The City of SAN DIEGO

FISCAL YEAR 2022-2026
FIVE-YEAR FINANCIAL OUTLOOK

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NOVEMBER 2020

Disclaimer:

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EXECUTIVE SUMMARY

The City of San Diego Fiscal Year 2022-2026 Five-Year Financial Outlook Report (Outlook) is a long-range fiscal planning guide and serves as the framework for the development of the Fiscal Year (FY) 2022 Adopted Budget for the General Fund. The purpose of the Report is to provide an outlook of the City's finances over the next five years as forecasted.

In light of the recent economic impacts of the COVID-19 pandemic and projected decreases in General Fund revenues in FY 2021, the Outlook focuses on baseline revenues and expenditures, including updating forecasts for revenues and expenditures to maintain the City's current service levels as reflected in the FY 2021 Adopted Budget. As a result, any adjustments that either reduce or enhance current service levels are not assumed in this Report. Those decisions will be considered and implemented during the upcoming FY 2022 Budget Development process and will be dependent upon available resources and operational priorities.

The following points highlight key assumptions included in the Outlook projections:

- Any current year deficits due to updated FY 2021 revenue forecasts will be addressed in the current year and are not assumed in the Outlook projections
- A COVID-19 vaccine will be readily available beginning in FY 2022
- An economic recovery will be reached by FY 2025
- Does not include additional State and Federal Relief in response to the COVID-19 pandemic
- New critical expenditures that enhance current service levels are not included
- Assumes no additional reserve contributions in FY 2022 and FY 2023
- Assumes the continuation of the current MOUs and does not assume any salary and benefit increases with the City's REOs

The Outlook is a planning tool to assist in budget decisions related to the allocation of General Fund resources and should not be considered a budget. The Outlook provides the City Council, key stakeholders, and the public with information at the start of the budget process to facilitate a discussion regarding the coming year's General Fund budget allocations. To the extent projected expenditures exceed estimated revenues in any given year of the Outlook, the City will 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 to the City Council by April 15, 2021. The decisions impacting the FY 2022 budget will have an impact on the entire outlook period and will be reflected in the FY 2023-2027 Five-Year Financial Outlook Report.

Summary of Key Financial Data

The major General Fund revenues are projected to continue to be impacted by the COVID-19 pandemic through the end of FY 2021. The Outlook forecasts the beginning of the economic recovery in FY 2022 and projects to reach pre-recession levels by FY 2025. This assumption is primarily dependent upon a vaccine becoming widely available to the public in summer/fall 2021 and group travel to begin to increase in the spring of 2021. Revenue growth is projected to increase significantly in FY 2022 and soften once reaching pre-recession levels by FY 2025. Major General Fund revenues are anticipated to increase in each year of the Outlook; however, the rate of growth decreases in the outer years of the Outlook. The Outlook also projects moderate increases in expenditure categories required to maintain current service levels and based on anticipated growth in those categories. Any anticipated growth is highlighted within each revenue and expenditure category within the Outlook.

As discussed later in the report, the Outlook does not forecast the impacts from potential mitigation actions and other information not known at the time of the preparation of the report, such as new State and federal stimulus funds, new ballot initiatives, pension cost increases due to updated actuarial assumptions, and changes to current labor agreements, including salary and benefit increases.

As depicted in Table 1.1, projected baseline expenditures exceed revenues in FY 2022 through FY 2025. The baseline revenue growth is projected to exceed anticipated expenditure growth with a surplus by FY 2026; which assumes a full economic recovery from the impacts of the COVID-19 pandemic. Throughout the report, tables may not foot due to rounding differences.

Table 1.1 - Fiscal Year 2022-2026 Financial Outlook Summary of Key Financial Data ($ in Millions)					
	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026
Property Tax	$664.2	$689.1	$716.9	$747.6	$782.1
Sales Tax	$300.5	$317.9	$335.7	$347.4	$358.2
Transient Occupancy Tax	$105.5	$114.5	$124.5	$129.4	$134.6
Franchise Fees	$71.0	$73.0	$74.4	$75.8	$77.4
All Other Revenue Categories	$404.0	$415.0	$433.6	$447.1	$450.5
BASELINE GENERAL FUND REVENUES	**$1,545.2**	**$1,609.5**	**$1,685.1**	**$1,747.4**	**$1,802.8**
Salaries & Wages	$653.1	$652.2	$652.0	$652.7	$653.2
Retirement Actuarially Determined Contributions (ADC)	$279.5	$292.8	$304.1	$310.7	$317.4
All other Personnel Expenditures	$215.9	$217.2	$218.6	$220.1	$221.6
Non-Personnel Expenditures	$455.7	$472.6	$496.9	$505.1	$530.4
Charter Section 77.1 - Infrastructure Fund Contribution	$11.3	$0.0	$0.0	$0.0	$0.0
Reserve Contributions	$1.2	$1.3	$24.1	$17.0	$15.8
Other Baseline Adjustments	$12.9	$45.1	$45.7	$44.2	$42.1
BASELINE GENERAL FUND EXPENDITURES	**$1,629.6**	**$1,681.1**	**$1,741.4**	**$1,749.7**	**$1,780.5**
BASELINE (SHORTFALL)/SURPLUS	**($84.5)**	**($71.6)**	**($56.3)**	**($2.3)**	**$22.2**

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Report Outline

The Outlook includes a discussion on General Fund baseline projections for revenues and expenditures, necessary to maintain the City's current service levels, identifies potential options that could be used to mitigate projected revenue shortfalls, and reviews other assumptions and considerations not included in the projections used in this Report.

As displayed in Table 1.1 – Fiscal Year 2022-2026 Financial Outlook Summary of Key Financial Data, the Baseline Projections section of the Outlook consists of the City's projections for the next five years for ongoing revenues and expenditures. The Baseline Projections section includes baseline revenue and expenditure growth, and anticipated adjustments to the FY 2021 Adopted Budget. Examples of anticipated adjustments in the baseline projections include the removal of one-time resources and expenditures included in the FY 2021 Adopted Budget.

In addition, the baseline projections discussion, quantifies the City's needs to maintain current service levels as reflected in the FY 2021 Adopted Budget. Examples of these adjustments include funding to maintain homelessness programs, streets improvements, and new facilities scheduled to become operational in the outlook period, which are further discussed in the Other Baseline Adjustments section. New critical expenditures that enhance current service levels for FY 2022 and that require additional prioritization, further analysis and research, or not previously approved by the Mayor or City Council in the FY 2021 Adopted Budget were not considered in the Outlook. New critical expenditures that enhance current service levels for FY 2022 will be considered during the upcoming FY 2022 Budget Development process and will be dependent upon available resources and operational priorities. New capital expenditures were not included in this Report, as these expenditures are accounted for in the Five-Year Capital Infrastructure Planning Outlook.

Potential mitigation actions are discussed to address the anticipated revenue shortfalls identified in the Report. Although no specific solution is quantified, general concepts are presented that could mitigate the anticipated revenue shortfalls.

Lastly, there are risks and other unforeseen issues that would cause the revenues and expenditures to materially deviate from the projections used in the preparation of this report. The Other Assumptions and Considerations section of the report details the most significant items that could impact the projections reflected in the Outlook at the time of the preparation of this report, of note is a new electric and gas franchise fee agreement as a result of the current agreement expiring in January 2021, potential ballot measures that may have significant impacts to the General Fund and lastly, the potential that a vaccine or effective treatments do not become readily available as assumed, further delaying the economic recovery.

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2021.

BASELINE PROJECTIONS

The Baseline Projections section describes forecasted General Fund changes based on growth assumptions and anticipated adjustments to the FY 2021 Adopted Budget at the time of the preparation of this Report. This section provides forecasted growth rates for revenues, including an overview of the revenue category, key economic trends, and a discussion of varying scenarios that could impact the forecast for the major revenue categories. General Fund expenditures are reviewed thereafter, including significant changes and growth assumptions within each expenditure category.

Unless otherwise noted, baseline projections assume growth based on the FY 2021 Adopted Budget with one-time resources and expenditures removed. The one-time resources and expenditures that have been removed from the baseline projections are detailed in Attachment 1: One-Time Resources and Uses.

Baseline General Fund Revenues

Due to the COVID-19 pandemic, the U.S. economy has suffered the greatest economic impacts in history. Since the start of the pandemic in March, the City has experienced significant revenue losses. In addition, there have been historic increases in unemployment claims, declines in consumer confidence, travel restrictions and decreases in consumer spending resulting from temporary business closures. The FY 2021 First Quarter Budget Monitoring Report continues to project revenue impacts from the COVID-19 pandemic through the end of the fiscal year. This Outlook projects the beginning of the economic recovery in FY 2022, assuming a vaccine will be broadly available to the public in summer/fall of 2021.

It should be noted that in addition to growth rate percentages applied in each of the revenue categories, other adjustments have been included based on significant known and anticipated events that are detailed within each category. To assist in evaluating the potential variability to revenue projections, a “High” and “Low” projection has been included for property tax, sales tax, and transient occupancy tax (TOT). It is important to note that the “High” and “Low” projections provide a range of possibilities within the current economic parameters, and do not account for new scenarios that could further impact or extend the current economic recession.

The City’s four major revenue sources, property tax, sales tax, TOT, and franchise fees, represent 65.7 percent of the City’s General Fund FY 2021 Adopted Budget. As depicted in Figure 2.1, all four major revenue sources are projected to increase through the outlook period; however, the annual rate of growth is expected to decrease in the outer years. The overall economic assumptions included in the report is consistent with the information received from the City’s sales tax consultant (Avenu Insights & Analytics), the San Diego Tourism Authority, San Diego Tourism Marketing District, the UCLA Anderson Forecast and Beacon Economics. 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.

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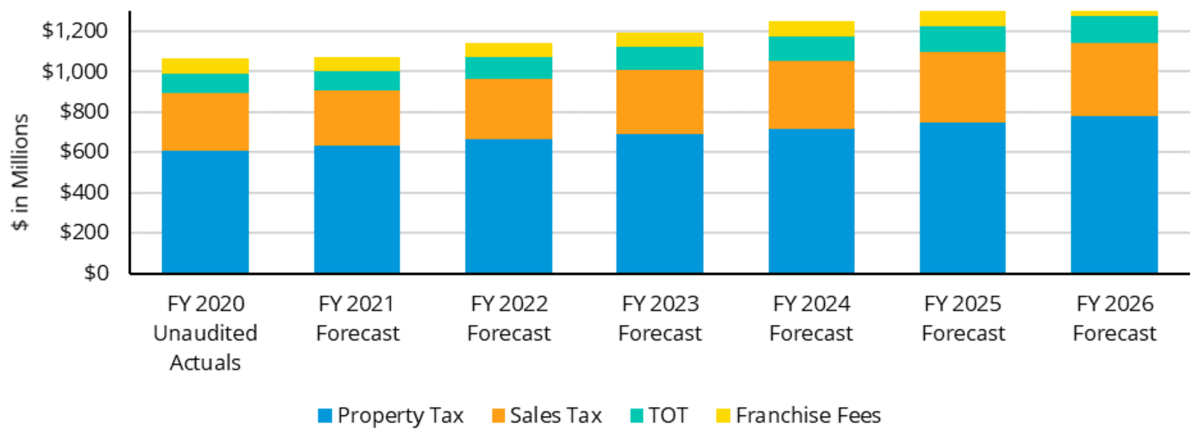
Figure 2.1 - Major General Fund Revenues



Property Tax

Property tax is the City's largest revenue source representing 38.9 percent of the General Fund FY 2021 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 due to the dissolution of Redevelopment Agencies (RDA) statewide.

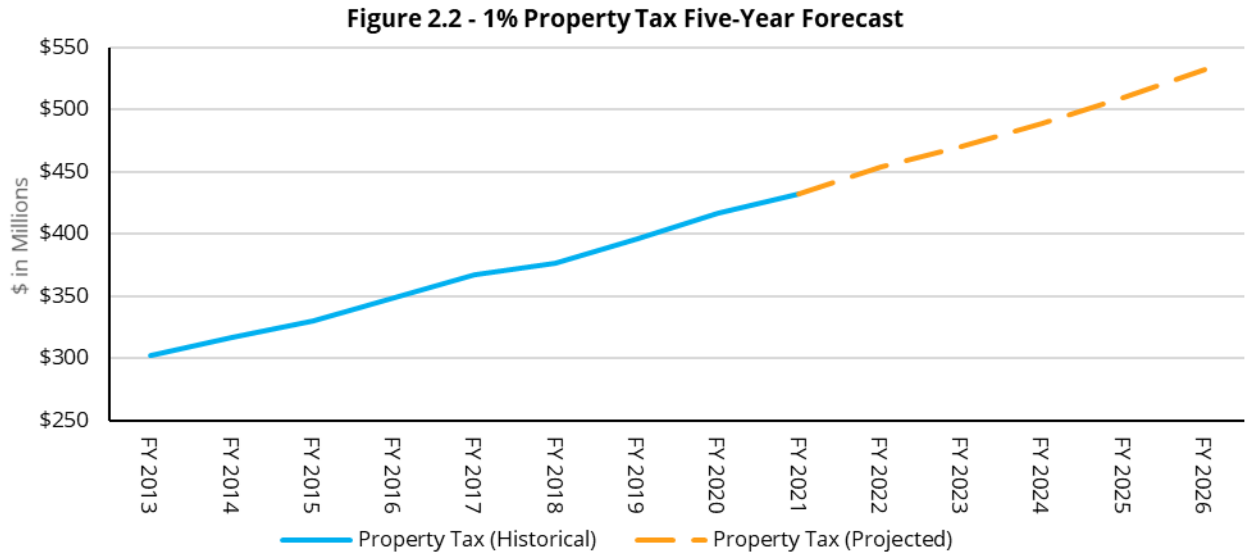
Forecast

The following table shows the budget and year-end projection for FY 2021 and the forecast for FY 2022 through FY 2026 for revenue from property tax. The FY 2021 projection for the property tax category of $635.4 million is a $4.8 million increase over the FY 2021 Adopted Budget and serves as the base for the Outlook projections. Consistent with the FY 2021 First Quarter Budget Monitoring Report, the FY 2021 Adopted Budget growth rate of 4.25 percent remains unchanged.

