# CITY OF SAN DIEGO

# FY 2013–2017

## Five-Year Financial Outlook
## October 12, 2011

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# EXECUTIVE SUMMARY

The City of San Diego FY 2013-2017 Five-Year Financial Outlook (Outlook) is a guiding document for long-range fiscal planning and provides the framework for the development of the City's annual budget. This is the sixth 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 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 primary focus of the FY 2013-2017 Five-Year Financial Outlook (Outlook). The Outlook forecasts General Fund revenues and expenditures for five fiscal years beginning in FY 2013. The FY 2012 Adopted Budget serves as the baseline for developing the FY 2013-2017 revenue and expenditure forecast. In the FY 2012 Adopted Budget, approximately 65.2 percent of the City's budgeted General Fund revenue consists of four revenue sources: property tax, sales tax, transient occupancy tax, and franchise fees. Personnel expenses constitute approximately 72.1 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 2012 Adopted Budget.

The Outlook has been developed using current economic data and growth assumptions from various local, regional, and State sources. Based on current economic uncertainty in both the United States and international economies, revenue sensitivity analyses are included for three major revenue categories to reflect alternative economic assumptions based on different economic recovery rates over the upcoming Outlook period. These assumptions serve as the basis for alternative forecast scenarios.

## Economic Environment

The City has faced significant financial challenges over the last several years as a result of the worst economic recession since the Great Depression, market volatility, and resulting increased pension contributions. The impact of the national recession was felt locally in the form of a declining real estate market, high unemployment, depressed business climate, and less tourism and consumer spending. While there are some signs of economic recovery as evidenced by recent increased transient occupancy and sales taxes revenue, most forecasters predict it will be slow. While retail sales and tourism have improved over the past year, unemployment and the housing market continue to be major concerns. In addition, the impact of State budgetary actions and ongoing pension obligations continue to be challenges. The City continues to closely monitor these areas.

During the development of the FY 2012 Adopted Budget, the economy at national, State, and local levels was showing modest but positive signs of decreasing unemployment, stabilization in housing, and a strong equity market. Revenue forecasts included in the FY 2012 Adopted Budget reflected the assumption of continuing growth in the economy during FY 2012 that would lead to a strengthening in the fiscal condition of the City. However, subsequent to the adoption of the FY 2012 budget, positive indications of growth have been tempered by a downturn in the U.S. and international equity markets, a drop in consumer confidence, continued high unemployment, and the continuing decline in local median home prices.

Locally, the unemployment rate increased to 10.2 percent (as of August 2011) after dipping below 10.0 percent in both April and May 2011. Local consumer confidence has dropped two consecutive months (as surveyed by the University of San Diego Leading Economic Indicators) after rising 12 consecutive months. This recent downturn in economic indicators has not greatly impacted projected growth rates for this Outlook due to their occurrence in a small time frame as compared to the slow, steady growth experienced in the second half of FY 2010 and all of FY 2011. Sales tax and transient occupancy tax growth rates in the FY 2013-2017 Outlook have been increased slightly from the FY 2012-2016 Five-Year Financial Outlook, reflecting continued improvement in these sectors of the economy. However, property tax revenue growth projections have been reduced in this Outlook due to the slow recovery in the local real estate market.

## Forecast Assumptions

Any financial forecast must include assumptions in order to project revenues and expenditures over a five-year period. Major assumptions in the FY 2013-2017 Outlook include:

- A more gradual economic recovery reflecting stronger sales tax and transient occupancy tax revenues but decreased property tax revenues from the FY 2012-2016 Outlook.
- A 5.0 percent inflation rate for utility and energy expenditures (including fuel) and a 1.0 percent inflation rate for contracts and supplies expenditures.
- Maintain an 8.0 percent General Fund reserve level throughout the Outlook period.
- Contributions to public liability, workers' compensation, and long-term disability reserves are made per the revised Reserve Policy. The revised Policy is scheduled to be presented to the City Council in October 2011.
- 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, 2010 and estimates of future ARCs presented by Cheiron, the SDCERS actuary. An updated SDCERS' actuarial valuation and future ARC estimates are anticipated in early calendar year 2012.
- No general salary increases are included throughout the Outlook period with the exception of projected step increases for classified employees based on current labor agreements.

- Minimal departmental additions throughout the Outlook period. New Council District 9 operating costs assumed to be absorbed within existing City Council budget.
- $100 million annual bond issuances to address outstanding deferred capital needs.
- No tax or fee increases. Fee increases are reviewed separately, presented to City Council for approval, and incorporated into future budgets.

## Forecast Overview

The Five-Year Financial Outlook is updated periodically and issued each fiscal year to provide 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 2012 based on FY 2011 pre-audit actual results, and incorporating the assumptions detailed above, a pro-forma was completed for the FY 2013-2017 Outlook period (Attachment I). The projected annual surplus/(deficit) figures are as follows:

**FY 2013-2017 Five-Year Financial Outlook**
**Projected Surplus / (Deficit)**

| | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|
| | (in millions) | | | | |
| **Projected Outlook Surplus / (Deficit)** | **$(31.8)** | **$(36.6)** | **$(28.1)** | **$ (5.6)** | **$ 22.7** |

In conjunction with the release of the Mayor's FY 2012 Proposed Budget in April 2011, the FY 2012-2016 Five-Year Financial Outlook was updated to reflect actions included to balance FY 2012. At that time, the projected FY 2013 deficit was estimated to be $41.1 million. The projected FY 2013 deficit in the FY 2013-2017 Five-Year Financial Outlook is $31.8 million. The major changes in revenue and expenditure projections between the earlier $41.1 million projected deficit and the current projected deficit of $31.8 million for FY 2013 are as follows:

| | | |
|---|---|---|
| **FY 2013 Deficit - April 2011** | **$** | **(41.1)** |
| **Revenue Changes** | | |
| Sales Tax Revenue | $ | 10.0 |
| TOT Revenue | $ | 6.8 |
| Motor Vehicle License Fee | $ | (3.4) |
| **Total Revenue Change** | **$** | **13.4** |
| **Expense Changes** | | |
| Reduction in General Fund Reserve Contribution | $ | (6.1) |
| Park & Rec./Library Service Restorations | $ | 6.1 |
| Completion of Fire Alert System | $ | 2.6 |
| Step Increase Adjustment | $ | 3.0 |
| Reduction in Booking Fees | $ | (2.0) |
| Fuel Cost Increase | $ | 1.2 |
| Other Expenditure Adjustments | $ | (0.7) |
| **Total Expense Change** | **$** | **4.1** |
| **Total Deficit Change** | **$** | **9.3** |
| **FY 2013 Deficit - October 2011** | **$** | **(31.8)** |

The FY 2013-2017 Outlook is divided into four sections: the ***General Fund Revenue Forecast*** section, the ***General Fund Expenditure Forecast*** section, the ***Scenarios*** section, and the ***Conclusion*** section. The ***General Fund Revenue Forecast*** section discusses the development of revenue projections included in the Outlook and includes an overview of current economic trends and their affect on the City's major revenues. The ***General Fund Expenditure Forecast*** section outlines the expenditure forecast including future expenditure requirements and expected growth rates. Attachment I provides detailed information on General Fund revenue and expenditure forecasts for FY 2013-2017 and the projected shortfall for each fiscal year. The ***Scenarios*** section outlines alternative economic recovery assumptions and a range of revenue scenarios that may occur if the recovery proceeds in a different manner than assumed in the Outlook. The ***Conclusion*** section outlines possible solutions to address the projected deficit of $31.8 million for FY 2013. Attachment II represents a summary of one-time revenues and expenditures in the FY 2012 Adopted Budget that were removed from the FY 2013 forecast. Attachment III represents a summary of new facilities costs that are included in the Outlook. Attachment IV represents detailed information for the Charges for Current Services revenue category in the pro-forma.

## Revenue Forecast

The General Fund revenue categories and related background information are discussed in the Revenue Forecast 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, which make up nearly 65.2 percent of budgeted General Fund revenue in FY 2012. 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 2012 Adopted Budget adjusted for FY 2012 updated year-end revenue projections where applicable and the removal of one-time revenues. Also included in this revenue forecast are incremental General Fund departmental changes over the FY 2012 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 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. This and other risks posed by the State's fiscal crisis are discussed in the ***State Budget Impacts*** section of the Outlook.

## Expenditure Forecast

The General Fund expenditure categories and the related background information are discussed in the Expenditure Forecast section along with methods and assumptions affecting growth projections for each expenditure category. The General Fund expenditure forecast is based on the FY 2012 Adopted Budget with one-time expenditures removed. Included in these expenditure categories are incremental General Fund departmental changes over the FY 2012 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.

## State Budget Impacts

The Fiscal Year 2012 State budget included $27.2 billion of actions to close the State budget deficit. Actions that will impact the City are described in greater detail below.

***San Diego RDA***

The State Legislature passed two bills in June 2011 that had a severe impact on redevelopment agencies Statewide. One bill dissolved redevelopment agencies effective October 1, 2011, and redirected local property tax increment to replace State funding of contributions toward schools and other agencies. The second bill allowed for any redevelopment agency to continue to exist as long as its counterpart city pays an annual remittance amount to the local county auditor, which then would be disbursed to local schools and other local agencies. The City Council enacted a resolution on August 1, 2011 allowing the City to comply with the State legislation and remitting to the County an estimated $69.2 million in property tax increment revenue for Fiscal Year 2012. The annual remittance payments will not be derived from the City's General Fund or other funds, but will be paid from restricted redevelopment funds. In subsequent years, the City also will be required to pay a lesser annual remittance amount to the local county auditor, currently estimated to be $16.4

million in Fiscal Year 2013. The Redevelopment Agency's three entities, San Diego's Centre City Development Corporation, Redevelopment Agency, and Southeastern Economic Development Corporation, are currently reviewing which projects will be impacted by the payment of the annual remittance amount.

On July 18, 2011, the California Redevelopment Agency filed a petition with the California Supreme Court, seeking to invalidate this legislation, which resulted in an injunction issued by the Supreme Court allowing certain provisions of the legislation to continue, but suspending the other provisions. As a result, the Redevelopment Agency's ability to operate under the State legislations is presently in question. The Redevelopment Agency is currently evaluating the impact of the partial injunction on its ability to proceed with its operations. The Supreme Court expects to issue a final ruling by January 15, 2012.

