CITY OF SAN DIEGO

FY 2014-2018

Five-Year Financial Outlook

October 24, 2012

Jerry Sanders
Mayor

Jay M. Goldstone
Chief Operating Officer

Mark Leonard
Financial Management Director

EXECUTIVE SUMMARY

The City of San Diego (City) Fiscal Year (FY) 2014-2018 Five-Year Financial Outlook (Outlook) is the guiding document for long-range fiscal planning and provides the framework for the development of the City's annual budget. This is the seventh Outlook the Mayor has published since November 2006. The Outlook incorporates a variety of economic assumptions and expenditure requirements that will likely influence projected revenues and appropriation needs over the next five fiscal years.

The Government Finance Officers Association (GFOA) recommends that local governments follow a financial planning process that combines the forecasts of revenues and expenditures into a single financial model over a three to five-year period to be used as a tool to assess the long-term financial implications of current and proposed policies, programs, and assumptions in developing appropriate strategies to achieve established goals. The City's Five-Year Financial Outlook is consistent with the GFOA best practices recommendations.

Forecast Scope

The City's General Fund is the sole focus of the FY 2014-2018 Five-Year Financial Outlook. The Outlook forecasts General Fund revenues and expenditures for five fiscal years beginning in FY 2014. The FY 2013 Adopted Budget serves as the baseline for development of the FY 2014-2018 revenue and expenditure forecast. In the FY 2013 Adopted Budget, approximately 67.5 percent of the City's budgeted General Fund revenue is generated by four major sources: property tax, sales tax, transient occupancy tax (TOT), and franchise fees. Personnel expenses constitute approximately 71.5 percent of the City's General Fund budget. The baseline budget has been adjusted by eliminating one-time revenues and expenditures included in the FY 2013 Adopted Budget and making incremental revenue and expenditure adjustments. The Outlook has been developed using current economic data and growth assumptions from various local, regional, and State sources.

Economic Environment

After experiencing significant financial challenges in the past few years, San Diego's economy has continued to show signs of improvement in several economic categories in recent months. According to Beacon Economics,[1] San Diego has been leading the State in economic recovery. Local tourism, personal income level, consumer and business spending, and the residential real estate market have shown signs of economic recovery. Despite the fact that the unemployment rate remains high compared to historical levels, which was at 9.0 percent in August 2012, the employment market has improved since the end of the recession in 2009. Approximately 29,000 jobs have been added in San Diego since August 2011, mostly from improved retail and hospitality sectors.

[1] Beacon 2012 San Diego Economic Forecast

Local tourism has also been steadily improving since the end of recession in 2009. It is forecasted that San Diego's tourism will be even stronger in future years and will be leading the employment recovery. Taxable sales have also continued to improve locally with auto sales experiencing the strongest gains. The City's sales tax cash receipts increased by 5.2 percent in the second quarter of calendar year 2012. It is projected that taxable sales will continue to grow with projected increases in payroll jobs, personal income level, and an improving real estate market.

The San Diego real estate market has experienced some signs of improvement compared to prior years. San Diego's median home price has increased by 8.1 percent in August 2012 compared to August 2011; home sales have increased 21.2 percent for the same time period;[1] and foreclosures decreased by 37.4 percent in August 2012 compared to the same period last year.[2] According to Beacon Economics, the worst for the local real estate market is over and this sector is no longer dragging San Diego's economic recovery. While there are signs of improvement, a lag time of approximately 18 months exists between market activity and when the City receives property tax revenue receipts. The Outlook forecasts slow growth in property tax revenue beginning in FY 2014, which reflects market activity in calendar year 2012.

Given these positive factors in the economic recovery, the Outlook does project growth in the City's major General Fund revenue sources, however, the growth rates are moderately conservative throughout the Outlook compared to historical levels. The property tax growth rate is projected to be 1.5 percent in FY 2014, and then increase by 1.0 percent annually reaching 4.5 percent growth in FY 2017 and FY 2018. Both sales tax and transient occupancy tax revenues are projected to grow by 5.5 percent in FY 2014 and FY 2015 followed by 6.0 percent growth in FY 2016 through FY 2018. As stated above, despite current positive signs in the main economic sectors of the local economy, the revenue forecast in this Outlook is cautiously optimistic as the economic recovery is projected to occur at a moderate pace.

Forecast Assumptions

Major revenue and expenditure assumptions in the FY 2014-2018 Outlook include:

- A continued moderate economic recovery with slightly increased growth rates in sales tax and transient occupancy tax revenues, and decreased growth rates in property tax revenues compared to growth rates in the FY 2013-2017 Outlook.
- A 5.0 percent inflation rate for energy and utility expenditures (including fuel) and a 1.0 percent inflation rate for supplies and contracts expenditures.
- Contributions to Public Liability, Workers' Compensation, and Long-Term Disability reserves per the Reserve Policy. The 2007 Wildfire Settlement, deposited into the Public Liability Fund reserve, results in a decrease to the required annual contributions to the Public Liability Fund reserve to meet the Reserve Policy targets.
- Projected Annual Required Contributions (ARC) to the retirement system are based on the San Diego City Employees' Retirement System (SDCERS) actuarial valuation as of June 30, 2011 and estimates of future ARCs presented by Cheiron, the SDCERS actuary. An updated

[1] DataQuick Information Systems
[2] San Diego County Assessor/Recorder/Clerk's Office

SDCERS' actuarial valuation and future ARC estimates are anticipated in early calendar year 2013.

- An increased number of Police recruits from 30 to 35 for each of the Police Department's four annual academies.
- Debt service for an additional $25.0 million bond issuance for General Fund capital improvements.
- No general salary increases are included with the exception of projected step increases for classified employees based on current labor agreements.
- Several significant departmental additions are included throughout the Outlook period, primarily for the Transportation and Storm Water, Police, Park and Recreation, and Information Technology Departments.
- Deferred Capital Maintenance 'Enhanced Option B' as adopted by the City Council.
- An estimated total of $7.1 million in savings as a result of IT sourcing.

Forecast Overview

The Five-Year Financial Outlook is updated periodically and issued annually, thus providing a framework for budgetary decisions by communicating the City's fiscal priorities and outlining the City's revenue and expenditure trends as well as fiscal challenges. After updating revenue and expenditure projections for FY 2013 based on the FY 2012 pre-audit actual results, and incorporating the assumptions detailed above, a pro-forma was completed for the FY 2014-2018 Outlook period (Attachment I). The projected annual surplus figures are as follows:

FY 2014-2018 Five-Year Financial Outlook
Projected Surplus / (Deficit)

($ in millions)

Fiscal Year	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Projected Outlook Surplus / (Deficit)	$ 4.9	$ 6.1	$ 32.2	$ 62.0	$ 94.2

In conjunction with the release of the Mayor's FY 2013 Proposed Budget in April 2012, the FY 2013-2017 Five-Year Financial Outlook was updated to reflect actions included to balance the FY 2013 Proposed Budget. At that time, the projected FY 2014 surplus was estimated to be $2.0 million. The projected FY 2014 surplus in the FY 2014-2018 Five-Year Financial Outlook is $4.9 million. The changes in revenues and expenditures that occurred between these periods are detailed in the following table:

($ in millions)

FY 2014 Surplus - April 2012	**$ 2.0**
Revenue Changes	
Sales Tax Revenue	$ 0.5
TOT Revenue	$ 5.7
Other Revenue Adjustments	$ 1.4
Total Revenue Change	**$ 7.6**
Expense Changes	
Increased Recruits for Police Academy	$ 0.8
Windows 7 Upgrade	$ 2.7
Transportation & Stormwater Compliance	$ 2.2
Reduction in Public Liability Reserve Contribution	$ (4.5)
Additonal Bond Issuance Debt Service	$ 1.8
May Revision Ongoing Service Restorations	$ 2.8
Street and Sidewalk Maintenance Managed Competition Savings	$ (0.9)
Other Expenditure Adjustments	$ (0.2)
Total Expense Change	**$ 4.7**
FY 2014 Surplus - October 2012	**$ 4.9**

The FY 2014-2018 Outlook is divided into seven sections: the ***Executive Summary*** section, the ***General Fund Revenues*** section, the ***General Fund Expenditures*** section, the ***Departmental Additions*** section, the ***Reserves*** section, the ***Uncertainties*** section, and the ***Conclusion*** section. The ***General Fund Revenues*** section discusses the development of revenue projections included in the Outlook and includes an overview of current economic trends and their impact on the City's major revenues. The ***General Fund Expenditures*** section outlines the expenditure forecast including future expenditure requirements and expected growth rates. The ***Departmental Additions*** section discusses departmental revenue and expenditure changes. The ***Reserves*** section discusses the reserves in the General Fund, Workers' Compensation Fund, Public Liability Fund, and Long-Term Disability Fund. The ***Uncertainties*** section discusses several concerns ahead that could significantly impact the next five years. The ***Conclusion*** section summarizes the assumptions and projections detailed throughout this Outlook.

Attachment I provides detailed information on General Fund revenue and expenditure forecasts for FY 2014-2018 and the projected surplus for each fiscal year. Attachment II presents a summary of one-time revenues and expenditures in the FY 2013 Adopted Budget that were removed from the FY 2014 forecast. Attachment III presents a summary of new facilities costs that are included in the Outlook. Attachment IV presents detailed information for the Charges for Services revenue category in the Outlook. Attachment V presents a summary of departmental additions.

Revenue Forecast

The General Fund revenue categories and related background information are discussed in the General Fund Revenues section along with the methods and assumptions affecting growth projections for each major revenue source. There are four major General Fund revenue sources: property tax, sales tax, transient occupancy tax (TOT), and franchise fees. These revenue sources make up nearly 67.5 percent of budgeted General Fund revenue in FY 2013. These four major revenue sources are affected by changes in local, State, and national economic conditions. Other General Fund revenue sources such as licenses and permits and fines, forfeitures, and penalties are also impacted by economic conditions to varying degrees. The General Fund revenue forecast is based on the City's FY 2013 Adopted Budget adjusted for the removal of one-time revenues and uses updated year-end revenue projections where available. Also included in this revenue forecast are incremental General Fund changes since the FY 2013 Adopted Budget.

The revenue forecast combines an analysis of the economic factors driving the City's revenue base and the specific revenue sources available to the City. While San Diego's economy is increasingly diverse, the City's revenue structure has a lower tax base compared to most other large cities in California. For example, the City does not levy a utility user tax or trash collection fee and has a low business license tax and storm water fee compared to other cities of comparable size. Additionally, the City's revenues continue to be affected by decisions made by the State regarding the allocation of local revenue.

Expenditure Forecast

The General Fund expenditure categories and related background information are discussed in the General Fund Expenditures section along with methods and assumptions affecting growth projections for each expenditure category. The General Fund expenditure forecast is based on the FY 2013 Adopted Budget with one-time expenditures removed. Included in these expenditure categories are incremental General Fund departmental changes over the FY 2013 Adopted Budget for new and existing contracts, staffing of new facilities, expected new expenditure requirements, and Council or other governmental agency mandated expenditures, among others. Also included in the FY 2014-2018 Outlook is the 'Enhanced Option B' deferred capital maintenance expenditures approved by the City Council.

State Budget Impacts

The State's FY 2012-2013 Budget had a $15.7 billion deficit as a result of a reduced revenue outlook, higher costs for education and decisions by the federal government and courts to block budget cuts. The cornerstone of the FY 2012-2013 Governor's Budget is the assumption that the voters will approve temporary increases in personal income and sales taxes through an initiative that the Governor has proposed to be on the November 2012 ballot. The State's FY 2012-2013 Budget estimated that $8.5 billion would be generated with the passage of this measure, and that the funds would be used to pay for Proposition 98 school funding obligations and to help balance the budget by paying for other state programs, including funding for public safety at the local level. Other areas where State actions have impacted the City budget include the following:

Redevelopment Agency Dissolution

In June 2011, the State Legislature enacted Assembly Bill (AB) 26 which was followed by a California Supreme Court decision in December 2011, where each redevelopment agency (RDA) in California was dissolved as of February 1, 2012 with a successor agency assuming the RDA's responsibilities. In June 2012, the State Legislature enacted AB 1484 which imposed several new requirements and deadlines on successor agencies.

