The City of SAN DIEGO

FISCAL YEAR 2021-2025
FIVE-YEAR FINANCIAL OUTLOOK

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NOVEMBER 2019

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EXECUTIVE SUMMARY

The City of San Diego Fiscal Year 2021-2025 Five-Year Financial Outlook Report (Outlook) is a long-range fiscal planning guide and serves as the framework for the development of the Fiscal Year (FY) 2021 Adopted Budget for the General Fund. The purpose of the Report is to address and prioritize the City's long-range needs as forecasted.

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

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

The Outlook is a planning tool to assist in budget decisions related to the allocation of General Fund resources required to meet the City's strategic goals that are critical to core services; therefore, should not be considered a budget. The Outlook does this by estimating baseline revenues and expenditures for current service levels and then integrating critical strategic expenditure requests that are the highest priority and reflect the shared goals of the City Council and the Mayor. The Outlook provides the City Council, key stakeholders, and the public with information at the start of budget process to facilitate a discussion regarding the coming year's General Fund budget allocations. To the extent projected expenditures exceed estimated revenues in any given year of the Outlook, the City will address these shortfalls through mitigating actions as described in the Potential Mitigation Actions section of the Report. As required by the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2020. The decisions impacting the FY 2021 budget will likely have an impact on the entire outlook period.

Summary of Key Financial Data

Overall, the Outlook forecasts revenue growth to soften, increasing moderately over the upcoming five years. Major General Fund revenues are anticipated to increase in each year of the Outlook; however, the rate of growth decreases in the outer years of the Outlook. The Outlook also projects increases in nearly all expenditure categories.

Based upon baseline projections, growth in ongoing revenues is anticipated to outpace growth in ongoing expenditures during the outlook period; however, a short-term structural shortfall is forecasted once the following key factors are accounted for:

- Moderate growth in revenue
- Projected growth in expenditures
- Reserve Contributions
- Critical Strategic Expenditures

As discussed later in the report, the Outlook does not forecast the impacts from potential mitigation actions and other information not known at the time of the preparation of the report, such as an economic recession, ballot initiatives, and changes to current labor agreements.

As depicted in Table 1.1, and detailed in Attachment 1, projected baseline expenditures exceed revenues in FY 2021. Beginning in FY 2022, baseline revenue growth is projected to exceed anticipated expenditure growth. Once incorporating the recommended critical strategic expenditures included in the Outlook, the potential shortfall extends through FY 2024. Beginning in FY 2025, the projected revenue growth is projected to exceed anticipated expenditure growth with the inclusion of the recommended critical strategic expenditures. Throughout the report, tables may not foot due to rounding differences.

Table 1.1 - Fiscal Year 2021-2025 Financial Outlook
Summary of Key Financial Data ($ in Millions)

	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
Property Tax	$636.1	$666.5	$696.7	$726.6	$755.9
Sales Tax	$311.1	$321.1	$331.0	$340.9	$350.8
Transient Occupancy Tax	$141.8	$146.9	$152.2	$157.6	$163.1
Franchise Fees	$84.1	$86.0	$87.9	$89.6	$91.4
All Other Revenue Categories	$422.7	$434.7	$445.5	$448.7	$458.1
BASELINE GENERAL FUND REVENUES	**$1,595.7**	**$1,655.1**	**$1,713.3**	**$1,763.5**	**$1,819.3**
Salaries & Wages	$652.7	$654.3	$652.2	$652.0	$653.2
Retirement Actuarially Determined Contributions (ADC)	$268.6	$266.6	$265.0	$264.2	$263.6
All other Personnel Expenditures	$207.8	$209.7	$211.6	$213.5	$215.4
Non-Personnel Expenditures	$444.8	$465.4	$498.3	$511.6	$525.4
Charter Section 77.1 - Infrastructure Fund Contribution	$25.5	$18.7	$0.0	$0.0	$0.0
Reserve Contributions	$17.4	$18.8	$16.6	$13.6	$13.0
BASELINE GENERAL FUND EXPENDITURES	**$1,616.9**	**$1,633.6**	**$1,643.7**	**$1,654.9**	**$1,670.7**
BASELINE (SHORTFALL)/SURPLUS	**($21.2)**	**$21.6**	**$69.6**	**$108.6**	**$148.7**
CRITICAL STRATEGIC EXPENDITURES	**$62.5**	**$88.1**	**$103.2**	**$116.2**	**$123.1**
(AMOUNT TO BE MITIGATED) / AVAILABLE RESOURCES	**($83.7)**	**($66.6)**	**($33.6)**	**($7.6)**	**$25.5**

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Report Outline

The Outlook includes a discussion on General Fund baseline projections for revenues and expenditures, summarizes critical strategic expenditures, identifies potential options that could be used to mitigate projected revenue shortfalls, and reviews other assumptions and considerations not included in the projections used in this report.

The Baseline Projections section of the Outlook consists of the City's projections for the next five years for ongoing revenues and expenditures, as displayed in Table 1.1 – Fiscal Year 2021-2025 Financial Outlook. The Baseline Projections section includes baseline revenue and expenditure growth, and anticipated adjustments to the FY 2020 Adopted Budget necessary to support current service levels provided by the City. Examples of anticipated adjustments in the baseline projections include the removal of one-time resources and expenditures and other known adjustments included in the FY 2020 Adopted Budget.

Following the baseline projections discussion, the Critical Strategic Expenditures section quantifies department requests that have been identified as necessary in meeting core service levels and the City's Strategic Plan. Examples of critical strategic expenditures include funding to support homeless programs, streets and neighborhood improvements, Clean SD program, Public Safety, new facilities and the Climate Action Plan. Requests that are currently accounted for in the baseline projections, not fully developed, require additional prioritization, or not previously approved by the Mayor or City Council were not considered critical strategic expenditures for this report. Examples include inflationary and contractual increase requests, which are accounted for in baseline expenditure projections, addition of personnel positions not associated with a critical strategic need, and new programs or enhancements to services that may require additional analysis and research. Any requests submitted for capital project costs, were not included in this report, as these requests are accounted for in the Five-Year Capital Infrastructure Planning Outlook. All department submissions considered in the development of the Outlook are provided to the Office of the Independent Budget Analyst for evaluation in their report.

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

Lastly, there are risks and other unforeseen issues that would cause the revenues and expenditures projected to materially deviate from the projections used in the preparation of this report. The Other Assumptions and Considerations section of the report details the most significant items that could impact the projections reflected in the Outlook at the time of the preparation of this report, of note is the potential of an economic recession.

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2020.

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BASELINE PROJECTIONS

The Baseline Projections section describes forecasted General Fund changes based on growth assumptions and anticipated adjustments to the FY 2020 Adopted Budget at the time of the preparation of this report. This section provides forecasted growth rates for revenues, including an overview of the revenue category, key economic trends, and a discussion of varying scenarios that could impact the forecast for the major revenue categories. General Fund expenditures are reviewed thereafter, including significant changes and growth assumptions within each expenditure category.

Unless otherwise noted, baseline projections assume growth based on the FY 2020 Adopted Budget with one-time resources and expenditures removed. The one-time resources and expenditures that have been removed from the baseline projections are detailed in Attachment 2: One-Time Resources and Expenditures.

Baseline General Fund Revenues

The U.S. economy never boomed or robustly bounced back from the Great Recession; rather the economy has improved slowly and steadily since 2009. This recovery period has exceeded the average duration and is now the longest economic expansion in American history exceeding 120 consecutive months of economic growth. An economic recession, based on historical averages (approximately every five years), could occur during this outlook period. However, predicting the timing or severity of an economic downturn is not within the scope of the Outlook; nevertheless, it is an important risk factor among others discussed in the Other Assumptions and Considerations section of this report.