***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 their 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. Subsequent to the completion of the City's FY 2012 Adopted Budget, the State passed Senate Bill 89 (SB89) which eliminated local MVLF revenues ($3.3 million in the FY 2012 Adopted Budget) and redirected this revenue to continue providing public safety grants. The loss of MVLF revenue in the Outlook is partially offset by a $2.8 million increase in the Citizens' Option for Public Safety grant (COPS) and jail booking-fee offset revenues in FY 2012 and throughout the Outlook period.

***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 2012. 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 uncertainty at the time of the FY 2012 budget adoption, an offset payment from the County was not included in the City's FY 2012 Adopted Budget. However, the FY 2012 State budget included this funding source. As a result, the Outlook includes $2.0 million per year in decreased booking fee expenditures.

***Citizens' Option for Public Safety Funding***

The City is also 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 2012 Adopted Budget includes $1.3 million in COPS revenue. Updated revenue projections for COPS after the development of the FY 2012 Adopted Budget, provided to the City by the California Local Government Finance Almanac, reflect a payment of $2.1 million. This Outlook includes $0.8 million in incremental revenue (over the FY 2012 Adopted Budget) for a total of $2.1 million per year from redirected MVLF revenues (the City has been receiving approximately $2.1 million annually from the State for the COPS program). The City will monitor the COPS revenue allocation during the fiscal year and adjust projections as necessary.

### *Gasoline Taxes*

For FY 2012, the City budgeted $15.2 million to be received in Proposition 42 replacement revenue and $22.2 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 2012 adopted revenue budget for the State of California does not include 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] Generated from a flat 17.3 cents per gallon tax, which replaced the 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 2012 revenue base, in addition to the currently forecasted growth rates used in the Outlook.

## Property Tax

The local residential real estate market has continued to experience some signs of improvement that started in the second half of FY 2010. Positive economic indicators in the residential real estate market included declines in residential foreclosures and notices of default and an increase in the California Consumer Price Index (which drives assessed valuation (AV) under Proposition 13). While there are some signs of improvement, a lag time of approximately one year exists between the time AV is set by the County Assessor's Office and property tax revenue is received by the City. FY 2012 property tax receipts reflect housing market activity from calendar year 2010.

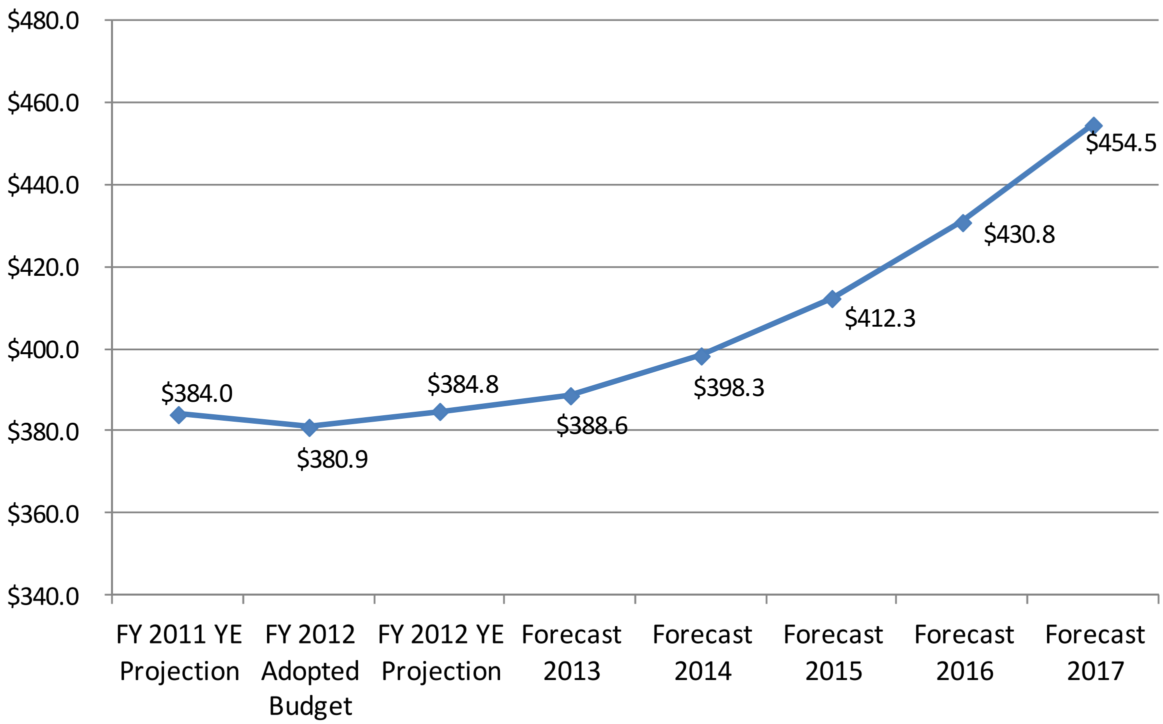
Property tax revenues for FY 2012 are projected to be $384.8 million, an increase of $3.9 million or 1.0 percent from the FY 2012 Adopted Budget of $380.9 million. The FY 2012 property tax budget assumes flat growth over FY 2011 property tax revenues due to the lag time discussed above and increased re-assessment refunds experienced in FY 2011. However, the FY 2011 actual property tax revenue receipts exceeded forecasted levels by approximately $4.0 million primarily due to an increase in the property tax collection rate for secured properties. The FY 2011 collection of property tax revenue serves as the base year for the Outlook, resulting in a higher property tax revenue projection for FY 2012.

Property tax revenues for FY 2013 are projected to increase by 1.0 percent over the FY 2012 revised year-end projection. This modest projection reflects the recent declines in median home prices but also factors in slight increases in home sales. The forecast in this Outlook projects that an economic stabilization will be experienced in FY 2013 and will lead to a more normalized residential housing market in FY 2014, resulting in a projected 2.5 percent growth rate that year. Growth rates are projected to further improve in FY 2015-2017, increasing 1.0 percent annually through FY 2017 as the economy improves and credit availability standards become more relaxed. 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 2011 year-end projection, FY 2012 budget, FY 2012 year-end projection, and forecast for FY 2013-2017 for property tax revenue.

($ in millions)

| FY 2011 YE Projection | FY 2012 Adopted Budget | FY 2012 YE Projection | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|---|
| $ 384.0 | $ 380.9 | $ 384.8 | $ 388.6 | $ 398.3 | $ 412.3 | $ 430.8 | $ 454.5 |
| -1.8% | -0.8% | 0.2% | 1.0% | 2.5% | 3.5% | 4.5% | 5.5% |




**Property Tax Sensitivity Analysis**

The property tax sensitivity analysis reflects alternative economic recovery assumptions and presents a range of revenue scenarios that may occur if revenue growth does not occur as projected in the Outlook. Applying a sensitivity analysis to property tax revenue can create trends of growth rates in both pessimistic and optimistic scenarios, and indicate how these trends affect projected revenue receipts. The property tax revenue sensitivity analysis assumed changes in total citywide assessed value (AV) in residential and commercial properties.

The pessimistic forecast reflects a slow and continually cautious economic recovery with very slow increases in median home prices, continuing high levels of foreclosures, as well as reduced home sales.

The optimistic scenario reflects a quicker economic recovery with faster improvement in residential property sales and fewer foreclosed homes on the market.

($ in millions)

| Scenario | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|
| Pessimistic | $ 384.8<br>0.0% | $ 390.6<br>1.5% | $ 400.3<br>2.5% | $ 414.3<br>3.5% | $ 433.0<br>4.5% |
| Current Outlook | $ 388.6<br>1.0% | $ 398.3<br>2.5% | $ 412.3<br>3.5% | $ 430.8<br>4.5% | $ 454.5<br>5.5% |
| Optimistic | $ 392.5<br>2.0% | $ 406.2<br>3.5% | $ 424.5<br>4.5% | $ 447.8<br>5.5% | $ 477.0<br>6.5% |

## 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 received. 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 as of August 2011, calendar year 2011 home sales are below the prior year's home sale levels. This may be due in part to the federal and State tax credit provided to first-time home buyers in 2010 inflating home sales as compared to 2011. Home prices in the local market have rebounded since the levels experienced during the recession, but have experienced declines since June 2011. Unlike property tax revenue, property transfer tax reflects current economic conditions without a lag time.

The FY 2012 property transfer tax budget is $5.1 million. The updated FY 2012 year-end projection is $5.7 million, an increase of $600,000 over the FY 2012 property transfer tax budget. This increase is primarily due to a higher volume of home sales.

The FY 2013 property transfer tax revenue forecast is $6.1 million assuming a 7.0 percent growth rate over the updated FY 2012 projection. This is based on the assumption that the region will experience an improvement in the residential real estate market through declines in notices of default and foreclosures, leading to the stabilization of home sales and median prices. The subsequent years in the Outlook project improved growth in FY 2014 and reaching the highest growth level in FY 2015 and then stabilizing.

The following table shows FY 2011 year-end projection, FY 2012 budget, FY 2012 year-end projection, and forecast for FY 2013-2017 for property transfer tax revenue.

($ in millions)

| FY 2011 YE Projection | FY 2012 Adopted Budget | FY 2012 YE Projection | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|---|
| $ 5.4 | $ 5.1 | $ 5.7 | $ 6.1 | $ 6.6 | $ 7.2 | $ 7.9 | $ 8.6 |
| 5.7% | -5.5% | 11.5% | 7.0% | 8.0% | 9.0% | 9.0% | 9.0% |

## Sales Tax

Positive growth in taxable sales was experienced during FY 2011, with gains reported in all economic sectors, except construction. This trend is projected to continue into FY 2012 and throughout the Outlook. The City's sales tax consultant, MuniServices, LLC (MuniServices), indicates that the growth in sales tax revenue experienced during FY 2011 may be attributed to consumers who kept their jobs throughout the recession and now feel confident spending money on replacement items and new products.

Sales tax revenue projected for FY 2012 is $217.6 million, an increase of $6.0 million from the FY 2012 Adopted Budget of $211.6 million. The $6.0 million increase over the FY 2012 sales tax budget is due to higher than forecasted actual sales tax receipts received in FY 2011 and not from a change in expected revenue growth in FY 2012. The FY 2011 collection of sales tax receipts serves as a base year for the Outlook, resulting in a higher sales tax revenue projection for FY 2012. The FY 2012 sales tax budget projected 4.0 percent growth and this growth projection has not been changed at this time.