The City's Fiscal Year 2013 Adopted Budget included payments to the City under agreements entered into by the former RDA to support the City's outstanding debt service obligations for Petco Park and for the Convention Center, among other loans and obligations. The former RDA's agreements, with respect to Petco Park and the Convention Center, total $13.8 million in debt service support for both obligations for Fiscal Year 2013. Total annual payments under these agreements are scheduled to increase through Fiscal Year 2026, capping at $20.3 million, and then decline in later years. Should these and other agreements between the City and the former RDA be invalidated, the lack of funds would have a negative impact on the City's General Fund. In addition, the State Controller may seek to exercise its rights under so-called "claw-back" provisions in AB 26 and AB 1484 to require the City to reimburse the Successor Agency for certain prior payments made to the City under invalidated agreements.

The City set aside approximately $14.4 million in the Fiscal Year 2013 budget to address the overall uncertainty surrounding the potential General Fund fiscal impact of the former RDA's dissolution. The Outlook assumes the debt payment support for Petco Park and Convention Center Phase II Expansion will continue.

Motor Vehicle License Fee

In April 2009, the State increased the total sales tax and motor vehicle license fee (MVLF) rates by 1.0 and 0.65 percent, respectively, to help mitigate its then forecasted budget deficit. These tax increases expired on June 30, 2011. This temporary increase in the MVLF rate was utilized by the State to provide public safety grants to local governments in the form of Citizens' Options for Public Safety (COPS) and offsets to jail booking fees that are required to be paid by the City. The State passed Senate Bill 89 (SB89) which eliminated local MVLF revenues starting in FY 2012 by redirecting this revenue to continue to provide public safety grants. The estimated loss of MVLF revenue to the City for FY 2012 was $4.9 million.[1] This loss is partially offset by increased Citizens' Option for Public Safety (COPS) grant funding and jail booking fee offset revenues in FY 2013 and throughout the Outlook period.

Citizens' Option for Public Safety Funding

The City is expected to receive funding from the State restricted for Citizens' Option for Public Safety (COPS) funded through the MVLF shift described above. The Fiscal Year 2013 Adopted Budget includes $2.1 million in COPS revenue.

[1] California Local Government Finance Almanac

Booking Fees

The City pays jail booking fees to the County of San Diego for bookings of municipal code and misdemeanor violations. The booking fee payment is budgeted at $5.3 million in FY 2013. In FY 2011, the State paid the County approximately $2.0 million which offset City booking fees due and resulted in an expenditure decrease to the City. Due to the uncertainty at the time of the FY 2013 budget adoption, an offset payment from the County was not included in the City's FY 2013 Adopted Budget. However, the FY 2013 State Budget included this funding source. As a result, the Outlook includes $2.0 million per year in decreased booking fee expenditures.

Gasoline Taxes

For FY 2013, the City budgeted $15.2 million to be received in Proposition 42 replacement revenue and $20.9 million in Highway Users Tax Account (HUTA) gas tax.[1] The State's restructuring of gasoline taxes allows both HUTA and the Proposition 42 replacement revenue to be redirected back to the State's General Fund at any time by a majority vote of the State's legislature. The FY 2013 State budget does not include the redirection of these local revenue sources. The gasoline taxes are not forecasted to be redirected by the State of California in the Outlook forecast period.

Fiscal measures taken by the State are being monitored by the City for their potential effects on General Fund revenues and expected cash flows.

[1] Flat 17.3 cents per gallon tax replaced 6.0 percent tax that generated Proposition 42 revenue prior to FY 2011.

GENERAL FUND REVENUES

The following section provides details of major and departmental revenue sources for the FY 2013 revenue base, in addition to the currently forecasted growth rates used in the Outlook.

Property Tax

The local residential real estate market continues to experience signs of improvement that started in the first half of calendar year 2010. Positive economic indicators in the residential real estate market include increases in median home price and sales, declines in residential foreclosures and notices of default, and an increase in the California Consumer Price Index (which drives assessed valuation under Proposition 13). While there are some signs of improvement, a lag time of approximately 18 months exists between the time the City's assessed valuation is set by the County Assessor's Office and property tax revenue is received by the City. FY 2013 property tax receipts reflect housing market activity from calendar year 2011.

The FY 2013 property tax budget assumes flat growth over the FY 2012 property tax revenues due to a lack of growth in the City's assessed valuation per the County Assessor's Office. Property tax revenues for FY 2014 are projected to increase by 1.5 percent over the FY 2013 Adopted Budget. This modest projection reflects gradual increases in median home prices and home sales and continuing declines in foreclosures. The forecast in this Outlook projects a more normalized residential housing market in FY 2015, resulting in a projected 2.5 percent growth rate that year and 3.5 percent growth in FY 2016. Growth rates are projected to further improve in FY 2017, increasing to 4.5 percent, and then stabilize through FY 2018 as the economy improves. As consumer confidence and job growth increase and improve the overall economy, the real estate market will also improve with increases in home prices and home sales. It is anticipated that economic improvements within the residential real estate market may encourage a climate for new construction opportunities for residential and commercial real estate.

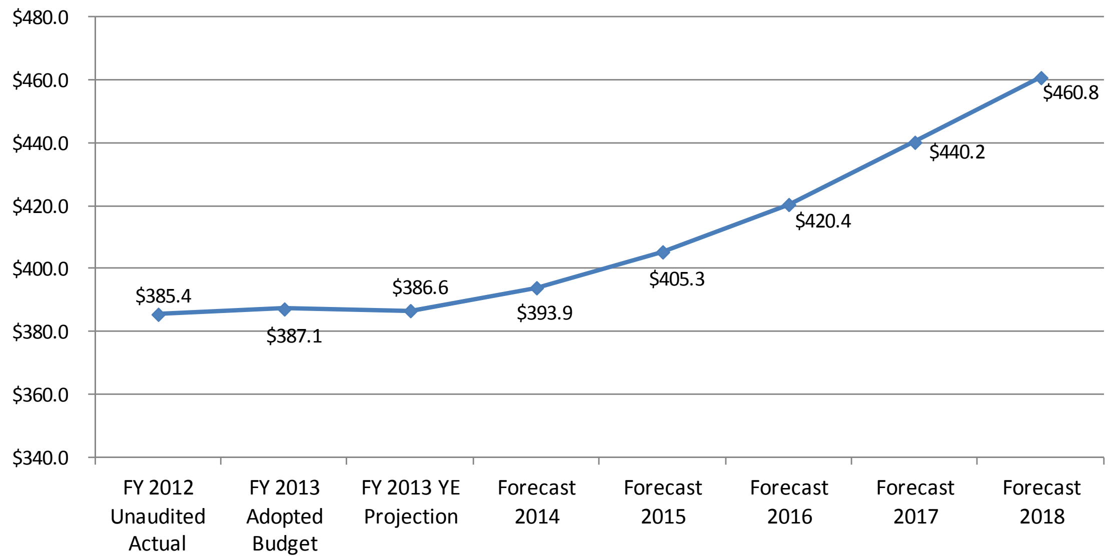
The following table and graph show FY 2012 unaudited actual, FY 2013 budget, FY 2013 year-end projection, and the forecast for FY 2014-2018 for property tax revenue. As a result of the dissolution of the Redevelopment Agencies (RDA), pass–through property tax payments to the City from the Redevelopment Property Tax Trust Fund (RPTTF) are included in the General Fund property tax revenue. These City pass-through payments are estimated at $4.8 million annually.

($ in millions)

Fiscal Year	FY 2012 Unaudited Actual	FY 2013 Adopted Budget	FY 2013 YE Projection	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Projected Growth	-	-	-	1.5%	2.5%	3.5%	4.5%	4.5%
Amount	$ 385.4	$ 387.1	$ 386.6	$ 393.9	$ 405.3	$ 420.4	$ 440.2	$ 460.8
RDA Pass-Through[1]	$ 2.4	$ -	$ 4.8	$ 4.8	$ 4.8	$ 4.8	$ 4.8	$ 4.8
Total	$ 387.8	$ 387.1	$ 391.4	$ 398.7	$ 410.1	$ 425.2	$ 445.0	$ 465.6

(1) Prior to FY 2013, RDA Pass-Through payments were recognized as a transfer in to the General Fund.

($ in millions)



*Totals do not include annual RDA pass-through payment.

Sales Tax

The City of San Diego experienced a steady increase in sales tax revenue in Fiscal Year 2012, with gains reported in all economic sectors. Sales tax data from MuniServices, LLC (MuniServices), the City's sales tax consultant, indicated year-over-year improvement of 5.2 percent in taxable sales for the second quarter of calendar year 2012. Expected gains in taxable sales from department store retail, automobile sales, and service stations should help maintain this trend through FY 2013. Positive growth is projected to continue throughout the Outlook.

Sales tax revenue for FY 2013 is projected to be $232.7 million, a decrease of $3.6 million from the FY 2013 Adopted Budget of $236.3 million. The $3.6 million decrease from the FY 2013 sales tax budget is primarily due to a lower than projected quarterly payment received by the City in June 2012 and lower estimated triple-flip payments provided by the State Board of Equalization. The FY 2014 sales tax revenue forecast of $244.0 million assumes 5.5 percent growth over the revised FY 2013 year-end projection of $232.7 million. The City's 5.5 percent growth projection for FY 2014 is based on the analysis of the most recently available sales tax actual receipts, and the current and projected activity of key economic indicators. In comparison, the FY 2014 projected growth for sales tax revenue prepared for the City by MuniServices is 5.8 percent, which is based on individual projections for each economic segment of taxable sales. These segments include general retail, food products, transportation, construction, and other categories, as well as an analysis of all major retailers, including performance and permit activity. The most recent available projection in the UCLA Anderson Forecast reflects an average growth of 3.7 percent (Statewide) projected between the second quarter of FY 2013 and second quarter of FY 2014.[1] The State Board of Equalization projected an average growth of 5.4 percent between the first quarter of FY 2013 and first quarter of FY 2014 for statewide taxable sales, a stronger growth forecast than the UCLA Anderson Forecast projection.[2] These growth rates are Statewide and do not directly correspond to the San Diego region sales tax growth rates included in the Outlook.

The City's growth rate projection of 5.5 percent for FY 2014 assumes that the unemployment rate will remain high compared to historical averages for the region. However, according to the Beacon Economics 2012 forecast, the increase in payroll jobs, rising personal incomes, and a stabilizing housing market is indicative of continued spending in San Diego. As of August 2012, the San Diego unemployment rate was 9.0 percent as reported by the California Employment Development Department. For comparison, the local unemployment rate before the recession averaged 4.5 percent. This Outlook assumes improvement in employment figures and the projected sales tax growth rates reflect this moderate approach, forecasting growth between 5.5-6.0 percent over the next five fiscal years.

Included in the FY 2017 and FY 2018 projection are additional sales tax revenues related to the Convention Center Phase III expansion. A report prepared by AECOM (a professional technical and management support services consultant), which was released in November 2010, included an economic analysis of additional business capture derived from the proposed expansion of the San Diego Convention Center. According to this analysis, it was estimated that the expansion will generate $121.0 million in hotel room sales, $349.0 million in direct new spending to the region, and $13.5 million in annual revenue to the City, of which $0.8 million is from sales tax revenue and $12.7 million is from TOT. The City is projected to receive these additional revenues beginning in FY 2017 upon completion of the expansion.

The following table and graph show FY 2012 unaudited actual, FY 2013 budget, FY 2013 year-end projection, and the forecast for FY 2014-2018 for sales tax revenue.