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

	FY 2021 Adopted	FY 2021 Projection	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate	4.25%	4.25%	4.00%	3.75%	4.00%	4.25%	4.50%
Projection	$ 630.6	$ 635.4	$ 664.2	$ 689.1	$ 716.9	$ 747.6	$ 782.1

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



Economic Trends

The major economic drivers of 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 had not yet been released. The latest CCPI released by the California Department of Finance (DOF) was 286.388 as of August 2020, a 1.8 percent increase from the August 2019 CCPI of 281.247. Assuming the CCPI holds constant, the assessed valuation of properties not improved or sold will increase by 2.0 percent for FY 2021, the maximum allowable increase per year unless the property is improved or sold to establish a new assessed value.

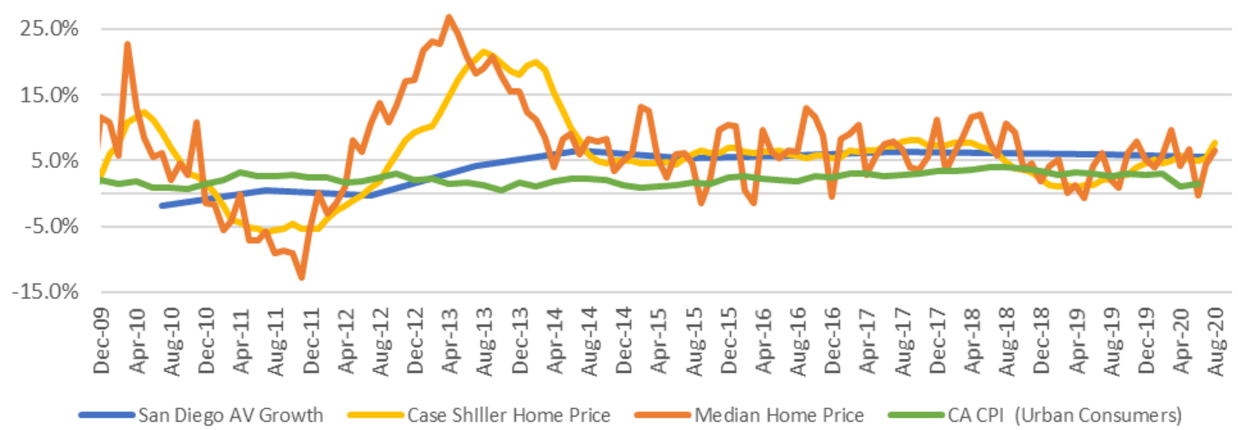
The City has experienced growth in property sales as it relates to both home prices and home sales. Home prices continue to show improvement, with an increase of 6.5 percent in the median home price from August 2019 to August 2020. Median home sales price reached a new, all-time high, at $660,000 as of August 2020 and has remained steady. Moreover, as of August 2020, home sales have accelerated, with year-to-date home sales, increasing by 9.8 percent compared to August 2019. The experienced growth in property sales is attributed to favorable lending conditions and pent-up demand from early spring when shelter-in-place orders were initially implemented in response to the COVID-19 pandemic. Based on property sales as of August 2020 and an approximate 1.8 percent increase in the CCPI, the City's estimated assessed valuation will continue to see a positive increase for FY 2022. In addition to the growth relayed above:

- There are year-to-date declines in notices of default and foreclosures of negative 49.7 and negative 53.8 percent, respectively, in the County of San Diego as of September 2020. This significant decrease is attributed to recently implemented State Executive Orders regulating evictions and post-foreclosure evictions across the State in response to the COVID-19 pandemic. Assembly Bill - 2501 was also passed in June 2020 and provides further protections to borrowers affected by the COVID-19 pandemic.

- The Case-Shiller home price index as of August 2020 is 283.06, a 7.6 percent increase over the August 2019 index of 262.99.

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 the median home price have 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

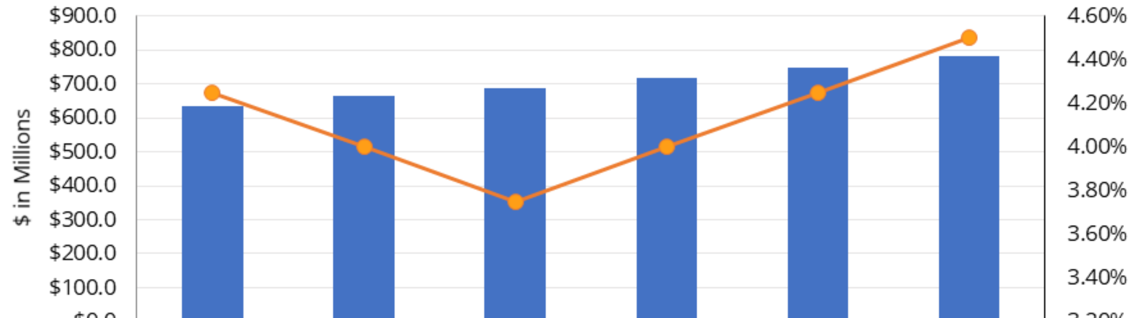


Other factors to consider in developing a revenue projection for property tax include mortgage rates, changes to federal tax policy, and property tax refunds. While the 30-year mortgage rate has steadily decreased in recent months, economic uncertainty in this current calendar year has caused increased adjustments to the federal funds rate. As a result of the recent effects of the COVID-19 pandemic and the risks to the economic outlook, the Federal Open Market Committee (FOMC) lowered the target range for federal funds rate to between 0 and 1/4 percent. A recent statement from the Federal Reserves indicates, "the committee decided to keep the target range for the federal funds rate at between 0 and 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2.0 percent and is on track to moderately exceed 2.0 percent for some time" (as noted in the Federal Reserve's September 16, 2020 press release).

The outlook period estimates a decrease in the growth rate of 0.25 percent beginning in FY 2022 based on the three-year average of Assessed Valuation (AV); followed by an incremental increase of 0.25 percent for the outer years. The following table and figure provide details on the components of the FY 2021 Adopted Budget for property tax and the forecasted property tax revenue for FY 2022 through FY 2026.

Table 2.2 - Property Tax Components ($ in Millions)	FY 2021 Adopted	FY 2021 Projection	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate	4.25%	4.25%	4.00%	3.75%	4.00%	4.25%	4.50%
1% Property Tax	$ 432.0	$ 432.1	$ 453.8	$ 470.6	$ 489.2	$ 509.6	$ 532.3
MVLF Backfill	$ 160.8	$ 163.2	$ 169.8	$ 176.1	$ 183.2	$ 191.0	$ 199.6
RPTTF Pass-Through Tax Sharing Payment	$ 9.0	$ 9.6	$ 10.0	$ 10.3	$ 10.7	$ 11.2	$ 11.2
RPTTF Residual Property Tax Payment	$ 28.8	$ 30.5	$ 30.7	$ 32.0	$ 33.9	$ 35.8	$ 39.0
Total Property Tax Projection	$ 630.6	$ 635.4	$ 664.2	$ 689.1	$ 716.9	$ 747.6	$ 782.1

Figure 2.4 - Property Tax Revenue Projections: Fiscal Years 2022 - 2026
Projections including Redevelopment Property Tax Trust Fund (RPTTF)



	FY 2021 Projection	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projection	$ 635.4	$ 664.2	$ 689.1	$ 716.9	$ 747.6	$ 782.1
Growth Rate	4.25%	4.00%	3.75%	4.00%	4.25%	4.50%

Scenario Analysis

The factors described above were used in the development of the projection; however, should one or several of these factors not perform as projected, property tax revenues will vary from the current projection. To account for variances in these factors, “High” and “Low” projections were also prepared utilizing analysis of historical property tax receipts. 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 2022 through FY 2026.

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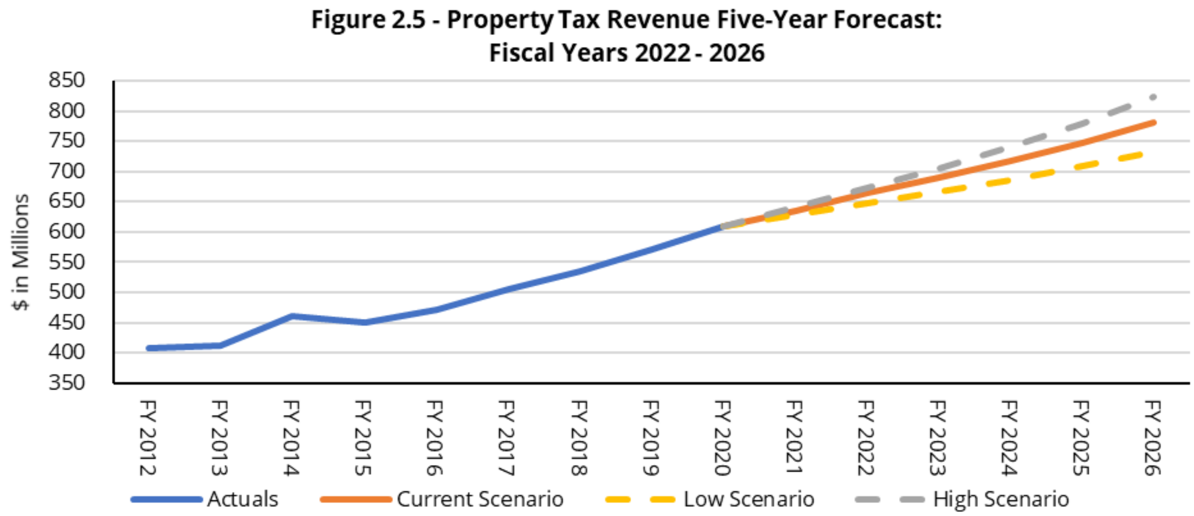

Table 2.3 - Property Tax Five-Year Forecast: Growth Rate Scenarios					
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Current Growth Rate	4.00%	3.75%	4.00%	4.25%	4.50%
High Growth Rate	5.00%	4.75%	5.00%	5.25%	5.50%
Low Growth Rate	3.00%	2.75%	3.00%	3.25%	3.50%

The "Low" scenario assumes that mortgage interest rates will increase rapidly over the next five years. Increased mortgage rates raise the cost of home ownership, thereby slowing the number of home sales and median home price growth. Further, contributing to the "Low" scenario is existing higher prices changing home ownership behavior reducing turnover, and therefore reduced growth in assessed valuation. Higher interest rates and lower turnover will result in lower annual assessed valuation growth rates for FY 2022 through FY 2026 of 3.0 percent across all years. A "Low" scenario would reduce property tax projections by $6.1 million in FY 2022 and a cumulative total of $164.4 million throughout the outlook period.

A "High" scenario is projected to occur should homes sales and valuations continue at the current levels, with slightly restrained growth. 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. The projections in this scenario reflect higher levels of growth similar to those seen in recent years, while slowing in later years. A "High" scenario would increase property tax projections by $6.1 million in FY 2022 and a cumulative total of $128.3 million throughout the outlook period.

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, including the City. 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, it should be noted that the Outlook for property tax does not assume the passage of Proposition 15 which is discussed in the Other Assumptions and Considerations section of this Report.

Sales Tax

The City's second largest revenue source is sales tax and represents 16.9 percent of the General Fund FY 2021 Adopted Budget. Sales tax is collected at the point of sale and remitted to the California Department of Tax and Fee Administration, which allocates tax revenue owed to the City in monthly payments. Sales tax revenue also includes online sales from out-of-state businesses that meet a threshold in cumulative sales and delivers goods into California. The total citywide sales tax rate in San Diego is 7.75 percent, of which the City receives 1.0 percent of all point of sale transactions within the City.

Forecast

The following table displays the budget and year-end projection for FY 2021 as well as the forecast for FY 2022 through FY 2026 for revenue from sales tax. As discussed in the FY 2021 First Quarter Budget Monitoring Report, the FY 2021 projection for sales tax of $284.0 million reflects a $9.6 million increase over the FY 2021 Adopted Budget of $274.4 million due to revised assumptions following updated information from the City's sales tax consultant, which reflects an increase in projected sales tax receipts following greater economic activity in the first quarter than previously anticipated. Growth rates for sales tax have been revised to a negative 11.40 percent growth rate from negative 23.06 percent growth rate in the first quarter; a negative 5.70 percent in the second and third quarter, and a negative 2.40 percent growth rate from a negative 4.00 percent growth rate in the fourth quarter. These adjustments are accounted for in the baseline projections for the outlook period.