The FY 2013 sales tax revenue forecast of $227.8 million assumes 4.5 percent growth over the revised FY 2012 year-end projection of $217.6 million. The City's 4.5 percent growth projection for FY 2013 is based on the analysis of the most recent available sales tax actual receipts, the current and projected activity of key economic indicators, and one-time allocation adjustments. In comparison, the FY 2013 sales tax revenue projected growth prepared for the City by MuniServices is 3.6 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 the analysis of all major retailers, including their performance and permit activity. The most recent available projection in the UCLA Anderson Forecast reflects an average growth of 3.5 percent (Statewide) projected between the first quarter of FY 2013 and first quarter of FY 2014.[1] The State Board of Equalization projected an average growth of 8.6 percent between the first quarter of FY 2013 and first quarter of FY 2014 for statewide taxable sales, a stronger growth as compared to 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.

[1] UCLA Anderson Forecast, September 2011
[2] State Board of Equalization, Projected Statewide Taxable Sales, May 2011

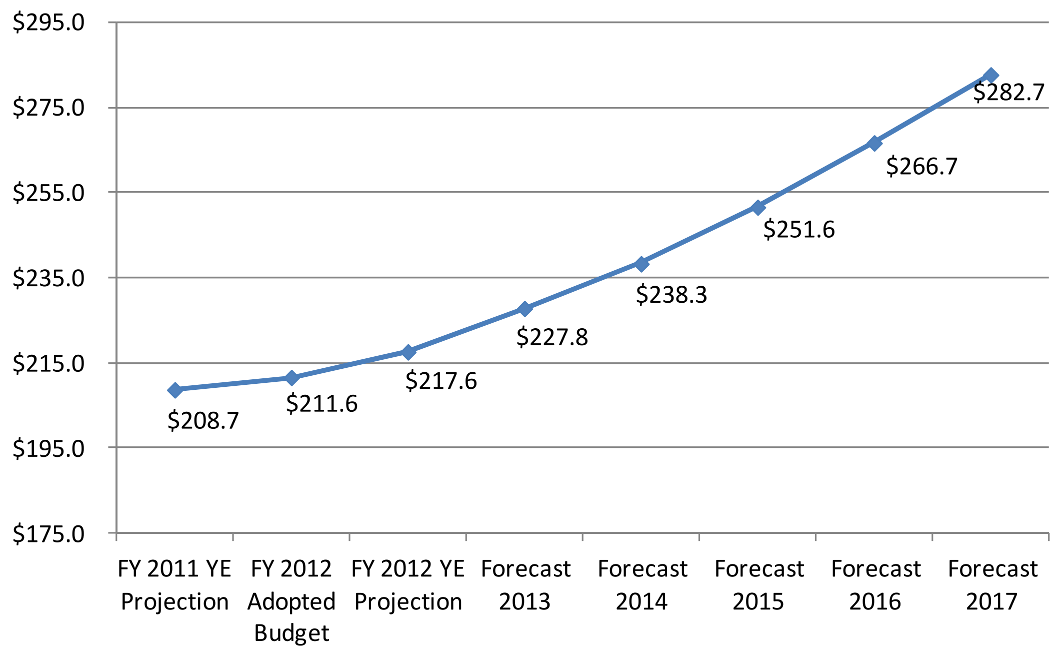
The City's growth rate projection of 4.5 percent for FY 2013 also assumes that the unemployment rate will remain at high levels in the region. As of August 2011, the San Diego unemployment rate was 10.2 percent as reported by the California Employment Development Department. For comparison, the local unemployment rate in the years 2000-2008 in the region ranged between 4.0-5.0 percent. Projected growth rates used in this Outlook reflect a moderate approach, forecasting growth between 4.5-6.0 percent over the next five fiscal years.

The following table and graph show FY 2011 year-end projection, FY 2012 budget, FY 2012 year-end projection, and forecast for FY 2013-2017 for sales tax revenue.

($ in millions)

| | FY 2011 YE Projection | FY 2012 Adopted Budget | FY 2012 YE Projection | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|---|---|
| | $ 208.7 | $ 211.6 | $ 217.6 | $ 227.8 | $ 238.3 | $ 251.6 | $ 266.7 | $ 282.7 |
| Growth (1) | | 1.4% | 2.8% | 4.5% | 5.0% | 5.5% | 6.0% | 6.0% |

(1) Reflects projected growth in taxable sales for FY 2013-2017 and not growth in revenue over prior year.




**Sales Tax Sensitivity Analysis**

The sales tax sensitivity analysis reflects alternative economic recovery assumptions and presents a range of revenue scenarios that may occur if revenue growth does not occur as projected in the Outlook. Similar to the property tax sensitivity analysis, applying a sensitivity analysis to sales tax revenue can create trends of growth rates in both pessimistic and optimistic scenarios, and indicate how these trends affect projected revenue receipts. The sales tax revenue sensitivity analysis assumed changes in taxable sales and consumer spending. Recovery in consumer spending has begun in FY 2011 and all three scenarios in the following table assume that this increase in consumer spending will continue.

The pessimistic scenario reflects that continued high unemployment in the local and State economies will impact the size of the recovery as a double-digit unemployment rate continues through the rest of FY 2012 and into FY 2013, with a gradual recovery and stabilization below historical growth levels.

The optimistic scenario reflects that employment will stabilize and begin to improve in FY 2012, with a return to historical unemployment levels in FY 2013 and beyond. The optimistic scenario also assumes that consumer spending will reach growth rates in taxable sales experienced prior to the recession.

($ in millions)

| Scenario | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|
| Pessimistic | $ 224.0 | $ 230.9 | $ 240.4 | $ 251.2 | $ 262.5 |
| | 3.0% | 3.5% | 4.0% | 4.5% | 4.5% |
| Current Outlook | $ 227.8 | $ 238.3 | $ 251.6 | $ 266.7 | $ 282.7 |
| | 4.5% | 5.0% | 5.5% | 6.0% | 6.0% |
| Optimistic | $ 231.7 | $ 245.8 | $ 263.2 | $ 283.0 | $ 304.2 |
| | 6.0% | 6.5% | 7.0% | 7.5% | 7.5% |

## Safety Sales Tax

The FY 2012 safety sales tax adopted budget is $5.0 million, a decline of 25.6 percent from the FY 2011 year-end projection. This is due to a structural budget change which resulted in the creation of the Public Safety Needs and Debt Service Fund which was established to track Safety Sales Tax revenue and expenditures for public safety needs. This budget restructure does not represent the drop in revenues of 25.6 percent. On an annual basis, debt service for the Fire and Lifeguard Facilities Fund is expended first from this newly established fund, then the remaining revenue is distributed to the General Fund equally between the Police and Fire-Rescue Departments. 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 similar to those reflected for the sales tax growth rates in FY 2013-2017. The updated FY 2012 year-end projection of $5.4 million serves as the baseline for the FY 2013-2017 safety sales tax revenue forecast. The following table shows FY 2011 year-end projection, FY 2012 budget, FY 2012 year-end projection, and forecast for FY 2013-2017 for safety sales tax revenue.

($ in millions)

| | FY 2011 YE Projection | FY 2012 Adopted Budget | FY 2012 YE Projection | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|---|---|
| General Fund | $ 6.8 | $ 5.0 | $ 5.4 | $ 5.7 | $ 6.1 | $ 6.4 | $ 6.9 | $ 7.4 |
| Total City | $ 6.8 | $ 6.7 | $ 7.0 | $ 7.3 | $ 7.7 | $ 8.1 | $ 8.6 | $ 9.1 |
| Growth (1) | 6.7% | -1.5% | 5.5% | 4.5% | 5.0% | 5.0% | 6.0% | 6.0% |

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

## Transient Occupancy Tax

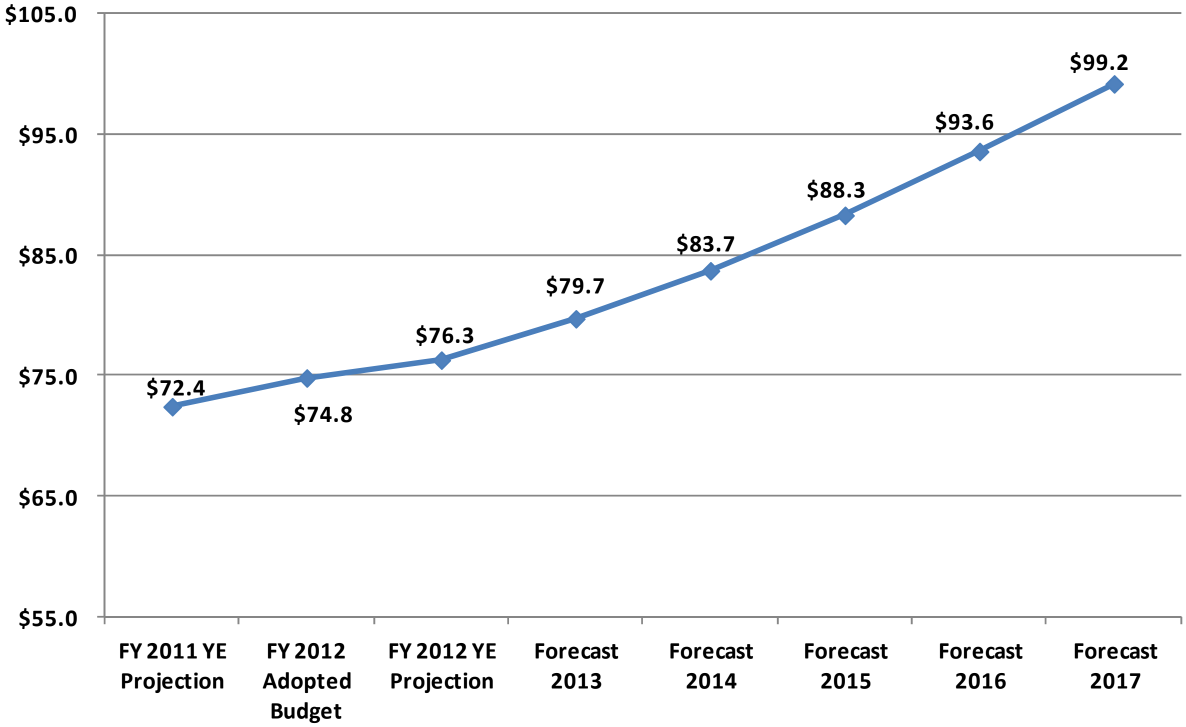
The positive tourism growth trend that started in FY 2010 is projected to continue through FY 2012, according to the June 2011 Quarterly Travel Forecast from the San Diego Convention and Visitors Bureau. Overall visitor growth in the San Diego region during calendar years 2011 and 2012 is projected at 3.7 percent and 2.9 percent, respectively, with overnight visitor growth of 2.5 percent and 1.9 percent during the same time frame. Growth in room demand is projected to be 3.1 percent and 2.7 percent for calendar years 2011 and 2012, respectively. With very little growth in room supply over the past few years, the anticipated room demand growth should stimulate an increase in the Average Daily Rate (ADR). The ADR is expected to reach $126.4 for calendar year 2011, a 4.3 percent increase over calendar year 2010, and $134.2 in calendar year 2012, an increase of 6.2 percent over calendar year 2011 projections.