($ in millions)

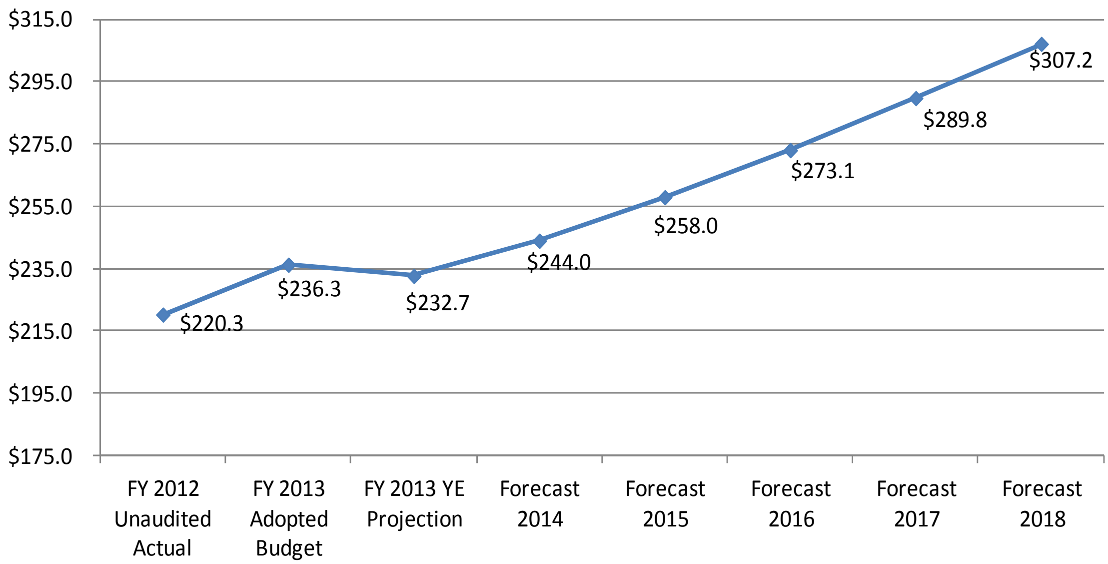
Fiscal Year	FY 2012 Unaudited Actual	FY 2013 Adopted Budget	FY 2013 YE Projection	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Projected Growth [1]	-	-	-	5.5%	5.5%	6.0%	6.0%	6.0%
Amount	$ 220.3	$ 236.3	$ 232.7	$ 244.0	$ 258.0	$ 273.1	$ 289.8	$ 307.2
Incremental Revenue	-	-	-	-	-	-	$ 0.8	$ 0.8
Total	$ 220.3	$ 236.3	$ 232.7	$ 244.0	$ 258.0	$ 273.1	$ 290.6	$ 308.0

[1] Reflects projected growth in sales tax for FY 2014-2018 .

[1] UCLA Anderson Forecast, September 2012

[2] State Board of Equalization, Projected Statewide Taxable Sales, August 2012

($ in millions)



*Total does not reflect incremental sales tax revenue from the Convention Center Phase III expansion.

Safety Sales Tax

The FY 2013 year-end projection for safety sales tax is $7.9 million, an increase of 1.3 percent from the FY 2013 Adopted Budget. In FY 2012, the Public Safety Needs and Debt Service Fund was established to track Safety Sales Tax revenue and expenditures for public safety needs. On an annual basis, debt service for the Fire and Lifeguard Facilities Fund is expended first from this newly established fund, the remaining revenue is then distributed to the General Fund equally between the Police and Fire-Rescue Departments and recognized within the Transfers In category. The growth in forecasted safety sales tax revenue is based on the same factors as previously discussed in the sales tax section and growth rates in safety sales tax are the same as those reflected for the sales tax growth rates in FY 2014-2018. The updated FY 2013 year-end projection of $7.9 million serves as the baseline for the FY 2014-2018 safety sales tax revenue forecast.

The following table shows FY 2012 unaudited actual, FY 2013 budget, FY 2013 year-end projection, and the forecast for FY 2014-2018 for safety sales tax revenue.

($ in millions)

Fiscal Year	FY 2012 Unaudited Actual	FY 2013 Adopted Budget	FY 2013 YE Projection	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Projected Growth (1)	-	-	-	5.5%	5.5%	6.0%	6.0%	6.0%
General Fund	$ 5.7	$ 6.9	$ 7.0	$ 6.9	$ 7.4	$ 7.9	$ 8.5	$ 9.1
Total City	$ 7.4	$ 7.8	$ 7.9	$ 8.3	$ 8.8	$ 9.3	$ 9.8	$ 10.4

(1) Based on the Total City forecast. The growth may not reflect exact percentage due to rounding.

Transient Occupancy Tax

Sustained positive tourism growth has occurred since the turnaround that began in FY 2010 and this trend is expected to continue throughout FY 2013, according to the September 2012 Quarterly Travel Forecast from the San Diego Convention and Visitors Bureau. Overall visitor growth in the San Diego region during calendar years 2012 and 2013 is projected at 3.0 percent and 2.4 percent, respectively, with overnight visitor growth of 2.2 percent and 1.4 percent during the same time frame. Visits to San Diego reached a historic high in the second quarter of calendar year 2012. Growth in room demand is projected to be 3.6 percent and 1.4 percent for calendar years 2012 and 2013, respectively. The Average Daily Rate (ADR) is expected to reach $131.72 for calendar year 2012, an increase of 4.9 percent over calendar year 2011, and $136.01 in calendar year 2013, an increase of 3.3 percent over calendar year 2012 projections. The overall hotel occupancy rate is anticipated to increase to 71.1 percent in calendar year 2012, from 68.7 percent in calendar year 2011. This exceeds the occupancy rate in calendar year 2008 of 69.2 percent which was prior to the start of the economic recession. Total occupancy is also projected to increase to 71.5 percent in calendar year 2013.

The FY 2013 General Fund Adopted Budget for transient occupancy tax is $83.0 million, an increase of $4.7 million over FY 2012 unaudited actual for General Fund TOT revenues of $78.3 million. The FY 2014 TOT revenue forecast assumes 5.5 percent growth over the FY 2013 Adopted Budget.

Included in the FY 2017 and FY 2018 projection are additional TOT revenues related to the Convention Center Phase III expansion. A report prepared by AECOM (a professional technical and management support services consultant), which was released in November 2010, included an economic analysis of additional business capture derived from the proposed expansion of the San Diego Convention Center. According to this analysis, it was estimated that the expansion will generate $121.0 million in hotel room sales, $349.0 million in direct new spending to the region, and $13.5 million in annual revenue to the City, of which $12.7 million is from TOT and $0.8 million is from sales tax revenue. The City is projected to receive these additional revenues beginning in FY 2017 upon completion of the expansion.

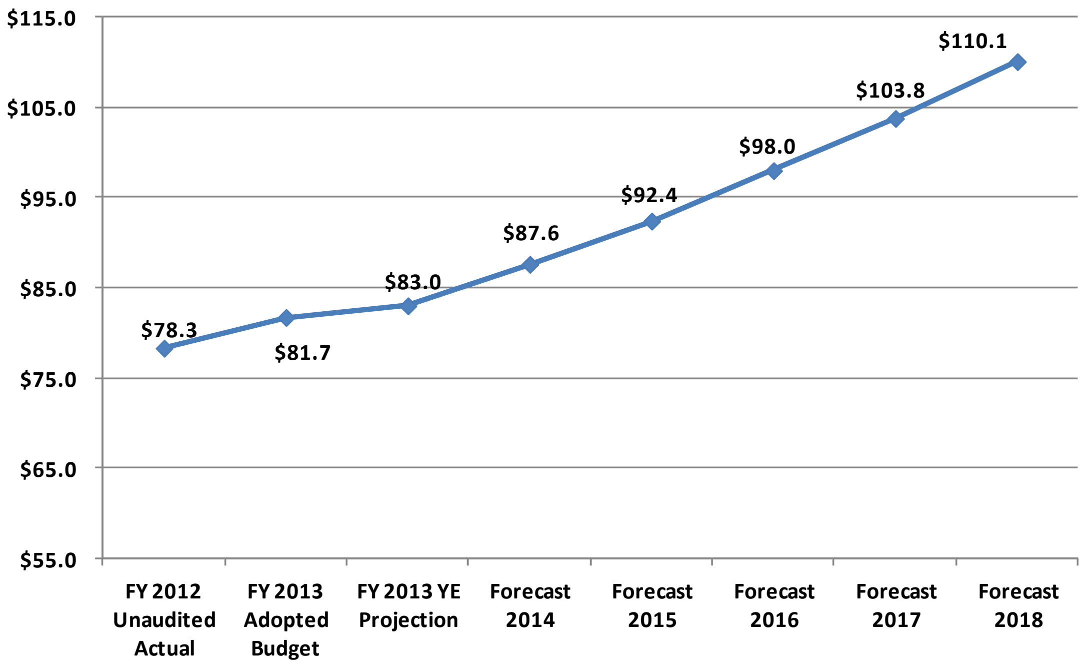
The following table and graph show FY 2012 unaudited actual, FY 2013 budget, FY 2013 year-end projection, and the forecast for FY 2014-2018 for TOT revenue.

($ in millions)

Fiscal Year	FY 2012 Unaudited Actual	FY 2013 Adopted Budget	FY 2013 YE Projection	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Projected Growth [1]	-	-	-	5.5%	5.5%	6.0%	6.0%	6.0%
Amount	$ 78.3	$ 81.7	$ 83.0	$ 87.6	$ 92.4	$ 98.0	$ 103.8	$ 110.1
Incremental Revenue	-	-	-	-	-	-	$ 12.7	$ 12.7
Total	$ 78.3	$ 81.7	$ 83.0	$ 87.6	$ 92.4	$ 98.0	$ 116.5	$ 122.8

[1] Reflects projected growth in General Fund TOT for FY 2014-2018.

($ in millions)



*Total does not reflect incremental TOT revenue from the Convention Center Phase III expansion.

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 transferred. The City charges $0.55 per $1,000, which is credited against the County's charge, giving both the County and City each $0.55 per $1,000 of sale price. The funds are collected by the County for property transfers occurring within City limits and then transferred to the City in 13 payments throughout the year.

Property transfer tax revenue is affected by the volume of home sales and home prices, and unlike property tax revenue, property transfer tax reflects current economic conditions without a lag time. In August 2012, there were 3,932 homes sold in the County, a 21.2 percent increase over the August 2011 home sales count of 3,243. Year-to-date, homes sales are 12.7 percent higher than August 2011 home sales. Home prices have also increased since 2011 and as of August 2012, the median home price in the County was $356,694, an 8.1 percent increase over the August 2011 median price of $329,926.

The FY 2013 property transfer tax budget is $6.4 million. The updated FY 2013 year-end projection is $6.5 million, an increase of $148,000 over the FY 2013 property transfer tax budget. This increase is primarily due to a higher volume of home sales and stabilizing home prices. The FY 2014 property transfer tax revenue forecast is $7.0 million assuming an 8.0 percent growth rate over the FY 2013 year-end projection. This is based on the assumption that the region will experience an improvement in the residential real estate market through continued declines in foreclosures and increases in median home prices. The subsequent years in the Outlook project improved growth through FY 2018.

The following table shows FY 2012 unaudited actual, FY 2013 budget, FY 2013 year-end projection, and forecast for FY 2014-2018 for property transfer tax revenue.

($ in millions)

Fiscal Year	FY 2012 Unaudited Actual	FY 2013 Adopted Budget	FY 2013 YE Projection	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Projected Growth	-	-	-	8.0%	10.0%	7.8%	9.6%	8.8%
Amount	$ 5.7	$ 6.4	$ 6.5	$ 7.0	$ 7.7	$ 8.3	$ 9.1	$ 9.9

Franchise Fees

The Franchise Fees revenue category includes payments from San Diego Gas and Electric (SDG&E) and cable television providers for the use of the City's rights-of-way. The City also collects refuse hauler fees based on the total amount of refuse hauled annually. The FY 2013 Adopted Budget for franchise fee revenues is $71.8 million of which SDG&E, cable, and refuse hauler franchise fee revenues comprise 93.1 percent. SDG&E franchise fee revenues are projected to increase at a rate of 1.5 percent in FY 2014, 2.5 percent in FY 2015, 3.0 percent in FY 2016, and 3.5 percent in FY 2017 through FY 2018. Cable franchise fee revenues are projected to grow 4.0 percent in FY 2014 and 5.0 percent from FY 2015 through FY 2018 in the Outlook.