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

The City's four major revenue sources, property tax, sales tax, TOT, and franchise fees, represent 72.2 percent of the City's General Fund FY 2020 Adopted Budget. As depicted in Figure 2.1, all four major revenue sources are projected to increase through the outlook period; however, the annual rate of growth is expected to decrease in the outer years. This overall expectation and projection for the City's revenues is based on actual trends and is consistent with information received from the City's sales tax consultant (Avenu Insights & Analytics), the San Diego Tourism Authority, Beacon Economics, the UCLA Anderson Forecast, and the State of California's Legislative Analyst's Office Economic Outlook. In addition to the major revenue projections, the baseline projections for the General Fund's other departmental revenue sources are based on various economic assumptions, known and anticipated events, and historical trend analysis. Figure 2.1 below details the forecasted Outlook revenues as well as recent actual revenues.

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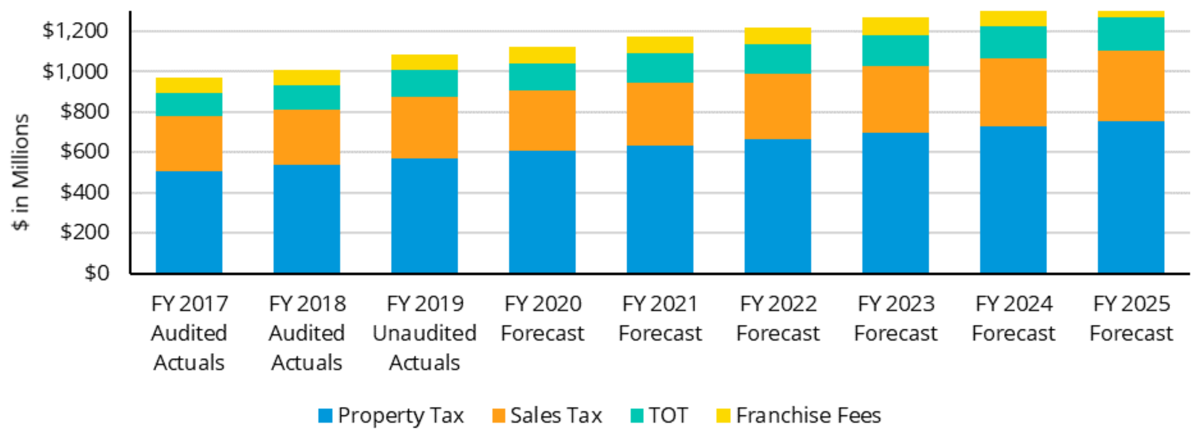
Figure 2.1 - Major General Fund Revenues



Property Tax

Property tax is the City's largest revenue source representing 38.9 percent of the General Fund FY 2020 Adopted Budget. The primary component of the property tax category is the 1.0 percent levy on the assessed value of all real property within the City limits. The property tax category also includes the Motor Vehicle License Fee (MVLF) backfill payment, which is a result of MVLF being reduced from 2.0 percent to 0.65 percent in 2005. Additionally, the category includes pass-through and residual property tax payments due to the dissolution of Redevelopment Agencies (RDA) statewide.

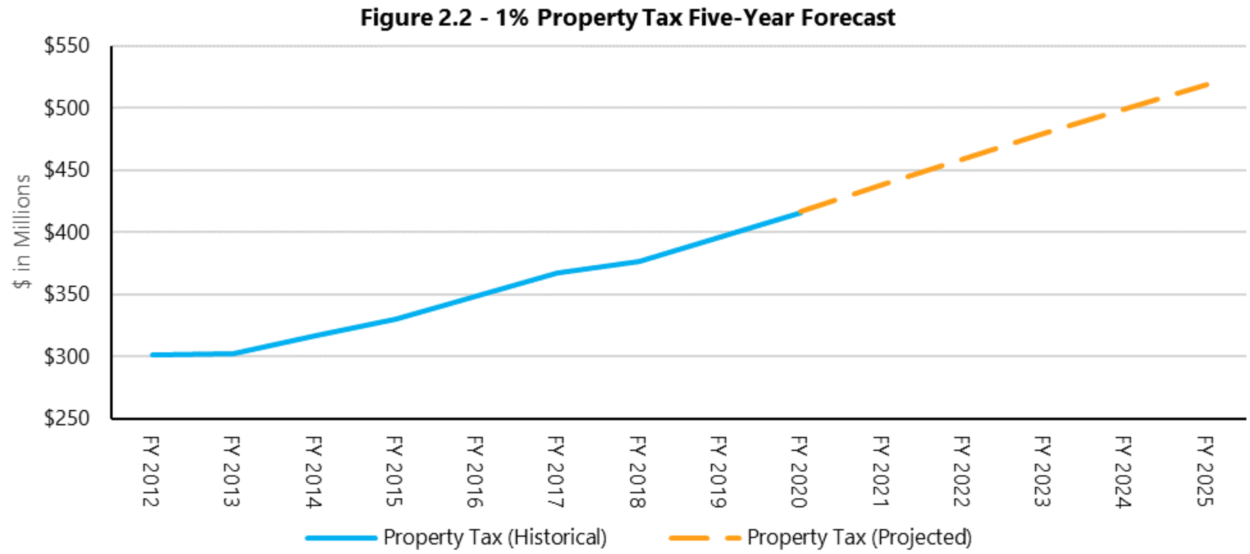
Forecast

The following table shows the budget and year-end projection for FY 2020 and the forecast for FY 2021 through FY 2025 for revenue from property tax. The FY 2020 projection for the property tax category of $604.7 million is a $2.8 million increase over the FY 2020 Adopted Budget and serves as the base for the Outlook projections. Consistent with the FY 2020 First Quarter Budget Monitoring Report, the FY 2020 Adopted Budget growth rate of 5.25 percent remains unchanged.

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

	FY 2020 Adopted	FY 2020 Projection	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate	5.25%	5.25%	5.00%	4.75%	4.50%	4.25%	4.00%
Projection	$ 601.9	$ 604.7	$ 636.1	$ 666.5	$ 696.7	$ 726.6	$ 755.9

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



Economic Trends

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

In compliance with Revenue and Taxation Code section 51, the San Diego County Assessor's Office uses the October CCPI to assess property values under Proposition 13. However, at the time of preparing this report, the October CCPI had not yet been released. The latest CCPI released by the California Department of Finance (DOF) was 281.247 as of August 2019, a 2.7 percent increase from the August 2018 CCPI of 273.844. Assuming the CCPI holds constant, the assessed valuation of properties not improved or sold will increase by 2.0 percent for FY 2020, the maximum allowable increase.

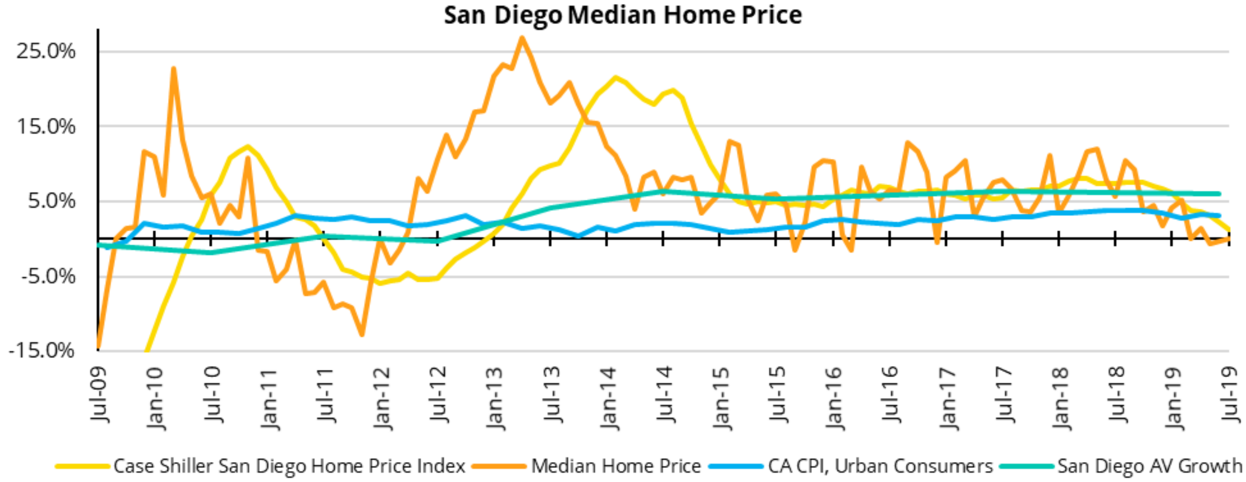
The City has experienced a modest positive growth in home prices, with an increase of 1.97 percent in the median home price from August 2018 to August 2019. Despite the rise in home prices, the growth in the number of home sales has slowed. Year-to-date home sales, as of August 2019, have decreased by 2.3 percent compared to August 2018.

