 for revenue from federal and other agencies.

Table 2.14 - Revenue From Federal and Other Agencies Five-Year Forecast ($ in Millions)						
	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 4.5	$ 4.5	$ 4.5	$ 4.5	$ 4.5	$ 4.5

No adjustments or growth is projected within the Revenue from Federal and Other Agencies category for the FY 2019 through FY 2023 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 10.9 percent of the City's General Fund FY 2018 Adopted Budget.

The following table displays the FY 2018 Adopted Budget and the forecast for FY 2019 through FY 2023 for revenue from charges for services.

Table 2.15 - Charges for Services Five-Year Forecast ($ in Millions)						
	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate		2.3%	2.1%	0.6%	0.4%	0.4%
Projection	$ 152.8	$ 163.5	$ 163.1	$ 173.0	$ 177.8	$ 183.2

The projected growth of Charges for Services is primarily attributable to the projected increase of TOT reimbursements to the General Fund for the safety and maintenance of visitor related facilities.

One-time adjustments were also made for Infrastructure Asset Management (IAM) project in the amount of $1.4 million and for a reimbursement for National Incident Based Reporting System in the amount of $1.2 million, reducing the base for the Charges for Services by $2.6 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 2018 Adopted Budget.

The following table displays the FY 2018 Adopted Budget and the forecast for FY 2019 through FY 2023 for revenue from other sources.

Table 2.16 - Other Revenue Five-Year Forecast ($ in Millions)						
	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 4.6	$ 2.5	$ 2.5	$ 2.5	$ 2.5	$ 2.5

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 the end of a $10.0 million donation from the Friends of the Library that was utilized in increments of $2.0 million annually for the first five years of operations of the New Central Library. An amount of $80,000 was removed from the FY 2018 Adopted Budget, establishing a new baseline, due to the one-time refunds of Supplemental Pension Savings Plan (SPSP) forfeiture due to terminations.

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 Public Safety Services Fund, storm drain fees, gas taxes 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 8.4 percent of the City's General Fund FY 2018 Adopted Budget.

Table 2.17 displays the FY 2018 Adopted Budget and the forecast for FY 2019 through FY 2023 for revenue from Transfers In.

Table 2.17 - Transfers In Five-Year Forecast ($ in Millions)						
	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 117.8	$ 82.2	$ 83.8	$ 84.9	$ 86.6	$ 88.3

No growth rate is applied to the Transfers In category for the Outlook period; however, the projections are developed from a new baseline that includes removal of $36.6 million in one-time revenues from the FY 2018 Adopted Budget. The one-time revenues removed from the FY 2018 Adopted Budget include transfers from the Stadium Operations Fund ($8.5M), Workers Compensation Reserve Fund ($10.2M), Pension Stabilization Reserve Fund ($16.0M), Parking Garage Fund ($1.5M), and the Vessel Replacement Fund ($0.4M).

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. 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

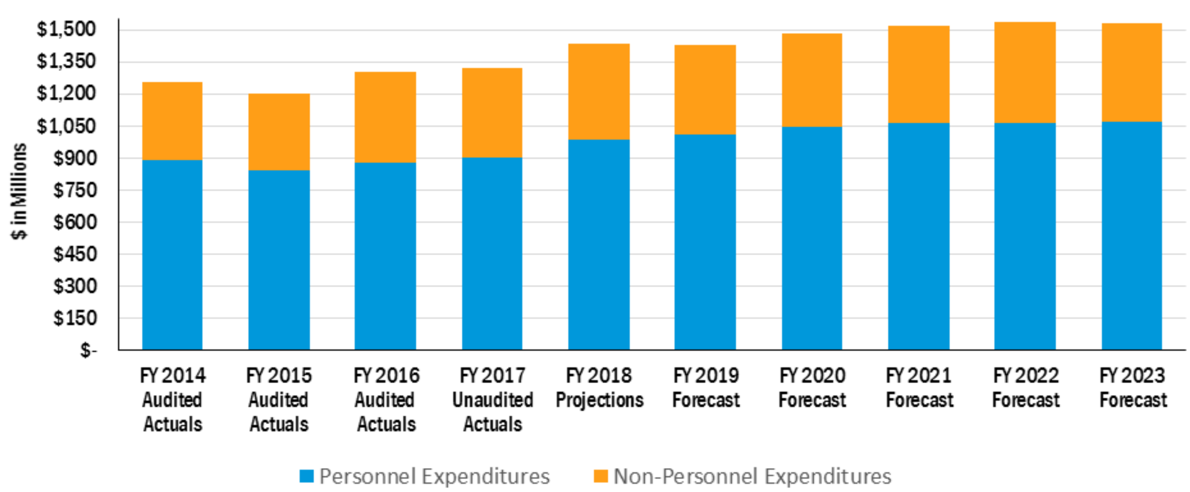
General Fund expenditures are comprised of both personnel and non-personnel expenditures including debt service and other non-discretionary payments.

Personnel expenses represent 68.7 percent of the City's General Fund FY 2018 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 employee labor organizations.

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, and energy and utilities, the most significant non-personnel expenses are for reserve contributions consistent with the City's Reserve Policy and transfers to the Infrastructure Fund in accordance with Charter Section 77.1.

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

Figure 2.13 - Baseline Expenditures



SALARIES AND WAGES

The Salaries and Wages category is the largest General Fund expenditure category and is comprised of regular salaries and wages, special pays, overtime, step increases, and vacation pay in lieu. The FY 2018 Adopted Budget for General Fund salaries and wages was $547.1 million and included 7,527.43 full-time equivalents (FTE). The following table displays the FY 2018 Adopted Budget and the forecast for FY 2019 through FY 2023 for salaries and wages.

Table 2.18 - Salaries and Wages ($ in Millions)

	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Projection	$ 547.1	$ 549.5	$ 550.4	$ 551.1	$ 551.0	$ 550.5

Forecast 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 2018 Adopted Budget. Position additions identified for FY 2019-2023 to support critical strategic expenditures are discussed later in this report. One-time adjustments to vacancy savings and overtime totaling $0.1 million in the FY 2018 Adopted Budget have been removed to establish the baseline for the Salaries and Wages expenditure category.