($ in millions)

Fiscal Year	FY 2012 Unaudited Acutal	FY 2013 Adopted Budget	FY 2013 YE Projection	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Projected Growth (All Franchise Fees)	-	-	-	2.1%	2.6%	3.0%	3.4%	3.4%
Amount	$ 68.1	$ 71.8	$ 71.8	$ 73.3	$ 75.2	$ 77.5	$ 80.1	$ 82.9

Licenses and Permits

The Licenses and Permits revenue category is comprised of business license and rental unit taxes, parking meter revenue, and other permits, such as alarm and occupational licenses. The FY 2014 projection of $32.9 million is $1.0 million greater than the FY 2013 Adopted Budget of $31.9 million. This FY 2014 projection includes the elimination of one-time revenues and sets the Rental Property Tax equal to the FY 2012 unaudited actual amount. Growth is projected in this revenue category for FY 2015-2018 as it is projected that revenue from Refuse Collector Business Tax will increase.

Fines, Forfeitures, and Penalties

The Fines, Forfeitures, and Penalties revenue category includes parking citations, litigation awards, traffic school fees, impound fees, and other vehicle related citations. The FY 2014 projection of $32.0 million is $0.6 million greater than the FY 2013 Adopted Budget of $31.4

million; this projection includes the elimination of one-time revenues and sets Parking Citation and Redlight Photo Enforcement Revenue equal to the FY 2012 unaudited actual amount. No growth is projected for this category.

Revenue from Money and Property

The Revenue from Money and Property category includes rents and concessions from miscellaneous City-owned properties including Mission Bay, Pueblo Lands, and lease revenue generated from City-owned buildings. This category also includes Interest Earnings which is discussed in detail below. The FY 2013 Adopted Budget of $42.6 million for this revenue category includes $26.0 million from Mission Bay leases and $4.8 million from Pueblo Lands leases, while the remainder is generated from leases on other City-owned buildings. Mission Bay revenues are projected to grow at a modest rate of 2.0 percent in each fiscal year in the Outlook based on historical trends.

Interest Earnings

In accordance with the City Charter and authority granted by the City Council, the City Treasurer is responsible for investing the City's cash assets, exclusive of City Trust Funds. With the exception of certain bond funds, all City funds are pooled and invested in the City Treasurer's Pooled Investment Fund (Fund) to manage the City's cash flow requirements. The Fund's investments must comply with the City Treasurer's Investment Policy and the State of California Government Code guidelines and restrictions. The maximum maturity of any investment may not exceed five years. Selection of an investment is based on safety, liquidity, risk, interest rate environment, and the cash flow requirements of the City. Deviations in returns from one fiscal year to the next can generally be attributed to changes in market interest rates or the actual average amount invested during the fiscal year. Past interest earnings performance is no guarantee or indicator of future results.

Interest rates have remained historically low since the financial crisis of 2008. The federal funds rate has remained at a target of 0.00 to 0.25 percent during the entire period even as economic activity has been operating below historical trend levels. While the strains in the credit markets have eased, recent economic figures have been showing signs of weakness and there is increased concern that the global sovereign debt crisis and tough fiscal austerity measures may lead to another US recession. The Federal Open Market Committee (FOMC) has stated that conditions "are likely to warrant exceptionally low levels of the federal funds rate at least through 2014."

Recent statements by the Federal Reserve have indicated they are likely to keep interest rates at historic lows through the middle of FY 2015. The result will be continued low interest earnings for FY 2014 and most likely beyond. It should be noted that interest rates are market driven and subject to a number of uncontrollable or unpredictable factors, resulting in outcomes different from the projections in the Outlook.

The FY 2013 General Fund Adopted Budget for interest earnings is $1.4 million which is included within the Revenue from Money and Property category. The FY 2014 interest earnings projection is $0.8 million increasing to $4.4 million in FY 2016 and beyond. The interest earnings amount is capped at the FY 2016 level due to uncertainty in projecting this revenue category in later years.

Revenues from Federal and Other Agencies

The Revenues from Federal and Other Agencies category includes federal and State grants, and reimbursements to the City. The FY 2013 General Fund Adopted Budget for Revenue from Federal and Other Agencies is $3.5 million. No growth is projected in this revenue category throughout the forecast.

Charges for Services

The revenue forecasted in the Charges for Services category is comprised of charges for services provided to the public and other City funds. The major components that comprise the FY 2013 Adopted Budget of $181.4 million are $29.5 million in the Park and Recreation Department's charges (primarily charges to other departments), the Engineering Department's services to other City funds totaling approximately $55.6 million, and $25.2 million in general government services billings (GGSB) to non-general funds. The remainder of this revenue category is miscellaneous departmental user fees such as recreational fees, inspection fees, and others. No growth is projected within this category for the FY 2014-2018 forecast period.

The reduction in the Charges for Services category in FY 2014 as compared to the FY 2013 Adopted Budget is attributed to the elimination of one-time revenue transfers to the General Fund in the amount of $4.0 million. Attachment IV of this Outlook provides details for the Charges for Services revenue category.

Other Revenue

The Other Revenue category is mainly comprised of donations, reimbursements, and other miscellaneous revenues. The FY 2013 Adopted Budget for this revenue category is $3.8 million and no growth is projected for the FY 2014-2018 forecast period.

Transfers In

The Transfers In revenue category represents transfers to the General Fund from non-general funds and other agencies. The major components that comprise the FY 2013 Adopted Budget of $73.4 million are transfers of $14.7 million from Gas Tax Revenue, $14.5 million from the one-cent TOT revenue transfer from the TOT Fund, $10.1 million in Tobacco Securitized Revenue, $2.3 million in one-time revenues for a disaster recovery, and approximately $22.4 million of transfers to miscellaneous General Fund departments.

The reduction in the Transfers In category in FY 2014 as compared to the FY 2013 Adopted Budget is attributed to reduced revenue as a result of the dissolution of the Redevelopment Agency and the elimination of $4.4 million in one-time revenue transfers in FY 2013. No growth is projected in this revenue category with the exception of transient occupancy tax which is projected to grow as described in the Transient Occupancy Tax section. Additionally, the one-cent TOT revenue is reduced in FY 2015 as the San Diego Port District's annual contribution of $4.5 million towards the 2012 Convention Center Refunding Lease Revenue Bond debt service payment will come to an end.

GENERAL FUND EXPENDITURES

General Fund expenditures are comprised of both personnel and non-personnel expenditures including debt service and other non-discretionary payments. The following section describes individual expenditure categories.

Salaries and Wages

The FY 2013 Adopted Budget for salaries and wages is $511.5 million. Growth included in the Outlook is based on a forecasted step increase of $1.5 million in FY 2014 and increasing $1.5 million in each of the subsequent fiscal years. This expenditure category includes limited departmental additions for critical positions which are discussed in the Departmental Additions section.

The Salaries and Wages category also includes Salary Annual Leave. While a portion of future leave liability expense has been absorbed in departmental budgets, there are a large number of employees with high leave balances expected to retire over the next several years. The FY 2013 Adopted Budget includes $1.5 million for this expense and is based on anticipated retirements from the Deferred Retirement Option Plan (DROP) within the fiscal year and the projected value of the accrued leave balance that is paid upon termination of employment. The projection for FY 2014 is $2.3 million, and is forecasted to increase to $5.5 million in FY 2015 and decline to $2.9 million in FY 2018, based on the expected number of retirees. Fluctuations are due to the number of employees eligible to retire each year.

The FY 2013 Adopted Budget and FY 2014-2018 forecast for the City's salary annual leave payments are presented in the following table.

($ in millions)

Fiscal Year	FY 2013 Adopted Budget	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Salary Annual Leave	$ 1.5	$ 2.3	$ 5.5	$ 3.5	$ 3.1	$ 2.9

Retirement Annual Required Contribution

The projected Annual Required Contribution (ARC) to the City's retirement system in the FY 2014-2018 Outlook was provided by SDCERS' actuary, Cheiron, in conjunction with the actuarial valuation as of June 30, 2011. These projected ARC payment amounts incorporated in the Outlook are the most recently available and are anticipated to increase as a result of the estimated 0.3 percent investment gains as of June 30, 2012. In addition, the impact of Proposition B may result in a short-term increase in ARC payments.

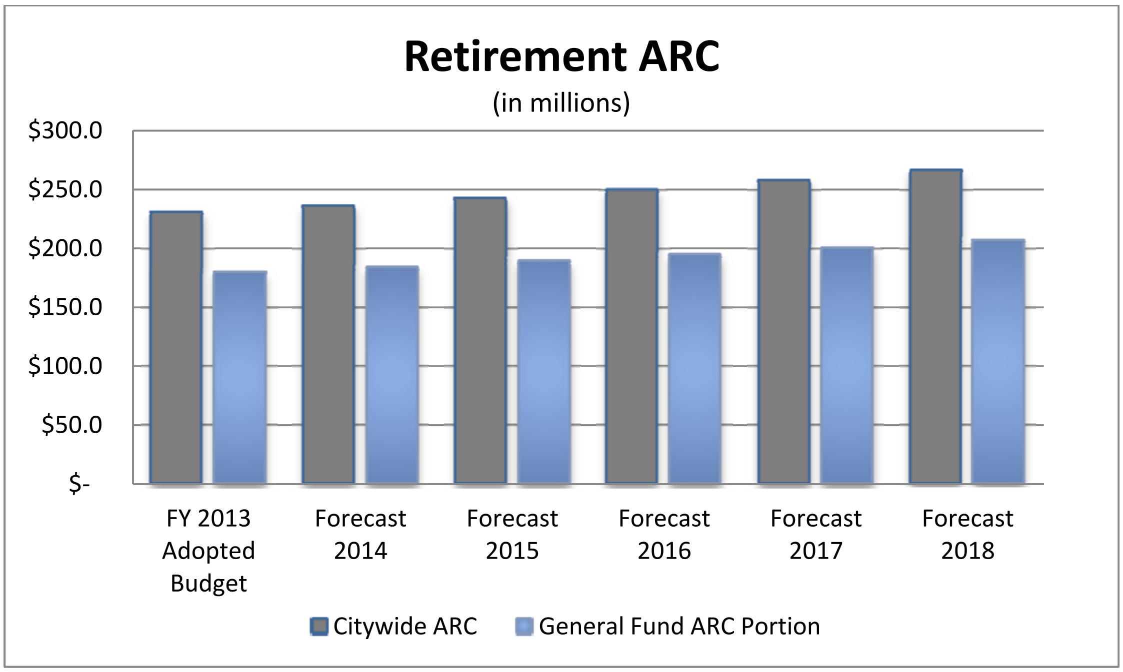
The City's FY 2013 ARC payment is $231.1 million, with $179.7 million budgeted in the General Fund. Based on the June 30, 2011 actuarial projection, the Citywide FY 2014 ARC payment is expected to be $236.2 million, of which $183.7 million is the General Fund contribution. The

ARC payment increases to $266.4 million Citywide by FY 2018 with the General Fund contribution expected to be $207.2 million.

The FY 2013 Adopted Budget and FY 2014-2018 forecast for the City's ARC payments are presented in the following table.

($ in millions)

Fiscal Year	FY 2013 Adopted Budget	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Citywide ARC	$ 231.1	$ 236.2	$ 242.8	$ 250.0	$ 257.9	$ 266.4
General Fund ARC Portion	$ 179.7	$ 183.7	$ 188.8	$ 194.4	$ 200.6	$ 207.2



Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB) represent the cost for retiree healthcare. The Retiree Health or Other Post Employment Benefits (OPEB) Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2011 is approximately $1.13 billion and the ARC was determined to be $94.4 million. This valuation assumes a 6.4 percent discount rate. In FY 2012, the City entered into a 15-year memorandum of understanding with each of the labor organizations regarding reforms to the retiree healthcare benefit for health-eligible employees. The agreements, which cannot be changed until FY 2015 at the earliest, set the City's OPEB contribution at $57.8 million for FY 2012 through FY 2015, with annual increases of up to 2.5 percent after 2015. The City has budgeted $57.8 million in FY 2013 for retiree health care benefits. From the $57.8 million, the retiree health defined contribution and pay-as-you-go payments are paid out first, with any remaining balance going to the CalPERS Employer Retiree Benefit Trust (CERBT) to pre-fund expenses related to post-employment healthcare benefits.