Transient Occupancy Tax (TOT) revenue projected in the General Fund for FY 2012 is $76.3 million, an increase of $1.5 million over the FY 2012 Adopted Budget of $74.8 million (the total City TOT revenue projection for FY 2012 is $145.6 million, an increase of $2.8 million over the FY 2012 Adopted Budget of $142.8 million). The $1.5 million General Fund increase over the budgeted amount is due to increased actual receipts received in FY 2011. The FY 2011 collection of TOT receipts serves as a base year for the Outlook, resulting in a higher TOT revenue projection for FY 2012. The FY 2013 TOT revenue forecast assumes 4.5 percent growth over the revised FY 2012 year-end projection of $76.3 million.

The following table and graph show FY 2011 year-end projection, FY 2012 budget, FY 2012 year-end projection, and forecast for FY 2013-2017 for TOT revenue.

($ in millions)

| FY 2011 YE Projection | FY 2012 Adopted Budget | FY 2012 YE Projection | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|---|
| $ 72.4 | $ 74.8 | $ 76.3 | $ 79.7 | $ 83.7 | $ 88.3 | $ 93.6 | $ 99.2 |
| Growth | 3.3% | 2.0% | 4.5% | 5.0% | 5.5% | 6.0% | 6.0% |




**TOT Sensitivity Analysis**

The TOT sensitivity analysis reflects alternative economic recovery assumptions and presents a range of revenue scenarios that may occur if revenue growth does not occur as projected in the Outlook. Similar to the property tax and sales tax sensitivity analyses, applying sensitivity analysis to TOT revenue can create trends of growth rates in both pessimistic and optimistic scenarios, and indicate how these trends affect projected revenue receipts. The growth in TOT revenue assumes continued increase in consumer and business spending on overnight stays in the City throughout the forecast period in all three scenarios.

The pessimistic scenario reflects slow recovery in spending in both leisure and business travel in FY 2013 and FY 2014 as spending remains low due to a high unemployment rate and reduced income.

The optimistic scenario reflects quicker recovery in unemployment and the amount of discretionary spending by consumers and businesses on travel, leisure, and conventions. The optimistic scenario also assumes stable economic growth, lower local unemployment rates, and San Diego’s ability to continually attract leisure and business travel.

($ in millions)

| Scenario | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|
| Pessimistic | $ 78.6 | $ 81.3 | $ 84.6 | $ 88.4 | $ 92.3 |
| | 3.0% | 3.5% | 4.0% | 4.5% | 4.5% |
| Current Outlook | $ 79.7 | $ 83.7 | $ 88.3 | $ 93.6 | $ 99.2 |
| | 4.5% | 5.0% | 5.5% | 6.0% | 6.0% |
| Optimistic | $ 80.8 | $ 86.1 | $ 92.1 | $ 99.0 | $ 106.5 |
| | 6.0% | 6.5% | 7.0% | 7.5% | 7.5% |

## Franchise Fees

Franchise fees include 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 2012 Adopted Budget for franchise fee revenues is $67.8 million of which SDG&E, cable, and refuse hauler franchise fee revenues comprise 95.5 percent. After two fiscal years of declines, SDG&E franchise fee revenues are projected to begin growing, but at a low rate of 1.0 percent in FY 2013. The growth rate is then projected to increase by 0.5 percent annually from the 1.0 percent in FY 2013. Cable franchise fee revenues are projected to grow annually at 4.0 percent from FY 2013-2014 and 5.0 percent thereafter, reflecting a return to historical growth trends. Refuse hauler franchise fee revenues are projected to average 0.6 percent growth through the Outlook period, while all remaining franchise fee revenues combined are projected to grow at an average rate of 0.5 percent.

(in millions)

| FY 2011 YE Projection | FY 2012 Adopted Budget | FY 2012 YE Projection | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|---|
| $ 65.8 | $ 67.8 | $ 67.8 | $ 69.1 | $ 70.6 | $ 72.5 | $ 74.8 | $ 77.3 |
| Growth | 3.1% | 0.0% | 1.9% | 2.2% | 2.7% | 3.1% | 3.4% |

## Motor Vehicle License Fees

The FY 2013 motor vehicle license fees (MVLF) revenue forecast is based on the updated FY 2012 year-end projection. The updated FY 2012 year-end projection assumes that no MVLF revenue will be received, which is a decrease of $3.3 million from the FY 2012 MVLF budget of $3.3 million. The FY 2012 MVLF budget was based on State of California MVLF revenue estimates for FY 2012 as published in the FY 2012 Proposed Governor's Budget. However, subsequent to finalizing the City of San Diego FY 2012 Adopted Budget, Senate Bill 89 was passed as a part of the State of California's FY 2012 Adopted Budget, which eliminates all MVLF allocations to cities in FY 2012. This revenue will be redirected to the State's General Fund to support public safety grants, and it is projected that Senate Bill 89 will remain in effect throughout the forecast period, therefore, no MVLF revenue is forecasted to be received in FY 2013-2017. As previously mentioned in the ***State Budget Impacts*** section, the loss of MVLF revenue in the Outlook is partially offset by a $2.8 million increase in the Citizens' Option for Public Safety grant (COPS) and jail booking-fee offset revenues in FY 2013 and throughout the Outlook period.

($ in millions)

| FY 2011 YE Projection | FY 2012 Adopted Budget | FY 2012 YE Projection | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|---|
| $ 2.8 | $ 3.3 | $ - | $ - | $ - | $ - | $ - | $ - |
| Growth | 17.9% | -100.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

## 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 Pension Trust Funds. With the exception of certain bond funds, all City funds are pooled and invested in a Pooled Investment Fund to manage the City's cash flow requirements. Fund 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 through several stops and starts. 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 global 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 mid-2013."

Recent statements by the Federal Reserve have indicated they are likely to keep interest rates at historic lows through the end of FY 2013. The result will be continued low interest earnings for FY 2012 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 2012 General Fund budget for interest earnings is $1.9 million. For FY 2013, the interest earnings projection is $0.8 million increasing to $4.0 million in FY 2015 and beyond. The interest earnings amount is capped at the FY 2015 level due to uncertainty in projecting this revenue category in later years.

## License 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 2013 projection of $35.2 million assumes zero percent growth over the FY 2012 Adopted Budget. No growth is projected in this revenue category for FY 2013-2017 based on historical trends.

## 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 2012 Adopted Budget for this revenue category includes $21.5 million from parking citation revenue of which $1.3 million is one-time revenue from the anticipated collection of unpaid parking tickets from previous fiscal years. An additional $500,000 in other one-time revenues from implementing auditing of court fees is included in this category in FY 2012. All one-time revenues in FY 2012 have been eliminated in the FY 2013 forecast. No growth is projected in this revenue category through FY 2017.

## 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. The FY 2012 Adopted Budget for this revenue category includes $25.3 million from Mission Bay leases and $4.9 million from Pueblo Lands leases. Both Mission Bay and Pueblo Land revenues are projected to grow at a modest rate of 2.0 percent in each fiscal year in the Outlook based on historical trends, while all other rents and concessions are projected to remain flat throughout FY 2013-2017.

## Revenues from Federal and Other Agencies (General Fund)

The Revenues from Federal and Other Agencies category includes federal and State grants, and reimbursements to the City. The FY 2012 General Fund Adopted Budget for Revenue from Federal and Other Agencies is $2.6 million. No growth is projected in this revenue category for throughout the forecast.

## Charges for Current Services

The revenue forecasted in the Charges for Current Services category is comprised of charges for services provided to the public and other City funds. The major components in this category that comprise the FY 2012 Adopted Budget are $22.7 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 $32.5 million, and $22.0 million in general government services billings (GGSB) to Non-General funds. The remaining portion in this revenue category is miscellaneous departmental user fees such as recreational fees, inspection fees, and others. Growth for FY 2013-2017 in this revenue category assumes marginal growth in GGSB revenues paid into the General Fund and no increase in departmental revenues.

The reduction in the Charges for Current Services category in FY 2013 as compared to the FY 2012 Adopted Budget is attributed to the elimination of one-time revenue transfers to the General Fund in the amount of $11.3 million ($4.1 million transfer from Emergency Medical Services Fund balance, $6.1 million in American Recovery and Reinvestment Act revenue provided to support Street programs, and $1.1 million miscellaneous one-time transfers). Attachment IV in this Outlook provides details for the Charges for Current Services revenue category.

## Other Financial Sources and Uses

The Other Financial Sources and Uses revenue category represents transfers to the General Fund from Non-General funds and other agencies. The major components in this category in the FY 2012 Adopted Budget are General Fund transfers of $18.4 million in one-time revenues (described further below), $12.9 million in reclassified revenue due to the restructuring of the Transportation and Storm Water Department, $13.4 million in the one-cent TOT revenue transfer from the TOT Fund, and approximately $56.2 million of transfers to miscellaneous General Fund departments.

The reduction in the Other Financial Sources and Uses category in FY 2013 as compared to the FY 2012 Adopted Budget is mainly attributed to the elimination of one-time revenue transfers in FY 2012 described above in the amount of $18.4 million ($11.8 million in re-budgeted Gas Tax revenues, $4.0 million in reimbursed Disaster Recovery revenue due to the 2007 wildfires, $1.0 million in Unclaimed Funds, $0.8 million from Redevelopment Agency for debt repayment, $0.7 million in unused Sick Leave, and $0.1 million in Fire Pit donations). No growth is projected in this revenue category with the exception of growth in TOT and changes in departmental revenues.

## Other Revenue

The Other Revenue category is mainly comprised of donations, ambulance fuel reimbursements, and other miscellaneous revenues. The FY 2012 Adopted Budget for this revenue category is $2.8 million and no growth is expected for FY 2013-2017.