Based on property sales as of August 2019 and an approximate 2.7 percent increase in the CCPI, the City's estimated assessed valuation will see a positive increase for FY 2021.

- In addition to positive home price growth in the City, there are year-to-date declines in notices of default and foreclosures of 4.6 and 6.2 percent, respectively, in the County of San Diego as of September 2019.
- The Case-Shiller home price index as of August 2019 is 263.23, a 2.3 percent increase over the August 2018 index of 257.32

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

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



Other factors to consider in developing a revenue projection for property tax include mortgage rates, changes to federal tax policy, and property tax refunds. The Federal Reserve recently approved a quarter-point interest rate cut in October 2019. This would be the third cut this year; however, the Federal Reserve indicates it may pause additional rate cuts from here. These decreases coincide with a decrease in mortgage rates which will likely stabilize demand in the housing market. While property tax revenue growth is expected to remain positive throughout the outlook period, property tax growth is anticipated to slowly return to lower levels of growth in outer years.

Due to the dissolution of the RDA, pass–through and residual property tax payments to the City from the Redevelopment Property Tax Trust Fund (RPTTF) are included in the property tax forecast. Pass-through payments are agreements between former redevelopment areas and the local entities to provide payments from the RPTTF deposits to local entities. The residual property tax payment is the City's proportionate share of funds remaining in the RPTTF after the Recognized Obligation Payment Schedule (ROPS) requirements have been met. As ROPS obligations are paid off, residual RPTTF revenues will grow.

The following table and graph provide details on the components of the FY 2020 Adopted Budget for property tax and the forecasted property tax revenue for FY 2021 through FY 2025.

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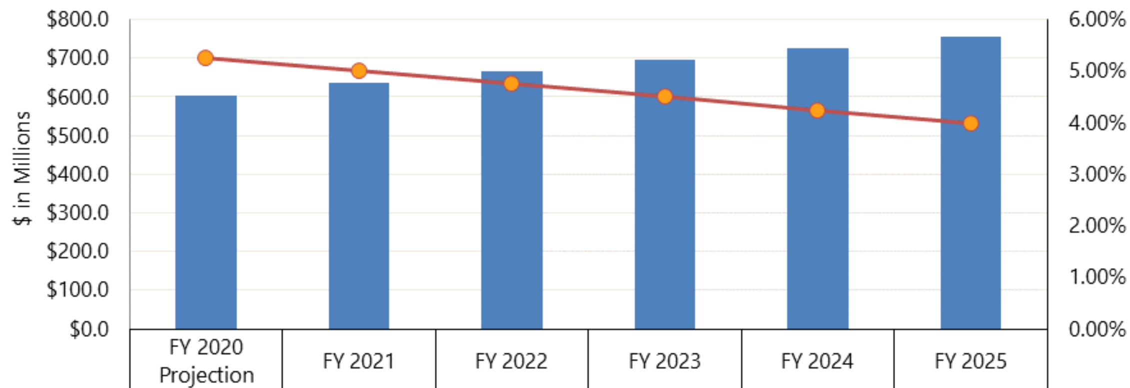
Table 2.2 - Property Tax Components ($ in Millions)							
	FY 2020 Adopted	FY 2020 Projection	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate	5.25%	5.25%	5.00%	4.75%	4.50%	4.25%	4.00%
1% Property Tax	$ 415.7	$ 417.1	$ 438.8	$ 459.2	$ 479.4	$ 499.5	$ 519.2
MVLF Backfill	$ 153.5	$ 154.2	$ 161.9	$ 169.6	$ 177.2	$ 184.8	$ 192.2
RPTTF Pass-Through Tax Sharing Payment	$ 8.0	$ 8.5	$ 9.0	$ 9.4	$ 9.8	$ 10.2	$ 10.6
RPTTF Residual Property Tax Payment	$ 24.7	$ 24.9	$ 26.5	$ 28.4	$ 30.2	$ 32.1	$ 33.9
Total Property Tax Projection	$ 601.9	$ 604.7	$ 636.1	$ 666.5	$ 696.7	$ 726.6	$ 755.9

Figure 2.4 - Property Tax Revenue Projections: Fiscal Years 2021 - 2025
Projections including Redevelopment Property Tax Trust Fund (RPTTF)



	FY 2020 Projection	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Projection	$ 604.7	$ 636.1	$ 666.5	$ 696.7	$ 726.6	$ 755.9
Growth Rate	5.25%	5.00%	4.75%	4.50%	4.25%	4.00%

Scenario Analysis

The factors described above were used in the development of the projection; however, should one or several of these factors not perform as projected, property tax revenues will vary from the current projection. To account for variances in these factors, “High” and “Low” projections were also prepared utilizing analysis of historical property tax receipts. Figure 2.5 reflects the current scenario as well as the “High” and “Low” scenario. In addition, Table 2.3 details the assumed growth rates for each scenario for FY 2021 through FY 2025.

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Figure 2.5 - Property Tax Revenue Five-Year Forecast: Fiscal Years 2021 - 2025

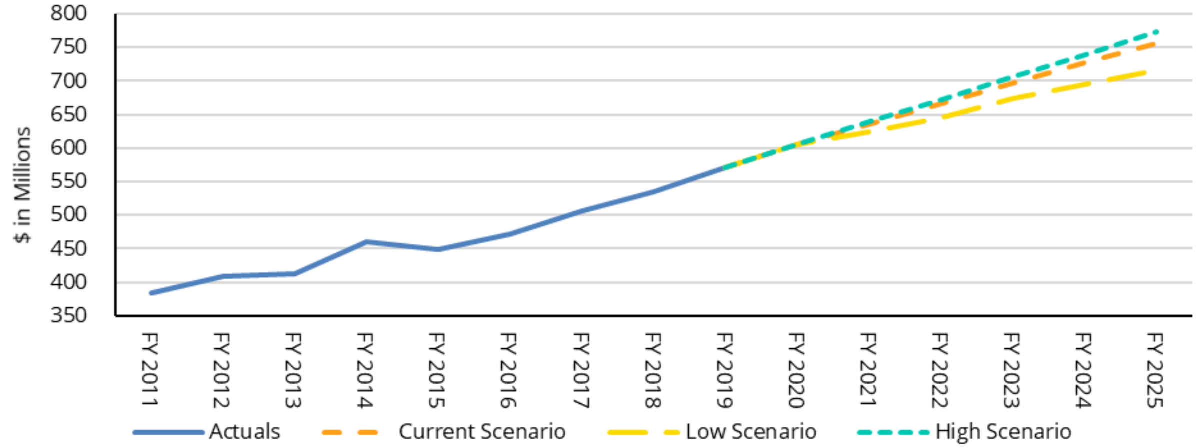

Table 2.3 - Property Tax Five-Year Forecast: Growth Rate Scenarios					
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Current Growth Rate	5.00%	4.75%	4.50%	4.25%	4.00%
High Growth Rate	5.50%	5.25%	5.00%	4.75%	4.50%
Low Growth Rate	3.00%	3.00%	3.00%	3.00%	3.00%

The “Low” scenario assumes that mortgage interest rates will increase rapidly over the next five years. Increased mortgage rates raise the cost of home ownership, thereby slowing the number of home sales and median home price growth. Further, contributing to the “Low” scenario is existing higher prices changing home ownership behavior reducing turnover, and therefore reduced growth in assessed valuation. Higher interest rates and lower turnover will result in lower annual assessed valuation growth rates for FY 2021 through FY 2025 of 3.0 percent across all years. A “Low” scenario would reduce property tax projections by $11.2 million in FY 2021 and a cumulative total of $127.4 million throughout the outlook period.