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

	FY 2021 Adopted	FY 2021 Projection	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate	-8.77%	-6.30%	5.80%	5.80%	5.60%	3.50%	3.10%
Projection	$ 274.4	$ 284.0	$ 300.5	$ 317.9	$ 335.7	$ 347.4	$ 358.2

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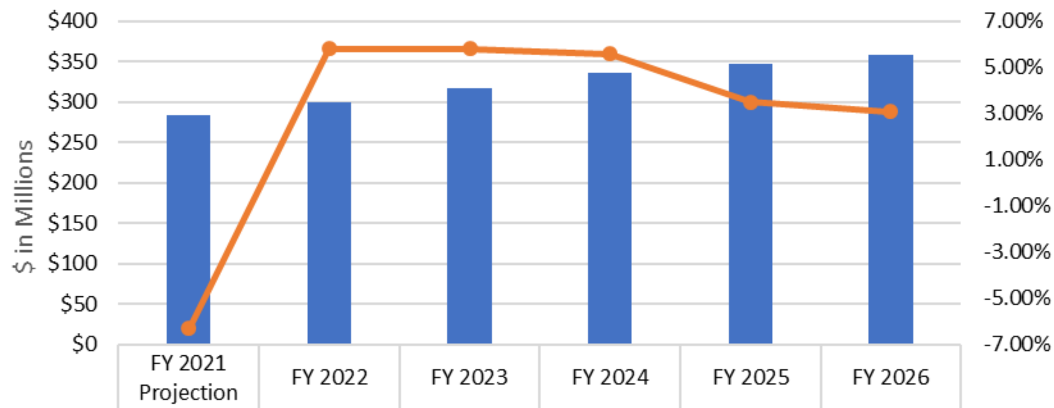
Figure 2.6 - Sales Tax Revenue Projection: Fiscal Years 2022 - 2026



	FY 2021 Projection	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projection	$ 284.0	$ 300.5	$ 317.9	$ 335.7	$ 347.4	$ 358.2
Growth Rate	-6.30%	5.80%	5.80%	5.60%	3.50%	3.10%

Economic Trends

The major local economic drivers of the City's sales tax include the unemployment rate, consumer confidence, and consumer spending. As preliminarily reported by the California Employment Development Department, the City unemployment rate is 8.8 percent as of September 2020; an increase from a rate of 2.8 percent in September 2019. This sharp increase is largely attributed to federal, state and local restrictions including stay-at-home orders, limitations on public gatherings and closures of non-essential businesses in response to the COVID-19 pandemic. Consumer confidence, a measurement of the consumer's willingness to spend, has also been significantly impacted by the COVID-19 pandemic. As of September 2020, consumer confidence is measured at 101.8**,** which is a decrease of 19.4 percent from the 126.3 measured in September 2019. Consumer spending, a major driver of sales tax is dependent on the level of employment and consumer confidence.

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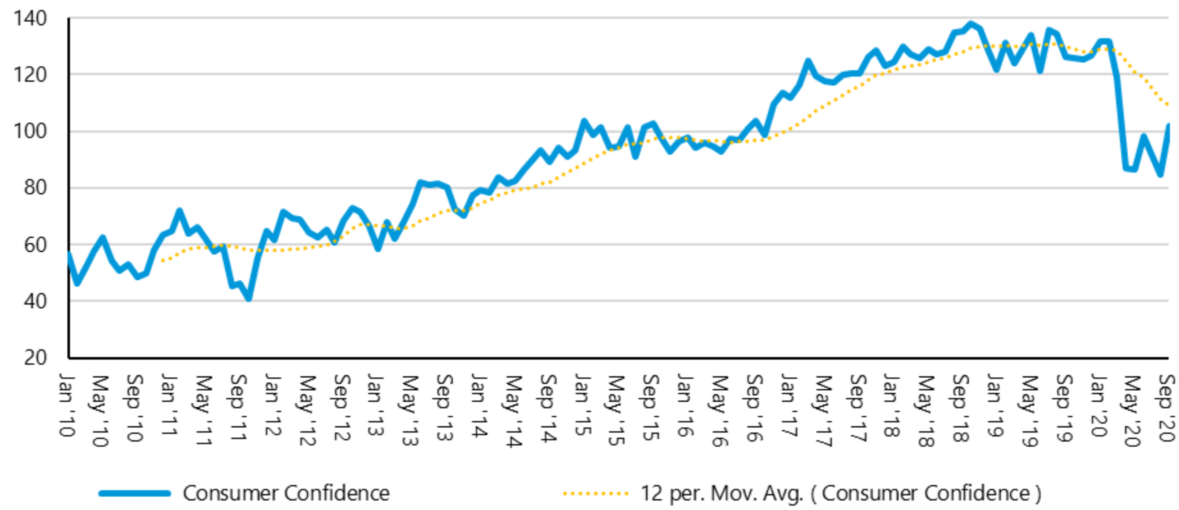
Figure 2.7 - Consumer Confidence



Source: The Conference Board – Consumer Confidence Survey ®

The forecast for sales tax reflects a recovery from the COVID-19 pandemic beginning in FY 2022. While the negative impact on economic indicators from the COVID-19 pandemic are evident when comparing year-over-year, recent month-over-month data for economic indicators, reflect positive growth. This is the result of reshaped consumer behavior and a shift in business models adapting to COVID-19 guidelines. With these positive indicators and the assumption that a COVID-19 vaccine will become available in FY 2022, the forecast anticipates growth in consumer confidence and stability in employment during the outlook period. Therefore, sales tax revenue reflects a slight increase in FY 2022 and FY2023, while reaching pre-recession levels by FY 2025 and steady growth in the out year.

As previously indicated, there is a shift in business models adapting to COVID-19 guidelines. With certain sectors thriving while others struggle to adapt. Retail sales in brick and mortar stores have declined due to limitations set on reopening of businesses such as closure of many indoor operations, including the closure of indoor malls. Conversely, online sales have seen a significant increase, which reflects the shift from brick and mortar stores to online sales.

Other sectors thriving during this pandemic, include home improvement retailers and the food market category. Home centers, hardware stores, garden centers and building materials suppliers have realized gains as a result of what is being called the "Home Improvement" phenomena. While the food product category, in particular food markets, has also seen an increase. This a result of consumers spending more time at home and thus becoming aware of home projects and preparing meals at home.

Scenario Analysis

The factors described above combine to make up the sales tax projection; however, should one or several of these factors not perform as projected, sales tax revenues will vary from the current projection. To account for variances in these factors, "High" and "Low" projections were also prepared utilizing the most recent projections from the City's sales tax consultant. Figure 2.8 reflects the current scenario as well as the "High" and "Low" scenario. In addition, Table 2.5 details the assumed growth rates for each scenario for FY 2022 through FY 2026.

Figure 2.8 - Sales Tax Projections: Fiscal Years 2022 - 2026

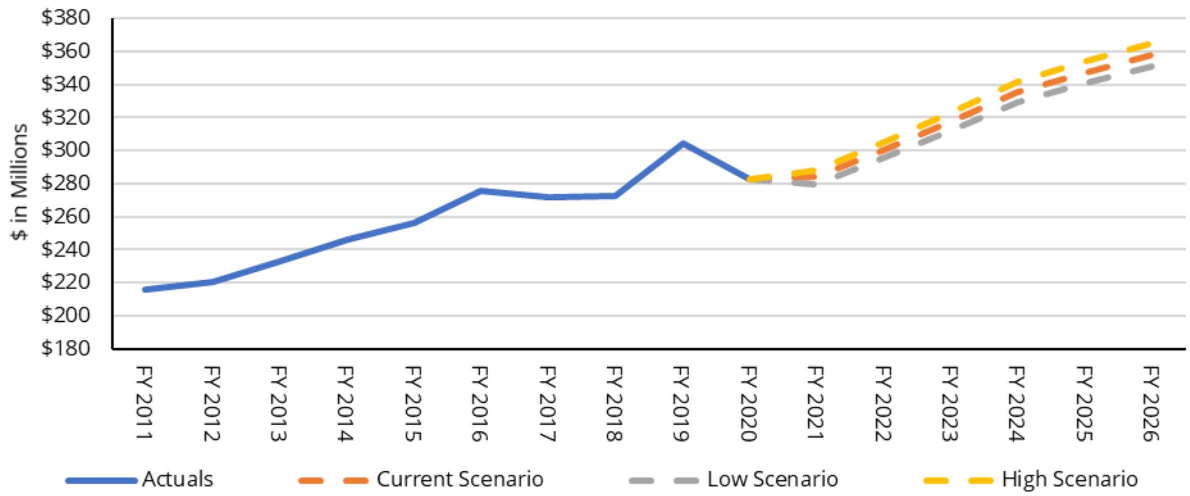


Table 2.5 - Sales Tax Five-Year Forecast: Growth Rate Scenarios					
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Current Growth Rates	5.80%	5.80%	5.60%	3.50%	3.10%
High Growth Rates	5.93%	5.88%	5.66%	3.63%	3.22%
Low Growth Rates	5.71%	5.66%	5.45%	3.42%	3.01%

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. The "Low" scenario also assumes a rise in the lending rates, which would increase the cost to purchase vehicles. Correspondingly, this scenario anticipates a reduction in City receipts from the auto sales industry. A "Low" scenario would reduce sales tax projections by $4.2 million in FY 2022 and a cumulative total of $27.3 million throughout the outlook period.

The "High" scenario includes sustained growth in consumer confidence, continuing low unemployment, which continues to be constrained by available labor due to housing availability and full employment already having been achieved. A "High" scenario would increase sales tax projections by $4.2 million in FY 2022 and a cumulative total of $26.9 million throughout the outlook period.

Transient Occupancy Tax (TOT)

TOT represents 5.6 percent of the City's General Fund FY 2021 Adopted Budget. TOT is levied at 10.5 cents per dollar of taxable rent for a transient's stay of less than one month. TOT is levied on properties such as hotels, Short Term Residential Occupancy (STRO) locations, and Recreational Vehicle (RV) parks. The use of TOT is guided by the City's Municipal Code which stipulates that of the 10.5 cents of collected TOT, 5.5 cents is to be applied toward general governmental purposes, 4.0

cents towards promoting the City as a tourist destination, and the remaining 1.0 cent towards any purposes approved by the City Council. TOT from RV parks are levied at 10.5 cents which is directed entirely towards general governmental purposes.

Forecast

The following table displays the budget and year-end projection for FY 2021 and the forecast for FY 2022 through FY 2026 for revenue from TOT. The FY 2021 projection for total citywide TOT receipts is $125.4 million. The General Fund's 5.5 cent portion of total TOT projected receipts is $66.2 million and serves as the base for the Outlook projections. Consistent with the FY 2021 First Quarter Budget Monitoring Report, the FY 2021 Adopted Budget growth rate has further decreased to negative 56.33 percent due to extending the COVID-19 impacts to group travel through spring 2021. With the majority of large group events, conferences and trade shows cancelled through spring 2021, the City is projecting a decrease in tourism in the region, which impacts TOT's primary economic drivers: room rates, occupancy, and room demand growth.

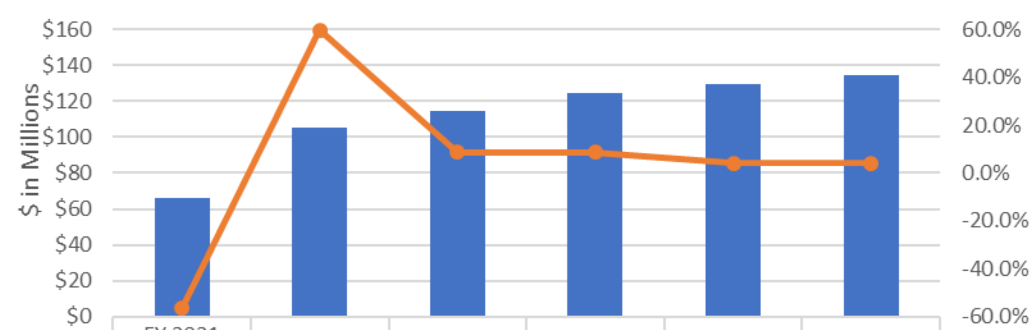
Table 2.6 - Transient Occupancy Tax (TOT) Five-Year Forecast ($ in Millions)

	FY 2021 Adopted	FY 2021 Projection	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate	-36.7%	-56.3%	59.8%	8.6%	8.7%	4.0%	4.0%
Projection	$ 90.5	$ 66.2	$ 105.5	$ 114.5	$ 124.5	$ 129.4	$ 134.6

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 from previous recession scenarios and relevant economic indicators. Figure 2.9 below represents the growth rates generated by the analysis which were then applied to projected TOT receipts.

Figure 2.9 - Transient Occupancy Tax (TOT) General Fund Revenue Projection: Fiscal Years 2022 - 2026



	FY 2021 Projection	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projection	$ 66.2	$ 105.5	$ 114.5	$ 124.5	$ 129.4	$ 134.6
Growth Rate	-56.3%	59.8%	8.6%	8.7%	4.0%	4.0%

As depicted in Figure 2.9, TOT revenue has been directly impacted by the COVID-19 pandemic through FY 2021. TOT revenue is projected to begin recovery in FY 2022, once a vaccine is widely available to the public and group and business travel can safely resume. The FY 2022 growth rate is expected to increase to 59.8 percent from the FY 2021 year-end projections as a result of a projected recovery beginning in FY 2022. The Outlook forecasts TOT revenue is anticipated to reach 2019 levels by FY 2025. The growth rates for TOT are projected to stabilize in FY 2025 and FY 2026 to 4.0 percent.

Economic Trends

The primary economic drivers for TOT revenues are room rates, occupancy, and overnight visitor growth. According to the San Diego County Travel Forecast, which is prepared for the San Diego Tourism Authority (SDTA) by Tourism Economics, overnight visits, room supply, and room demand are projected to reflect reduced growth in calendar year 2020 before experiencing an easing of growth in calendar year 2021. This is depicted by calendar year in the table below.