# GENERAL FUND EXPENDITURES

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

## Salaries and Wages

The FY 2012 Adopted Budget for salaries and wages is $504.5 million. The increase from previous Outlook forecasted levels for FY 2013 is primarily a result of the restoration of eight fire engine companies to end the Fire-Rescue Department’s rolling brown-outs that were implemented in FY 2010 and FY 2011. Growth included in the Outlook is based on forecasted step increases of $3.0 million in FY 2013 and increasing $1.0 million in each subsequent fiscal year. This expenditure category includes limited departmental additions for critical positions.

## Salary Annual Leave

While a portion of future leave liability expense has been absorbed in departmental budgets, there is a large number of employees with high leave balances expected to retire over the next several years. The FY 2012 Adopted Budget includes $2.2 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 2013 is $1.2 million, and is forecasted to increase to $4.9 million in FY 2016 and decline to $4.5 million in FY 2017, based on the expected number of retirees. Fluctuations are due to the number of employees eligible to retire each year.

The FY 2012 Adopted Budget and FY 2013-2017 forecast for the City’s salary annual leave payments are presented in the following table.

| $ in millions | FY 2012 Adopted Budget | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|
| Salary Annual Leave | $ 2.2 | $ 1.2 | $ 4.0 | $ 3.7 | $ 4.9 | $ 4.5 |

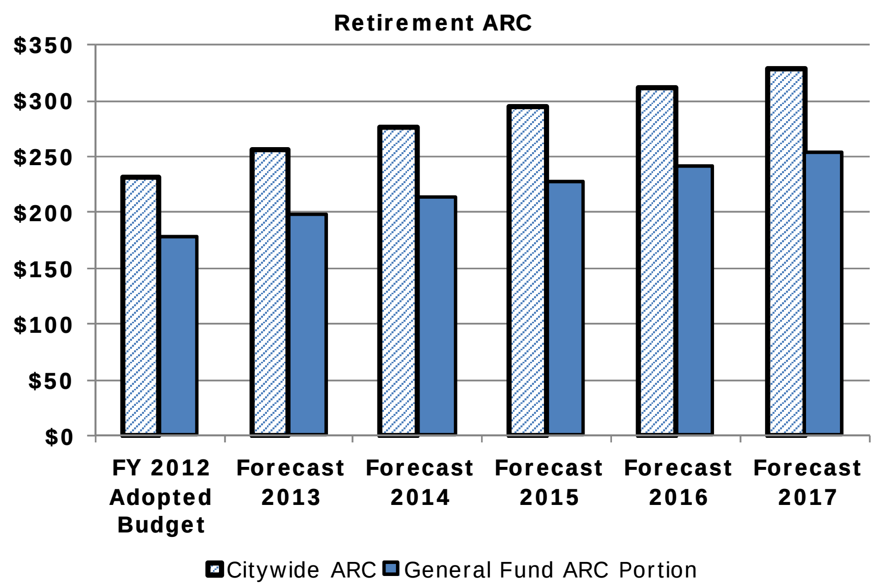
## Retirement

The projected Annual Required Contributions (ARC) to the City’s retirement system in the FY 2013-2017 Outlook were provided by SDCERS’ actuary, Cheiron, in conjunction with the actuarial valuation as of June 30, 2010. These projected ARC payment amounts incorporated in the Outlook are the latest available and may change based on an updated actuarial valuation report which will reflect the pension system asset value as of June 30, 2011. The actuarial report from the SDCERS Board is expected to be released in early calendar year 2012. It is anticipated that the updated actuarial valuation may result in lower City ARC payments as a result of market conditions at June 30, 2011. However, the ARC projections will not be revised until the updated valuation is received. If the ARC payment is lower, this will substantially reduce the expected projected deficit in FY 2013.

The City's FY 2012 ARC payment is $231.2 million, with $178.3 million budgeted in the General Fund. Based on the June 30, 2010 actuarial projection, the Citywide FY 2013 ARC payment is expected to be $256.6 million, of which $198.0 million is the General Fund contribution. The ARC payment increases to $329.8 million Citywide by FY 2017 with the General Fund contribution expected to be $254.4 million.

The FY 2012 Adopted Budget and FY 2013-2017 forecast for the City's ARC payments are presented in the following table.

| $ in millions | FY 2012 Adopted Budget | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|
| Citywide ARC | $ 231.2 | $ 256.6 | $ 276.2 | $ 294.7 | $ 312.5 | $ 329.8 |
| General Fund ARC Portion | $ 178.3 | $ 198.0 | $ 213.1 | $ 227.3 | $ 241.1 | $ 254.4 |



## Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB) represent the cost for retiree healthcare. OPEB Unfunded Actuarial Accrued Liability (UAAL) as of the June 30, 2010 actuarial valuation is approximately $1.13 billion and the Annual Required Contribution (ARC) was determined to be $96.0 million. This valuation assumes a 6.69 percent discount rate. The City is not funding the OPEB UAAL on an actuarial basis and entered into an agreement on January 18, 2008 with the CalPERS Employer Retiree Benefit Trust (CERBT) to pre-fund expenses related to post-employment healthcare benefits. As of June 30, 2011, the market value of the CERBT is $116.6 million.

As part of labor negotiations in FY 2011, a Tentative Agreement (TA) with all labor organizations was reached to reduce the City's OPEB UAAL. According to this TA, the City's funding limit for Fiscal Years 2011 to 2015 will be capped at $57.8 million and will not increase by more than 2.5 percent from year to year thereafter. City employees approved the retiree healthcare reform in September 2011 (via a City Charter section 143.1 vote). This reform is projected to reduce the City's unfunded retiree healthcare liability by an estimated $330.0 million in the June 30, 2012 actuarial valuation.

In FY 2012, the City is scheduled to contribute $57.8 million for the retiree healthcare benefit, of which $2.0 million is anticipated to be funded through the Early Retiree Reinsurance Program (ERRP). On May 10, 2011, the City received notification that the application to the ERRP was approved. The ERRP provides funding to participating employment-based plans to offset a portion of the costs of health benefits for early retirees based on claims experience. As a result, the City budgeted $55.8 million in FY 2012, which is comprised of $39.1 million in contributions from the General Fund.

The Outlook assumes no growth in retiree health payments from FY 2013-2015 followed by a 2.5 percent growth in FY 2016 and FY 2017.

| $ in millions | FY 2012 Adopted Budget | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|
| Citywide OPEB | $ 55.8 | $ 57.8 | $ 57.8 | $ 57.8 | $ 59.2 | $ 60.7 |
| General Fund OPEB Portion | $ 39.1 | $ 40.5 | $ 40.5 | $ 40.5 | $ 41.5 | $ 42.6 |

## Fringe Benefits

Fringe benefit expenditures consist of costs to provide employee benefits. The fringe category includes contributions to workers' compensation, retirement offset contributions, long-term disability, unemployment insurance, Medicare, and risk management administration, among others. Fringe benefits are also calculated as a percentage of salaries and wages and increase at the same rate in the Outlook.

## Flexible Benefits

Flexible Benefits is an Internal Revenue Service (IRS) qualified plan designed to allow employees to choose their health benefits. Costs are fixed by position, and total flexible benefit costs vary as the number of positions changes. In FY 2012, $38.5 million was budgeted in flexible benefits. Growth is not expected between FY 2013-2017 under the assumption that growth in positions will be limited. Since FY 2007, the City has eliminated 1,536.08 FTE positions.

## Supplies, Contracts, and Energy / Utilities

Non-personnel expenditure categories include supplies, contracts, energy and utilities, and other expenditures (discussed below). The FY 2012 Adopted Budget for these categories are: 1) supplies $17.9 million; 2) contracts $176.1 million; and 3) energy/utilities $33.6 million. An inflation rate of 5.0 percent is forecasted annually for the energy/utilities category due to rising energy prices and fuel costs. The supplies and contracts expenditure categories are forecasted to increase 1.0 percent annually based on historical trends.

## Other Expenditures

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

The debt payment of approximately $9.0 million for the McGuigan Settlement financing is included in this category. The Outlook includes three more payments related to the financing of approximately $9.0 million in FY 2013 through FY 2015. The General Fund's proportionate share of these payments total approximately $7.9 million annually through FY 2015.

In addition, this category includes funding for deferred capital project debt service for capital improvements (repairs of City facilities as well as repairs and improvements to streets, sidewalks, and storm drains). The City continues to address a backlog of deferred projects estimated to be $840 million. In addition, $40 million in repairs need to be completed to maintain the safety and functionality of the City-owned Civic Center buildings. The majority of these repairs are capital in nature and will be incorporated in the annual deferred capital bond issuances included in the Outlook. However, the Outlook assumes 5.0 percent (or $2.0 million) of the $40 million repair needs would be maintenance and, thus, funded out of the annual operating budget. This $2.0 million amount is projected in the Outlook at $400,000 per year. Finally, the City Administration Building's sprinkler project is underway. The project is funded through $1.0 million in FY 2009 deferred capital bonds and $3.0 million planned for FY 2012 deferred capital bonds.

To address deferred capital projects, future issuances of deferred capital bonds are projected to be issued in the amount of $100 million per year in FY 2013 through FY 2017. All issuances are projected to be structured so that debt service payments begin in the next fiscal year.

Associated debt service payments for these annual bond issuances are included in the FY 2013-2017 Outlook. Total projected debt service for capital project bonds are as follows:

| Deferred Capital Project Bond Issuances ($ in millions) | FY 2012 Adopted Budget | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|
| 2010A Master Refunding | $ 7.4 | $ 7.3 | $ 7.3 | $ 7.3 | $ 7.3 | $ 7.3 |
| 2012 Issuance | - | 7.2 | 7.2 | 7.2 | 7.2 | 7.2 |
| 2013 Projected Issuance | - | - | 7.5 | 7.5 | 7.5 | 7.5 |
| 2014 Projected Issuance | - | - | - | 7.5 | 7.5 | 7.5 |
| 2015 Projected Issuance | - | - | - | - | 7.5 | 7.5 |
| 2016 Projected Issuance | - | - | - | - | - | 7.5 |
| **Total** | **$ 7.4** | **$ 14.5** | **$ 22.0** | **$ 29.5** | **$ 37.0** | **$ 44.5** |

The amount budgeted for debt service in FY 2012 is $7.4 million for existing bonds that have been refunded with the issuance of the 2010A Master Refunding Bonds listed above. The annual issuances are approximately $100 million in principal per issuance, each payable over a 30-year term. The amount of deferred maintenance debt service included in this expenditure category in each fiscal year of the Outlook reflects the incremental increase of debt service over the $7.4 million budgeted in FY 2012.