A “High” scenario is projected to exist should homes sales and valuations continue at the current levels, with slightly restrained growth. In this scenario, interest rates would rise slowly over the next several years, continuing high demand for housing and tightening inventory, further fueled by continued growth in higher income labor markets. The projections in this scenario reflect higher levels of growth similar to those seen in recent years, while slowing in later years. A “High” scenario would increase property tax projections by $2.8 million in FY 2021 and a cumulative total of $48.0 million throughout the outlook period.

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

Lastly, there are two outstanding legal challenges that may influence the property tax forecast for the City. First, a dispute between the County of San Diego and various local entities regarding how the RPTTF residual payments are calculated and distributed every six months. The trial court's decision in favor of the City and other local entities is currently on appeal, and an appellate court ruling is anticipated to occur sometime in 2020. If the trial court's decision is upheld, the City would be compensated for any past underpayment of RPTTF residual amounts and would receive an increase in RPTTF residual payments going forward throughout the outlook period.

The second dispute involves the San Diego County Office of Education and other school districts against numerous city successor agencies including the City of San Diego Successor Agency regarding the distribution of funds from the RPTTF to taxing entities. In the event of the school districts receiving a favorable decision, this may result in an increased liability to the City.

Sales Tax

The City's second largest revenue source is sales tax and represents 19.2 percent of the General Fund FY 2020 Adopted Budget. Sales tax is collected at the point of sale, and remitted to the California Department of Tax and Fee Administration, which allocates tax revenue owed to the City in monthly payments. Sales tax revenue also includes online sales from out-of-state businesses that meet a threshold in cumulative sales and delivers goods into California. The total citywide sales tax rate in San Diego is 7.75 percent, of which the City receives 1.0 percent of all point of sale transactions within the City.

Forecast

The following table displays the budget and year-end projection for FY 2020 as well as the forecast for FY 2021 through FY 2025 for revenue from sales tax. As discussed in the FY 2020 First Quarter Budget Monitoring Report, the FY 2020 projection for sales tax of $300.6 million includes a $2.8 million increase over the FY 2020 Adopted Budget of $297.9 million due to the delayed distribution of sales tax to the City as a result of complications with the California Department of Tax and Fee Administration's (CDTFA) new sales tax reporting software system. These adjustments are accounted for in the baseline projections. Further, as discussed in the FY 2020 First Quarter Budget Monitoring Report, the growth rate has been increased from 3.75 percent to 3.90 percent due to revised projections from the City's sales tax consultant, which reflect the most likely scenario.

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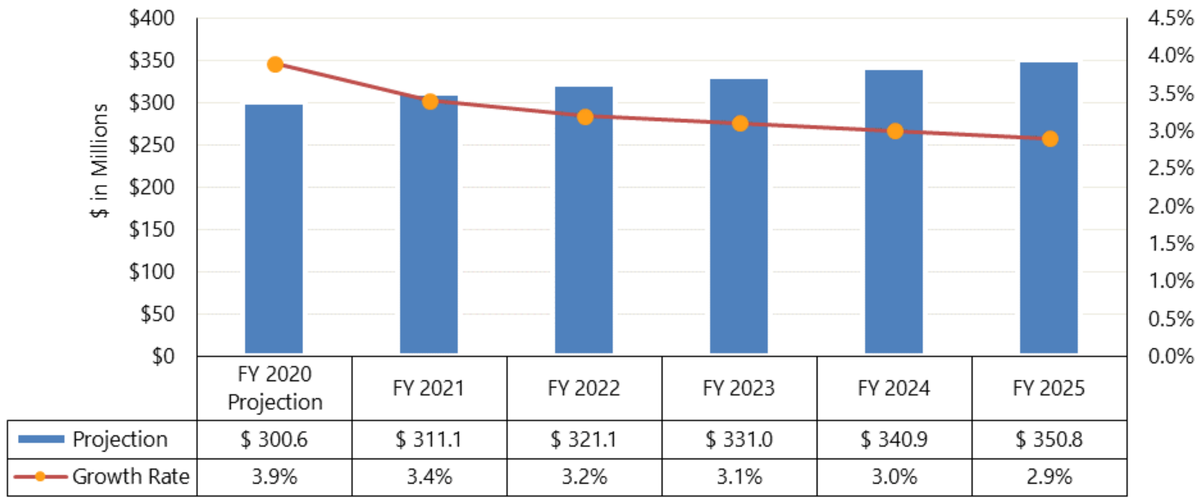
Table 2.4 - Sales Tax Five-Year Forecast ($ in Millions)							
	FY 2020 Adopted	FY 2020 Projection	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate	3.75%	3.90%	3.40%	3.20%	3.10%	3.00%	2.90%
Projection	$ 297.9	$ 300.6	$ 311.1	$ 321.1	$ 331.0	$ 340.9	$ 350.8

Figure 2.6 - Sales Tax Revenue Projection: Fiscal Years 2021 - 2025



Economic Trends

The major local economic drivers of the City's sales tax include the unemployment rate, consumer confidence, and consumer spending. As of September 2019, the City unemployment rate was 2.6 percent, compared to a rate of 3.0 percent in September 2018, as reported by the California Employment Development Department. Consumer confidence, a measurement of the consumer's willingness to spend, has experienced significant growth since 2009, reaching an all-time high of 137.9 in October of 2018, and is 125.9 as of October 2019. Consumer spending, a major driver of sales tax is dependent on the level of employment and consumer confidence.

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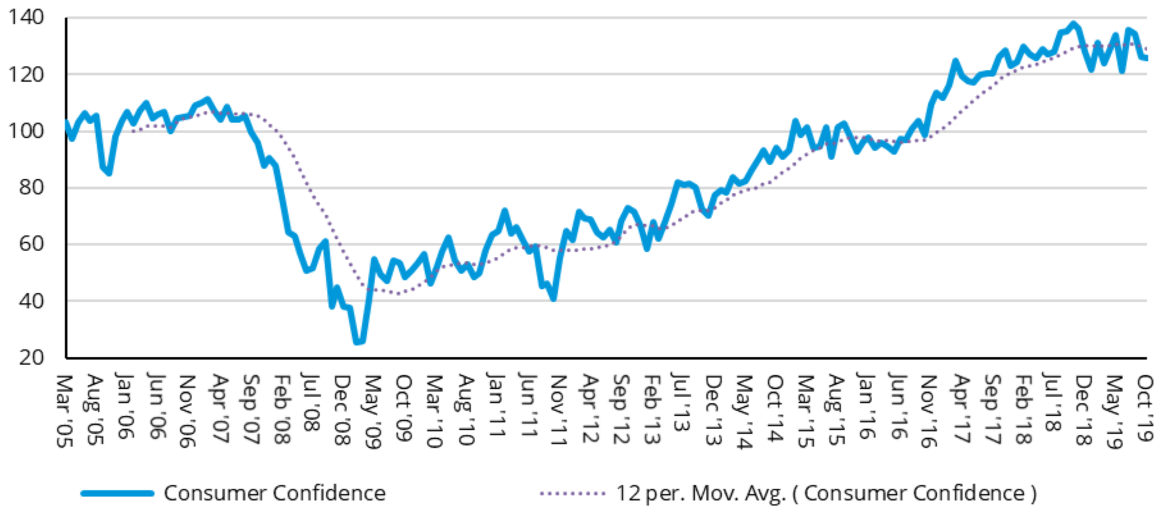
Figure 2.7 - Consumer Confidence



Source: The Conference Board – Consumer Confidence Survey ®

While consumer confidence has consistently increased over the past several years, it is unclear how long this sustained trend will continue. Furthermore, as consumers continue to shift from in-store to online sales, the City receives a smaller portion of those sales tax revenues. Sales tax revenues from online sales Countywide are distributed to the City through the county pool of funds at a current rate of 0.48 percent compared to 1.0 percent for point of sales transactions within the City.

The forecast for sales tax reflects the relative stability in employment, anticipated revenue from out-of-state online sales and consistent growth in consumer confidence. Therefore, sales tax revenue continues with moderate strength in the near term while tapering off in the outer years due to the uncertainty of sustained growth and stability. Retail sales in brick and mortar stores are expected to remain relatively flat during the outlook period. This is expected to be offset partially by growth in the county pool, reflecting the shift from brick and mortar to online sales.