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 $1.8 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 2019 through FY 2023 are displayed in the table below.

Table 2.19 - Annual Leave (DROP) ($ in Millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Projected Number of Retirees	115	149	166	160	148
Projection	$ 3.2	$ 4.1	$ 4.8	$ 4.8	$ 4.2

An estimate for the number of DROP participants anticipated to retire in FY 2023 is not yet available as DROP is a five-year program. Therefore, the FY 2023 projected number of retirees and the Terminal Leave (DROP) projection are based on the averages of the FY 2018 through FY 2022.

RECOGNIZED EMPLOYEE ORGANIZATION AGREEMENTS

In FY 2015 and FY 2016, the City and its Recognized Employee Organizations entered into separate Memoranda of Understanding (MOU) as summarized in the section 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. The San Diego Police Officers Association (POA) MOU included a provision to re-open salary negotiations in FY 2018.

POA TENTATIVE AGREEMENT

On October 18, 2017, the City reached a tentative agreement with the San Diego Police Officers Association (POA). Pending City Council ratification in November 2017, this agreement will begin July 1, 2018 and includes the following compensation increases:

- July 1, 2018: 8.3% increase (Includes 3.3% increase in the existing MOU)
- Jan. 1, 2019: 5.0% increase
- July 1, 2019: 3.3% increase (Includes 3.3% increase in the existing MOU)
- July 1, 2019: 5.0% increase for officers with 20 or more years of sworn service in law enforcement
- July 1, 2019: 4.0% increase for all officers in exchange for flexible benefit allotment increases in FY 2020
- Jan. 1, 2020: 5.0% increase

The following table summarizes the projected impact from the tentative agreement. Pension costs are based on a preliminary estimate prepared by San Diego City Employees Retirement System's (SDCERS) actuary on the impact of a 1.0 percent increase in pensionable pay for POA members. The City then used this estimate to project the annual pension payment for the Outlook period based on the salary increases described above. This preliminary estimate could vary from the final actuarial analysis currently being conducted by the SDCERS' actuary, which is expected to be finalized in November 2017.

Table 2.20 - Police Officers Assocation Tenative Agreement
($ in Millions)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Salaries & Wages	$ 18.1	$ 44.8	$ 50.3	$ 50.3	$ 50.3
Flexible Benefits	$ 11.3	$ (0.0)	$ (0.0)	$ (0.0)	$ (0.0)
Pension Costs (ADC)	$ -	$ 6.4	$ 15.9	$ 15.9	$ 15.9
Total	$ 29.3	$ 51.2	$ 66.2	$ 66.2	$ 66.2

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EXISTING RECOGNIZED EMPLOYEE ORGANIZATION AGREEMENTS

Table 2.21 - Multi-Year Employee Organization Agreements					
	San Diego Municipal Employees Association (MEA)	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, 2016	July 1, 2016	July 1, 2016	July 1, 2016
Agreement Period	FY 2017 - FY 2020	FY 2017 - FY 2020	FY 2017 - FY 2020	FY 2017 - FY 2019	FY 2017 - FY 2020
Resolution	R-310513	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. Adjustments are included for pensionable compensation increases in FY 2019 and 2020 totaling $11.0 million and $21.8 million, respectively. The table below summarizes the total increase in costs associated with the Recognized Employee Organization agreements.

Table 2.22 - Five-Year Employee Recognized Organization Agreements & Unclassified Employee Contracts ($ in Millions)						
	FY 2018 Adopted Budget FTE	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
DCAA	151.06	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0
Local 127	1,011.32	1.5	3.0	3.0	3.0	3.0
Local 145	929.00	0.3	2.6	2.6	2.6	2.6
Teamsters 911	165.51	0.7	1.0	1.0	1.0	1.0
MEA	2,663.52	5.6	10.4	10.4	10.4	10.4
Unrepresented	573.67	1.9	3.7	3.7	3.7	3.7
Total	5,494.08	$ 11.0	$ 21.8	$ 21.8	$ 21.8	$ 21.8

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 on July 1, 2017 for FY 2018 was based on the SDCERS Actuarial Valuation Report prepared by the system actuary, Cheiron, as of June 30, 2016.

The City's FY 2018 ADC payment was $324.5 million, with $236.4 million allocated to the General Fund. Based on current estimates, the ADC for FY 2019 is projected to be $312.3 million, a decrease of $12.2 million or 3.8 percent. The General Fund allocation is expected to be $227.5 million or 72.9 percent of the City's total ADC, representing a decrease of $8.9 million to the General Fund. The final amount of the City's FY 2019 ADC payment will not be known until the June 30, 2017 actuarial valuation report is released, which is expected to be presented to the SDCERS Board of Administration in January 2018.

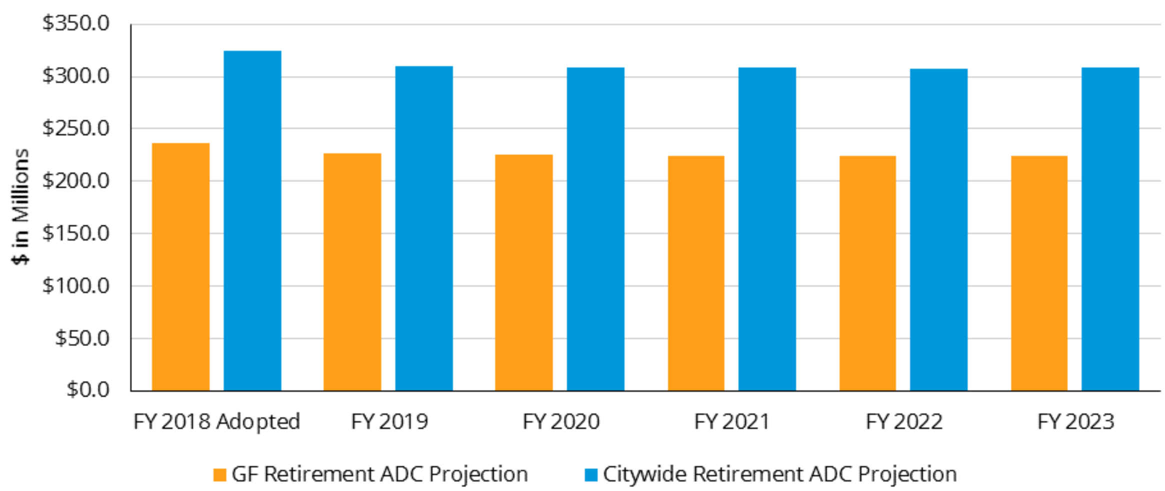
The FY 2019 Adopted Budget will include the full ADC amount determined by the actuary in the 2017 valuation report.