## General Fund Reserves

The City's Reserve Policy was established as a best practice to establish and grow reserves to support the City's credit worthiness to bond rating agencies and the financial community, and to ensure 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 City's revised Reserve Policy, which is scheduled to be presented to the Budget and Finance Committee in October 2011, requires that the General Fund reserves equal 8.0 percent of General Fund revenues by FY 2012 and beyond. As of the FY 2012 Adopted Budget, the City was projected to have met the required reserve target of 8.0 percent of total General Fund revenues.

The following table outlines projected contributions to continue meeting the General Fund Reserve Policy goal of 8.0 percent of General Fund revenues in FY 2013 and beyond.

| $ in millions | FY 2012 Adopted Budget | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|
| General Fund Revenue | $ 1,126.6 | $ 1,125.5 | $ 1,155.8 | $ 1,195.1 | $ 1,240.3 | $ 1,292.3 |
| Reserve Policy % Target | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| **General Fund Contribution to Reserves** | **$ -** | **$ 0.2** | **$ 2.4** | **$ 3.1** | **$ 3.6** | **$ 4.2** |

## 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 revised Reserve Policy, expected to be presented to the Budget and Finance Committee in October 2011, 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. A $6.1 million contribution is included for FY 2013. The following table demonstrates the reserve goals and annual contributions forecasted in the FY 2013-2017 Outlook.

| $ in millions | FY 2012 Adopted Budget | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|
| Balance as a % of Total Outstanding Liability | 14.0% | 19.0% | 24.0% | 30.0% | 35.0% | 40.0% |
| Target Contribution | $ - | $ 6.1 | $ 6.1 | $ 6.1 | $ 6.1 | $ 6.1 |

## 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 BuckConsultants 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 revised Reserve Policy, expected to be presented to the Budget and Finance Committee in October 2011, 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) is included for FY 2013. The following table demonstrates the total annual reserve contribution forecasted in the FY 2013-2017 Outlook to meet the Workers' Compensation reserve goals.

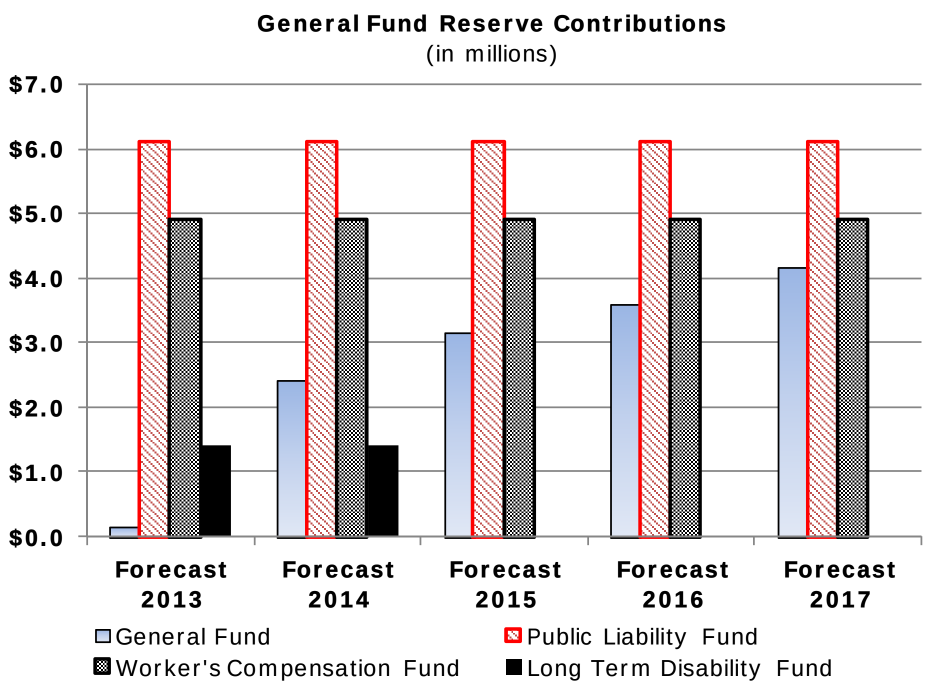
| $ in millions | FY 2012 Adopted Budget | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|
| Balance as a % of Total Outstanding Liability | 23.0% | 26.0% | 30.0% | 34.0% | 38.0% | 42.0% |
| Target Contribution | $ - | $ 5.9 | $ 5.9 | $ 5.9 | $ 5.9 | $ 5.9 |
| **General Fund Portion** | **$ -** | **$ 4.9** | **$ 4.9** | **$ 4.9** | **$ 4.9** | **$ 4.9** |

## Long Term Disability Fund Reserve

The City's updated Reserve Policy, which is projected to be presented to the Budget and Finance Committee in October 2011, has a Long Term Disability Fund (LTD) Reserve Policy target of $12.0 million to be achieved by FY 2014. Contributions to the fund reserve are budgeted at $0.6 million for FY 2012. Of the $0.6 million, approximately $0.4 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 more economic fully insured LTD program and it is expected that reserves will be adequate by FY 2015.

| $ in millions | FY 2012 Adopted Budget | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|
| City Contribution | $ 0.6 | $ 1.9 | $ 1.9 | $ - | $ - | $ - |
| General Fund Portion | $ 0.4 | $ 1.4 | $ 1.4 | $ - | $ - | $ - |

The following chart summarizes the contributions from the above-mentioned reserves.



## Transfer to San Diego Regional Park & Mission Bay Park Improvement 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 2012 is $2.3 million based on projected revenue from Mission Bay lease revenue. **Attachment I** shows the incremental amount over the FY 2012 Adopted Budget. The large increase in the projected transfer in FY 2015 is due to the decrease in this General Fund minimum threshold of $23.0 million to $20.0 million and the anticipated growth in Mission Bay lease revenue.

| $ in millions | FY 2012 Adopted Budget | Forecast 2013 | Forecast 2014 | Forecast 2015 | Forecast 2016 | Forecast 2017 |
|---|---|---|---|---|---|---|
| Transfer to San Diego Regional Park and Mission Bay Park Imrovement Funds | $ 2.3 | $ 2.8 | $ 3.3 | $ 6.8 | $ 7.4 | $ 7.9 |

## Storm Water Runoff Compliance

Compliance with federal and State of California storm water regulations imposes an expenditure obligation on the City. In FY 2012, $33.8 million is budgeted for the Storm Water Division of the Transportation and Storm Water Department.

The Transportation and Storm Water Department believes it will be able to maintain compliance with the existing municipal permit based on current funding levels. The permit is due to expire in 2013, and a new permit with potentially more regulations will be effective in January 2013. The Regional Water Quality Control Board has recently released a list of new mandates that will affect the City. These new mandates may potentially add significant costs for compliance, and alternatives are currently being reviewed for cost-effective ways to comply with new mandates.

The actual needs and funding requirements for storm water compliance are currently under review and, if these do not align with the level of funding currently budgeted, a potential budget adjustment may take place. Storm water runoff compliance needs are being evaluated for inclusion in the deferred capital bond in FY 2012 and in future CIP funding.

## Operational Efficiencies

There are numerous efforts underway to increase operational efficiency and reduce costs among City departments. Foremost among these efforts are managed competition and IT outsourcing.

Managed competition is a structured, transparent process that allows an open and fair comparison of public sector employees and independent contractors in their ability to deliver services to citizens. The FY 2012 Adopted Budget includes the savings from the implementation of the Publishing Services competition, the first function to be successfully bid under the Managed Competition program. City employees submitted the winning bid that reduced over 10.00 budgeted FTE positions and $0.8 million in total expenditures from the FY 2012 Adopted Budget in the Publishing Services Fund. This resulted in a projected savings of approximately $0.2 million to client departments in the FY 2012 General Fund budget and $0.3 million in FY 2013 and beyond.

Managed competition processes are currently underway for fleet maintenance, street sweeping, public utilities customer service, street and sidewalk maintenance, and landfill operations. Managed competition processes for fleet maintenance, street and sidewalk maintenance, and street sweeping are all anticipated to be completed in time to impact FY 2013.

IT outsourcing is part of the City's IT Strategic Plan which involves the completion of a Request for Proposal process to compete for the IT services performed by San Diego Data Processing Corporation (SDDPC), and for the City to assume responsibility for IT procurement and security. The City expects to select the IT service provider(s) in late October 2011 for City Council approval by December 2011. At this point, the service provider and costs are unknown. IT-related non-personnel expenditures may vary based upon the winning bidder's implementation of the IT Sourcing RFP, which may include unknown transition costs for the migration of the City's IT infrastructure as well as costs to assume hardware and software resources from San Diego Data Processing Corporation if SDDPC does not win the outsource contract.

Managed competition and IT Outsourcing processes are currently underway. Actual savings as a result of the processes will not be determined until they are completed and approved by the City Council. Savings identified will be incorporated into the FY 2013 budget.

# SCENARIOS

The FY 2013-2017 Five-Year Financial Outlook has been prepared using recent experience, trends, and the assumptions listed in the Forecast Assumptions section of the report. However, the five-year forecast period in itself results in some uncertainty in the Outlook, particularly for revenue growth in the later forecast years. For this reason, two scenarios are presented below to illustrate forecast results if General Fund revenue growth does not occur as projected in the Outlook. These two scenarios are built using the sensitivity analyses for property tax, sales tax, and TOT revenues as presented in each of those major revenue sections of the report.