The Sales Tax growth rate factors-in growth associated with the 2019 California legislation, (AB) 147, that extends the criteria for determining taxable out-of-state online sales. Per the California Department of Tax and Fee Administration (CDTFA), California will extend Sales and Use taxes to out-of-state retailers engaged in business in California and require to be registered with CDTFA and collect and remit sales tax. This includes any retailer that has total combined sales of property for delivery in California that exceed $500,000 in the preceding 12 months. This decision is projected to increase local sales tax revenues, and the potential impact is projected within the growth rates in the Outlook.

The food products category (including restaurants), and the transportation category (including fuel and automobile sales) are also expected to lead the growth in the sales tax during the outlook period.

This forecast is consistent with recent reports from the City's sales tax consultant, Avenu Insights & Analytics. Beacon Economics and UCLA Anderson Forecast have also reported that California is beginning to see a slight decrease in employment, but continues to outpace national growth in both payroll and employment rate growth primarily due to productivity gains. Additionally, housing shortages will continue to constrain growth in California.

Scenario Analysis

The factors described above combine to make up the sales tax projection; however, should one or several of these factors not perform as projected, sales tax revenues will vary from the current projection. To account for variances in these factors, "High" and "Low" projections were also prepared utilizing the most recent projections from the City's sales tax consultant. Figure 2.8 reflects the current scenario as well as the "High" and "Low" scenario. In addition, Table 2.5 details the assumed growth rates for each scenario for FY 2021 through FY 2025.

Figure 2.8 - Sales Tax Projections: Fiscal Years 2021 - 2025

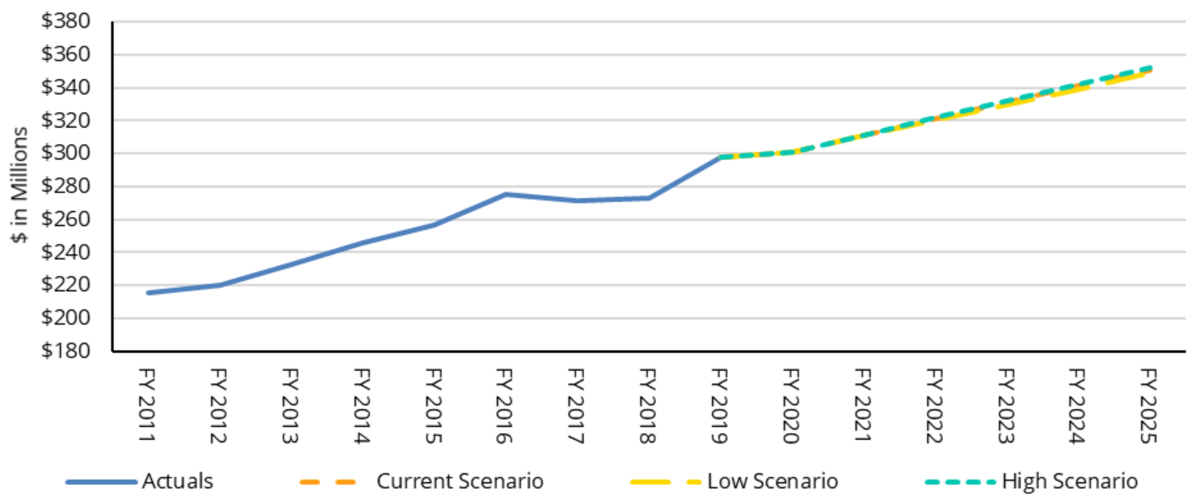


Table 2.5 - Sales Tax Five-Year Forecast: Growth Rate Scenarios					
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Current Growth Rates	3.40%	3.20%	3.10%	3.00%	2.90%
High Growth Rates	3.48%	3.28%	3.18%	3.09%	3.00%
Low Growth Rates	3.28%	3.07%	2.97%	2.88%	2.79%

The "Low" scenario reflects higher unemployment and lower consumer confidence in the local and State economies. This scenario also reflects an increased transition to online sales reducing point of sales transactions for brick and mortar stores within the City limits. The "Low" scenario also assumes a rise in the lending rates, which would increase the cost to purchase vehicles. Correspondingly, this scenario anticipates a reduction in City receipts from the auto sales industry. A "Low" scenario would reduce sales tax projections by $0.4 million in FY 2021 and a cumulative total of $46.0 million throughout the outlook period.

The "High" scenario includes sustained growth in consumer confidence, continuing low unemployment, which continues to be constrained by available labor due to housing availability and full employment already having been achieved. A "High" scenario would increase sales tax projections by $0.2 million in FY 2021 and a cumulative total of $4.1 million throughout the outlook period.

Transient Occupancy Tax (TOT)

TOT represents 8.9 percent of the City's General Fund FY 2020 Adopted Budget. TOT is levied at 10.5 cents per dollar of taxable rent for a transient's stay of less than one month. TOT is levied on properties such as hotels, Short Term Residential Occupancy (STRO) locations, and Recreational Vehicle (RV) parks. The use of TOT is guided by the City's Municipal Code which stipulates that of the 10.5 cents of collected TOT, 5.5 cents is to be applied toward general governmental purposes, 4.0 cents towards promoting the City as a tourist destination, and the remaining 1.0 cent towards any purposes approved by the City Council. TOT from RV parks are levied at 10.5 cents which is directed entirely towards general governmental purposes.

Forecast

The following table displays the budget and year-end projection for FY 2020 and the forecast for FY 2021 through FY 2025 for revenue from TOT. The FY 2020 projection for total citywide TOT receipts is $259.8 million. The General Fund's 5.5 cent portion of total TOT projected receipts is $136.6 million and serves as the base for the Outlook projections. Consistent with the FY 2020 First Quarter Budget Monitoring Report, the FY 2020 Adopted Budget growth rate of 3.0 percent remains unchanged.

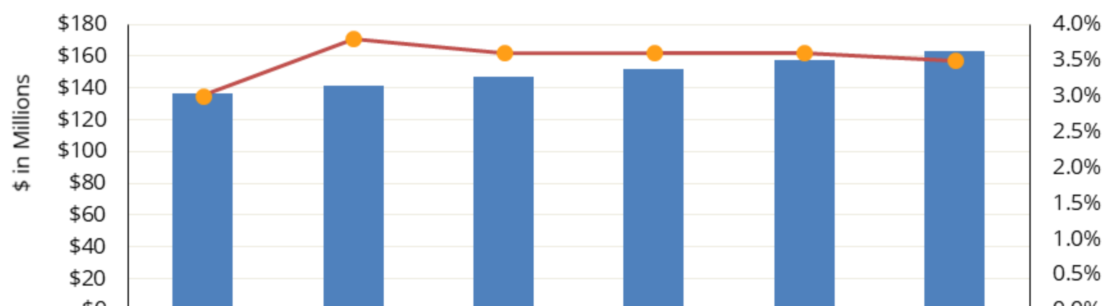
Table 2.6 - Transient Occupancy Tax (TOT) Five-Year Forecast ($ in Millions)

	FY 2020 Adopted	FY 2020 Projection	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate	3.0%	3.0%	3.8%	3.6%	3.6%	3.6%	3.5%
Projection	$ 136.9	$ 136.6	$ 141.8	$ 146.9	$ 152.2	$ 157.6	$ 163.1

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

The five-year forecast for TOT was calculated using historical actuals and relevant economic indicators. Figure 2.9 below represents the growth rates generated by the analysis which were then applied to actual and projected TOT receipts

Figure 2.9 - Transient Occupancy Tax (TOT) General Fund Revenue Projection: Fiscal Years 2021 - 2025



	FY 2020 Projection	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Projection	$ 136.6	$ 141.8	$ 146.9	$ 152.2	$ 157.6	$ 163.1
Growth Rate	3.0%	3.8%	3.6%	3.6%	3.6%	3.5%

As depicted in Figure 2.9, TOT revenue is projected to have continued but tempered growth for the five-year period. The FY 2021 growth rate is expected to increase to 3.8 percent from the FY 2020 Adopted Budget growth rate as a result of a projected increase in the average daily room rate and the projected increase in the total supply of hotel rooms in the City through FY 2021. The growth rates for TOT are projected to reduce from 3.8 percent in FY 2021 to 3.5 percent in FY 2025.