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

	CY 2018	CY 2019	CY 2020	CY 2021
Room Demand (Growth)	2.4%	-0.1%	-39.5%	37.1%
Occupancy	78.5%	76.7%	49.3%	62.1%
Avg. Daily Room Rate	$ 166.56	$ 166.72	$ 129.15	$ 143.49

Source: San Diego County Tourism Authority and Tourism Economics

Overall, the City is projected to see continued recovery in TOT revenue throughout the outlook period.

Scenario Analysis

The factors described above combine to make up the TOT projection; nonetheless, any changes to major economic drivers or indicators could have a corresponding change in TOT revenues. In addition, due to the unprecedented times of the health pandemic, it is difficult to predict accurately when the economy will begin to improve or how long the recovery could take. To account for variances in these factors, “High” and “Low” projections were prepared utilizing data using a variability margin of error. This is not a representation of economic assumptions, rather a variability factor used to calculate how revenues can differentiate between a 15.0 percent margin of variability. Figure 2.10 reflects the current scenario as well as the “High” and “Low” scenario. In addition, Table 2.8 details the assumed growth projections for each scenario for FY 2022 through FY 2026.

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Figure 2.10 - Transient Occupancy Tax (TOT) Projections: Fiscal Years 2022 - 2026

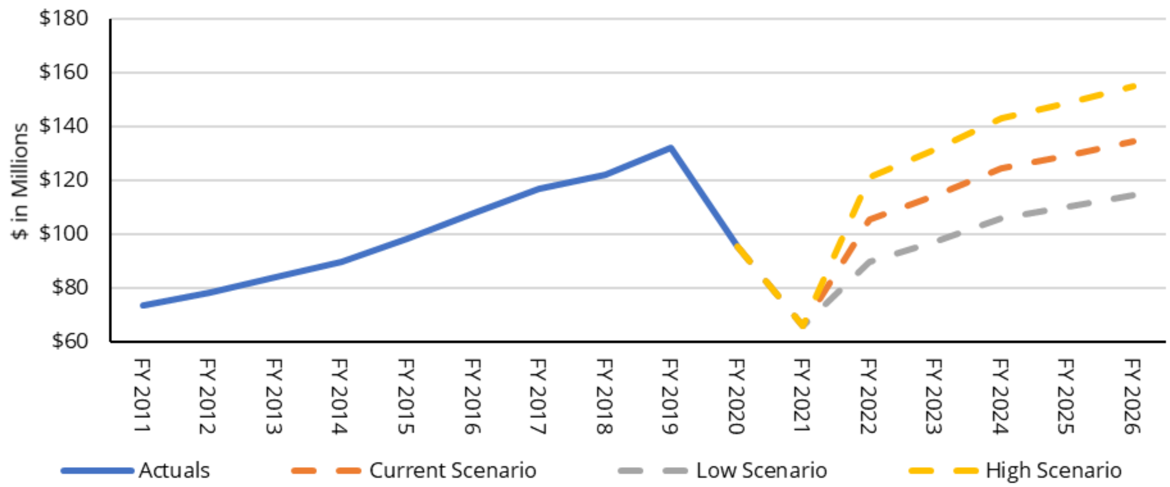

Table 2.8 - Transient Occupancy Tax (TOT) Five-Year Forecast: Growth Scenarios ($ in Millions)					
	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Current Projection	$ 105.5	$ 114.5	$ 124.5	$ 129.4	$ 134.6
High Scenario Projection	$ 121.3	$ 131.7	$ 143.2	$ 148.9	$ 154.8
Low Scenario Projection	$ 89.7	$ 97.4	$ 105.8	$ 110.0	$ 114.4

A "Low" scenario would reduce TOT projections by $15.8 million in FY 2022 and a cumulative total of $91.3 million throughout the outlook period. A "High" scenario would increase TOT projections by $15.8 million in FY 2022 and a cumulative total of $91.3 million throughout the outlook period.

Franchise Fees

Revenue from franchise fees makes up 4.3 percent of the City's General Fund FY 2021 Adopted Budget. Theses revenues are based on agreements with private utility companies in exchange for the use of the City's rights-of-way.

Currently, San Diego Gas and Electric (SDG&E), Cox Communications, Spectrum (formerly Time Warner Cable), and AT&T pay a franchise fee to the City. The City also collects franchise fees from private refuse haulers that conduct business within City limits. The fee received from the agreements with utility companies is based on a percentage of gross revenue while the fee received from refuse haulers is based on tonnage.

Forecast

The following table displays the budget and year-end projection for FY 2021 and the forecast for FY 2022 through FY 2026 for revenue from franchise fees. The FY 2021 Adopted Budget for franchise fees of $69.3 million serves as the base for the Outlook projections.

Table 2.9 - Franchise Fees Five-Year Forecast ($ in Millions)							
	FY 2021 Adopted	FY 2021 Projection	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Electricity/Gas Growth Rate	-8.47%	-8.47%	4.02%	4.02%	4.02%	4.02%	4.02%
Cable Growth Rate	-9.38%	-9.38%	-4.65%	-4.65%	-4.65%	-4.65%	-4.65%
Projection	$ 69.3	$ 69.0	$ 71.0	$ 73.0	$ 74.4	$ 75.8	$ 77.4

Franchise fee growth rates were projected utilizing historical year-end actuals. These growth rates were then applied to FY 2021 first quarter projection and each subsequent year to develop the five-year projections.

Economic Trends

SDG&E and cable companies are the largest contributors to Franchise Fees, generating approximately 80.5 percent of Franchise Fee revenue. The growth rate for SDG&E electricity sales is expected to stay constant through the outlook period. The growth rates were established based on historical market and technology trends. Franchise fees from cable companies are expected to decrease due to the increasing loss of market share to digital competitors. Cable franchise fees are expected to improve slightly from negative 9.4 to negative 4.7 percent during the outlook period due to removing further impacts from the COVID-19 pandemic. The increasing loss of market share is expected to continue in the outer years as several new digital content providers are expected to enter the market and significantly impact the cable market share. The forecast for Franchise Fee revenue assumes the current franchise fee agreement.

Scenario Analysis

The factors described above combine to make up the franchise fees projection; however, should one or several of these economic factors not perform as projected, franchise fee revenues will vary from the current projection. A potential impact to revenue from the sale of electricity and gas are the potential changes to the gas and electricity franchise agreement that is set to expire by January 17, 2021. City Staff, along with expert consultants, have developed terms and provisions for new franchises which were advertised as Invitations to Bid on September 23, 2020 for 30 days. As discussed in the Other Assumptions and Considerations section of this report, if the City Council does not approve the new electric and gas franchises or extend the term of the current franchises to be effective before January 17, 2021, the potential loss of revenue could impact the City's ability to provide critical General Fund services and increase the projected shortfalls throughout the outlook period.

Other potential impacts to revenue from the sale of electricity and gas include a change in rates or consumption and SDG&E's current expansion of Electric Vehicle (EV) infrastructure. It should be noted, once Community Choice Aggregation (CCA) becomes operational, there may be potential impacts to franchise fee revenue, potential savings in City energy costs, or other impacts that are unknown at this time. For cable revenue, variances in content ownership, media advertising, subscription levels, and pricing may also impact franchise fee growth. It should be noted that adequate data sets on these individual factors for all San Diego cable companies are not yet available to City Staff. As a result, cable projections are based on historical actuals and overall fluctuations in these factors.

Property Transfer Tax

Property transfer tax is levied on the sale of real property. The County of San Diego collects $1.10 per $1,000 of the sale price when any real property is sold, of which the City receives half, or $0.55 per $1,000. Property Transfer Tax revenue is remitted to the City monthly and represents 0.7 percent of the City's General Fund FY 2021 Adopted Budget.

Forecast

The following table displays the FY 2021 Adopted Budget and the forecast for FY 2022 through FY 2026 for property transfer tax. The FY 2021 projection for property transfer tax is projected under the FY 2021 Adopted Budget and serves as the basis for the Outlook projections.

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

	FY 2021 Adopted	FY 2021 Projection	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate	0.0%	-6.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 11.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3

Property transfer tax estimates were developed using historical receipts and year-over-year trends. No growth rate was projected as a result of inconsistent historical trends.

Economic Trends

The major economic drivers for property transfer tax are volume of property sales and home prices. Unlike the 1.0 percent property tax revenue, property transfer tax receipts reflect current economic conditions without lag time. While the median home price has continued to grow over the past several years, the growth in the number of home sales has decreased when comparing current year-to-date data with the same time period last year. Figure 2.11 below illustrates the median home prices and number of homes sold. Property Transfer Tax revenue is anticipated to remain flat for the outlook period due to inconsistencies in historical receipts and unpredictable growth rates.

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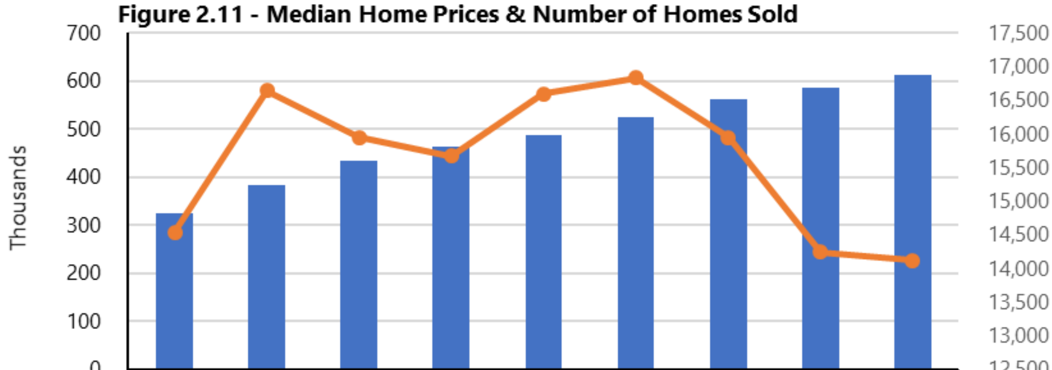
Figure 2.11 - Median Home Prices & Number of Homes Sold



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Median Home Price	323,896	384,167	434,218	464,375	488,188	524,908	562,917	585,000	613,958
Number of Homes Sold	14,539	16,639	15,950	15,669	16,597	16,829	15,952	14,243	14,118

Source: DQNews/CoreLogic

Licenses and Permits

The Licenses and Permits category includes revenue associated with regulating certain activities within the City and other revenues such as business certificate fees, rental unit certificate fees, parking meter collections, alarm permit fees, and special event permits. Licenses and Permits represent 2.5 percent of the City's General Fund FY 2021 Adopted Budget.

The following table displays the FY 2021 Adopted Budget and the forecast for FY 2022 through FY 2026 for revenue from licenses and permits.

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

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate		1.56%	1.56%	1.56%	1.56%	1.56%
Projection	$ 40.7	$ 43.9	$ 45.6	$ 48.3	$ 52.1	$ 52.8

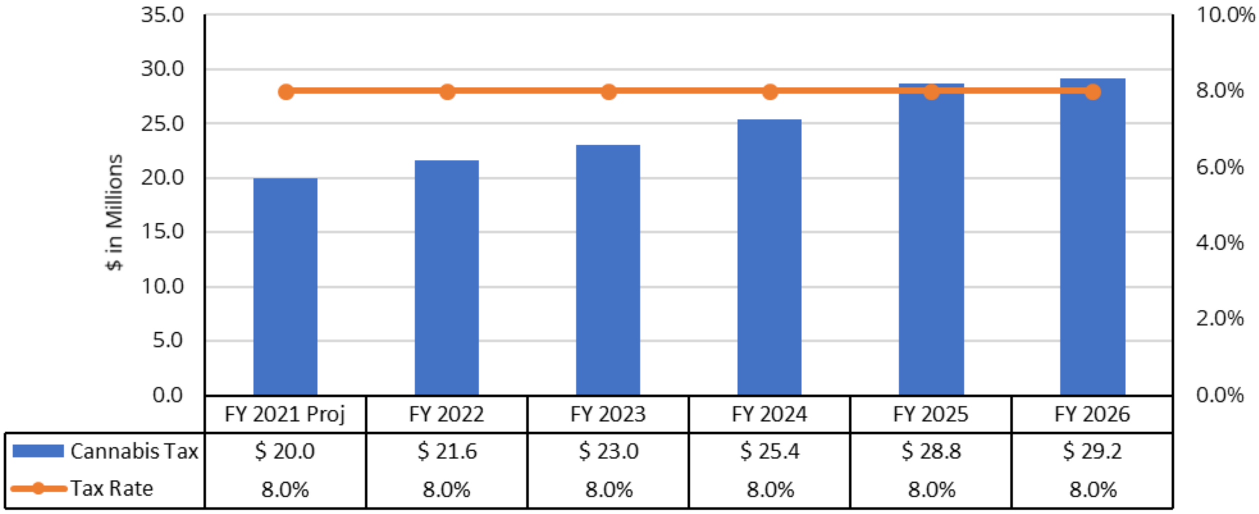
A growth rate of 1.56 percent is applied from FY 2022 to FY 2026. The Outlook reflects revenue adjustments based on historical data as well as projections from Cannabis Tax.

Cannabis Tax

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

To develop the Outlook projections, sales data from existing cannabis outlets from July 2019 through June 2020 were used to develop an average of monthly taxable sales per outlet. This figure was then scaled to the number of dispensaries projected in each fiscal year and the tax rate of 8.0 percent applied. The projection for cultivation, manufacturing, and distribution of cannabis was calculated following a similar methodology. The figure below, depicts the forecasted growth for cannabis business tax. As the industry matures, the City will continue to monitor and update projections from all cannabis businesses.