The following table displays both the Citywide ADC and the General Fund's proportionate share for FY 2019 through FY 2023. Table 2.23 incorporates preliminary projections of the ADC from the SDCERS actuary.

Table 2.23 - ADC Pension Payment
($ in Millions)

	FY 2018 Adopted	FY 18 GF % of Citywide	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF ADC Estimate	$ 236.4	72.9%	$ 227.5	$ 232.9	$ 232.5	$ 232.4	$ 232.4
Citywide ADC Estimate	$ 324.5		$ 312.3	$ 319.7	$ 319.2	$ 319.0	$ 319.0

Figure 2.14 - Retirement ADC



ADC ASSUMPTIONS

On September 8, 2017, the SDCERS Board of Administration (Board) approved changes to actuarial assumptions, including the lowering of actuarially assumed investment earnings on an incremental basis over the next two valuation reports and a smoothing of future pension payments. SDCERS provided the City with updated estimates based on the actuarial assumptions, data, and methods that were used in the preparation of the Actuarial Valuation Report as of June 30, 2016 with specific changes to certain assumptions and methods as described below:

- Investment earnings of 12.0 percent for FY 2017, followed by 6.64 percent returns thereafter.
- An actuarially assumed rate of return of 6.75 percent for FY 2017, followed thereafter by actuarially assumed returns of 6.5 percent.
- A smoothing of future payments requiring notably higher City contributions in 2029 to 2033; the smoothing or revised amortization of unfunded liabilities was designed to achieve a more consistent and level cash flow into the pension system,

It is important to note that the City generally relies on the most recently completed actuarial valuation for development of the Outlook. However, due to significant changes in assumptions as described above, we have included these most recent estimates prepared by SDCERS' actuary in September

2017. This information was developed for SDCERS' use, to better understand how expected returns will affect future payments.

Additionally, the 12.0 percent rate of return assumed for FY 2017 is an estimate and does not represent the final actual rate of return. The actual rate of return for FY2017 is 13.5 percent. Moreover, the actuary does not normally model "expected returns" from the investment consultant; rather, the actuarial valuation uses assumed investment rates of return (6.75 percent for FY 2019 and 6.5 percent for each fiscal year thereafter). Because SDCERS expected returns of 6.64 percent are slightly higher than the assumed returns of 6.5 percent for FY 2019 and beyond, there are slight investment gains incorporated into these figures that serve to lower the City's estimated pension payments.

An economic recession, based on historical averages (approximately every five years), could occur during the Outlook period. The pension payment estimates assume 6.64 percent earnings for all years beginning in FY 2018, whereas it is likely that actual earnings will be lower than assumed should a market correction take place in the near term. Therefore, the actual pension payments may be higher than what is reflected in the Outlook period.

Updated information will be available in January 2018 once the actuary has completed the June 30, 2017 valuation. The 2017 valuation will incorporate the new assumptions described above and the actual rate of return for FY 2017. At that point, SDCERS will know the results of actual experience for all actuarial assumptions, including increased actual and projected wage increases, in addition to differences that may result from using data from FY 2016, as was used in this most recent estimate; new 2017 member census data will be the basis for the June 30, 2017 valuation.

EMPLOYEE FLEXIBLE BENEFITS

The City offers flexible benefits to all eligible employees under an Internal Revenue Service (IRS) qualified benefits program (Flexible Benefits Plan). The Flexible Benefits Plan allows employees in one-half, three-quarter, or full-time status to choose benefit plans tailored to the employee's individual needs. The City provides each eligible employee an individual credit amount on a biweekly basis for use in various options offered within the Flexible Benefits Plan. 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 2018 Adopted Budget, $96.6 million was budgeted in flexible benefits. The following table displays the projection for flexible benefits for FY 2019 through FY 2023.

Table 2.24 - Flexible Benefits
($ in Millions)

	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Projection	$ 96.6	$ 82.8	$ 82.8	$ 82.8	$ 82.8	$ 82.8

Forecast excludes expenses related to the City's MOU with POA which are reflected in the Recognized Employee Organization Agreements section

Individual flexible benefit costs vary by each employee's benefits selection and the total flexible benefit cost varies by the total number of employees. As a result, the Flexible Benefits projection is held constant throughout the Outlook period since position additions are not included as part of the baseline projections. Rather, they are reflected within the Critical Strategic Expenditures section of this report. Changes in Flexible Benefit costs related to the Recognized Employee Organizations agreements are discussed in that section of the Outlook. Flexible benefits related to the tentative POA MOU were removed from this section for FY 2019-2023, as they are accounted for in POA Tentative Agreement section above.

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, 2016 was approximately $537.8 million and the annual required contribution was determined to be $48.8 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 (Healthcare MOU). The Healthcare MOU sets 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. Beginning in FY 2015, the terms of the Healthcare MOU may be renegotiated. The following table displays both the Citywide OPEB projection and the General Fund's proportionate share for FY 2019 through FY 2023.