Economic Trends

The primary economic drivers for TOT revenues are room rates, occupancy, and overnight visitor growth. According to the San Diego County Travel Forecast, prepared for the San Diego Tourism Authority (SDTA) by Tourism Economics, overnight visits, room supply, and room demand are projected to reflect steady but restrained growth in calendar year 2019 and part of 2020 before experiencing an easing of growth in the outer years of the Outlook. This is depicted by calendar year in the table below.

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

	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024
Visits	2.20%	2.20%	2.00%	1.90%	1.90%
Overnight Visits	1.80%	1.70%	1.40%	1.60%	1.60%
Room Supply	2.1%	2.0%	1.8%	2.4%	2.4%
Room Demand	1.8%	1.7%	1.8%	2.3%	2.3%
Occupancy	77.2%	77.0%	77.1%	77.0%	77.0%
Avg. Daily Room Rate	$ 172.84	$ 176.71	$ 180.49	$ 184.67	$ 184.67

Source: San Diego County Tourism Authority and Tourism Economics

The City is projected to see continued growth in TOT revenue due to projected long-term increases in the supply of rooms and room rates; however, at a slower rate of growth in the upcoming fiscal years.

Scenario Analysis

The factors described above combine to make up the TOT projection; nonetheless, any changes to major economic drivers or indicators could have a corresponding change in TOT revenues. To account for variances in these factors, "High" and "Low" projections were prepared utilizing data for various primary economic drivers provided by the SDTA. Figure 2.10 reflects the current scenario as well as the "High" and "Low" scenario. In addition, Table 2.8 details the assumed growth rates for each scenario for FY 2021 through FY 2025.

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Figure 2.10 - Transient Occupancy Tax (TOT) Projections: Fiscal Years 2021 - 2025

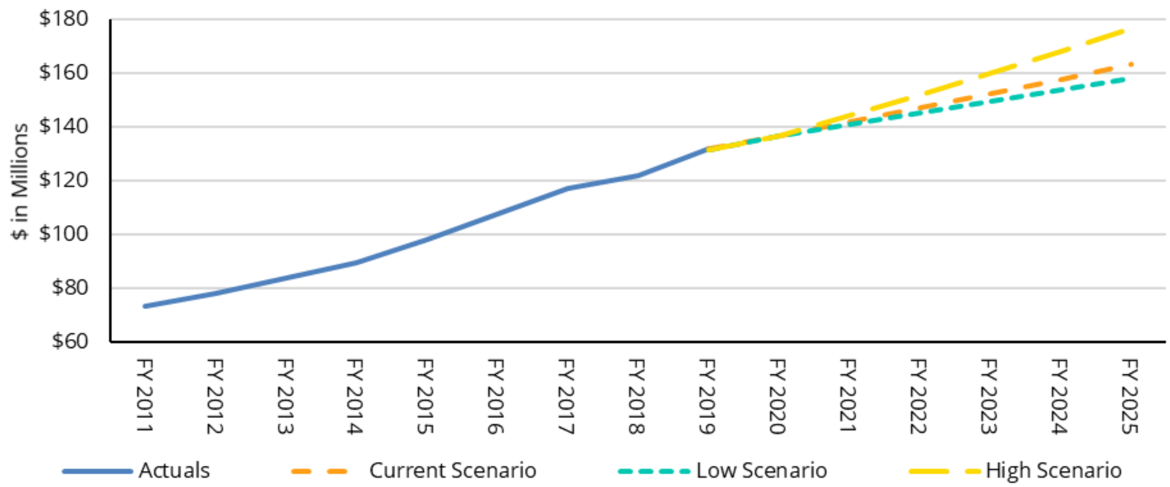

Table 2.8 - Transient Occupancy Tax (TOT) Five-Year Forecast: Growth Rate Scenarios

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Current Growth Rates	3.80%	3.60%	3.60%	3.60%	3.50%
High Growth Rates	5.53%	5.38%	5.24%	5.12%	5.01%
Low Growth Rates	3.07%	3.02%	2.97%	2.92%	2.88%

An analysis comparing historical TOT activity to hotel and visitor data (TOT Indicators) was prepared to develop a model to be used in conjunction with the San Diego Tourism Authority's forecast to develop the current TOT forecast as well as a "High" and "Low" scenario.

The "Low" forecast looked at long-term TOT indicators which included periods of low or negative growth and applied the averages over the long-term of each TOT indicator to the model to forecast TOT growth rates. A "Low" scenario would reduce TOT projections by $1.0 million in FY 2021 and a cumulative total of $14.5 million throughout the outlook period.

The "High" forecast assumed the continuation of activity similar to past five years which had sustained strong growth in TOT revenues. The averages of each TOT indicator during this period were applied to the model to generate the "High" growth rates. A "High" scenario would increase TOT projections by $2.4 million in FY 2021 and a cumulative total of $38.9 million throughout the outlook period.

Franchise Fees

Revenue from franchise fees makes up 5.3 percent of the City's General Fund FY 2020 Adopted Budget. Theses revenues are based on agreements with private utility companies in exchange for the use of the City's rights-of-way.

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

Forecast

The following table displays the budget and year-end projection for FY 2020 and the forecast for FY 2021 through FY 2025 for revenue from franchise fees. The FY 2020 Adopted Budget for franchise fees of $82.0 million serves as the base for the Outlook projections. For the FY 2020 First Quarter Budget Monitoring Report, there is a slight decrease in the franchise fee for cable provider revenue based on FY 2019 actual revenues.

Table 2.9 - Franchise Fees Five-Year Forecast ($ in Millions)

	FY 2020 Adopted	FY 2020 Projection	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
SDG&E Electricity Growth Rate	3.20%	3.20%	4.27%	3.94%	3.94%	3.20%	3.20%
SDG&E Gas Growth Rate	N/A	N/A	0.5%	0.5%	0.5%	0.5%	0.5%
Cable Growth Rate	-2.20%	-2.20%	-2.50%	-2.80%	-2.80%	-2.80%	-2.20%
Projection	$ 82.0	$ 81.8	$ 84.1	$ 86.0	$ 87.9	$ 89.6	$ 91.4

Franchise fee growth rates were projected utilizing historical year-end actuals. These growth rates were then applied to FY 2020 first quarter projection and each subsequent year to develop the five-year projections.

Economic Trends

SDG&E and cable companies are the largest contributors to Franchise Fees, generating approximately 80.5 percent of Franchise Fee revenue. The growth rate for SDG&E electricity sales is expected to be higher than previous Outlooks with decreased growth in the outer years, while the growth rate for SDG&E gas sales is expected to stay constant at 0.5 percent. The electricity increase is primarily due to forecasting electricity and gas rates separately to capture the differences in market, technology, and policy trends. Increased revenue from SDG&E electricity is expected to be constrained in the outer years due to anticipated changes in SDG&E's rate structure that will occur in the early years of the Outlook. Franchise fees from cable companies are expected to decrease due to the increasing loss of market share to digital competitors such as Netflix, Hulu, and Amazon. Cable franchise fees are expected to decrease from 2.5 percent up to 2.8 percent during the outlook period. The increasing loss of market share is expected to continue in the outer years as several new digital content providers are expected to enter the market and significantly impact the cable market share. The forecast for cable revenue assumes the current franchise fee agreement.

Scenario Analysis

The factors described above combine to make up the franchise fees projection; however, should one or several of these economic factors not perform as projected, franchise fee revenues will vary from the current projection. Other potential impacts to revenue from the sale of electricity and gas include a change in rates or consumption, SDG&E's current expansion of Electric Vehicle (EV) infrastructure, and changes to the gas and electricity franchise agreement that is set to expire by January 2021. It should be noted, once Community Choice Aggregation (CCA) becomes operational, there may be potential impacts to franchise fee revenue, potential savings in City energy costs, or other impacts that are unknown at this time. For cable revenue, variances in content ownership, media advertising, subscription levels, and pricing may also impact franchise fee growth. It should be noted that adequate data sets on these individual factors for all San Diego cable companies are not yet available to City Staff. As a result, cable projections are based on historical actuals and overall fluctuations in these factors.