Scenarios are presented in the following table where each scenario starts with the Outlook projected annual surplus/(deficit) and factors in the revenue sensitivity changes. The optimistic scenario (green) adds in revenues to reflect a more positive economic recovery. The pessimistic scenario (orange) reduces revenues to reflect a further decline in the real estate market and slower economic growth over the forecast period.

| Optimistic Scenario | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|
| | (in millions) | | | | |
| **Projected Outlook Surplus / (Deficit)** | **$(31.8)** | **$(36.6)** | **$(28.1)** | **$ (5.6)** | **$ 22.7** |
| Property Tax | $ 3.9 | $ 7.9 | $ 12.2 | $ 17.0 | $ 22.5 |
| Sales Tax | 3.9 | 7.5 | 11.6 | 16.3 | 21.5 |
| Transient Occupancy Tax (TOT) | 1.1 | 2.4 | 3.8 | 5.5 | 7.3 |
| **Optimistic Scenario Surplus / (Deficit)** | **$(22.9)** | **$(18.8)** | **$ (0.5)** | **$ 33.2** | **$ 73.9** |

| Pessimistic Scenario | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
|---|---|---|---|---|---|
| | (in millions) | | | | |
| **Projected Outlook Surplus / (Deficit)** | **$(31.8)** | **$(36.6)** | **$(28.1)** | **$ (5.6)** | **$ 22.7** |
| Property Tax | $ (3.8) | $ (7.7) | $ (12.0) | $ (16.5) | $ (21.5) |
| Sales Tax | (3.8) | (7.4) | (11.2) | (15.5) | (20.2) |
| Transient Occupancy Tax (TOT) | (1.1) | (2.4) | (3.7) | (5.2) | (6.9) |
| **Pessimistic Scenario Surplus / (Deficit)** | **$(40.5)** | **$(54.1)** | **$(55.1)** | **$ (42.8)** | **$ (25.9)** |

A major project that would contribute to the growth in revenues would be the Convention Center Expansion (Phase III) project, which is scheduled to commence construction in mid-calendar year 2013 (if all necessary approvals and permits are in place). The completion of construction is scheduled to be in early calendar year 2016. The expanded Convention Center is estimated to increase demand in hotel-room nights by 657,000 annually and produce $121 million in new hotel-room sales revenue annually. As a result, it is projected to generate an additional $12.7 million annually in transient occupancy tax (TOT) revenue and $0.8 million in additional sales tax revenue to the City's General Fund.

The FY 2013-2017 Outlook does not include this additional revenue from the expansion of the Convention Center. If included, additional revenue would begin to occur in the FY 2016 upon completion of the expansion. The projected full annual revenue impact of $13.5 million would occur in FY 2017 and beyond.

Also, as discussed in the retirement section, an updated actuarial valuation from the SDCERS Board is expected to be released in early calendar year 2012. It is anticipated that the updated actuarial valuation may result in lower City annual required contributions as a result of the market conditions at June 30, 2011. Should this occur, City General Fund expenditures, and the projected deficit, would be decreased.

Finally, efficiency efforts are underway with the managed competition and IT outsourcing processes. It is anticipated that these processes will result in significant savings to the City which would decrease the projected deficits in FY 2013 and beyond. As the processes are concluded and savings become identified, they will be incorporated into the FY 2013 budget.

# CONCLUSION

The FY 2013-2017 Five-Year Financial Outlook is a comprehensive, long-range projection of the City's General Fund revenues, expenditures, and fund balances. It identifies the fiscal challenges facing the City over this period and provides an initial look at the FY 2013 status in preparation for the upcoming budget process. As stated in the Forecast Assumptions and Economic Environment sections, the Outlook reflects a still uncertain economy. While signs of a recovery have been present over the past year in the form of increased consumer and tourism spending, as mentioned earlier, the local residential real estate market recently has shown signs of softening. These mixed indicators are reflected in the forecast period, resulting in a slower recovery in the first two years and stronger major revenue growth in the last three.

A $31.8 million General Fund deficit is projected for FY 2013. This is a $9.3 million decrease from the $41.1 million deficit projected for FY 2013 in conjunction with the Mayor's FY 2012 Proposed Budget. It should be noted that several uncertainties remain that could significantly impact the FY 2013 deficit. Major revenues could vary either up or down as discussed in the Scenarios section. Also, the City's retirement Annual Required Contribution could vary significantly once the updated actuarial valuation is available in January 2012. Finally, the results of the managed competition and IT outsourcing processes currently underway could reduce costs in FY 2013 and beyond. Each of these areas will be monitored and the most current information will be incorporated into the upcoming FY 2013 budget process.

Despite the potential for higher revenues and reduced costs than those reflected in this Outlook, it appears at this time that expenditure reductions resulting in service cuts will be necessary to balance the FY 2013 budget. Any reductions would need to be ongoing in nature in order to solve the structural budget deficit. These actions will also be identified, if necessary, in the upcoming budget process.

**ATTACHMENT I**

**FISCAL YEARS 2013 - 2017 FIVE YEAR FINANCIAL OUTLOOK**

| GENERAL FUND REVENUES | Fiscal Year 2013 | Fiscal Year 2014 | Fiscal Year 2015 | Fiscal Year 2016 | Fiscal Year 2017 |
|---|---|---|---|---|---|
| Property Tax (Includes Transfer Tax) | $ 394.8 | $ 405.0 | $ 419.5 | $ 438.7 | $ 463.1 |
| Sales Tax (Includes Safety Sales Tax) | 233.5 | 244.4 | 258.1 | 273.7 | 290.2 |
| Transient Occupancy Tax | 79.7 | 83.7 | 88.3 | 93.6 | 99.2 |
| Franchise Fees | 69.1 | 70.6 | 72.5 | 74.8 | 77.3 |
| Motor Vehicle Licensing Fees | - | - | - | - | - |
| Interest Earnings | 0.8 | 1.9 | 4.0 | 4.0 | 4.0 |
| Licenses & Permits | 35.2 | 35.2 | 35.2 | 35.2 | 35.2 |
| Fines, Forfeitures, and Penalties | 35.9 | 35.9 | 35.9 | 35.9 | 35.9 |
| Revenue from Money & Property | 39.7 | 40.2 | 40.7 | 41.2 | 41.8 |
| Revenue from Federal & Other Agencies | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 |
| Charges for Current Services | 147.0 | 147.4 | 147.8 | 148.1 | 148.5 |
| Other Financial Sources & Uses | 84.5 | 86.2 | 87.7 | 89.6 | 91.6 |
| Other Revenue | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| **TOTAL GENERAL FUND REVENUES** | **$ 1,125.5** | **$ 1,155.8** | **$ 1,195.1** | **$ 1,240.3** | **$ 1,292.3** |

| GENERAL FUND EXPENSES | Fiscal Year 2013 | Fiscal Year 2014 | Fiscal Year 2015 | Fiscal Year 2016 | Fiscal Year 2017 |
|---|---|---|---|---|---|
| Salaries & Wages | $ 505.6 | $ 507.5 | $ 509.2 | $ 510.7 | $ 511.8 |
| Salary Annual Leave | 1.2 | 4.0 | 3.7 | 4.9 | 4.5 |
| Retirement (1) | 198.0 | 213.1 | 227.3 | 241.1 | 254.4 |
| Employee Offset Savings | 9.0 | 9.1 | 9.1 | 9.1 | 9.1 |
| OPEB/Retiree Health | 40.5 | 40.5 | 40.5 | 41.5 | 42.6 |
| Fringe Benefits | 44.2 | 44.4 | 44.5 | 44.7 | 44.8 |
| Flexible Benefits | 38.8 | 38.9 | 39.0 | 39.2 | 39.2 |
| Supplies | 18.4 | 18.9 | 19.3 | 19.6 | 19.8 |
| Contracts | 161.2 | 166.0 | 167.0 | 172.6 | 169.5 |
| Information Technology | 24.3 | 24.8 | 24.4 | 24.2 | 24.1 |
| Energy/Utilities | 36.0 | 39.2 | 41.6 | 44.1 | 46.6 |
| Other | 74.5 | 79.6 | 87.1 | 86.8 | 98.8 |
| **TOTAL GENERAL FUND EXPENSES** | **$ 1,151.8** | **$ 1,186.0** | **$ 1,212.9** | **$ 1,238.5** | **$ 1,265.3** |

| INCREMENTAL EXPENDITURE ADJUSTMENTS | Fiscal Year 2013 | Fiscal Year 2014 | Fiscal Year 2015 | Fiscal Year 2016 | Fiscal Year 2017 |
|---|---|---|---|---|---|
| General Fund Reserves (2) | 0.2 | 2.4 | 3.1 | 3.6 | 4.2 |
| Workers' Compensation Fund | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 |
| Public Liability Fund | 6.1 | 6.1 | 6.1 | 6.1 | 6.1 |
| Long Term Disability Reserve (3) | 1.0 | 1.0 | (0.4) | (0.4) | (0.4) |
| Transfer to SDRPI Fund & MBPI Fund (4) | 0.5 | 1.0 | 4.5 | 5.1 | 5.6 |
| Booking Fee Expenditures (5) | (2.0) | (2.0) | (2.0) | (2.0) | (2.0) |
| **TOTAL INCREMENTAL EXPENDITURE ADJUSTMENTS** | **$ 10.6** | **$ 13.4** | **$ 16.2** | **$ 17.2** | **$ 18.3** |

| INCREMENTAL REVENUE ADJUSTMENTS | Fiscal Year 2013 | Fiscal Year 2014 | Fiscal Year 2015 | Fiscal Year 2016 | Fiscal Year 2017 |
|---|---|---|---|---|---|
| Special Promotional TOT Revenue Change (6) | 4.4 | 6.2 | 5.0 | 9.1 | 13.1 |
| Increase in COPS Grant Revenue (7) | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| **TOTAL INCREMENTAL REVENUE ADJUSTMENTS** | **$ 5.2** | **$ 7.0** | **$ 5.8** | **$ 9.9** | **$ 13.9** |

| | | | | | |
|---|---|---|---|---|---|
| **TOTAL SURPLUS / (DEFICIT)*** | **$ (31.8)** | **$ (36.6)** | **$ (28.1)** | **$ (5.6)** | **$ 22.7** |

(1) Based on $257 million total City contribution.

(2) Reflects 8.0% General Fund reserve level in FY 2013 and beyond.

(3) Savings in FY 2014 and beyond reflect achieving targeted reserve level.

(4) Reflects increase in transfer of Mission Bay revenues to San Diego Regional Park Improvement Fund & Mission Bay Park Improvement Fund, based on projected increase in TOT revenues. Increase in FY 2015 due to General Fund threshold being reduced from $23 - $20 million.

(5) Reduction in booking fees paid to the County of San Diego due to the expected State offset; assumes continuation at this level throughout the forecast.

(6) Incremental amounts above FY 2012 Adopted Budget.

(7) Additional revenue above FY 2012 budgeted amounts due to actions in FY 2012 State Budget continuing grant; assumes the same COPS grant level throughout the forecast.