Figure 2.12 Cannabis Tax
Fiscal Years 2022 - 2026



Fines, Forfeitures, and Penalties

The Fines, Forfeitures, and Penalties category includes revenue generated from the violation of laws or regulations, such as California Vehicle Code violations, City parking and ordinance violations, negligent impounds, collection referrals, and litigation awards. This revenue source represents approximately 1.8 percent of the City's General Fund FY 2021 Adopted Budget.

The following table displays the FY 2021 Adopted Budget and the forecast for FY 2022 through FY 2026 for revenue from fines, forfeitures, and penalties.

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

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth rate		0.56%	0.56%	0.56%	0.56%	0.56%
Projection	$ 29.7	$ 30.4	$ 30.5	$ 30.7	$ 30.9	$ 31.0

Revenue from fines, forfeitures, and penalties is projected to increase at a rate of 0.56 percent for FY 2022 through FY 2026 based on historical averages.

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Revenue from Money and Property

The Revenue from Money and Property category primarily consists of interest from City investments and rental revenue generated from City-owned properties including Mission Bay Park, Balboa Park, City Pueblo Lands, and Torrey Pines Golf Course. This revenue source represents 3.8 percent of the City's General Fund FY 2021 Adopted Budget.

The following table displays the FY 2021 Adopted Budget and the forecast for FY 2022 through FY 2026 for the Revenue from Money and Property category.

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

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate		1.32%	1.32%	1.32%	1.32%	1.32%
Projection	$ 64.5	$ 62.8	$ 62.9	$ 67.9	$ 73.2	$ 75.0

A growth rate of 1.32 percent is applied from FY 2022 to FY 2026 based on the annual growth rate from historical revenues. Within this category, office space rent, and Mission Bay Park Concessions are projected separately from the 1.32 percent growth rate and then aggregated with other revenue from money and property.

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

Revenue from money and property includes revenue from Mission Bay rents and concessions. Although limited by restrictions set on the reopening of businesses following the COVID-19 pandemic, the Real Estate Assets Department assumes all tenants will remain in business during the outlook period and will continue to make minimum rent payments in FY 2022 and FY 2023. With the assumption that a COVID-19 vaccine will become available in FY 2022, rents and concessions will reach pre-recession levels by FY 2025 and continue to grow in the out years by 4.0 percent. Per City Charter Section 55.2, the threshold amount of $20.0 million of Mission Bay rents and concessions will remain in the General Fund. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Parks Improvement Fund and the Mission Bay Park Improvement Fund and is reflected in the Transfers Out section of this Report. The Outlook projects that Mission Bay rents and concessions revenue will exceed $20.0 million and as a result will not impact the General Fund revenue shortfall.

Revenue from Federal and Other Agencies

The Revenue from Federal and Other Agencies category includes federal and State grants, and reimbursements to the City from other agencies, such as court crime lab revenue, urban search and rescue grants, and service level agreements.

Table 2.14 displays the FY 2021 Adopted Budget and the forecast for FY 2022 through FY 2026 for revenue from federal and other agencies.

Table 2.14 - Revenue From Federal and Other Agencies Five-Year Forecast ($ in Millions)						
	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 152.7	$ 6.4	$ 6.4	$ 6.4	$ 6.4	$ 6.4

The City received $146.1 million in one-time COVID-19 State and Federal Relief funds in FY 2021. The relief funds were primarily provided through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted by the federal government to provide emergency assistance to State, Local, and Tribal governments affected by the COVID-19 pandemic. This one-time FY 2021 revenue has been removed from the forecast until further information is available. Please refer to the Potential Mitigation Actions section for additional information on potential State and federal relief funds in response to the COVID-19 pandemic.

A zero-growth rate is applied to FY 2022 to FY 2026 since the Outlook does not assume any federal or other agency assistance during the outlook period.

Charges for Services

The revenue forecasted in the Charges for Services category is primarily comprised of cost reimbursements for services rendered by the General Fund to non-general funds. This category includes the 4.0 cent TOT reimbursements to the General Fund, General Government Services Billings (GGSB), and other user fee revenues. This revenue source represents 9.2 percent of the City's General Fund FY 2021 Adopted Budget.

The following table displays the FY 2021 Adopted Budget and the forecast for FY 2022 through FY 2026 for revenue from charges for services.

Table 2.15 - Charges for Services Five-Year Forecast ($ in Millions)						
	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 149.5	$ 162.3	$ 168.7	$ 176.6	$ 179.4	$ 178.6

A zero-growth rate is applied to FY 2022 to FY 2026 since the Outlook does not assume any citywide salary adjustments as discussed in this Report. Additionally, within this category, a separate analysis is performed for the 4.0 cent TOT reimbursements to the General Fund, which is then aggregated with other revenue from charges for services. As a result, the revenue increase in FY 2022 is primarily due to an increase of $12.3 million in the 4.0 cent TOT reimbursement to the General Fund.

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Other Revenue

The Other Revenue category includes library donations, ambulance fuel reimbursements, corporate sponsorships, and other miscellaneous revenues. This revenue source represents 0.2 percent of the City's General Fund FY 2021 Adopted Budget.

The following table displays the FY 2021 Adopted Budget and the forecast for FY 2022 through FY 2026 for revenue from other sources.

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

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 3.2	$ 2.7	$ 2.7	$ 2.7	$ 2.7	$ 2.7

The growth rate for Other Revenue is projected to remain flat through the outlook period. However, beginning in FY 2022, Other Revenue will decrease by $500,000 in FY 2022 due to the completion of a $10.0 million donation in support of the operations of the Central Library. This donation was allocated $2.0 million annually for FY 2014 through 2017, $1.0 million in FY 2018, $500,000 in FY 2019 and $500,000 in FY 2020. The last donation was made in FY 2020; however, it was inadvertently not reduced in the FY 2021 Adopted Budget.

Transfers-In

The Transfers-In category primarily represents transfers to the General Fund from non-general funds. The major components in this category are transfers from the Public Safety Services Fund, Fleet Replacement Fund, storm drain fees, gas taxes and TransNet funds, and the one-cent TOT revenue transfer from the TOT Fund. This revenue source represents 6.5 percent of the City's General Fund FY 2021 Adopted Budget.

Table 2.17 displays the FY 2021 Adopted Budget and the forecast for FY 2022 through FY 2026 for revenue from Transfers-In.

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

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 104.6	$ 85.3	$ 87.9	$ 90.7	$ 92.2	$ 93.6

A growth rate is not applied to the Transfers-In category as each transfer is unique and individually projected. For example, growth in transfers-in from sources such as 1-cent TOT transfer and Safety Sales Tax are based on their respective growth rate, while Storm Drain Fees do not increase; and therefore, no growth rate is applied.

The forecast for FY 2022 reflects a $19.3 million decrease from the FY 2021 Adopted Budget. The projections are developed from the baseline that includes removal of $21.5 million in one-time use of Fleet General Fund Replacement Fund Balance.

The 1-cent TOT transfer and Safety Sales Tax are projected to increase through the Outlook. The increase in 1-cent TOT transfer is based on the current TOT revenue projections and allocates 1-cent of the revenue to the General Fund to be used for any purpose the City Council may direct. 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 General Fund Expenditures

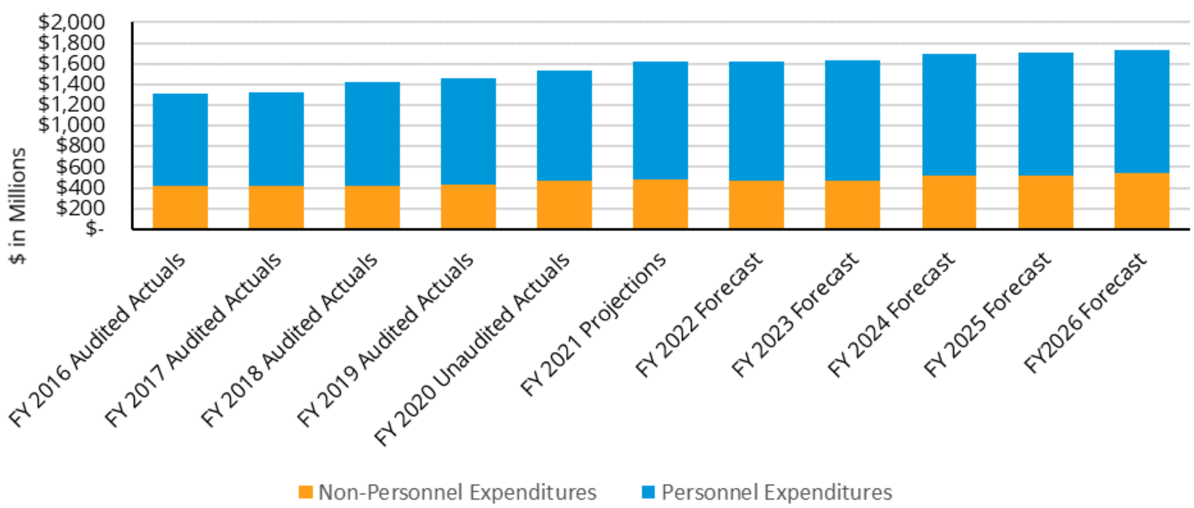
General Fund expenditures are comprised of both personnel and non-personnel expenditures including debt service and other non-discretionary payments. Unless otherwise noted, baseline projections assume growth based upon the FY 2021 Adopted Budget with the removal of one-time expenditures. One-time expenditures in the FY 2021 Adopted Budget that have been removed from the baseline projections are detailed in Attachment 1: One-Time Resources and Expenditures.

Personnel expenditures represent 70.3 percent of the City's General Fund FY 2021 Adopted Budget. This section discusses the following key components of personnel expenses: Salaries and Wages; the City's annual pension payment or Actuarially Determined Contribution (ADC); flexible benefits, retiree healthcare or Other Post-Employment Benefits (OPEB); workers' compensation; Supplemental Pension Savings Plan (SPSP); and other fringe benefits. Baseline personnel expenses are projected to increase slightly during the outlook period, due to the growth in salaries and wages resulting from agreements in previous fiscal years between the City and its Recognized Employee Organizations (REOs) and increases in retirement actuarially determined contribution (ADC) and workers' compensation costs.

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

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

Figure 2.13 - Baseline Expenditures



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Salaries and Wages

The Salaries and Wages category is the largest General Fund expenditure category and is comprised of regular salaries and wages, special pays, overtime, step increases, and vacation pay-in-lieu. This category includes the General Fund cost of salaries and wage for the current Memoranda of Understanding (MOU) with each of the City's REOs. The FY 2021 Adopted Budget for General Fund salaries and wages was $647.9 million and included 7,640.02 full-time equivalents (FTE). Table 2.18 displays the FY 2021 Adopted Budget and the forecast for FY 2022 through FY 2026 for salaries and wages.

Table 2.18 - Salaries and Wages
($ in Millions)

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projection	$ 647.9	$ 653.1	$ 652.2	$ 652.0	$ 652.7	$ 653.2

Adjustments within the Salaries and Wages category incorporate only expenditures associated with positions included in the FY 2021 Adopted Budget. The Salaries and Wages category includes an increase of $5.2 million in FY 2022 which is primarily attributed to annual leave payouts and anticipated salary step increases.

The Salaries and Wages category also includes an adjustment for annual leave payouts for Deferred Retirement Option Plan (DROP) members, which are projected based on DROP participants' exit dates and projected annual leave balances. While a portion of future leave liability expense will be absorbed in departmental budgets, there remains a significant number of employees with high leave balances expected to retire over the next several years. The number of DROP participants anticipated to retire and the projected annual leave payouts for FY 2022 through FY 2026 are displayed in Table 2.19 below.

Table 2.19 - Salaries and Wages (Annual Leave -DROP)
($ in Millions)

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projected Number of Retirees	89	125	91	77	117	120
Projection	$ 1.8	$ 3.7	$ 2.1	$ 1.7	$ 2.6	$ 2.5

The number of DROP participants anticipated to retire in FY 2026 is not yet available as DROP is a five-year program. Therefore, the FY 2026 projected number of retirees and the annual leave projection are based on the averages of FY 2022 through FY 2025.

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 at $2.4 million annually, throughout the outlook period.

Table 2.20 - Salaries & Wages (Budgeted Overtime)
($ in Millions)

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projection	$ 71.4	$ 71.8	$ 71.8	$ 71.8	$ 71.8	$ 71.8

A one-time adjustment in overtime of $4.4 million budgeted in the FY 2021 Adopted Budget has been added to each year of the outlook to maintain the baseline for the Salaries and Wages expenditure category. The one-time adjustment in overtime is primarily associated with neighborhood policing which was funded as a one-time in the Seized Assets Fund in the FY 2021 Adopted Budget. This one-time reduction is included in the General Fund projections beginning in FY 2022. This increase is offset with a decrease in one-time overtime adjustments in public safety departments and overtime supported by CARES funds in the Park and Recreation Department in FY 2021.

As mentioned earlier, the Outlook assumes the continuation of the current MOUs and does not assume any salary and benefit increases with the City's REOs. However, as discussed in the Other Assumptions and Considerations section, a 1.0 percent change in salaries across all MOU's would increase this category by approximately $6.13 million. Also included in Other Assumptions and Considerations section, is a table reflecting the estimated impact of a 3.0 percent or $18.4 million in salary increase across all MOUs in FY 2022 through FY 2026.