Property Transfer Tax

Property transfer tax is levied on the sale of real property. The County of San Diego collects $1.10 per $1,000 of the sale price when any real property is sold, of which the City receives half, or $0.55 per $1,000. Property Transfer Tax revenue is remitted to the City monthly and represents 0.7 percent of the City's General Fund FY 2020 Adopted Budget.

Forecast

The following table displays the FY 2020 Adopted Budget and the forecast for FY 2021 through FY 2025 for property transfer tax. The FY 2020 projection for property transfer tax is projected as budgeted in the FY 2020 Adopted Budget and serves as the basis for the Outlook projections.

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

	FY 2020 Adopted	FY 2020 Projection	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate	-2.2%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 10.3	$ 10.9	$ 10.9	$ 10.9	$ 10.9	$ 10.9	$ 10.9

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

Economic Trends

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

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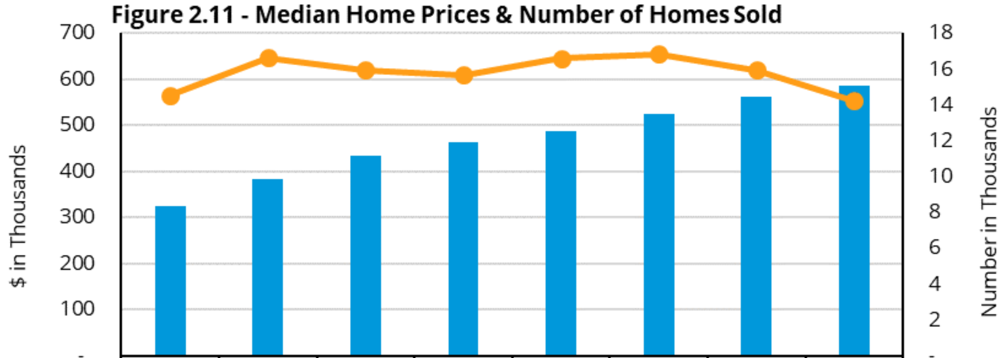
Figure 2.11 - Median Home Prices & Number of Homes Sold



	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Median Home Price	323,896	384,167	434,218	464,375	488,188	524,208	562,917	585,000
Number of Homes Sold	14,539	16,639	15,950	15,669	16,597	16,829	15,952	14,243

Source: DQNews/CoreLogic

Licenses and Permits

The Licenses and Permits category includes revenue associated with regulating certain activities within the City and other revenues such as business certificate fees, rental unit certificate fees, parking meter collections, alarm permit fees, and special event permits. Licenses and Permits represent 2.2 percent of the City's General Fund FY 2020 Adopted Budget.

The following table displays the FY 2020 Adopted Budget and the forecast for FY 2021 through FY 2025 for revenue from licenses and permits.

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

	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate		2.58%	2.58%	2.58%	2.58%	2.58%
Projection	$ 34.7	$ 42.8	$ 46.5	$ 48.8	$ 51.5	$ 55.2

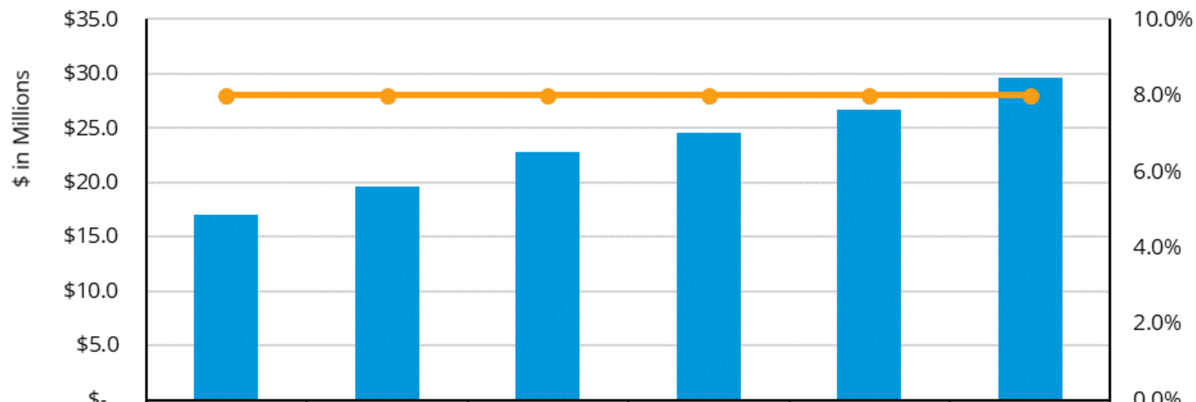
A constant growth rate of 2.58 percent is applied from FY 2021 to FY 2025. The Outlook reflects revenue adjustments based on nine years of historical data as well as projections from Cannabis Tax.

Cannabis Tax

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

As reported in the FY 2020 First Quarter Report, cannabis business tax is projecting an increase of $4.8 million in FY 2020. Since the development of the FY 2020 Adopted budget, there has been an increase in the number of outlets operating within the City. In addition, the increase is due to taxable gross receipts due to restricting medical exemption to customers who only possess a State Issued Medical Marijuana Identification Card, all ancillary products being sold by outlets are now being taxed, and compliance efforts in registering business based outside our jurisdiction that conduct cannabis business activities. To develop the Outlook projections, sales data from existing cannabis outlets from June 2018 through July 2019 were used to develop an average of monthly taxable sales per outlet. This figure was then scaled to the number of dispensaries projected in each fiscal year and the tax rate of 8.0 percent applied. The projection for cultivation, manufacturing, and distribution of cannabis was calculated following a similar methodology. As the industry matures, the City will continue to monitor and update projections from all cannabis businesses.

Figure 2.12 Cannabis Tax
Fiscal Years 2021 - 2025



	FY 2020 Proj	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Cannabis Tax	$17.0	$19.7	$22.8	$24.5	$26.6	$29.7
Tax Rate	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%

Fines, Forfeitures, and Penalties

The Fines, Forfeitures, and Penalties category includes revenue generated from the violation of laws or regulations, such as California Vehicle Code violations, City parking and ordinance violations, negligent impounds, collection referrals, and litigation awards. This revenue source represents approximately 2.0 percent of the City's General Fund FY 2020 Adopted Budget.

The following table displays the FY 2020 Adopted Budget and the forecast for FY 2021 through FY 2025 for revenue from fines, forfeitures, and penalties.

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

	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth rate		0.25%	0.25%	0.25%	0.25%	0.25%
Projection	$ 31.1	$ 31.2	$ 31.3	$ 31.3	$ 31.4	$ 31.5

Revenue from fines, forfeitures, and penalties is projected to increase at a constant rate of 0.25 percent for FY 2021 through FY 2025 based on historical averages.

Revenue from Money and Property

The Revenue from Money and Property category primarily consists of interest from city investments and rental revenue generated from City-owned properties including Mission Bay, Pueblo Lands, and the Midway properties. This revenue source represents 4.0 percent of the City's General Fund FY 2020 Adopted Budget.

The following table displays the FY 2020 Adopted Budget and the forecast for FY 2021 through FY 2025 for the Revenue from Money and Property category.

Table 2.13 - Revenue from Money and Property Five-Year Forecast ($ in Millions)						
	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate		1.83%	1.83%	1.83%	1.83%	1.83%
Projection	$ 64.4	$ 65.5	$ 65.7	$ 66.0	$ 64.5	$ 68.7

A growth rate of 1.83 percent is applied from FY 2021 to FY 2025 based on the annual growth rate from historical revenues. Within this category, interest on pooled investments, office space rent, and Mission Bay Park Concessions are projected separately from the 1.83 percent growth rate and then aggregated with other revenue from money and property.

Interest on pooled investments was projected on the current General Fund participation level in the treasury pool and then anticipated interest earning rates are applied to those amounts.