Table 2.25 - Other Post Employment Benefits (OPEB)
($ in Millions)

	FY 2018 Adopted	FY 18 GF % of Citywide	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate		65.7%	2.5%	2.5%	2.5%	2.5%	2.5%
GF OPEB Projection	$ 40.9		$ 41.9	$ 43.0	$ 44.0	$ 45.1	$ 46.3
Citywide OPEB Projection	$ 62.2		$ 63.8	$ 65.4	$ 67.0	$ 68.7	$ 70.4

The FY 2018 Adopted Budget included $40.9 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 2019 through FY 2023.

WORKERS' COMPENSATION

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

The City's Workers' Compensation expenses are comprised of two components. Operating expenses are the first component, which cover the costs of current medical expenses and claims. 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 2019 through FY 2023.

Table 2.26 - Workers' Compensation ($ in Millions)						
	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Operating	$ 22.4	$ 23.2	$ 25.8	$ 28.6	$ 29.6	$ 30.5
Reserves	-	$ 1.4	$ 0.9	$ 0.8	$ 0.9	$ 0.9
Total	$ 22.4	$ 24.6	$ 26.7	$ 29.5	$ 30.4	$ 31.4

The projections for operating expenses are based on actual prior year experience and forecasted to increase by 3.2 percent annually based on the Consumer Price Index for Medical Care. Additional information on the Workers' Compensation Reserve can be found in the Reserve Contributions section of this report.

SUPPLEMENTAL PENSION SAVINGS PLAN (SPSP)

In January 1982, the City established the Supplemental Pension Savings Plan (SPSP), a defined contribution plan. This benefit provides a way for eligible employees to supplement retirement income, with employee contributions matched by the City. Employee eligibility for SPSP is determined by hire date and labor organization. Employees hired between July 1, 2009 and July 20, 2012 are not eligible for entry into SPSP but rather were placed in 401(a) and retiree medical trust plans. Employees other than sworn police officers hired after July 20, 2012, the effective date of Proposition B, 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 2019 through FY 2023.

Table 2.27 - Supplemental Pension Savings Plan (SPSP) ($ in Millions)						
	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Projection	$ 18.5	$ 18.9	$ 19.3	$ 19.4	$ 19.4	$ 19.3

SPSP is a fringe benefit that is projected based on a percentage of employees' salaries. In the FY 2018 Adopted Budget, SPSP was approximately 3.4 percent of General Fund salaries. For the Outlook period, SPSP as a percentage of salaries is projected to remain consistent at 3.4 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 2018 Adopted Budget to the FY 2019 through FY 2023 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 2018 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 2019 through FY 2023.

Table 2.28 - Other Fringe Benefits ($ in Millions)						
	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Projection	$ 23.6	$ 25.9	$ 26.3	$ 26.4	$ 26.4	$ 26.3

Other Fringe Benefits are projected based on a percentage of employees' salaries. In the FY 2018 Adopted Budget, Other Fringe Benefits were approximately 4.3 percent of General Fund salaries. For the Outlook period, Other Fringe Benefits as a percentage of salaries are projected to remain consistent at 4.3 percent. Minor increases during the Outlook period are 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 2019 through FY 2023 projections for the Supplies category.

Table 2.29 - Supplies ($ in millions)						
	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate		5.1%	5.1%	5.1%	5.1%	5.1%
Projection	$ 34.7	$ 31.2	$ 32.8	$ 34.4	$ 36.2	$ 38.1

The FY 2018 Adopted Budget includes $5.1 million in one-time expenditures for recruitment and retention of police officers and costs associated with the purchase of self-contained breathing apparatus in the Fire-Rescue Department. These one-time expenditures have been removed from the FY 2019 through FY 2023 baseline projections. Additionally, a 5.1 percent increase has been applied for FY 2019 through FY 2023 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 following table displays the FY 2019 through FY 2023 projections for the Contracts category.

Table 2.30 - Contracts ($ in Millions)						
	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate		3.5%	3.5%	3.5%	3.5%	3.5%
Projection	$ 244.6	$ 236.9	$ 242.4	$ 248.3	$ 254.5	$ 261.5

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 2018 Adopted Budget included $17.0 million in one-time expenditures within the Contracts category. The following summarizes the one-time expenditures that have been removed from the FY 2019 through FY 2023 baseline projections:

- $5.0 million for special election costs for the transient occupancy tax ballot initiative
- $4.4 million for relocation and additional rent costs during construction in order to move staff into the 101 Ash Street building
- $1.1 million to fund the San Diego Housing Commission's homeless prevention and diversion programs
- $0.9 million for tree trimming services
- $0.8 million for the littering and graffiti abatement pilot program
- $0.8 million for community projects, programs, and services (CPPS)
- $0.5 million associated with police recruitment and retention study
- Funding for miscellaneous contractual services, including City Attorney office funding, sexual assault kit testing, facility improvements, tree planting, code enforcement abatement, transit priority area parking standards, workforce housing density program, and Horton Plaza security support

Additionally, for FY 2019 though FY 2023, Contracts expense projections were adjusted to include the relocation costs to move staff into 101 Ash Street per the current schedule, general election costs in FY 2019 and FY 2021, and City Council redistricting after the 2020 census.

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 2019 through FY 2023 projections for the Information Technology category.

Table 2.31 - Information Technology ($ in Millions)						
	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate		2.0%	2.0%	2.0%	2.0%	2.0%
Projection	$ 31.8	$ 34.5	$ 33.8	$ 34.7	$ 35.6	$ 36.5

The projections include estimates of IT costs related to desktop support, networks, data-centers, and applications for FY 2019 through FY 2023, and all other base IT costs are inflated by the California Consumer Price Index. An adjustment to the FY 2018 Adopted Budget for one-time fixed costs for transition of IT network and desktop services as well as discretionary expenditures totaling $4.2 million serves as the baseline for this category.

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 2019 through FY 2023 projections for the Energy and Utilities category.