The Outlook assumes no growth in retiree health payments from FY 2014 through FY 2015 followed by 2.5 percent growth in FY 2016 through FY 2018.

($ in millions)

Fiscal Year	FY 2013 Adopted Budget	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Citywide OPEB	$ 57.8	$ 57.8	$ 57.8	$ 59.3	$ 60.8	$ 62.3
General Fund OPEB Portion	$ 41.0	$ 41.0	$ 41.0	$ 42.0	$ 43.1	$ 44.1

Flexible Benefits

Flexible Benefits is an Internal Revenue Service (IRS) qualified plan designed to allow employees to choose health benefits. Costs are fixed by position, and total flexible benefit costs vary as the number of positions changes. In FY 2013, $38.6 million was budgeted in flexible benefits. This Outlook assumes Flexible Benefit costs will fluctuate through the forecast period as they are calculated as a percentage of salaries and wages.

Workers' Compensation

State Workers' Compensation laws ensure that employees who are injured or disabled on the job are provided with fixed monetary awards. These laws are intended to reduce litigation and to provide benefits for workers (and dependents) who suffer work-related accidents or illnesses. State Workers' Compensation statutes establish this framework of laws for the City of San Diego. The FY 2013 Adopted Budget for Workers' Compensation was $23.1 million and in FY 2014 is projected to be $23.2 million. For the FY 2014-2018 Outlook period this amount is calculated as a percentage of salaries and wages.

Supplemental Pension Savings Plan

In January 1982, the City established the Supplemental Pension Savings Plan (SPSP). SPSP accounts provide a way for eligible employees to add to savings for retirement income, which is in addition to SDCERS' benefits. This amount is deducted from employees' paychecks and placed into an SPSP account for the employee. The City also matches these contributions up to 6.05 percent and this amount is deposited into the employee's SPSP account. The FY 2013 Adopted Budget for Supplemental Pension Savings Plan was $11.1 million and is projected to remain at $11.1 million for FY 2014. For the FY 2014-2018 Outlook period, this amount is calculated as a percentage of salaries and wages.

Employee Offset Savings

The labor negotiations in FY 2005 resulted in the reduction of the City's Retirement Offset Contribution. These agreements specified that the savings the City realizes as a result of this reduction must be used to address the City's pension UAAL. Each City department is charged based upon its respective payroll and these funds are transferred into the Employee Offset Savings (EOS) account. In FY 2006, the City issued approximately $100.0 million in Tobacco Securitization Bonds and transferred these funds to SDCERS as a contribution to the pension system above the ARC to address the UAAL. In order to backfill the Tobacco Settlement Revenues securitized in FY 2006 and to protect the programs previously supported with the Tobacco Settlement Revenues, a portion of the EOS funds is transferred each year to the General Fund. The FY 2013 Adopted Budget for EOS was $9.1 million and for FY 2014 is projected to be $9.2 million. For the FY 2014-2018 Outlook period, this amount is calculated as a percentage of salaries and wages.

Other Fringe Benefits

Other Fringe Benefits consists of long-term disability, unemployment insurance, Medicare, and risk management administration, among others. Other Fringe Benefits are also calculated as a percentage of salaries and wages throughout the Outlook period.

Supplies

Supplies is a non-personnel expense category that includes costs for office supplies, postage, tools, and other miscellaneous operating supplies. The FY 2013 Adopted Budget for the Supplies category is $21.4 million and an inflation rate of 1.0 percent is applied to this category for the FY 2014-2018 forecast period. Additionally, the projections for FY 2014-2018 include supply costs associated with departmental additions.

Contracts

Contracts is a non-personnel expense category that includes the cost of contractual obligations. The contractual obligations include professional and technical services, refuse disposal fees, and fleet usage and assignment fees. The FY 2013 Adopted Budget for the Contracts category is $136.8 million and an inflation rate of 1.0 percent is applied to this category for the FY 2014-2018 forecast period. Additionally, the projections for FY 2014-2018 include contractual obligations associated with departmental additions.

Information Technology

Information Technology is a non-personnel expense category that includes the costs related to hardware and software maintenance, help desk support, and other information technology services. The FY 2013 Adopted Budget for the Information Technology category is $42.9 million. While no inflation rate is applied to this expenditure category, projections for FY 2014-2018 include the anticipated savings related to IT sourcing and information technology costs associated with departmental additions. General Fund savings as a result of IT sourcing are estimated to total $7.1 million over the next five years.

Energy and Utilities

Energy and Utilities is a non-personnel expense category that includes costs for electricity, fuel, and other utility and energy expenses. The FY 2013 Adopted Budget for the Energy and Utilities category is $42.8 million and an inflation rate of 5.0 percent is applied to this category for the FY 2014-2018 forecast period. Additionally, the projections for FY 2014-2018 include energy and utility costs associated with departmental additions.

Other Expenditures

Expenses categorized in this section include transfers for debt service payments and required payments for General Fund obligations. No inflation rate is applied to this expenditure category in the Outlook.

Among the debt service payments in this category are ongoing deferred capital debt payments and the McGuigan Settlement. The FY 2013 Adopted Budget for this category included approximately $8.9 million in debt service payments for the 2010 and 2012 Deferred Capital Bond issuances. The debt service payments for the 2010 and 2012 Deferred Capital Bond issuances are carried forward through the Outlook based on the respective debt service schedules. The debt payment for the McGuigan Settlement financing is also included in this category. The Outlook includes two more payments related to the financing of this settlement, totaling approximately $9.0 million in FY 2014 and FY 2015. The General Fund's proportionate share of these payments is approximately $7.9 million annually.

Additionally, the Other Expenditures category includes the transfer of Mission Bay lease revenues to the Park Improvements Funds. The Mission Bay Ordinance sets the minimum threshold amount of Mission Bay rents and concession revenues at $23.0 million, which are to be placed into the General Fund for use for any municipal purpose without restriction. Pursuant to public action on a November 2008 ballot measure, this threshold of $23.0 million will remain at the same level until FY 2015, at which time it will be reduced to $20.0 million. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Park Improvements Fund and the Mission Bay Park Improvements Fund each year. The amount budgeted for transfer into these funds in FY 2013 is $3.0 million based on the amount of projected Mission Bay lease revenue. This transfer is projected to increase due to the reduction in the General Fund minimum threshold of $23.0 million to $20.0 million in FY 2015 and the anticipated growth in Mission Bay lease revenues.

Finally, in April 2012, the San Diego hotel industry voted to add a new room tax for the $520.0 million expansion of the San Diego Convention Center (Phase III). As it was described in the Sales Tax section of this Outlook, the expansion of the Convention Center is expected to provide an economic boost to the City and the region, provide new tax revenues and additional permanent jobs. The new room tax will be a primary source of financing. The remainder of the funding will be paid by the Port of San Diego ($3.0 million for 20 years), and the City of San Diego ($3.5 million for 30 years starting in FY 2017). This debt service payment is included within the Other Expenditures category of the Outlook.

Deferred Capital Maintenance

Based on information available in 2011, the City's backlog is estimated at $898.0 million for deferred capital/maintenance projects for streets, building, and storm drain infrastructure funded by the General Fund. This backlog was identified by conducting extensive condition assessments, some of which are still in progress. Of the $898.0 million, $478.0 million is related to streets, $185.0 million is attributed to buildings, and $235.0 million is related to storm drains.

In March 2012, the City Council approved a funding option which provides for bond funding totaling $415.4 million over the five-year period, and increasing annual operations and maintenance funding from $45.8 million in FY 2013 to a level of $73.8 million by FY 2017. In addition, the City Council approved the use of up to $8.3 million of the projected $16.5 million General Fund surplus for FY 2012 to increase cash funding of deferred capital projects in FY 2013, raising the operations and maintenance level from $45.8 million to $54.1 million. The FY 2013 Adopted Budget includes the $8.3 million in funding for deferred capital projects. This is in addition to the $75.0 million in bond proceeds received in FY 2013 to further address the deferred capital backlog. Projected deferred capital operations and maintenance incremental increases are included in the Outlook starting at $4.2 million in FY 2014 and increasing to $30.2 million in FY 2018.

To address the deferred capital backlog, additional new bond issuances for FY 2014-2018 are included in the Outlook as follows: $81.0 million in FY 2014, $90.0 million in FY 2015, and $84.2 million in FY 2016 through FY 2018. All issuances are projected to be structured with debt service payments beginning in the next fiscal year. Associated debt service payments for these annual bond issuances are included in the FY 2014-2018 Outlook as incremental adjustments as shown in Attachment I. Deferred capital operations and maintenance incremental increases over FY 2013 budgeted amounts are as follows:

($ in millions)

Deferred Capital Project Bond Issuances	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Deferred Capital Operations and Maintenance	$ 4.2	$ 16.2	$ 20.2	$ 28.0	$ 30.2
Deferred Capital Debt Service	$ 5.6	$ 11.3	$ 17.6	$ 23.5	$ 29.4
Total	**$ 9.8**	**$ 27.5**	**$ 37.8**	**$ 51.5**	**$ 59.6**

To address other capital projects in the City, an additional $25.0 million bond issuance is planned for FY 2013. This funding will support Skyline, Mission Hills and San Ysidro Libraries; Mission Valley Fire Station 45; Mission Beach bulkhead; and street improvements. Debt service payments for this issuance are estimated at $1.8 million per year beginning in FY 2014. The additional debt service payment will be offset by a reduction of $4.5 million in the General Fund contribution to the Public Liability Fund Reserve and results in a net savings of $2.7 million in General Fund expenses.

Managed Competition

Managed competition is a process to determine when City services can be provided more economically and efficiently by an independent contractor than by persons employed in the

Classified Service, while maintaining service quality and protecting the public interest. This strategy recognizes the high quality and potential of public sector employees, and seeks to tap their creativity, experience, and resourcefulness by giving them the opportunity to structure organizations and processes in ways similar to best practices in competitive businesses, while still being compatible with public sector realities.

The savings to the General Fund as a result of the managed competition processes for publishing services, fleet maintenance, and street sweeping were incorporated into the FY 2013 Adopted Budget and thus are included in the Outlook. Additionally, the Street and Sidewalk Maintenance Employee Proposal Team won the most recent competition; upon completion of the transition, the employees' proposal is expected to result in up to $0.9 million in annual savings to the General Fund starting in FY 2014. This savings is incorporated in the Outlook and shown as an incremental adjustment in Attachment I.

DEPARTMENTAL ADDITIONS

The FY 2014-2018 Outlook includes a limited number of additions from various departments within the General Fund. Only the most significant departmental additions have been included in the Outlook; however other needs may be identified in the FY 2014 budget process.

Attachment V provides a list of additions by department while the following section provides a summary the additions. The positions and dollars[1] indicated are cumulative as previous year additions carry-forward to subsequent years.

($ in millions)

Fiscal Year	FY 2014		FY 2015		FY 2016		FY 2017		FY 2018	
	FTE	Revenue / Expense	FTE	Revenue / Expense	FTE	Revenue / Expense	FTE	Revenue / Expense	FTE	Revenue / Expense
Total Revenues	0.00	$ 2.6	0.00	$ -	0.00	$ -	0.00	$ -	0.00	$ -
Total Expenditures	16.14	$ 10.0	34.23	$ 10.6	43.72	$ 14.7	48.19	$ 20.4	50.78	$ 20.0

City Council

Additions within City Council are for the annualization of partial year expenditures associated with the new City Council District 9 that were included in the FY 2013 Adopted Budget. This annualization of costs includes the addition of 4.17 FTEs and $0.3 million in expenditures.