Retirement Actuarially Determined Contribution (ADC)

The pension payment or Actuarially Determined Contribution (ADC) paid by the City on July 1, 2020 for FY 2021 was based on the San Diego City Employee's Retirement System (SDCERS) Actuarial Valuation Report prepared by the system actuary, Cheiron, as of June 30, 2019 which was released in December 2019.

The City's FY 2021 ADC payment was $365.6 million, of which $277.7 million was allocated to the General Fund. Based on the current Actuarial Valuation Report, the ADC for FY 2022 is projected to be $367.9 million, an increase of $2.3 million or 0.63 percent. The General Fund allocation is expected to be $279.5 million or 76.0 percent of the City's total ADC, representing an increase of $1.7 million to the General Fund. The final amount of the City's FY 2022 ADC payment will not be known until the June 30, 2020 actuarial valuation report is released, which is expected to be presented to the SDCERS Board of Administration in January 2021.

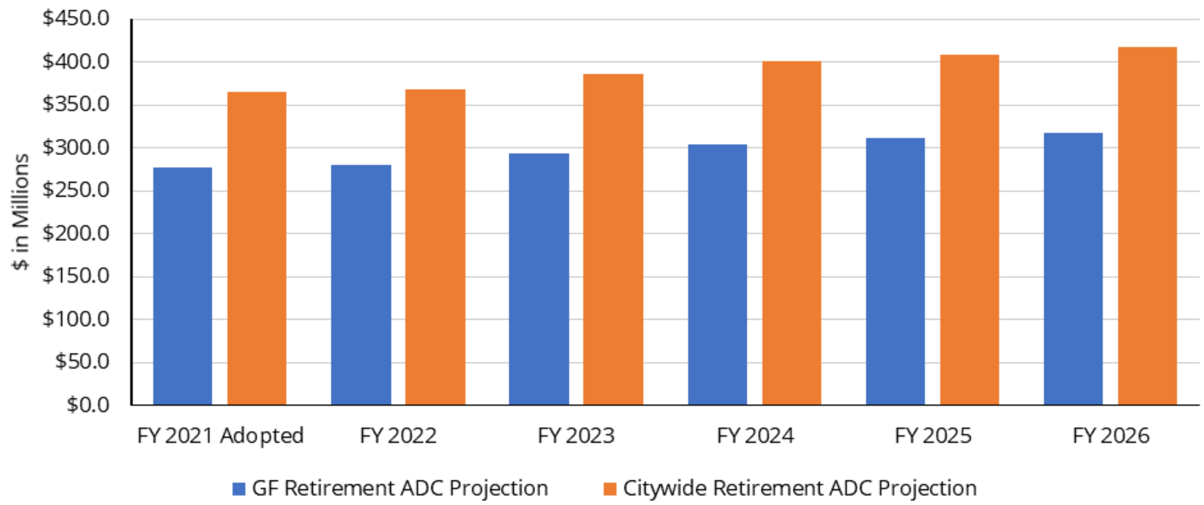
The Department of Finance is currently working with SDCERS on identifying estimated increases in the ADC payment due to anticipated asset experience losses resulting from the COVID-19 pandemic and increases due to recent changes in actuarial assumptions adopted by the SDCERS board. SDCERS actuary has preliminarily estimated that the changes in assumptions will increase the City's ADC by approximately $24.0 million. This amount does not include asset experience losses; however, the exact amount will not be known until the release of the June 30, 2020, Actuarial Valuation Report.

Table 2.21 displays both the citywide ADC and the General Fund's proportionate share for FY 2021 through FY 2026 and is based on the June 30, 2019, SDCERS Actuary Valuation Report.

Table 2.21 - ADC Pension Payment
($ in Millions)

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF ADC Estimate (75.9%)	$ 277.7	$ 279.5	$ 292.8	$ 304.1	$ 310.7	$ 317.4
Citywide ADC Estimate	$ 365.6	$ 367.9	$ 385.4	$ 400.3	$ 409.0	$ 417.9

Figure 2.14 - Retirement ADC



Employee Flexible Benefits

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

Flexible benefits include optional and required benefits, such as medical, dental, vision, and basic life insurance plans. For the FY 2021 Adopted Budget, $90.3 million was budgeted in flexible benefits. Table 2.22 displays the projection for flexible benefits for FY 2022 through FY 2026.

Table 2.22 - Flexible Benefits
($ in Millions)

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projection	$ 90.3	$ 90.3	$ 90.3	$ 90.3	$ 90.3	$ 90.3

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

Other Post-Employment Benefits (OPEB)

Other Post-Employment Benefits (OPEB) represent the cost of retiree healthcare. The Net OPEB Liability as of the Actuarial Valuation for fiscal year Ending June 30, 2020 as measured on June 30, 2019 was approximately $462.5 million and the annual contribution included in the FY 2021 Adopted Budget for the General Fund was $43.0 million. The General Fund portion is determined by the percentage of FTE positions budgeted within the General Fund versus non-general funds. The General Fund's proportionate share of the OPEB payment is projected to remain constant for the outer years per OPEB cost projections.

The following table displays both the citywide OPEB projection and the General Fund's proportionate share for FY 2022 through FY 2026.

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

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
GF OPEB Projection (65.7%)	$ 43.0	$ 43.0	$ 43.0	$ 43.0	$ 43.0	$ 43.0
Citywide OPEB Projection	$ 65.4	$ 65.4	$ 65.4	$ 65.4	$ 65.4	$ 65.4

Workers' Compensation

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

The City's workers' compensation expenses are comprised of two components. Operating expenses are the first component, which covers the costs of current medical expenses and claims. The second component covers contributions to the Workers' Compensation Reserve. Table 2.24 displays the General Fund's projected share of 87.4 percent of Workers' Compensation expenses.

Table 2.24 - Workers' Compensation
($ in Millions)

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Operating	$ 29.2	$ 30.8	$ 32.2	$ 33.5	$ 35.0	$ 36.5
Reserves	$ 0.1	$ 1.2	$ 1.3	$ 1.3	$ 1.4	$ 1.4
Total	$ 29.3	$ 32.0	$ 33.4	$ 34.9	$ 36.4	$ 37.9

The projections for operating expenses are based on actual prior year experience and forecasted to increase by 4.30 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 a 401(a) plan. 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 2022 through FY 2026.

Table 2.25 - Supplemental Pension Savings Plan (SPSP) ($ in Millions)						
	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projection	$ 23.8	$ 23.9	$ 23.8	$ 23.8	$ 23.8	$ 23.9

SPSP is a fringe benefit that is projected based on a percentage of employees' salaries. In the FY 2021 Adopted Budget, SPSP was approximately 3.7 percent of General Fund salaries. For the outlook period, SPSP as a percentage of salaries is projected to remain relatively consistent at 3.7 percent since the baseline for salaries and wages does not project additional new employees. New employee costs including fringe are included in the Other Adjustments section. Additionally, this projection is based on the number of employees that were enrolled in the SPSP-H Plan during the development of the FY 2021 Adopted Budget. All position additions included in the Other Adjustments section of this report assume that new employees are hired with post Proposition B plans.

Other Fringe Benefits

The Other Fringe Benefits category is comprised of Long-Term Disability, Medicare, Retiree Medical Trust, 401(a) plan contributions, Retirement DROP contributions, Employee Offset Savings, Risk Management Administration, and Unemployment Insurance expenditures. Table 2.26 displays the projection for Other Fringe Benefits.

Table 2.26- Other Fringe Benefits ($ in Millions)						
	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projection	$ 27.7	$ 28.0	$ 27.9	$ 27.9	$ 27.9	$ 28.0

The Other Fringe Benefits are projected based on a percentage of employees' salaries. In the FY 2021 Adopted Budget, Other Fringe Benefits were approximately 4.3 percent of General Fund salaries. For the outlook period, that percentage is projected to be consistent at 4.3 percent. Slight increases during the outlook period are a result of salary increases included within the Salaries and Wages category.

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Supplies

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

Table 2.27 - Supplies
($ in millions)

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 30.3	$ 29.4	$ 29.4	$ 29.4	$ 29.4	$ 29.4

The FY 2021 Adopted Budget includes one-time expenditures of $950,000. The following summarizes the majority of one-time expenditures that have been removed from the baseline projections.

- $350,000 to support one Fire-Rescue academy to support the relief/reserve pool academy for the recruitment and retention of firefighter positions
- $340,000 in safety and cleaning supplies related to CARES Act Funding for COVID-19 related operational expenditures
- $240,000 to provide Structural PPE Replacements

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

Contracts

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

Table 2.28 - Contracts
($ in Millions)

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate		2.3%	4.4%	4.5%	2.0%	6.0%
Projection	$ 281.4	$ 247.8	$ 259.3	$ 273.5	$ 276.6	$ 293.9

Adjustments are made to the baseline for known and anticipated events including known public liability insurance costs, and projected Fleet assignment and usage fees. Vehicle usage fees are projected to increase by about $900,000 each fiscal year and assignment fees are projected to increase by about $4.0 million each fiscal year during the FY 2022 to FY 2026 outlook period. This is primarily due to the projected need to replace approximately 1,500 vehicles during this outlook period coupled with the use of remaining fund balance in the vehicle replacement funds in FY 2021. Insurance premiums are projected to increase by about $3.2 million each fiscal year to cover the projected growth in the General Liability and Optional Excess Insurance Program. The FY 2021 Adopted Budget included $44.7 million in one-time expenditures within the Contracts category. The following summarizes the majority of one-time expenditures that have been removed from the baseline projections:

- $30.0 million to provide support for Operation Shelter to Home
- $12.8 million to provide COVID-19 aid in the form of Small Business Relief Funds
- $2.0 million in net expenses for citywide election costs
- $1.5 million for the expansion of the Person-Centered Unsheltered Program
- $1.0 million in additional Refuse Disposal Fees related to CARES Act Funding for COVID-19 related operational expenditures
- $500,000 to provide internet access related to the Low-Income Communities Pilot Program

This is offset with an additional $2.0 million for public liability claims/non-claims included as a one-time use of Public Liability Reserves in FY 2021. This one-time adjustment has been added back to the baseline projection to be accounted for in outlying years.

Information Technology

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

Table 2.29 - Information Technology
($ in Millions)

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate		12.5%	2.6%	1.3%	1.0%	1.0%
Projection	$ 47.2	$ 53.1	$ 54.5	$ 55.2	$ 55.7	$ 56.3

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

The FY 2022 forecast has increased by $5.9 million associated with IT fixed costs which include the City's IT workplace services (formally known as desktop support), network, enterprise computer (including datacenter and cloud), cyber security, and application development and maintenance. This increase is primarily due to new IT service contracts for workplace services which include mobile and expanded end user support; application development and maintenance support which includes modernization and application monitoring; enterprise computer services which include enhancements to disaster recovery and cyber security; and reflects the cost required to maintain current IT service levels. These costs also include planned transition due to new IT sourcing vendors and modernization due to end-of-life equipment.

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Energy and Utilities

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

Table 2.30 - Energy and Utilities ($ in Millions)

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate		4.0%	2.2%	2.0%	2.4%	2.7%
Projection	$ 51.5	$ 53.6	$ 54.8	$ 55.8	$ 57.2	$ 58.8

The Energy and Utilities category includes various costs. Each cost component has a different applicable growth rate. The majority of the rates for each category are based on the Annual Energy Outlook 2020 Report prepared by the U.S. Energy Information Administration. Fuel growth rates were developed by the Fleet Services Department for fleet fuel and renewable diesel. Fuel growth rates range from negative 0.8 percent to 12.8 percent depending on the year and the type of fuel. Electrical growth rates range from negative 1.3 percent to 3.8 percent. The City's Public Utilities Department determined the water and wastewater growth rates. As discussed in the FY 2022-2026 Public Utilities Financial Outlook, the water and wastewater rates are determined through a process prescribed by state law, which requires a Cost of Service analysis and Council approval of any rate adjustments at a public hearing. The current rate increases are expected to be needed in FYs 2022 through 2026. Further details are provided in the FY 2022-2026 Public Utilities Financial Outlook. The growth rates for the Energy and Utilities category represent a blended growth rate that was calculated after applying the corresponding growth rate for each component.

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Reserve Contributions

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

The General Fund Reserve is comprised of the Emergency and Stability Reserves. The Emergency Reserve is maintained to sustain General Fund operations in the case of a public emergency or catastrophic event. The Stability Reserve is maintained to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. Due to the sudden decline in the City's Major General Fund revenues attributed to the COVID-19 pandemic, a General Fund Reserve contribution was not budgeted in the FY 2021 Adopted Budget. The Outlook includes the continued delay in General Fund Reserve contributions through FY 2023. An annual contribution is forecasted beginning in FY 2024 when the City revenues begin to near pre-recession levels.

The Pension Payment Stabilization Reserve was established to mitigate potential increases in the annual pension payment, the Actuarially Determined Contribution (ADC). Per the City's Reserve Policy, the City will fund and maintain a Pension reserve of 8.0 percent of the most recent three-year average of the ADC as reported in the most recent Actuarial Valuations Reports. As a result of the recent economic impacts of the COVID-19 pandemic, the FY 2021 Adopted Budget did not include a contribution to the Pension Reserve; furthermore, the Outlook does not reflect any contributions through the outlook period.

Public Liability Reserve is maintained at 50.0 percent of the value of outstanding public liability claims. The Public Liability Reserve is anticipated to be at the target level of 50.0 percent of outstanding claims and no additional contributions are anticipated in the outlook period.