Table 2.32 - Energy and Utilities
($ in Millions)

	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate		4.9%	4.6%	3.8%	4.7%	3.3%
Projection	$ 43.4	$ 45.5	$ 47.6	$ 49.4	$ 51.7	$ 53.5

The Energy and Utilities category includes various costs. Each cost component has a different applicable rate. Growth rates for each category are based the Annual Energy Outlook 2017 report prepared by the U.S. Energy Information Administration. Fuel growth rates range from 2.8 percent to 11.7 percent depending on the year and the type of fuel. Electrical growth rates range from 2.7 percent to 5.4 percent.

Water rates, on the other hand, are determined by the Public Utilities Department. In FY 2016, City Council approved adjustments to increase the water rate by 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 Utilities 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 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. The City also maintains other reserves for various enterprise funds which are not included in this report.

Table 2.33 details the FY 2018 projected reserve balance in the funds, the percentage targets, and contribution forecasted to maintain the City's reserve funds.

Table 2.33 - Reserve Target Levels	FY 2018 Proj.	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023
General Fund Target (%)	15.00%	15.25%	15.50%	15.75%	16.00%	16.25%
General Fund Reserve Level ($)	$ 181.3	$ 191.7	$ 201.8	$ 212.3	$ 225.1	$ 237.7
General Fund Contribution Amount [1]	$ 10.3	$ 0.1	$ 10.0	$ 10.6	$ 12.7	$ 12.7
Pension Stability Target (%)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Pension Stability Reserve Target ($)	$ -	$ 23.9	$ 25.5	$ 25.4	$ 25.5	$ 25.5
Pension Stability Reserve Level Projection ($)	$ -	$ 4.8	$ 10.2	$ 15.2	$ 20.4	$ 25.5
Pension Stability Contribution Amount	$ -	$ 4.8	$ 5.4	$ 5.0	$ 5.2	$ 5.1
Pension Stability Contribution Amount (GF)	$ -	$ 3.5	$ 3.9	$ 3.7	$ 3.8	$ 3.7
Public Liability Target (%)	47.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Public Liability Reserve Level Goal ($)	$ 32.6	$ 34.7	$ 34.7	$ 34.7	$ 34.7	$ 34.7
Public Liability Reserve Level Projection ($)	$ 36.7	$ 36.7	$ 36.7	$ 36.7	$ 36.7	$ 36.7
Public Liability Contribution Amount		-	-	-	-	-
Long-Term Disability Fund Target (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Disability Fund Reserve Target($)	$ 5.5	$ 5.5	$ 5.5	$ 5.5	$ 5.5	$ 5.5
Long-Term Disability Fund Reserve Level Projection ($)	$ 15.8	$ 15.8	$ 15.8	$ 15.8	$ 15.8	$ 15.8
Long-Term Disability Contribution Amount	-	-	-	-	-	-
Workers' Compensation Target (%)	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Workers' Compensation Reserve Target ($)	$ 30.0	$ 31.7	$ 32.8	$ 33.9	$ 35.0	$ 36.1
Workers' Compensation Reserve Level Projection ($)	$ 37.0	$ 34.1	$ 32.8	$ 33.9	$ 35.0	$ 36.1
Workers' Compensation Contribution Amount	$ -	$ 1.8	$ 1.1	$ 1.1	$ 1.1	$ 1.1
Workers' Compensation Contribution Amount (GF)	$ -	$ 1.4	$ 0.9	$ 0.8	$ 0.9	$ 0.9

[1] The FY 2018 Adopted Budget included $10.3 million to prefund the FY 2019 General Fund Reserve contribution

The FY 2019 General Fund Reserve target is 15.25 percent or $191.7 million. The increase from the FY 2018 target is $10.4 million. However, the FY 2018 Adopted Budget included $10.3 million to prefund the FY 2019 contribution amount; therefore, only the difference of $0.1 million is included in the forecast for FY 2019.

The FY 2018 Adopted Budget included full utilization of the Pension Payment Stabilization Reserve to minimize the impact from the significant increase in the City's ADC pension payment. Per the City's Reserve Policy, use of the reserve requires the Mayor to prepare a plan to replenish the balance to policy levels. The forecast for Reserve Contributions includes a plan to replenish the reserve on an incremental basis to achieve target by FY 2023.

Public Liability Reserve exceeds its target level of 50.0 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 reserves in the Long-Term Disability Fund is a potential source to fund the death and disability plan. No additional contributions to the Long-Term Disability Fund are anticipated in the Outlook period.

City Council approved amending the Workers' Compensation Reserve target from 25.0 percent to 12.0 percent of the three-year average of outstanding actuarial liabilities in February 2016. As a result of this amendment, the Workers' Compensation Reserve exceeds its target level. The FY 2018 Adopted

Budget included both the use of a portion of these funds for one-time contributions to General Fund Reserves, and a plan to offset workers' compensation operating expenses for multiple fiscal years. Only the General Fund contributions due to changes in the three-year average of outstanding actuarial liabilities are included in the forecast.

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 2019 through FY 2023 projections for the Other Expenditures Category.

Table 2.34 - Other Expenditures
($ in Millions)

	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 76.1	$ 51.9	$ 53.0	$ 53.3	$ 55.3	$ 55.3

The one-time expenditures included in the FY 2018 Adopted Budget are detailed below:

- $17.4 million transfer to General Fund Reserve to meet the FY 2018 and FY 2019 target levels
- $4.2 million transfer related to the Commission for Arts and Culture allocation
- $3.1 million transfer to the Public Liability Reserve

CHARTER SECTION 77.1 – INFRASTRUCTURE FUND

In accordance with a recent amendment to the City Charter, passed assed 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 (FY 2018 through FY 2022 only)
- Sales tax increment – an amount equal to the annual change in sales tax revenue when compared to the sales tax baseline (FY 2016) as inflated by the lessor of CCPI or 2.0 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 2.35 shows the forecasted Infrastructure Fund deposits for the Outlook period.