Citywide Program

Additions within Citywide Program include increased costs for the Preservation of Benefits Plan expense and future elections. The Preservation of Benefits Plan expense is the contribution to SDCERS to cover benefits in excess of IRS limits and is projected to increase by 4.35 percent each year throughout the Outlook based on historical averages. Additionally, $0.6 million is added in FY 2016 and FY 2017 in anticipation of the costs associated with City elections to take place in these years.

Department of Information Technology

Support for the City's current desktop operating system, Windows XP, will end in FY 2014, requiring the City to upgrade the operating system of all desktop computers to Windows 7. This will ensure that IT vendors can provide support to the City, and that the City's network and data are not compromised or vulnerable to attacks. As many of the desktop computers currently in use within the City have become outdated and will be unable to run Windows 7, the scope of this project includes the purchase of approximately 3,500 desktop computers. The total one-time cost of this project is estimated to be $2.7 million in FY 2014.

[1] Expenditures included within Departmental Additions reflect only salary and wages and non-personnel expenditures, as variable fringe expenses are calculated as a percentage of total salaries and wages.

Development Services Department

The additions within the Development Services Department are related to Community Plan Updates (CPUs) and the Phyllis Place Project. The CPUs scheduled for FY 2014 and FY 2015 include the Southeastern San Diego, Ocean Beach, Uptown, North Park, Golden Hill, Otay Mesa, and Grantville Plans. The costs of these projects are estimated at $0.9 million for FY 2014 and $1.1 million for FY 2015. Additionally, the Mission Valley CPU is included at an estimated cost of $0.4 million in FY 2016 and FY 2017, and $0.3 million in FY 2018.

Environmental Services Department

Additions within the Environmental Services Department (ESD) reflect the impact on the General Fund of the proposed increases in refuse tipping and AB 939 fees as outlined in ESD's Five-Year Financial Outlook which was presented to the Natural Resources and Cultural Committee on September 19, 2012. ESD's Five-Year Financial Outlook proposed refuse tipping fee increases of $3.00 in FY 2015, $1.00 in FY 2016, and $1.00 in FY 2017 and an AB 939 fee increase of $1.00 in FY 2016. The resulting impact on the General Fund is an increase of expenses of $1.2 million in FY 2015, $1.9 million in FY 2016, and $2.3 million in FY 2017 and FY 2018.

Library Department

Additions within the Library Department are related to the new Central Library and planned new branch libraries.

Additions for the new Central Library include increases in both expenditures and revenues during FY 2014. The estimated increase in expenditures in FY 2014 is $2.6 million which is the result of increases in required supplies, contracts, information technology, and energy and utilities for the larger facility. This increase in expenditures also includes the addition of 1.00 Information Systems Analyst II position. The increased expenditures are offset by an estimated increase in revenues of $2.6 million resulting from the transfer of $1.8 million in donations from the Library Foundation to the General Fund and increased revenues from operations. The increase in the transfer of donations will bring the annual total of Library Foundation donations being transferred to the General Fund to $2.0 million. The remaining $0.8 million of increased revenues anticipated to be received is from services available at the new Central Library location including parking, room rentals, and retail services.

Additional expenditures related to new branch library facilities are also included in FY 2015 through FY 2017. In FY 2015, the additional expenditures are related to the new Skyline branch library and are estimated at $0.3 million and include the addition of 2.55 FTEs. In FY 2016, the expenditures are for the new San Ysidro branch library and are estimated at $0.2 million and include the addition of 2.05 FTEs. In FY 2017, the expenditures are for the new Mission Hills branch library and are estimated at $0.2 million and include the addition of 1.55 FTEs.

Park and Recreation Department

The additional costs within the Park and Recreation Department are related to new facilities, additional acreage that is anticipated to be developed, and joint-use agreements that will require increased expenditures during the Outlook period.

In FY 2014, Quarry Falls Neighborhood Park is anticipated to open while additional acreage is anticipated to come into use at Cabrillo Heights Neighborhood Park, Del Mar Mesa Neighborhood Park, West Maple Canyon Mini-Park, and Rancho Encantada/Mission Trails Regional Park North. Additionally, improvements will be made at Montgomery Academy through a joint-use agreement and the Memorial Pool facility will be renovated and expanded. The increase in operating expenditures for these facilities is estimated at $0.5 million, which includes the addition of 8.22 FTEs.

In FY 2015, additional acreage is planned for development at Canyonside Community Park, Carmel Valley Neighborhood Park, Central Avenue Mini-Park, Del Sur Neighborhood Park, Ed Cramer Park, McAuliffe Community Park, Mira Mesa Community Park, and Pacific Breezes Community Park. Additionally, improvements will also be made at Angier Elementary School and Wegeforth Elementary School through a joint-use agreement. Finally, additional lighting will be installed at Larsen Field and the San Ysidro Athletic Area. The increase in operating expenditures for these facilities is estimated at $1.0 million, which includes the addition of 11.54 FTEs. These operating expenditures include the General Fund portion of maintenance costs for Plaza de Panama.

In FY 2016, additional acreage is anticipated to be developed at Black Mountain Ranch Community Park and Southcrest Trails Park while improvements will be made at McKinley Elementary through a joint-use agreement. The increase in operating expenditures for these facilities is estimated at $0.5 million, which includes the addition of 6.44 FTEs.

In FY 2017, Torrey Hills Neighborhood Park and University Village Park Tot Lot are scheduled to open while additional acreage is planned for development at Gonzales Canyon Neighborhood Park and Olive Street Park. The increase in operating expenditures for these facilities is estimated at $0.2 million, which includes the addition of 1.92 FTEs.

In FY 2018, additional acreage is anticipated to be developed at Torrey Highlands Neighborhood Park. The increase in operating expenditures for this facility is estimated at less than $0.1 million, which includes the addition of 1.59 FTEs.

Police Department

Additions within the Police Department are related to an increase in the number of recruits for each academy and the replacement of the Computer Aided Dispatch (CAD) System. In FY 2014, there is an addition of $0.8 million to increase the number of recruits in each of the four scheduled academies from 30 to 35 which will help reduce vacancies as a result of attrition. This funding for increased recruits is carried forward throughout the Outlook and is comprised of approximately $0.5 million in salaries and wages and $0.3 million in supply costs. In FY 2017, it is anticipated that the Department's CAD System will require replacement at an estimated cost of $8.0 million. This Outlook assumes the purchase of the CAD System will be financed over a seven-year term at an annual cost of $1.3 million beginning in FY 2017.

Transportation & Storm Water Department

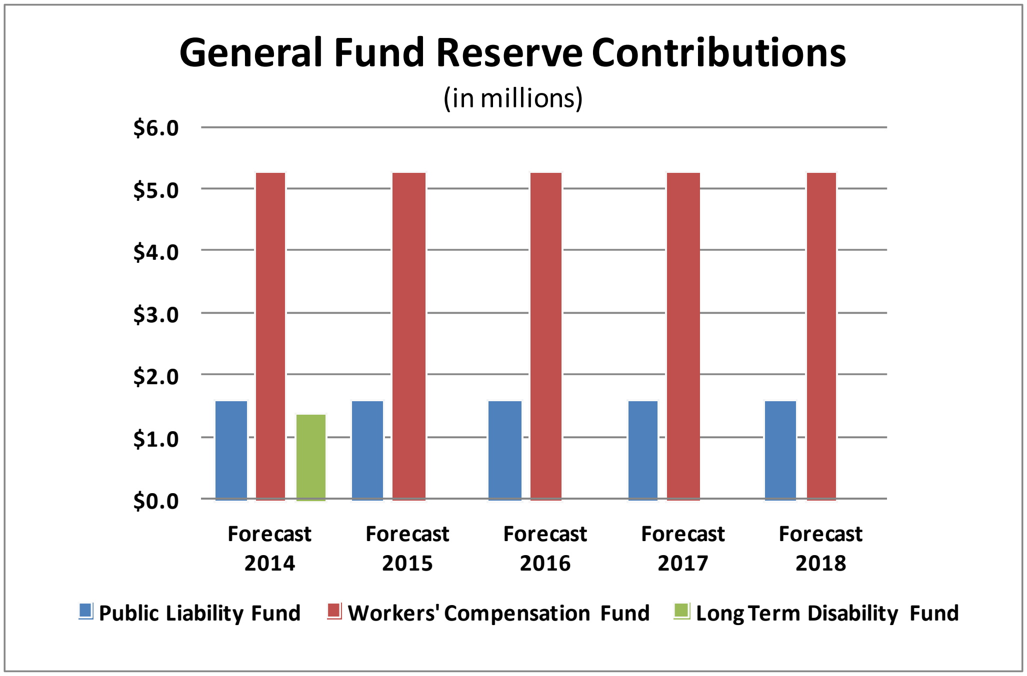
Additions within the Transportation & Storm Water Department are related to Indicator Bacteria Total Maximum Daily Load (TMDL) mandates released by the Regional Water Quality Control Board. These mandates have the potential to add significant costs for compliance, and while alternatives are currently being reviewed for cost-effective ways to comply with new mandates, some additional costs have been incorporated into this Outlook.

The two major cost components included in this Outlook to fund the compliance efforts related to TMDLs are additional positions and increased contract funding. This Outlook includes the addition of a total of 9.75 FTEs and $0.7 million for salaries and related equipment costs through FY 2018. Additionally in FY 2014, it is estimated than an increase of $2.0 million in contract funding will be required in order to implement the storm water pollution prevention controls necessary to comply with the Indicator Bacteria TMDL regulations. This contract funding continues at $2.0 million for FY 2015 and subsequently increases to $4.9 million for FY 2016 and to $8.4 million for FY 2017 and FY 2018.

RESERVES

The City's Reserve Policy was approved by the City Council in December 2011 to establish and grow reserves to support the City's credit worthiness to bond rating agencies and the financial community. The Reserve Policy also ensures all major funds have reserve levels adequate to withstand the economic impact of unanticipated events such as natural disasters or reductions in revenues caused by other agencies, such as the State.

The following section provides details of General Fund reserve contributions included in the Outlook. The chart below summarizes the General Fund contributions.



General Fund Reserve

The City's Reserve Policy requires that the General Fund reserves equal 8.0 percent of General Fund revenues by FY 2012 and beyond.

Based on FY 2012 unaudited actuals, the General Fund reserve balance was estimated at $166.1 million or 14.0 percent of revenues. The FY 2013 Adopted Budget included the use of $12.8 million of these reserves bringing the FY 2013 unaudited beginning fund balance to $153.4 million or 13.3 percent of revenues, well in excess of the 8.0 percent requirement of the Reserve Policy.

The table below begins with a $153.4 million fund balance and adds the projected surplus from each fiscal year in the Outlook to project the ending reserve balance and percentage of revenue for each year. This illustrates how the General Fund reserve balance would grow if none of the annual surpluses were expended. However, a portion of the accumulated General

Fund reserve balance may need to be used should any of the uncertainties discussed later in this Outlook occur.

($ in millions)

Fiscal Year	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Beginning Reserve Balance	$ 153.4	$ 158.3	$ 164.4	$ 196.6	$ 258.6
Projected Outlook Surplus/ (Deficit)	$ 4.9	$ 6.1	$ 32.2	$ 62.0	$ 94.2
Ending Reserve Balance	$ 158.3	$ 164.4	$ 196.6	$ 258.6	$ 352.8
Ending Reserve Balance as a % of Revenues	13.4%	13.6%	15.6%	19.5%	25.5%

Public Liability Fund Reserve

The City continues with the Reserve Policy goal to build sufficient reserves to pay outstanding and forecasted obligations, similar to the Workers' Compensation Fund Reserve. The City's most recent assessment of the average outstanding public liability is currently estimated at $119.6 million.

The City's Reserve Policy states that 50.0 percent of the average value of the outstanding actuarial liability shall be placed in reserves by FY 2019. The contribution to the Public Liability Fund reserve is solely funded by the General Fund. No contributions were made to this reserve in FY 2011 and FY 2012 as budget balancing solutions, however, the FY 2013 Adopted Budget includes a transfer of $6.1 million to this reserve. The FY 2014-2018 Outlook includes an annual General Fund contribution of $1.6 million to this reserve which is a reduction from the FY 2013 Adopted Budget of $4.5 million as a result of the $27.0 million wildfire settlement with SDG&E. It is anticipated that additional settlements in FY 2013 may reduce future reserve contributions. The following table demonstrates the reserve goals and annual contributions forecasted in the FY 2014-2018 Outlook and reflects settlement funding received to date.