The Long-Term Disability Reserve is maintained at 100.0 percent of the value of outstanding claims. The Long-Term Disability Fund exceeds its target level of 100.0 percent of outstanding claims. No additional contributions to the Long-Term Disability Fund are anticipated in the outlook period.

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

Due to current economic uncertainty and the unprecedented impacts to City revenues as a result of the COVID-19 pandemic, the City is not contributing to reserves per the City's Reserve Policy. However, as this pandemic subsides and there is more information about the duration of the recession, the City will update the City's Reserve Policy with updated target reserve levels and a proposed time frame for meeting those reserve targets. Table 2.31 details the FY 2021 projected reserve balance in the funds, the percentage targets, and contribution to City's reserve funds per the current Reserve Policy. As mentioned in the Potential Mitigation Actions section of this Report, the General Fund reserves can be used as a mitigation option to balance the General Fund. If the action is taken to use available General Fund reserves to balance any future budgets, the contributions determined in future years will be adjusted based on the amount used from the reserve balance, thus increasing the contributions to reach the reserve target established in future years.

Table 2.31 - Reserve Target Levels ($ in Millions)	FY 2021 Proj.	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025	Fiscal Year 2026
General Fund Target (%)	15.50%	15.50%	15.50%	15.75%	16.00%	16.25%
General Fund Reserve Target ($)	$ 210.4	$ 213.6	$ 216.3	$ 228.5	$ 244.1	$ 258.4
General Fund Reserve Level Projection ($)	$ 205.7	$ 205.7	$ 205.7	$ 228.5	$ 244.1	$ 258.4
General Fund Contribution Amount	$ -	$ -	$ -	$ 22.8	$ 15.6	$ 14.4
Pension Stability Target (%)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
General Fund Pension Stability Reserve Target ($)	$ 20.8	$ 21.9	$ 22.7	$ 23.4	$ 24.2	$ 24.9
General Fund Pension Stability Reserve Level Projection ($)	$ 7.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9
General Fund Pension Stability Contribution Amount	$ -	$ -	$ -	$ -	$ -	$ -
Public Liability Target (%)	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Public Liability Reserve Level Goal ($)	$ 33.8	$ 33.8	$ 33.8	$ 33.8	$ 33.8	$ 33.8
Public Liability Reserve Level Projection ($)	$ 33.8	$ 33.8	$ 33.8	$ 33.8	$ 33.8	$ 33.8
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($)	$ 3.8	$ 3.8	$ 3.8	$ 3.8	$ 3.8	$ 3.8
Long-Term Disability Fund Reserve Level Projection ($)	$ 3.8	$ 3.8	$ 3.8	$ 3.8	$ 3.8	$ 3.8
Long-Term Disability Contribution Amount	-	-	-	-	-	-
Workers' Compensation Target (%)	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Workers' Compensation Reserve Target ($)	$ 32.8	$ 34.1	$ 35.6	$ 37.1	$ 38.7	$ 40.4
Workers' Compensation Reserve Level Projection ($)	$ 32.8	$ 34.1	$ 35.6	$ 37.1	$ 38.7	$ 40.4
Workers' Compensation Contribution Amount	$ 0.8	$ 1.3	$ 1.5	$ 1.5	$ 1.6	$ 1.7
Workers' Compensation Contribution Amount (GF)	$ 0.7	$ 1.2	$ 1.3	$ 1.3	$ 1.4	$ 1.4

Other Expenditures

Expenses included in this category are debt service payments, transfers-out to other funds, capital expenses, and other miscellaneous expenditures. Adjustments are made only to account for anticipated transfers, and projected debt service amounts; therefore, no growth rate is assumed for all other expenditures in this category. The following table displays the FY 2022 through FY 2026 projections for the Other Expenditures Category.

Table 2.32 - Other Expenditures	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 65.1	$ 71.9	$ 74.6	$ 83.1	$ 86.2	$ 92.1

The one-time expenditures included in the FY 2021 Adopted Budget and removed from the Outlook baseline are primarily detailed below:

- $9.7 million transfer to the Rent Relief Fund
- $5.7 million contribution to Infrastructure Fund resulting from the FY 2019 reconciliation
- $3.0 million transfer to the Community Equity Fund

- $2.0 million transfer to the Economic Relief Fund

These are partially offset by the addition of $16.9 million, budgeted as a one-time reduction in FY 2021 for the transfer to the Capital Outlay Fund as a result of the stadium sale. The transfer to the Capital Outlay Fund is typically funded through the General Fund. However, one-time funding was used from the stadium sale in FY 2021 to partially mitigate impacts to the General Fund. The one-time adjustment was added back to the baseline projection to be accounted for in outlying years.

Furthermore, updates to the City's existing debt service schedules, including commercial paper assumptions, the Hewlett Packard lease agreement, vehicle replacements and energy loans are included in the forecast based on projections provided by Debt Management, and the Sustainability Department.

Pertaining to borrowing amounts and debt service cost, projections assume a long-term bond issuance in FY 2021 of $146.0 million to pay down/refund commercial paper notes plus additional funds for projects anticipated to be approved in FY 2021. The debt service is expected to begin in FY 2022. Moreover, projections also assume a bond issuance in FY 2023 of $90.0 million to pay down/refund commercial paper notes anticipated to be approved in FY 2023 and debt service expected to begin in FY 2024. Projections also assume a bond issuance in FY 2025 of $90.0 million to pay down/refund commercial paper notes and debt service expected to begin in FY 2026. The ultimate timing of each of these projected bond issuances and use of commercial paper will be evaluated based on cash needs and market conditions and subject to Council approval.

Lastly, the debt service associated with the public safety radio replacement is included in this category. The project financials were provided by the Department of Information Technology and is included in the baseline projection since this project will replace current public safety radios that have exceeded their useful life and are essential to maintaining current serve levels. The debt service for the replacement of radios is anticipated to begin in FY 2022 and will support the procurement of radios in two installments: $41.2 million in FY 2022 and $15.1 million in FY 2023.

Charter Section 77.1 – Infrastructure Fund

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

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

- Major revenue increment – an amount equal to 50.0 percent of the year over year growth in property tax revenues, unrestricted General Fund TOT, and unrestricted franchise fees for FY 2018 through FY 2022 only
- Sales tax increment – an amount equal to the annual change in sales tax revenue when compared to the sales tax baseline (FY 2016) as inflated by the lesser of California Consumer Price Index (CCPI) or 2.0 percent

- General Fund Pension Cost Reduction – any amount if pension costs for any fiscal year that are less than the base year (FY 2016)

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

Table 2.33- Infrastructure Deposits
($ in Millions)

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Projection	$ 5.7	$ 11.3	$ -	$ -	$ -	$ -

The Infrastructure Fund is programmed on a year-by-year basis for one-time expenditures and therefore the transfer to the fund is considered one-time in nature. As a result, $5.7 million in one-time expenditures was removed from the FY 2021 Adopted Budget in developing the baseline. The Outlook then projects infrastructure deposits throughout the Outlook pursuant to the City Charter.

The FY 2022 net contribution is projected at $11.3 million. This represents the portion of the deposit calculation from the major revenue increment projected at $34.9 million for FY 2022 offset by a decrease of $23.6 million adjustment to reflect actual revenues collected in FY 2020. The adjustment was needed to reflect the significant decrease in revenues from FY 2019 and FY 2020 and reduce the contribution made in FY 2020 of $23.6 million. The deposit calculation from the major revenue increment is only in effect for five years (FY 2018 through FY 2022). Commencing in FY 2023, no new deposits are forecasted since there are no sales tax increment or General Fund pension cost savings projected for these years.

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 includes the use of available Proposition H funding for the operating expenses required to maintain the City's OCI of 70 as discussed in the Other Baseline Adjustments section of this Report. The FY 2022 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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Other Baseline Adjustments

Other baseline adjustments include adjustments that are currently included in the FY 2021 Adopted Budget and forecasted to have fiscal impacts through the outlook period. The funding needs identified will continue to provide current service levels. Any adjustments that either reduce or enhance current service levels are not assumed in this Report. Those decisions will be considered and implemented during the upcoming FY 2022 Budget Development process and will be dependent upon available resources and operational priorities.

Table 2.34 - Other Baseline Adjustments ($ in millions)

Baseline Adjustment	FTE/Rev/Exp	FY2022	FY2023	FY2024	FY2025	FY2026
Various Homelessness Services	FTE	-	-	-	-	-
	Revenue	$ 8.50	$ 2.20	$ -	$ -	$ -
	Expense	$ 8.50	$ 22.70	$ 23.00	$ 23.00	$ 23.00
New Facilities	FTE	22.32	66.82	71.82	75.32	76.32
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ 1.60	$ 3.60	$ 3.30	$ 3.20	$ 2.90
O&M - Slurry Seal - Streets Resurfacing Program to reach OCI of 70	FTE	-	-	-	-	-
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ 22.30	$ 21.00	$ 19.40	$ 18.00	$ 16.10
	Total FTE	**-**	**-**	**-**	**-**	**-**
	Total Revenue	**$ 8.50**	**$ 2.20**	**$ -**	**$ -**	**$ -**
	Total Expense	**$ 32.40**	**$ 47.30**	**$ 45.70**	**$ 44.20**	**$ 42.00**

Homelessness Strategies

The Outlook identifies the funding needs for existing programs in the City's Homelessness Strategies Division, which are currently funded through various General Fund and non-general fund sources. The Outlook's baseline General Fund budget includes $6.6 million in ongoing General Fund support and an increase of $8.5 million beginning in FY 2022 in additional expenditures for homeless programs and services. This increase is offset by a second allocation of $8.5 million from Homeless Housing, Assistance and Prevention (HHAP) Program State Grant funding.

The State's Homeless Emergency Aid Program (HEAP) funding ends in FY 2022. Absent alternative funding sources, the General Fund's funding needs increase in FY 2023 to a net General Fund impact of $20.5 million and an additional $23.0 million per year in FY 2024 through FY 2026.

Overall Condition Index (OCI) of Streets

The Outlook includes the continued expenses associated with the Mayor's five-year street repair plan to reach an OCI of 70 by 2025. The continued expenses for streets and slurry seal have been typically funded through other funding sources, including Gas Tax, Transnet and Proposition H funds. This forecast includes a $22.3 million in FY 2022, which is partially offset with Proposition H funding. The needs included in the outlook period have been identified in order to maintain the City's goal of an OCI of 70. The identified funding needs allows for faster mitigation of streets via additional asphalt overlay, concrete replacement crews, and use of slurry seal.

New Facilities

The Outlook identifies the funding needed for the addition of three new fire stations. The Outlook includes the operational expenses for the following new fire stations:

- FY 2024 – Black Mountain Ranch
- FY 2025 – UCSD Fire Station
- FY 2026 – Fairmont Avenue

The Outlook also identifies the staffing and operating costs for the new Pacific Highlands Branch Library, which is the only fully funded library scheduled to become operational in the outlook period. As well as the funding need for additional personnel and equipment costs associated with the operation and maintenance of 13 new parks and recreation facilities and 20 new joint use facilities. Attachment 2 identifies these facilities.

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POTENTIAL MITIGATION ACTIONS

As a result of the decline in ongoing revenues resulting from the pandemic and ongoing expenditures, the Outlook recognizes the potential need to identify additional sources of funds. If the projected revenues and sources of funds do not improve, several mitigation actions, including budget reductions and use of reserves, will need to be considered. The Mayor will present a balanced FY 2022 budget on April 15, 2021 to the City Council. The following section presents potential measures to address the potential need for additional resources in FY 2022.

One-Time Resources

Any available resources that are one-time in nature are only available for one-time purposes, such as excess equity.

In the FY 2020 Year-End Performance Report, the FY 2020 ending fund balance (excess equity) is projected to be $14.5 million. These funds could be used in either FY 2021 or in future fiscal years to fund one-time expenditures.

Use of Infrastructure Funds (Prop H)

In June 2016, voters approved Proposition H (Prop H), requiring the City to dedicate specific sources of revenue to fund new General Fund infrastructure. As stated earlier, the Outlook includes the continued expenses associated with the operating expenses required to maintain the City's OCI of 70 with use of Prop H funds. The action to partially fund the gap for City streets improvements with funds from the Infrastructure Fund can help reduce the net impact to the General Fund and alleviate funding for other City initiatives. It is important to note that waiving the Prop H contribution in FY 2022 may ultimately impact funding availability to support the City streets OCI of 70.

Use of Reserves

The use of General Fund reserves is another option to help mitigate costs to the General Fund in the short term and on a one-time basis. The General Fund Reserves are made up of the Stability Reserve and the Emergency Reserve. The Stability Reserve can be used as an alternative funding source for one-time funding for critical capital or operating needs. The Emergency Reserve can be used in the case of a public emergency or catastrophic event. As noted in the FY 2020 Year-End Performance Report, the current General Fund reserve level is $205.7 million, reaching the required reserve target level of 15.50 percent. If the action is taken to use available General Fund Reserves to balance any future budgets, the contributions determined in future years will be adjusted based on the amount used from the reserve balance, thus increasing the contributions to reach the reserve target established in future years. In addition, the Pension Stabilization Reserve which was established to mitigate potential increases in the annual pension payment, the Actuarially Determined Contribution (ADC), could be used to mitigate any future increases in the City's ADC payment This mitigation option should only be used if deemed necessary to balance the General Fund shortfall as the use of reserves would likely be evaluated by the rating agencies in assessing the City's General Fund credit.