Table 2.35 - Infrastructure Deposits
($ in Millions)

	FY 2018 Adopted	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Projection	$ 17.8	$ 16.9	$ 17.7	$ 20.7	$ 19.2	$ -

The portion of the deposit calculation from major revenue increment is only in effect for five years (FY 2018 through FY 2022). Commencing in FY 2023, no deposits are forecasted since there is no sales tax increment or General Fund pension cost savings projected.

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 2019 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.

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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.

As noted previously, 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 purpose of this section is the identification of future known needs and the estimated fiscal impact as currently assumed.

TOTAL CRITICAL STRATEGIC EXPENDITURES

	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Total Critical Strategic Expenditures	**Dept. Total FTE**	**55.91**	**124.91**	**172.04**	**199.13**	**204.89**
	Dept. Total Expense	**12,507,992**	**25,533,349**	**42,535,055**	**58,558,392**	**68,260,721**
	Dept. Total Revenue	**36,800**	**564,376**	**1,077,132**	**1,080,082**	**1,083,237**

The table above summarizes the total critical strategic expenditures including costs associated with the mitigation of Hepatitis A, homelessness initiatives, staffing for new facilities and departmental critical strategic expenditures as described below. It should be noted that department expenditures that were identified as budgetary requests or capital improvement projects are not included in the Outlook. Capital improvement projects will be addressed in the FY 2019-2023 Five-Year Capital Infrastructure Planning Outlook to be released in January 2018.

CITY CLERK

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Replace and Maintain Electronic Voting System & AV Equipment	FTE	-	-	-	-	-
	Expense	-	505,000	5,000	5,000	5,000
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**-**	**505,000**	**5,000**	**5,000**	**5,000**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City Clerk's Department supports the City's Strategic Plan to ensure equipment and technology are in place that allows employees to achieve high quality public service. Funding needs have been identified for one-time costs to replace the twelve year old voting system and audio visual equipment in the City Council chambers. Ongoing maintenance costs for the new system are also identified.

CHIEF OPERATING OFFICER

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Deputy Chief Operating Officer - Special Projects	FTE	1.00	1.00	1.00	1.00	1.00
	Expense	310,050	316,536	316,536	316,536	316,536
	Revenue	-	-	-	-	-
	Dept. Total FTE	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**
	Dept. Total Expense	**310,050**	**316,536**	**316,536**	**316,536**	**316,536**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the Chief Operating Officer's Department includes the new Deputy Chief Operating Officer for Special Projects that was added during FY 2018. This position is primarily responsible for large public project coordination and other high priority issues.

CITY TREASURER

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Cannabis Business Tax Administration	FTE	4.00	4.00	4.00	4.00	4.00
	Expense	275,773	284,829	284,829	284,829	284,829
	Revenue	-	-	-	-	-
	Dept. Total FTE	**4.00**	**4.00**	**4.00**	**4.00**	**4.00**
	Dept. Total Expense	**275,773**	**284,829**	**284,829**	**284,829**	**284,829**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City's Treasurer identifies funding for the administration of the Cannabis Business Tax. Upon passage of Measure N to establish a cannabis business tax on non-medical cannabis businesses in November 2016, a gross receipts tax on non-medical cannabis businesses becomes effective on January 1, 2018. The City Treasurer is responsible for administering the business tax program including responding to public questions, ensuring gross receipts returns are completed accurately and monies are deposited timely. The FY 2018 Adopted Budget included $250,000 to support administration of the Cannabis Business Tax program. This amount represents the incremental increase above baseline.

CITYWIDE PROGRAM EXPENDITURES

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Citywide Debt Service	FTE	-	-	-	-	-
	Expense	20,000	600,000	3,990,000	10,200,000	12,400,000
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**20,000**	**600,000**	**3,990,000**	**10,200,000**	**12,400,000**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for Citywide Program identifies $270 million in financing proceeds to continue to fund the City's ongoing General Fund supported capital improvements program in FY 2019 through FY 2023. Commercial paper note issuance, a short-term financing mechanism, will allow for just-in-time, lower cost borrowing based on short-term interest rates instead of issuing a large long-term bond upfront. An estimated $75 million commercial paper program is anticipated to be approved by City Council in the second half of FY 2018 to provide as-needed financing proceeds for project spending through FY 2021.

The borrowing amounts and debt service cost projections above assumes a long-term bond issuance in FY 2021 of $172.5 million to pay down/refund the commercial paper notes of $75 million and provide new money proceeds in the amount of $97.5 million. A subsequent new money long-term bond issuance of $97.5 million is projected in FY 2023. The timing of each of these bond issuances and a cost effective financing mechanism (commercial paper or long-term bonds) will be further evaluated based on cash needs and market conditions.

ENVIRONMENTAL SERVICES

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Elimination of Tipping Fee Discount	FTE	-	-	-	-	-
	Expense	-	300,000	600,000	600,000	600,000
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**-**	**300,000**	**600,000**	**600,000**	**600,000**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City's Environmental Services Department identifies increased costs to comply with approved policies that eliminated General Fund tipping fee discounts at the Miramar Landfill.

FIRE-RESCUE

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Fire Dispatcher Staffing	FTE	8.00	8.00	8.00	8.00	8.00
	Expense	658,875	675,676	675,676	675,676	675,676
	Revenue	-	-	-	-	-
Replace one Fire-Rescue Helicopter	FTE	-	-	-	-	-
	Expense	1,700,000	2,300,000	2,300,000	2,300,000	2,300,000
	Revenue	-	-	-	-	-
Peak Hour Engines	FTE	-	24.00	48.00	48.00	48.00
	Expense		3,157,952	6,328,115	6,328,115	6,328,115
	Revenue	-	-	-	-	-
Fire Stations (North University City, Black Mountain Ranch, and UCSD)	FTE	-	12.00	24.00	36.00	36.00
	Expense	925,000	1,759,333	4,443,666	5,277,999	5,277,999
	Revenue	-	-	-	-	-
	Dept. Total FTE	**8.00**	**44.00**	**80.00**	**92.00**	**92.00**
	Dept. Total Expense	**3,283,875**	**7,892,962**	**13,747,457**	**14,581,790**	**14,581,790**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

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 eight fire dispatchers to meet a 12-person constant staffing model in the Emergency Command and Data Center as implemented in FY 2018, replacement of one helicopter, institution of peak hour engines and the addition of three new fire stations.