($ in millions)

Fiscal Year	FY 2013 Adopted Budget	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Balance as a % of Total Outstanding Liability	14.0%	43.0%	45.0%	46.0%	47.0%	49.0%
General Fund Contribution	$ 6.1	$ 1.6	$ 1.6	$ 1.6	$ 1.6	$ 1.6
Total Contribution *	**$ 6.1**	**$ 1.6**	**$ 1.6**	**$ 1.6**	**$ 1.6**	**$ 1.6**

* $27.0 million Wildfire Settlement is included in the balance as a percentage of total outstanding liability which reduces the General Fund contribution by $4.5 million annually from $6.1 million.

Workers' Compensation Fund Reserve

The City works to build sufficient reserves to pay accrued and forecasted liabilities, based on annual valuation reports prepared by an independent actuary. The City's Workers' Compensation liabilities are estimated based on changes in claims and updated actuarial information. Per the City's Reserve Policy, the annual reserve contributions are reassessed every two years in order to ensure that the targeted goal is met in a manner that is balanced with other budget priorities. On September 27, 2011, an actuarial analysis of the Workers' Compensation program was received from Buck Consultants indicating that the City's outstanding liability for this program is $155.6 million as of June 30, 2011. Based on this estimate, there is an average outstanding liability for FY 2009-2011 of $151.9 million in Workers' Compensation for claims Citywide.

The City's Reserve Policy states that 50.0 percent of the average value of outstanding actuarial liability shall be placed in reserves by FY 2019. No contributions were made to this reserve in FY 2011 and FY 2012 as budget balancing solutions. A $4.9 million General Fund contribution ($5.9 million Citywide) was included in the FY 2013 Adopted Budget. The following table demonstrates the total annual reserve contribution forecasted in the FY 2014-2018 Outlook to meet the Workers' Compensation reserve goals.

($ in millions)

Fiscal Year	FY 2013 Adopted Budget	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Balance as a % of Total Outstanding Liability	23.0%	29.0%	33.0%	37.0%	42.0%	46.0%
Target Contribution	$ 5.9	$ 6.4	$ 6.4	$ 6.4	$ 6.4	$ 6.4
General Fund Portion	**$ 4.9**	**$ 5.3**	**$ 5.3**	**$ 5.3**	**$ 5.3**	**$ 5.3**

Long Term Disability Fund Reserve

The City's Reserve Policy has a Long Term Disability Fund (LTD) Reserve Policy target of $12.0 million, based on the FY 2008 actuarial valuation, to be achieved by FY 2014. Contributions to the fund's reserve are budgeted at $1.9 million for FY 2013. Of the $1.9 million, approximately $1.4 million is a contribution from the General Fund. Contributions to the fund reserve continue into FY 2014 and then cease in FY 2015. The goal of this reserve is to transition to a fully insured LTD program thus eventually eliminating the liability from the City's financial books.

($ in millions)

Fiscal Year	FY 2013 Adopted Budget	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
City Contribution	$ 1.9	$ 1.9	$ -	$ -	$ -	$ -
General Fund Portion	$ 1.4	$ 1.4	$ -	$ -	$ -	$ -

UNCERTAINTIES

The FY 2014-2018 Five-Year Financial Outlook has been prepared using recent experience, trends, and the assumptions listed in the Forecast Assumptions section of the report. However, there are several uncertainties ahead in areas that could significantly impact the next five years. These uncertainties include:

Future Retirement ARC Payments

The retirement Annual Required Contribution (ARC) is based on the San Diego Employees' Retirement System (SDCERS) actuarial valuation as of June 30, 2011 and future estimates presented by Cheiron, the SDCERS actuary. An updated SDCERS' actuarial valuation and future ARC estimates are anticipated in early calendar year 2013. It is anticipated that the annual ARC payments will increase as a result of the low 0.3 percent investment gain experienced as of June 30, 2012. Further, the passage of Proposition B by voters may result in a short-term increase in ARC payments. Combined, these two factors could increase the Citywide FY 2014 Retirement ARC by as much as $37.0 million.

RDA Dissolution Impact

The ultimate General Fund impact of the State's dissolution of Redevelopment Agencies (RDA) has yet to be determined. The most significant uncertainty in this area is whether the current $13.8 million Petco Park and Convention Center Phase II Expansion debt service will continue as Recognized Obligation Payments (ROPS) of the Successor Agency. Should this debt service not be included in future ROPS, it will increase General Fund expenditures.

Economy

While the economy has shown signs of recovery, it remains uncertain whether the recovery will continue through the Outlook period or if it is short-lived. The turnaround in the City's revenues has been primarily driven by significant growth in sales tax and TOT revenue receipts over the past two years, while the housing market has remained stagnant. Should these two major revenue sources decline, and the housing market remain stagnant, declines in General Fund revenues could occur.

Any one of these uncertainties in itself could impact projected revenues and/or expenditures in this Outlook. Staff will continue to monitor each of these areas of uncertainty and will incorporate the latest information in the FY 2014 budget process.

CONCLUSION

The FY 2014-2018 Five-Year Financial Outlook is a comprehensive, long-range projection of the City's General Fund revenues, expenditures, and fund balances. The Outlook identifies the fiscal challenges facing the City over this period and provides an initial look at the FY 2014 status in preparation for the upcoming budget process. As stated in the Forecast Assumptions and Economic Environment sections, the Outlook reflects a continuing economic recovery. The increased levels of consumer and tourism spending are projected to continue, and the local residential real estate market is projected to slowly recover over the next five years.

A $4.9 million General Fund surplus is projected for FY 2014. A $6.1 million surplus is projected for FY 2015, which begins to grow in FY 2016 and beyond, based on projected strengthening of revenues in the last three years of the Outlook. It should be noted that several uncertainties remain that could significantly impact FY 2014. The City's retirement ARC could increase due to lower investment gains in FY 2012 and the potential short-term impact of Proposition B. This will be known once the updated actuarial valuation is available in January 2013. Also, the ultimate impact of the State's dissolution of redevelopment agencies could have an impact on the General Fund, most notably should the Petco Park and Convention Center Phase II Expansion debt service payments not continue as Recognized Obligation Payments of the Successor Agency. Finally, the recovery in the economy may stall, resulting in lower consumer spending and tourism activity which would impact General Fund revenues. Each of these areas will be monitored and the most current information will be incorporated into the upcoming FY 2014 budget process.

On a positive note, FY 2012 ended with a General Fund reserve balance of $166.1 million, or 14.0 percent of General Fund revenues. This is significantly higher than forecasted and well above the 8.0 percent General Fund reserve target adopted by the City Council. The FY 2013 Adopted Budget utilizes $12.8 million of the $166.1 million, leaving $153.4 million available. This $153.4 million balance represents not only a strong reserve, it also provides a means of addressing the uncertainties outlined earlier in the Outlook, should that become necessary. This would be in addition to the $10.8 million TOT fund balance being held to address potential RDA dissolution impacts and any unspent portion of the $3.9 million appropriated reserve in the FY 2013 Adopted Budget.

While FY 2014 projects a $4.9 million surplus, uncertainties remain. The most significant identified departmental needs have been included in the Outlook, but service restorations have not been incorporated. Decisions on specific departmental additions and service restorations will made be on a year-by-year basis, depending on budgetary conditions at that time.

ATTACHMENT I

FISCAL YEARS 2014 - 2018 FIVE YEAR FINANCIAL OUTLOOK

GENERAL FUND REVENUES	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
Property Taxes[1]	$ 398.7	$ 410.1	$ 425.2	$ 445.0	$ 465.6
Sales Taxes[2]	244.0	258.0	273.1	290.6	308.0
Transient Occupancy Taxes[2]	87.6	92.4	98.0	110.5	116.7
Property Transfer Tax	7.0	7.7	8.3	9.1	9.9
Franchise Fees	72.2	74.4	76.8	79.5	82.3
Licenses and Permits	32.9	32.9	32.9	32.9	32.9
Fines, Forfeitures and Penalties	32.0	32.0	32.0	32.0	32.0
Revenue from Money and Property	45.1	47.0	49.9	50.5	51.1
Revenue from Federal and Other Agencies	3.5	3.5	3.5	3.5	3.5
Charges for Services	178.4	176.8	180.9	190.0	194.5
Other Revenue	6.4	6.4	6.4	6.4	6.4
Transfers In	69.4	71.9	74.6	78.7	81.6
TOTAL GENERAL FUND REVENUES	**$ 1,177.4**	**$ 1,213.0**	**$ 1,261.7**	**$ 1,328.8**	**$ 1,384.8**

GENERAL FUND EXPENDITURES	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
Salaries & Wages	$ 514.5	$ 520.4	$ 520.9	$ 523.1	$ 525.4
Retirement ARC [3]	183.7	188.8	194.4	200.6	207.2
OPEB/Retiree Healthcare	41.0	41.0	42.0	43.1	44.1
Flexible Benefits	38.8	39.0	39.2	39.4	39.6
Workers' Compensation	23.2	23.3	23.4	23.6	23.7
Supplemental Pension Savings Plan	11.1	11.2	11.2	11.3	11.3
Employee Offset Savings	9.2	9.2	9.2	9.3	9.3
Other Fringe Benefits	18.6	17.3	17.4	17.5	17.6
Personnel Expenditures	**$ 840.1**	**$ 850.3**	**$ 857.9**	**$ 867.7**	**$ 878.2**
Supplies	21.7	22.1	22.4	22.6	22.9
Contracts	138.2	141.1	150.7	156.7	158.5
Information Technology	39.4	35.7	35.1	34.4	33.6
Energy and Utilities	45.6	48.2	50.8	53.4	56.1
Other Expenditures	81.3	85.7	78.6	83.9	85.2
Non-Personnel Expenditures	**$ 326.1**	**$ 332.7**	**$ 337.4**	**$ 351.1**	**$ 356.3**
GENERAL FUND EXPENDITURES	**$ 1,166.3**	**$ 1,183.0**	**$ 1,195.3**	**$ 1,218.8**	**$ 1,234.5**

INCREMENTAL EXPENDITURE ADJUSTMENTS	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
Deferred Capital Operations and Maintenance[4]	4.2	16.2	20.2	28.0	30.2
Deferred Capital Debt Service[4]	5.6	11.3	17.6	23.5	29.4
Capital Improvement Projects Bond Debt Service[5]	1.8	1.8	1.8	1.8	1.8
Reduced Public Liability Contribution[6]	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)
Street and Sidewalk Maintenance Managed Competition Savings	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
INCREMENTAL EXPENDITURE ADJUSTMENTS	**$ 6.2**	**$ 23.9**	**$ 34.2**	**$ 47.9**	**$ 56.0**
TOTAL GENERAL FUND EXPENDITURES	**$ 1,172.5**	**$ 1,206.9**	**$ 1,229.5**	**$ 1,266.7**	**$ 1,290.5**
TOTAL SURPLUS / (DEFICIT)*	**$ 4.9**	**$ 6.1**	**$ 32.2**	**$ 62.0**	**$ 94.2**

1. Includes $4.8 million annually in anticipated pass-through payments from the Redevelopment Property Tax Trust Fund (RPTTF).
2. Includes additional revenues in FY 2017 and FY 2018 as a result of the Convention Center Expansion.
3. Based on the June 30, 2011 actuarial projection, the Citywide FY 2014 Annual Required Contribution (ARC) is expected to be $236.2 million, of which $183.7 million is the General Fund contribution.
4. Based on Deferred Capital Maintenance - Enhanced Option B.
5. Projected debt service for proposed $25.0 million bond issuance for General Fund capital improvements.
6. Reduced Public Liability Reserve Fund contribution as a result of $27.0 million wildfire settlement.