COVID-19 Relief Funds

The City received one-time COVID-19 State and Federal Relief funds in FY 2021 and FY 2022. The relief funds were primarily provided through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted by the federal government to provide emergency assistance to State, Local, and Tribal governments affected by the COVID-19 pandemic. There are ongoing discussions at the federal level to provide additional COVID-19 relief funds to state and local governments. The City is actively monitoring this issue and will continue to advocate for the distribution of additional relief funds.

New Electric and Gas Franchise Fee Agreement

The City of San Diego Gas & Electric Franchises are currently set to expire on January 17, 2021. City staff, along with expert consultants, have developed terms and provisions for new franchises which were advertised as Invitations to Bid on September 23, 2020 for 30 days. These new Franchises have been offered at a term length of 20 years and set the franchise fees at 3.0 percent. The minimum bids for the gas and electric Franchises have been set at $10.0 million and $70.0 million dollars respectively. If the City receives one or more bids by the end of the advertising period, the City Council would have the opportunity to hear the bids and award the franchises to the highest responsive bidder or reject all bids. The minimum bids are considered unrestricted General Fund revenue and unless restricted by City Council, could be used in its entirety to help address the projected revenue shortfall in the Outlook. As discussed in the Other Assumptions and Considerations section of this report, if the City Council does not approve the new electric and gas franchises or extend the term of the current franchises to be effective before January 17, 2021, the potential loss of revenue could impact the City's ability to provide critical General Fund services and increase the projected shortfalls throughout the outlook period.

Budget Reductions

To address the projected revenue shortfall, General Fund departments may be requested to submit budget reduction proposals in FY 2022 or future years. Any budget reduction proposals submitted for consideration are only proposals subject to careful evaluation. This includes reductions that may impact the City's current service levels, which may need to be re-evaluated during the upcoming FY 2022 Budget Development process and will be dependent upon available resources and operational priorities. 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. It should be noted that since FY 2018 more than $87.0 million in budget reductions have been accepted in the General Fund.

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OTHER ASSUMPTIONS AND CONSIDERATIONS

The Outlook was developed based on information available and known at the time of the preparation of the report. Projections were developed using reasonable assumptions; however, risks to the projections include events that may be expected to occur during the outlook period whose outcomes are unpredictable. Previous sections of the report have discussed any assumptions that may result in a specific risk to the revenue and expenditure category projection. This section details other known assumptions.

MOUs

As previously discussed in the Salaries and Wages category section of this report, the current MOUs with the six REOs expired at the end of FY 2020. However, four of the six REOs all signed one-year agreements which will expire June 30, 2021. Since over 70.3 percent of expenditures in the FY 2021 Adopted Budget are related to wages and fringe benefits, small changes in MOU provisions can have large impacts on City expenditures. For example, a 1.0 percent change in salaries across all MOU's could increase this category by approximately $6.13 million. Bargaining unit negotiations may include other costs, in addition to salary increases, such as increase to flexible benefit credits which are not included in the $6.13 million estimate or 1.0 percent estimated cost. The City is currently in negotiations with all REOs regarding the current MOUs; therefore, the associated fiscal impact is not known at this time, and as a result are not included in the Outlook baseline expenditures in Table 1.1. However, for discussion purposes, Table 2.35 summarizes the estimated impact of a 3.0 percent salary increase or $18.4 million across all MOUs in FY 2022 through FY 2026.

Table 2.35- Salary Increases

	FY 2021 Adopted	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Baseline General Fund Revenues	$ 1620.9	$ 1545.2	$ 1609.5	$ 1685.1	$ 1747.4	$ 1802.8
Baseline General Fund Expenditures	$ 1620.9	$ 1629.6	$ 1681.1	$ 1741.4	$ 1749.7	$ 1780.5
Baseline Surplus/(Shortfall)	$ -	$ (84.5)	$ (71.6)	$ (56.3)	$ (2.3)	$ 22.2
Salary Increases - 3.0% (GF Impact)	$ -	$ 18.4	$ 18.4	$ 18.4	$ 18.4	$ 18.4
Revised Surplus/(Shortfall)	$ -	$ (102.9)	$ (90.0)	$ (74.7)	$ (20.6)	$ 3.8

ADC

In addition, there are many factors that can alter the Actuarially Determined Contribution (ADC) payment made by the City to the San Diego City Employees' Retirement System (SDCERS). Fluctuations in the market can impact employer contributions; as well as unanticipated increases in salaries can also alter the total ADC payment each fiscal year. The Outlook Report does not contain any projections related to potential changes to actuarial assumptions that could result in significant impacts to the ADC payment.

Current Electric and Gas Franchise Fee

As previously mentioned, the Outlook projection assumes the continuation of the current electric and gas franchise fee of 3.0 percent. Together, these fees generated $47.8 million for the General Fund and $15.9 million for the Environmental Growth Funds in FY 2020. Furthermore, the Utility

Undergrounding Surcharge within the Electric Franchise generated $63.8 million for the Utility Undergrounding Program in FY 2020.

If the City Council does not approve new electric and gas franchises or extend the term of the current franchises to be effective before January 17, 2021, the potential loss of revenue could impact the City's ability to provide critical General Fund services and increase the projected shortfalls throughout the outlook period. In addition, this decision could impact the potential use of the minimum bids of $80.0 million discussed in the Potential Mitigation Actions section.

Additionally, if the franchises are awarded to a non-incumbent utility, or if the City decides to pursue a public power option through municipalization, the same impacts to the General Fund would likely be present until a new entity would be ready to take over the utility operations.

Propositions and Ballot Measures

The Outlook does not assume the approval of any other proposed ballot measures and the associated potential fiscal impacts to the General Fund.

- Proposition 15 is a ballot initiative that would change California's property tax system to tax commercial properties worth more than $3.0 million, at a tax rate higher than residential properties. Proponents of the measure estimate between $6.5-$11.5 billion generated in new annual property tax revenue in California; with 60.0 percent of that revenue going to cities, counties and special districts and 40.0 percent going to schools and community colleges. Based on property tax revenue estimates and analysis conducted by Blue Sky Consulting, the City of San Diego is estimated to receive a potential $80.0 million in 2021-22 if the measure is passed.
- Measure B is a ballot initiative that would dissolve the City's Community Review Board (CRB) on Police Practices and replace it with a Commission on Police Practices, with members appointed by the City Council, its own staff, subpoena power, independent legal counsel, and authority to investigate police officer misconduct, review complaints against officers, and make recommendations on police officer discipline, police policies, and Police Department legal compliance. In order to support the duties and powers of the Commission, sufficient and appropriate budget will need to be funded from the City's General Fund. It is estimated that the necessary staffing and budget for the Commission could reasonably range between at least seven (7) Full Time Equivalent (FTE) positions and $1.2 million annually and up to sixteen (16) FTEs and $2.6 million annually in order to allow it to effectively carry out its duties and powers proposed under the ballot measure. The range is primarily due to the Commission's discretionary authority to determine the level of citizen complaints it chooses to investigate. Current annual funding from the General Fund for the CRB, budgeted at approximately $247,000 for FY 2021, would no longer be required. Potential fiscal impacts to the Police Department, if any, are unknown.

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Extension of Impacts from the COVID-19 Pandemic

The Outlook's primary assumption includes an economic recovery beginning in FY 2022 based on a COVID-19 vaccine becoming readily available to the public in summer/fall 2021. This assumption is consistent with various recent economic forecasts, including the September 2020 UCLA Anderson Forecast, Tourism Economics October 2020 forecast, and San Diego County Treasurer-Tax Collector's Investment and Financial Management Symposium October 2020 update. Many scientist and pharmaceutical companies are working vigorously to produce a vaccine. Although many experts disclose, an effective vaccine may take several years to develop and test; the U.S. has a current initiative that partners with various agencies to speed up the timeline of the vaccine production and trials. If a vaccine does not become readily available to the public in the timeline specified in this Outlook, it could further delay the City's forecasted economic recovery.

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CONCLUSION

The Outlook guides long-range fiscal planning by focusing on baseline revenues and expenditures, including quantifying updates to maintaining the City's current service levels as reflected in the FY 2021 Adopted Budget. Any adjustments that either reduce or enhance current service levels are not assumed in this Report. Those decisions will be considered and implemented during the upcoming FY 2022 Budget Development process and will be dependent upon available resources and operational priorities.

Based upon baseline projections, growth in ongoing expenditures is anticipated to outpace growth in ongoing revenues in FY 2022 through FY 2025. Beginning in FY 2026, revenue growth is projected to exceed anticipated expenditure growth. A shortfall is forecasted based on the following key factors:

- Moderate growth in revenue as the economy begins to recover from the impacts of the COVID-19 pandemic
- Projected growth in expenditures
- Reserve Contributions

The Outlook provides the City Council, key stakeholders, and the public with information at the start of the budget process to facilitate a discussion regarding the coming year's General Fund budget allocations.

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2021.

ATTACHMENT 1
ONE-TIME RESOURCES AND USES OF FUNDS

The tables below detail the one-time resources and expenditures that were included in the Fiscal Year 2021 Adopted Budget that were adjusted to develop FY 2022-2026 Five-Year Financial Outlook baseline budget.

One-Time Resources	
COVID-19 State and Federal Relief Funds	$ 146,107,190
Use of Fleet General Fund Replacement Fund Balance	21,500,000
Transfer from Civil Penalties Fund	2,337,438
Transfer from Former Enterprise Zone Funding	750,000
Homelessness Grant Funding	487,340
RPTTF Revenue associated to sale of North Park Gateway	218,960
OHS Grant Funding	164,638
Climate Action Plan Grant Funding	150,000
Disparity Study	124,393
COVID-19 Revised Revenues - Lost/Damaged Library Material Fee	-4,000
COVID-19 Revised Revenues - Parking Garage Fees	-8,435
COVID-19 Revised Revenues - Passport Fees	-30,000
COVID-19 Revised Revenues - Photocopy Services Fee	-40,749
COVID-19 Revised Revenues - Lost/Damaged Library Material Fees	-75,668
COVID-19 Revised Revenues - Special Events - Central Library	-94,589
COVID-19 Revised Revenues - Parking Garage Revised Revenue	-364,750
COVID-19 Revised Revenues - Business Tax Revenue	-430,000
COVID-19 Revised Revenues - Collection Referral Fee Revised Revenue	-500,000
COVID-19 Revised Revenues - Gas Tax	-1,024,555
COVID-19 Revised Revenues - Fire-Rescue Inspection Fees	-2,061,958
COVID-19 Revised Revenues - City Lease	-4,612,675
One-Time Resources Total	**$162,592,580**

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One-Time Uses	
Operation Shelter to Home	$29,996,579
Small Business Relief Funds	12,848,365
Rent Relief Fund	9,700,000
CARES Act Funding - New COVID-19 Related Operational Expenditures	5,760,204
Transfer to the Infrastructure Fund (Charter Section 77.1)	5,663,897
Transfer to create the Community Equity Fund	3,000,000
Citywide Elections	1,989,015
Expansion of the Person-Centered Unsheltered Program	1,500,000
Energy Franchise Agreement Consultant	750,000
Transfer to the Capital Budget (See Significant Budget Adjustments Section)	547,000
Internet Access for Low Income Communities Pilot Program	500,000
Fire-Rescue Academy	431,324
Vessel Purchase (Grant Match)	250,000
Disparity Study	248,785
Structural PPE Replacements	237,986
Redistricting Commission	198,411
Parks & Recreations New Facility	89,000
Sexual Harassment Prevention Training	72,632
Lateral & Recruit Incentive Program	68,000
SART Testing	16,344
Helicopter Maintenance	-900,000
Adjustment to Mission Bay and Regional Park Improvements Funds	-1,936,040
Use of Excess Public Liaibility Funds for Rate Relief	-2,023,604
Use of Seized Assets Funds for NPH OT	-4,389,792
Transfer of Debt Service to Capital Outlay	-14,540,600
One-Time Uses Total	**$50,077,506**

ATTACHMENT 2
NEW FACILITIES

New Facilities	
Parks	
Franklin Ridge Pocket Park	2022
Marie Curie Elementary Joint Use	2022
Dennery Ranch	2022
Rolando Park Elementary Joint Use	2022
La Paz Mini Park	2022
Standley Middle School Joint Use Pool	2022
King Chavez Elementary Charter School Joint Use	2022
Standley Middle School Joint Use	2022
Fairbrook Neighborhood Park	2022
Children's Park Enhancement	2022
Sequoia Elementary Joint Use	2022
Johnson Elementary Joint Use	2022
Parks	
Wagenheim Joint Use Facility	2023
Taft Middle Joint Use	2023
Olive Street Mini Park	2023
Riviera Del Sol Neighborhood Park	2023
Lafayette Elementary Joint Use	2023
Hickman Elementary Joint Use	2023
Salk Neighborhood Park & Joint Use	2023
Hidden Trails Neighborhood Park	2023
Mira Mesa CP (Phase III - Recreation Center)	2023
East Village Green	2023
Library	
Pacific Highlands Branch Library	2023
Parks	
NTC/Esplanade	2024
NTC Building 619	2024
Pacific View Elementary Joint Use	2024
Lindbergh-Scheweitzer Joint Use	2024
Fire	
Black Mountain Ranch Fire Station	2024

New Facilities	
Parks	
Spreckels Elementary Joint Use	2025
Perry Elementary School Joint Use	2025
Boone Elementary School	2025
Whitman Elementary School	2025
Rowan Elementary Joint Use	2025
Fire	
UCSD Fire Station	2025
Parks	
Pacific Beach Elementary Joint Use	2026
North Central Square	2026
Fire	
Fairmount Avenue Fire Station	2026