The Fire-Rescue Department has identified gaps in service due to planned trainings or peak periods of traffic congestion and intends to fill these gaps by phasing-in six Citygate recommended peak hour engine (PHE) companies over two years (three PHE per fiscal year). This will significantly improve response time performance citywide without having to build new fire stations that are not already in some form of design or construction. The PHE would be in operation 12 hours per day, seven days per week.

The operational expenses for three fully funded fire stations are projected after construction is completed as follows:

- FY 2020 – North University City Fire Station
- FY 2021 – Black Mountain Fire Station
- FY 2022 – UCSD Fire Station

FLEET OPERATIONS

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Fleet Non-Discretionary Assignment Fees	FTE	-	-	-	-	-
	Expense	-	4,609,202	9,218,403	16,218,403	23,218,403
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**-**	**4,609,202**	**9,218,403**	**16,218,403**	**23,218,403**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

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 increased costs related to the General Fund portion of vehicle assignment fees. These fees are 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.

HEPATITIS A RESPONSE

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Hepatitis A Response	FTE	-	-	-	-	-
	Expense	1,966,668	-	-	-	-
	Revenue	-	-	-	-	-
Sanitation	FTE	-	-	-	-	-
	Expense	699,216	699,216	699,216	699,216	699,216
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**2,665,884**	**699,216**	**699,216**	**699,216**	**699,216**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

San Diego County is in the midst of a Hepatitis A outbreak. On August 31, 2017, the County of San Diego (County) Chief Public Health Officer issued a directive to the City, which outlined a number of actions required to respond to the ongoing Hepatitis A outbreak. Subsequently, on September 1, 2017, the County Public Health Officer declared the spread of Hepatitis A in San Diego County a threat to public health and a local health emergency. This declaration was ratified by the County Board of Supervisors on September 6, 2017. In direct response, the City took immediate action to address the public health threat and fully comply with the County directive by providing additional vaccination, sanitation, and education related services.

These Hepatitis A response and sanitation services were not anticipated in the FY 2018 Adopted Budget. The level of effort for and associated funding required in FY 2019 will be finalized during the budget process; however, the amounts identified above are based on the most up-to-date known information at the time the Outlook was prepared. The FY 2018 Mid-Year Budget Monitoring Report will provide an update to the Hepatitis A response.

HOMELESSNESS

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Safe Parking Program	FTE	-	-	-	-	-
	Expense	338,000	169,000	-	-	-
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**338,000**	**169,000**	**-**	**-**	**-**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The City's homeless programs are funded through a variety of General Fund and non-General Fund sources, including State and Federal funds and San Diego Housing Commission resources. Highlighted above is one new General Fund contract that has been identified in the Outlook and approved for up to two years beginning in FY 2018. The Mayor will continue to work with the City Council to move forward on new initiatives to address the homelessness crisis.

INFORMATION TECHNOLOGY

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Baseline Adjustments	FTE	-	-	-	-	-
	Expense	(682,825)	(682,825)	(682,825)	(682,825)	(682,825)
	Revenue	-	-	-	-	-
Motorola Public Safety Contract	FTE	-	-	-	-	-
	Expense	478,500	565,500	652,500	1,087,500	1,522,500
	Revenue	-	-	-	-	-
Support of Cyber Security Initiative	FTE	-	-	-	-	-
	Expense	58,177	59,843	59,843	59,843	59,843
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**(146,148)**	**(57,482)**	**29,518**	**464,518**	**899,518**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

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

LIBRARY

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
New Libraries (Mission Hills, San Ysidro, and Pacific Highlands Ranch)	FTE	1.00	3.67	7.92	12.17	12.17
	Expense	142,809	592,684	1,065,989	1,539,295	1,539,295
	Revenue	-	-	-	-	-
	Dept. Total FTE	**1.00**	**3.67**	**7.92**	**12.17**	**12.17**
	Dept. Total Expense	**142,809**	**592,684**	**1,065,989**	**1,539,295**	**1,539,295**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City's Library Department supports the City's Strategic Plan to foster services that improve quality of life in all neighborhoods. The table identifies staffing and operating costs for new facilities opening beginning in FY 2019, which include Mission Hills, San Ysidro, and Pacific Highlands branch libraries.

PARKS AND RECREATION

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
New Facilities	FTE	18.91	39.24	42.12	48.96	54.72
	Expense	2,167,505	3,977,408	4,093,554	4,819,984	5,551,980
	Revenue	-	15,000	15,000	15,000	15,000
MADs Proposition 218	FTE	-	-	-	-	-
Compliance/General Benefit	Expense	192,861	202,504	212,147	221,790	231,433
	Revenue	-	-	-	-	-
	Dept. Total FTE	**18.91**	**39.24**	**42.12**	**48.96**	**54.72**
	Dept. Total Expense	**2,360,366**	**4,179,912**	**4,305,701**	**5,041,774**	**5,783,413**
	Dept. Total Revenue	**-**	**15,000**	**15,000**	**15,000**	**15,000**

The Outlook for the City's Parks & Recreation Department supports the City's Strategic Plan to improve quality of life in all neighborhoods. The table above identifies the addition of personnel and non-personnel expenditures for the operation and maintenance of 22 new facilities and 32 new play all day joint use facilities. Attachment 3 identifies these facilities. Additionally, the expenses to comply with Proposition 218 for the City's Maintenance Assessment Districts (MADS) are identified.