* Numbers may not add to exact figures due to rounding.

ATTACHMENT II

ONE-TIME REVENUE & EXPENSE ADJUSTMENTS FROM FY 2013 BASELINE

GENERAL FUND REVENUES

A)	**Property Tax**	$	-
B)	**Sales Tax**	$	-
C)	**Transient Occupancy Tax**	$	-
D)	**Property Transfer Tax**	$	-
E)	**Franchise Fees**	$	-
F)	**Licenses and Permits**	$	**39,903**
G)	**Fines, Forfeitures, and Penalties**	$	**570,988**
	Natural Gas Antitrust Litigation Settlement Revenue		146,027
	Parking Citation Revenue from Enhanced Collection Efforts on Old Debt		250,000
H)	**Revenue from Money and Property**	$	-
I)	**Revenue from Federal Agencies**	$	-
J)	**Revenue from Other Agencies**	$	-
K)	**Charges for Services**	$	**3,965,810**
	Accounts Payable Recovery from Audit		175,000
	Reduction of CDBG Revenue from Therapeutic Recreation Services		(200,000)
	Personnel for the Administration of the Vacant/Abandoned Properties Program		106,448
	Mowing at Lighted Athletic Fields		301,200
	Personnel Charging Directly to Grants		129,066
	Emergency Medical Services (EMS) Profit from EMS Fund Balance and EMS Operation Agreement Revenue		3,260,000
L)	**Other Revenue**	$	-
M)	**Transfers In**	$	**4,363,399**
	Disaster Recovery Revenue		2,300,000
	General Fund Escheatment Revenue		420,000
	Transfer of Fund Balance from the Public Safety Communications Bond Fund		536,617
	Safety Sales Tax Revenue		465,000
	REVENUES TOTAL	$	**8,940,100**

GENERAL FUND EXPENDITURES

N)	**Salaries and Wages**	$	**997,367**
	Annual Leave Payouts		119,852
	Second Police Academy		318,666
O)	**Salary Annual Leave**	$	**139,188**
P)	**Fringe Benefits**	$	**337,556**
Q)	**Supplies**	$	**274,624**
	Second Police Academy		175,639
R)	**Contracts**	$	**4,077,684**
	Fiscal Year 2013 Community Plan Updates		916,171
	Kinder Morgan Litigation Costs		1,350,000
	General Fund Reserve for IT Outsourcing		6,000,000
	Support for Housing Element, Community Plan Updates, and Special Projects		230,511
	Costs Redistributed to Non-Discretionary Accounts		(6,000,000)
	Council Districts' Community Projects, Programs, and Services		1,463,832
S)	**Information Technology**	$	**6,619,795**
	IT Sourcing Transition Costs		6,619,795
T)	**Energy and Utilities**	$	**117,599**
U)	**Other Expenses**	$	-
V)	**Appropriated Reserve**	$	**3,928,250**
	Transfer to Appropriated Reserve		3,928,250
W)	**Transfers Out**	$	**6,115,400**
	Reduction in Public Liability Transfer		(2,900,000)
	Neil Good Day Center		550,000
	Transfer to Capital Improvement Projects		8,300,000
	Hire-A-Youth Program		100,000
X)	**Capital Expenditures**	$	**918,200**
	Replacement of Pershing Yard Trailers		600,000
	Mowing at Lighted Athletic Fields		301,200
Y)	**Debt**	$	-
	EXPENDITURES TOTAL	$	**23,525,663**

ATTACHMENT III

NEW FACILITY COSTS - FY 2014-2018 [1]

Fiscal Year 2014			
Department	**Facility**	**FTE**	**Amount [2]**
Library	Central Library	1.00	2,559,630
Park & Recreation	Cabrillo Heights Neighborhood Park	0.14	13,527
Park & Recreation	Del Mar Mesa Neighborhood Park	1.64	121,169
Park & Recreation	Memorial Pool Expansion	3.00	109,918
Park & Recreation	Montgomery Academy Joint-Use Improvements	0.21	21,741
Park & Recreation	Open Space Park Ranger	1.00	77,502
Park & Recreation	Quarry Falls Neighborhood Park	1.21	70,858
Park & Recreation	Rancho Encantada/Mission Trails Regional Park North	1.00	124,064
Park & Recreation	West Maple Canyon Mini-Park	0.02	1,953
Total Fiscal Year 2014		**9.22**	**3,100,362**

Fiscal Year 2015			
Department	**Facility**	**FTE**	**Amount**
Library	Skyline Library	2.55	309,294
Park & Recreation	Angier Elementary School Joint-Use Improvements	0.28	35,283
Park & Recreation	Canyonside Community Park	0.07	4,057
Park & Recreation	Carmel Valley Neighborhood Park	0.28	28,521
Park & Recreation	Central Avenue Mini-Park	0.15	14,451
Park & Recreation	Del Sur Neighborhood Park	0.71	89,491
Park & Recreation	Ed Cramer Park	0.14	14,960
Park & Recreation	McAuliffe Community Park	1.01	107,892
Park & Recreation	Mira Mesa Community Park Expansion	1.13	123,371
Park & Recreation	Open Space Park Ranger	1.00	57,502
Park & Recreation	Pacific Breezes Community Park	2.00	237,744
Park & Recreation	Plaza de Panama Park	2.25	142,000
Park & Recreation	San Ysidro Athletic Area and Larsen Field Lighting	-	7,300
Park & Recreation	Wegeforth Elementary School Joint-Use Improvements	0.52	47,081
Park & Recreation	Light Equipment Operator and Pesticide Applicator for Angier Elementary Joint-Use Improvements, Canyonside Community Park, Carmel Valley Neighborhood Park, Del Sur Neighborhood Park, Ed Cramer Park, McAuliffe Community Park, Mira Mesa Community Park Expansion, Montgomery Academy Joint-Use Improvements, Wegeforth Elementary Joint-Use Improvements	2.00	85,602
Total Fiscal Year 2015		**14.09**	**1,304,549**

Fiscal Year 2016			
Department	**Facility**	**FTE**	**Amount**
Library	San Ysidro Library	2.05	235,026
Park & Recreation	Black Mountain Ranch Community Park	2.27	234,939
Park & Recreation	McKinley Joint-Use Improvements	0.08	8,114
Park & Recreation	Open Space Park Ranger	1.00	57,502
Park & Recreation	Plaza de Panama	2.25	88,000
Park & Recreation	Riviera Del Sol Neighborhood Park	0.58	57,650
Park & Recreation	Southcrest Trails Park	0.26	26,095
Total Fiscal Year 2016		**8.49**	**707,326**

Fiscal Year 2017			
Department	**Facility**	**FTE**	**Amount**
Library	Mission Hills Library	1.55	214,313
Park & Recreation	Gonzales Canyon Neighborhood Park	0.49	74,940
Park & Recreation	Olive Street Park	0.03	6,280
Park & Recreation	Open Space Park Ranger	1.00	57,502
Park & Recreation	Torrey Hills Neighborhood Park	0.28	28,521
Park & Recreation	University Village Park Tot Lot	0.12	11,291
Total Fiscal Year 2017		**3.47**	**392,847**

Fiscal Year 2018			
Department	**Facility**	**FTE**	**Amount**
Park & Recreation	Open Space Park Ranger	1.00	57,502
Park & Recreation	Torrey Highlands Neighborhood Park South	0.59	57,845
Total Fiscal Year 2018		**1.59**	**115,347**

[1] Facilities were selected based on capital improvement program review, facilities construction completion dates, and recommended by the Capital Improvements Program Review and Advisory Committee, followed by City Council approval.

[2] Fringe costs associated with the estimated addition of FTEs are included in the Outlook personnel expense projections but are not reflected in this table.

ATTACHMENT IV
CHARGES FOR SERVICES[1]

Revenue	FY 2013 Adopted Budget
Abandoned Vehicle Abatement	$ 1,000,000
Athletic and Park Fees	$ 2,498,897
Cemetery Revenues	$ 665,000
Fire Department Fees	$ 6,119,230
General Government and Financial Services to Other City Funds	$ 24,742,873
Hazardous Material Charges	$ 2,837,908
Reimbursement For Open Space Activities	$ 1,211,098
Library Fines	$ 833,159
Services to Non-City Agencies	$ 6,526,400
Swimming Pool Revenue	$ 1,165,500
City Attorney	$ 2,638,292
City Clerk	$ 12,302
City Treasurer	$ 999,938
Comptroller	$ 2,691,760
Debt Management	$ 660,645
Development Services - City Planning	$ 772,884
Engineering & Capital Projects	
Architecual Engineering	$ 8,744,296
Project Implementation & Tech Services	$ 5,872,823
Right-of-Way Design	$ 19,280,748
Field Engineering	$ 21,820,488
Environmental Services	$ 971,100
General Services	
Facilities Management	$ 4,001,183
Office of the Mayor	$ 308,400
Park & Recreation	
Balboa Park	$ 14,654,736
Mission Bay	$ 6,610,360
Beaches / Shoreline	$ 4,282,940
City-wide Parks	$ 3,624,976
Open Space	$ 2,276,244
Police	$ 10,994,162
Purchasing & Contracting	$ 459,500
Transportation Storm Water	
Transportation Engineering	$ 6,213,717
Streets	$ 4,957,942
Storm Water	$ 50,000
Water Department	$ 989,819
Services to Redevelopment Agency	$ 449,684
Other Departmental Revenues	$ 38,069
Other Charges [2]	$ 9,436,299
Total Charges for Current Services	**$ 181,413,372**

[1] FY 2013 Adopted Budget serves as the base year to forecast amounts for FY 2014 and beyond.

[2] Includes reimbursements for inspection fees, donations, reimbursement for legal fees, weed abatement, and unbudgeted revenues, among others.

ATTACHMENT V
DEPARMENTAL ADDITIONS - FY 2014-2018
(Cummulative)

	FY 2014		FY 2015		FY 2016		FY 2017		FY 2018	
Department Expenditures[1]	**FTE**	**Revenue / Expense**	**FTE**	**Revenue / Expense**	**FTE**	**Revenue / Expense**	**FTE**	**Revenue / Expense**	**FTE**	**Revenue / Expense**
City Council	4.17	$ 347,978	4.17	$ 347,978	4.17	$ 347,978	4.17	$ 347,978	4.17	$ 347,978
Citywide Program	0.00	$ 73,950	0.00	$ 151,117	0.00	$ 831,641	0.00	$ 915,667	0.00	$ 403,349
Department of Information Technology	0.00	$ 2,650,000	0.00	$ -	0.00	$ -	0.00	$ -	0.00	$ -
Development Services	0.00	$ 864,685	0.00	$ 1,086,000	0.00	$ 400,000	0.00	$ 400,000	0.00	$ 250,000
Environmental Services	0.00	$ -	0.00	$ 1,160,000	0.00	$ 1,933,000	0.00	$ 2,332,000	0.00	$ 2,332,000
Library[2]	1.00	$ 2,559,630	3.55	$ 2,868,924	5.60	$ 3,103,950	7.15	$ 3,318,263	7.15	$ 3,318,263
Park & Recreation	8.22	$ 540,732	19.76	$ 1,505,987	26.20	$ 1,903,287	28.12	$ 2,061,821	29.71	$ 2,157,168
Police	0.00	$ 762,224	0.00	$ 762,224	0.00	$ 762,224	0.00	$ 2,020,224	0.00	$ 2,077,224
Transportation & Storm Water	2.75	$ 2,207,399	6.75	$ 2,668,684	7.75	$ 5,456,416	8.75	$ 8,982,682	9.75	$ 9,085,851
Total Department Expenditures	**16.14**	**$ 10,006,598**	**34.23**	**$ 10,550,914**	**43.72**	**$ 14,738,496**	**48.19**	**$ 20,378,635**	**50.78**	**$ 19,971,833**

1. Expenditures included within Departmental Additions reflect only salary and wages and non-personnel expenditures, as variable fringe expenses are calculated as a percentage of total salaries and wages.
2. The additional FY 2014 expenditures for the Library Department are offset by $2.6 million in revenues.