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

**ATTACHMENT II**

**ONE-TIME REVENUE & EXPENSE ADJUSTMENTS FROM FY 2012 BASELINE**

| | | REVENUE | EXPENSES |
|---|---|---|---|
| A) | **City Clerk** | **$ -** | **$ 25,000** |
| | Outside Council for Election | | 25,000 |
| B) | **City Comptroller** | **$ -** | **$ 51,000** |
| | IT Cost for Continued Accounting Access Prior to SAP | | 51,000 |
| C) | **Community Planning & Investment** | **$ 158,312** | **$ 158,312** |
| | Intern Additions for CPU Assistance | 158,312 | 158,312 |
| D) | **City Treasurer** | **$ 318,386** | **$ -** |
| | Delayed Parking Violations From Audit | 318,386 | |
| E) | **Citywide** | **$ -** | **$ 1,213,500** |
| | Kinder Morgan Litigation Costs | | 1,500,000 |
| | Council Redistricting Costs | | 313,500 |
| | Reduction of Public Liability Fund Transfer Due to Fund Balance | | (600,000) |
| F) | **Council Administration and Districts** | **$ -** | **$ 1,674,577** |
| | Design Costs for Council District 9 Offices | | 41,000 |
| | Community Projects, Programs, and Services | | 1,633,577 |
| G) | **Disability Services** | **$ -** | **$ 1,531,029** |
| | Transfer to Support ADA Projects | | 1,531,029 |
| H) | **Ethics Commission** | **$ -** | **$ 207,142** |
| | Part Time Counsel | | 207,142 |
| I) | **Fire Rescue** | **$ 5,051,829** | **$ 2,251,829** |
| | Retroactive High Rise Inspection Fees | 600,000 | |
| | Black's Beach Lifeguards | 351,829 | 351,829 |
| | EMS Profit Transfer | 4,100,000 | |
| | Additional Life Guard Training | | 200,000 |
| | Fire Alert System Phase I | | 1,700,000 |
| J) | **Major Revenues** | **$ 6,453,046** | **$ -** |
| | OHS Transfer of Wildfire Reimbursements | 4,000,000 | |
| | Unclaimed Payments to Outside Parties | 1,000,000 | |
| | Unused Sick Leave | 652,710 | |
| | Redevelopment Agency Debt Repayment | 800,336 | |
| K) | **Park & Recreation** | **$ 120,000** | **$ 120,000** |
| | Fire Pit Donations | 120,000 | 120,000 |
| L) | **Police** | **$ 1,447,940** | **$ (3,669,328)** |
| | Court Fee Recovery From Audit | 500,000 | |
| | Parking Citation Recovery From Audit | 947,940 | |
| | CAD Hardware and Software Upgrade | | 330,672 |
| | Reduction in Decentralization Fund Transfer to Use Fund Balance | | (4,000,000) |
| M) | **Purchasing and Contracting** | **$ -** | **$ 900,000** |
| | Transfer CIP Data and Information to New Module | | 900,000 |
| N) | **Transportation & Storm Water** | **$ 17,850,400** | **$ 12,197,433** |
| | TransNet American Recovery & Reinvestment Act | 6,050,400 | |
| | Parking Meter Utilization Study Personnel | | 14,030 |
| | Concrete and Sidewalk Repairs for Streetlight Upgrades | | 383,403 |
| | Gas Tax Revenue Moved From FY 2011 | 11,800,000 | 11,800,000 |
| | **TOTAL** | **$ 31,399,913** | **$ 16,660,494** |

**ATTACHMENT III**

**NEW FACILITY COSTS - FY 2013-2017 [1]**

| Department | Facility | FTE | Amount [2] | Fiscal Year |
|---|---|---|---|---|
| Fire-Rescue | Bayside fire station | - | 100,000 | FY 2013 |
| General Services | Harbor Drive pedestrian bridge elevator maintenance & repair | - | 36,000 | FY 2013 |
| Park & Recreation | Language Academy/Montezuma Elementary School | 0.10 | 9,702 | FY 2013 |
| Park & Recreation | Montgomery Waller community park improvements | - | 1,700 | FY 2013 |
| Park & Recreation | West Lewis & Falcon Streets mini-park (MP) | 0.04 | 3,843 | FY 2013 |
| Park & Recreation | Del Mar Mesa neighborhood park (NP), Montgomery Academy joint-use improvements (JUI), Wegeforth joint-use (JU), Torrey Highlands and Sunroad neighborhood parks MP | 1.16 | 256,559 | FY 2013 |
| **Total Fiscal Year 2013** | | **1.30** | **407,804** | |

| Department | Facility | FTE | Amount | Fiscal Year |
|---|---|---|---|---|
| Park & Recreation | Open space acreage | 3.00 | 269,055 | FY 2014 |
| Park & Recreation | Cabrillo Heights and Sefton Field neighborhood parks | 0.07 | 6,763 | FY 2014 |
| Park & Recreation | Olive St park, Sunroad NP (SD river improvements), McAuliffe community park (CP), Cabrillo Heights (NP), Sefton Field NP, West Maple Canyon MP, North Chollas CP, Montgomery Academy JUI, Wedgeforth Elementary School JUI, Language Academy/Montezuma Elementary JU, Torrey Highlands South NP, West Lewis & Falcon Streets MP | 3.00 | 145,970 | FY 2014 |
| Park & Recreation | Plaza de Panama park | 0.22 | 38,281 | FY 2014 |
| Park & Recreation | Tierresanta community park sports field lighting | - | 7,500 | FY 2014 |
| Park & Recreation | North Chollas community park phase 1C | 0.36 | 22,201 | FY 2014 |
| Park & Recreation | West Maple Canyon MP | 0.03 | 2,670 | FY 2014 |
| Park & Recreation | Treena Mesa JU and Angier Elementary School JU | 0.30 | 125,651 | FY 2014 |
| Park & Recreation | Black Mountain Ranch and McAuliffe community parks | 0.74 | 368,478 | FY 2014 |
| General Services/Library | Central Library [3] | 6.00 | 3,143,548 | FY 2014 |
| **Total Fiscal Year 2014** | | **13.72** | **4,130,117** | |

| Department | Facility | FTE | Amount | Fiscal Year |
|---|---|---|---|---|
| Park & Recreation | Southcrest Trails and Home Ave NPs, and Central Ave MP | 1.19 | 102,778 | FY 2015 |
| Park & Recreation | San Ysidro and Silver Wing neighborhood parks lighting and sports fields | - | 15,000 | FY 2015 |
| Park & Recreation | Open space acreage | 1.00 | 60,831 | FY 2015 |
| Park & Recreation | Pacific Highlands Ranch community park, Carmel Valley NP | - | 304,200 | FY 2015 |
| Park & Recreation | Mira Mesa Community Park Expansion, Ed Cramer Park, Central Ave MP, Home Avenue Park, Southcrest Trails | 1.00 | 39,667 | FY 2015 |
| Park & Recreation | Carroll School and Ed Cramer Park development | 1.62 | 158,482 | FY 2015 |
| Library | Skyline Library | 2.55 | 309,294 | FY 2015 |
| **Total Fiscal Year 2015** | | **7.36** | **990,252** | |

| Department | Facility | FTE | Amount | Fiscal Year |
|---|---|---|---|---|
| Park & Recreation | Open space acreage | 1.00 | 60,831 | FY 2016 |
| Park & Recreation | Olive St. Park, Gonzales Canyon NP | 0.97 | 91,915 | FY 2016 |
| Park & Recreation | Pacific Breezes (Ocean View Hills) CP, Riviera Del Sol NP | 2.50 | 270,249 | FY 2016 |
| Library | San Ysidro Library | 2.05 | 235,026 | FY 2016 |
| **Total Fiscal Year 2016** | | **6.52** | **658,021** | |

| Department | Facility | FTE | Amount | Fiscal Year |
|---|---|---|---|---|
| Park & Recreation | Open space acreage | 1.00 | 60,831 | FY 2017 |
| **Total Fiscal Year 2017** | | **1.00** | **60,831** | |

[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. No new costs were included in FY 2013.

[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.

[3] Estimate includes an additional 5 FTEs in the General Services Department for maintenance of the Central Library; and 1 FTE in the Library Department.

**ATTACHMENT IV**
**CHARGES FOR CURRENT SERVICES[1]**

| Revenue | FY 2012 Adopted Budget |
|---|---|
| **Abandoned Vehicle Abatement** | $ 1,000,000 |
| **Athletic and Park Fees** | $ 2,489,137 |
| **Cemetery Revenues** | $ 665,000 |
| **Fire Department Fees** | $ 9,045,190 |
| **General Government and Financial Services to Other City Funds** | $ 22,040,730 |
| **Hazardous Material Charges** | $ 1,875,764 |
| **Reimbursement For Open Space Activities** | $ 1,182,182 |
| **Library Fines** | $ 833,159 |
| **Services to Non-City Agencies** | $ 8,411,091 |
| **Subdivision Inspections** | $ 4,454,178 |
| **Swimming Pool Revenue** | $ 1,165,500 |
| **City Attorney** | $ 3,162,134 |
| **City Audtior** | $ 222,323 |
| **City Treasurer** | $ 706,423 |
| **Comptroller** | $ 2,512,507 |
| **Community & Legislative Services** | $ 545,000 |
| **Community Planning & Investment** | $ 810,020 |
| **Debt Management** | $ 583,000 |
| **Engineering & Capital Projects** | |
| Architecual Engineering | $ 8,325,610 |
| Project Implementation & Tech Services | $ 2,548,240 |
| Right-of-Way Design | $ 7,461,752 |
| Field Engineering | $ 14,129,145 |
| **Environmental Services** | $ 695,153 |
| **General Services** | |
| Facilities Management | $ 4,869,543 |
| **Transportation Storm Water** | |
| Transportation Engineering | $ 6,051,655 |
| Streets | $ 11,335,073 |
| Storm Water | $ 50,000 |
| **Park & Recreation** | |
| Balboa Park | $ 12,069,806 |
| Mission Bay | $ 4,722,207 |
| Beaches / Shoreline | $ 2,380,100 |
| City-wide Parks | $ 2,401,522 |
| Open Space | $ 1,076,955 |
| Other | $ 25,000 |
| **Police** | $ 3,280,594 |
| **Purchasing & Contracting** | $ 815,000 |
| **Redevelopment Services** | $ 1,109,900 |
| **Services to Redevelopment Agency** | $ 527,545 |
| **Water Department** | $ 44,000 |
| **Other Departmental Revenues** | $ 7,607,133 |
| **Other Charges [2]** | $ 4,608,731 |
| **Total Charges for Current Services** | **$ 157,838,002** |

[1] FY 2012 Adopted Budget serves as the base year to forecast amounts for FY 2013 and beyond.

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