PERFORMANCE AND ANALYTICS

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
311 Customer Experience (Cx)/	FTE	1.00	1.00	1.00	1.00	1.00
Get It Done - Phase I	Expense	723,155	735,224	744,446	753,899	763,589
	Revenue	36,800	39,376	42,132	45,082	48,237
	Dept. Total FTE	**1.00**	**1.00**	**1.00**	**1.00**	**1.00**
	Dept. Total Expense	**723,155**	**735,224**	**744,446**	**753,899**	**763,589**
	Dept. Total Revenue	**36,800**	**39,376**	**42,132**	**45,082**	**48,237**

The Outlook for Performance and Analytics supports the City's Strategic Plan to provide high quality public service by promoting a customer-focused culture that prizes consistent, predictable delivery of services. The funding needs identified in the Outlook represents non-capitalizable costs, such as licenses and maintenance that will expand the 311 Customer Experience/Get It Done application for services in additional departments including: City Clerk, Development Services, and Environmental Services. The debt service expense related to capitalizable expenses will be funded from the Capital Outlay Fund.

PLANNING

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Middle Income Density Bonus	FTE	-	-	-	-	-
Program	Expense	250,000	-	-	-	-
	Revenue	-	-	-	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**250,000**	**-**	**-**	**-**	**-**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

The Outlook for the City's Planning Department supports the City's Strategic Plan for fostering safe and livable neighborhoods. To promote housing for middle income families, the policy development for the Middle Income Density Housing Bonus Program has already begun, and funding need for environmental review (CEQA) has been identified.

POLICE

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Addition of Civilian Positions and Equipment	FTE	13.00	13.00	13.00	13.00	13.00
	Expense	991,432	1,015,365	1,015,365	1,015,365	1,015,365
	Revenue	-	-	-	-	-
Body Worn Cameras and Tasers	FTE	-	-	-	-	-
	Expense		393,500	1,301,020	1,301,020	1,301,020
	Revenue	-	-	-	-	-
	Dept. Total FTE	**13.00**	**13.00**	**13.00**	**13.00**	**13.00**
	Dept. Total Expense	**991,432**	**1,408,865**	**2,316,385**	**2,316,385**	**2,316,385**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**

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 conversion of 13.00 civilian supplemental positions into budgeted positions. Also, funding for new body worn cameras and tasers to replace outdated and/or damaged equipment is identified. Additional expenses related to the tentative agreement with the POA are described in the Baseline Expenditures section of the Outlook.

TRANSPORTATION AND STORM WATER

Request	FTE/Rev/Exp	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Pothole Repair	FTE		4.00	4.00	4.00	4.00
	Expense	170,000	250,157	250,157	250,157	250,157
	Revenue	-	-	-	-	-
Pipe Maintenance & Repair	FTE	8.0	8.0	8.0	8.0	8.0
	Expense	765,080	786,016	786,016	786,016	786,016
	Revenue	-	-	-	-	-
Street Sweeping	FTE	1.00	7.00	11.00	15.00	15.00
	Expense	107,716	1,461,228	1,575,400	1,900,573	1,216,573
	Revenue	-	510,000	1,020,000	1,020,000	1,020,000
Slurry Seal Maintenance	FTE	-	-	-	-	-
	Expense	-	-	2,600,000	2,600,000	2,600,000
	Revenue	-	-	-	-	-
Stop Guide	FTE	-	-	-	-	-
	Expense	250,000	-	-	-	-
	Revenue	-	-	-	-	-
Pavement Assessment	FTE	-	-	-	-	-
	Expense	-	800,000	-	-	-
	Revenue	-	-	-	-	-
	Dept. Total FTE	**9.00**	**19.00**	**23.00**	**27.00**	**27.00**
	Dept. Total Expense	**1,292,796**	**3,297,401**	**5,211,574**	**5,536,746**	**4,852,746**
	Dept. Total Revenue	**-**	**510,000**	**1,020,000**	**1,020,000**	**1,020,000**

The Outlook for the City's Transportation and Storm Water Department supports the City's Strategic Plan in achieving safe and livable neighborhoods by performing the services summarized in the table above. The expenditures assist the City in meeting its targeted service level of repairing reported potholes within 10 working days, addressing the maintenance and repair of failing storm drain pipes throughout the City, providing enhanced street sweeping through expanding routes, and performing slurry sealing of City streets which helps fill cracks and preserve pavement surfaces.

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 2018.

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POTENTIAL MITIGATION ACTIONS

The Outlook has identified the potential need to identify additional sources of funds as a result of the growth in ongoing expenditures outpacing the growth in ongoing revenues. The Mayor will present a balanced FY 2019 budget in April 2018 to the City Council. If the projected revenues and sources of funds do not improve, several mitigation actions, including budget reductions, will need to be considered. The following section presents potential measures to address the potential need for additional resources in FY 2019.

ONE-TIME RESOURCES

Resources are available from excess equity and in reserve accounts; however, these resources are one-time in nature and therefore are only available for one-time purposes.

- The Public Liability Reserve exceeds FY 2018 policy goal of 47 percent of outstanding claims. Funds available at the end of FY 2018 could be available in FY 2019.
- The current Long-Term Disability Fund Reserve is funded beyond the policy goal 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.
- The Workers' Compensation Reserve is currently over funded in comparison to its target level of 12 percent of the three-year average of outstanding actuarial liabilities. The FY 2018 Adopted Budget incorporated a plan to provide rate relief for three years. There are no additional funds available, at this time, above what is currently planned to be utilized.
- In the FY 2018 First Quarter Budget Monitoring Report, the FY 2017 ending fund balance (excess equity) is projected to be $17.9 million. The FY 2017 ending fund balance projection will be updated during the FY 2018 Mid-Year Budget Monitoring Report once the audit of the General Fund is complete. These funds could be available during the Outlook period, however, the potential for utilizing this one-time resource could be needed during FY 2018.

BUDGET REDUCTIONS

To address the projected shortfall, General Fund departments will be requested to submit budget reduction proposals. 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.

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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 FY 2019 and FY 2020. A structural shortfall is forecasted once the following key factors are accounted for:

- Moderate growth in revenue
- Employee Organization Agreements entered into in FY 2015 and FY 2016
- Impact from tentative agreement with the Police Officers' Association

The Outlook is not a budget. 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 2019 Adopted Budget.

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2018.