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

Revenue from money and property includes revenue from Mission Bay rents and concessions which the Real Estate Assets Department projects will increase during the outlook period. Per City Charter Section 55.2, the threshold amount of $20.0 million of Mission Bay rents and concessions will remain in the General Fund. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Parks Improvement Fund and the Mission Bay Park Improvement Fund. The San Diego Regional Parks Improvement Fund is to receive 35.0 percent of revenues in excess of the threshold amount or $3.5 million, whichever is greater, with 65.0 percent or the remaining amount allocated to the Mission Bay Park Improvement Fund.

Revenue from Federal and Other Agencies

The Revenue from Federal and Other Agencies category includes Federal and State grants, and reimbursements to the City from other agencies, such as court crime lab revenue, urban search and rescue grants, and service level agreements. This revenue source represents 0.4 percent of the City's General Fund FY 2020 Adopted Budget.

Table 2.14 displays the FY 2020 Adopted Budget and the forecast for FY 2021 through FY 2025 for revenue from federal and other agencies.

Table 2.14 - Revenue From Federal and Other Agencies Five-Year Forecast ($ in Millions)						
	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 6.4	$ 6.3	$ 6.3	$ 6.3	$ 6.3	$ 6.3

A slight adjustment for grants in FY 2020 is projected within the Revenue from Federal and Other Agencies category for the FY 2021 through FY 2025 outlook period.

Charges for Services

The revenue forecasted in the Charges for Services category is primarily comprised of cost reimbursements for services rendered by the General Fund to non-general funds. This category includes the 4.0 cent TOT reimbursements to the General Fund, General Government Services Billings (GGSB), and other user fee revenues. This revenue source represents 11.4 percent of the City's General Fund FY 2020 Adopted Budget.

The following table displays the FY 2020 Adopted Budget and the forecast for FY 2021 through FY 2025 for revenue from charges for services.

Table 2.15 - Charges for Services Five-Year Forecast ($ in Millions)						
	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 176.4	$ 163.8	$ 170.6	$ 177.4	$ 177.9	$ 177.9

Charges for Services category is projecting no growth since the Outlook does not assume any citywide salary adjustments as discussed earlier in the report. While the estimated growth rate is zero within this category, there is a reduction in revenue in FY 2021 primarily due to the following one-time revenue in FY 2020:

- $10.9 million for the transfer of TOT excess fund balance
- $0.8 million for the reimbursement for disparity study from the Engineering & Capital Projects Fund
- $0.5 million for the reimbursement for supplemental environmental projects- Regional Water Quality Control Board

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Other Revenue

The Other Revenue category includes library donations, ambulance fuel reimbursements, corporate sponsorships, and other miscellaneous revenues. This revenue source represents 0.2 percent of the City's General Fund FY 2020 Adopted Budget.

The following table displays the FY 2020 Adopted Budget and the forecast for FY 2021 through FY 2025 for revenue from other sources.

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

	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 3.2	$ 2.7	$ 2.7	$ 2.7	$ 2.7	$ 2.7

The growth rate for Other Revenue is projected to remain flat for all five fiscal years. However, beginning in FY 2021, Other Revenue will decrease by $0.5 million in FY 2021 due to the end of a $10.0 million donation from the Friends of the Library to support the operations of the New Central Library. This donation was allocated $2.0 million annually for FY 2014 through 2017, $1.0 in FY 2018, and $0.5 million in FY 2019 and $0.5 million in FY 2020.

Transfers-In

The Transfers-In category primarily represents transfers to the General Fund from non-general funds. The major components in this category are transfers from the Public Safety Services Fund, storm drain fees, gas taxes and TransNet funds, the one-cent TOT revenue transfer from the TOT Fund, backfill of the tobacco securitized revenue, and reimbursement of the services performed by Public Works–Facilities employees for the maintenance of the stadium. This revenue source represents 6.7 percent of the City's General Fund FY 2020 Adopted Budget.

Table 2.17 displays the FY 2020 Adopted Budget and the forecast for FY 2021 through FY 2025 for revenue from Transfers-In.

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

	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 104.1	$ 99.7	$ 97.9	$ 99.2	$ 100.5	$ 101.9

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

The projections are developed from the baseline that includes removal of $4.8 million in one-time revenues from the FY 2020 Adopted Budget associated with the transfer of excess Long-Term Disability reserves.

Safety sales tax reimbursements to the Police and Fire-Rescue Departments are projected to increase consistent with sales tax revenue, as this revenue is a component of the citywide sales tax rate. Safety sales tax revenue is derived from a half-cent sales tax resulting from the enactment of Proposition 172 in 1994. Annually, a certain amount of safety sales tax revenue is allocated to the Fire and Lifeguard Facilities Fund for the payment of debt obligations associated with Fire and Lifeguard facility improvements. The remaining revenue is distributed to the General Fund equally between the Police and Fire-Rescue Departments' budgets to support public safety needs.

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Baseline General Fund Expenditures

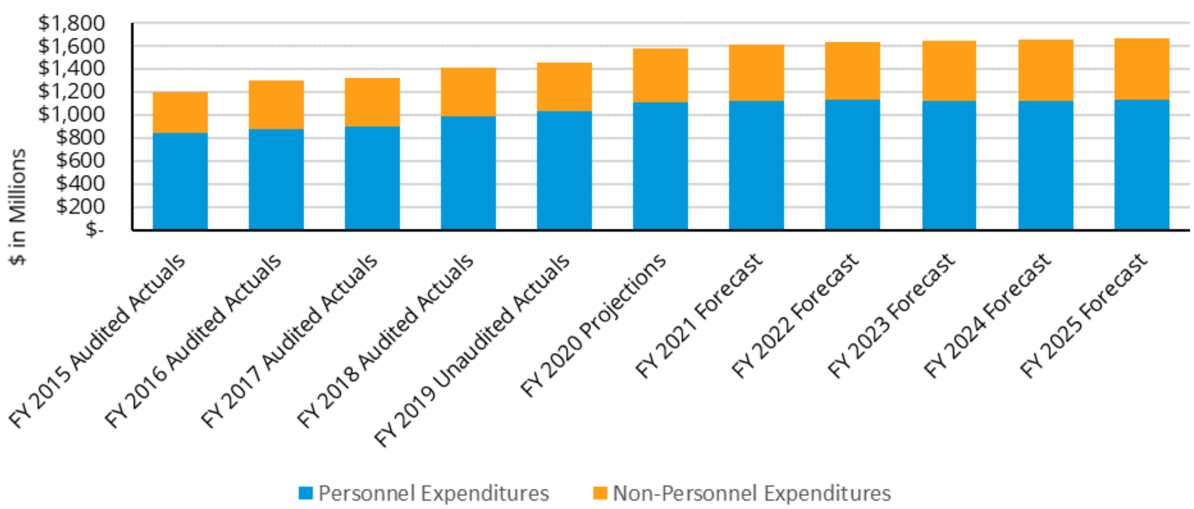
General Fund expenditures are comprised of both personnel and non-personnel expenditures including debt service and other non-discretionary payments. Unless otherwise noted, baseline projections assume growth based upon the FY 2020 Adopted Budget with the removal of one-time expenditures. One-time expenditures that have been removed from the baseline projections are detailed in Attachment 2: One-Time Resources and Expenditures.

Personnel expenditures represent 69.9 percent of the City's General Fund FY 2020 Adopted Budget. This section discusses the following key components of personnel expenses: Salaries and Wages; the City's annual pension payment or Actuarially Determined Contribution (ADC); flexible benefits, retiree healthcare or Other Post-Employment Benefits (OPEB); workers' compensation; Supplemental Pension Savings Plan (SPSP); and other fringe benefits. Baseline personnel expenses are projected to increase during the outlook period, primarily due to the inclusion of pensionable and non-pensionable compensation increases resulting from agreements in previous fiscal years between the City and its REOs.

Projections for ongoing non-personnel expenses are also included in the baseline projections and are based on significant anticipated adjustments and historical trend analysis. Beyond inflationary increases in supplies, contracts, and energy and utilities, the most significant non-personnel expenses are for Information Technology (IT) fixed costs.

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

Figure 2.13 - Baseline Expenditures



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Salaries and Wages

The Salaries and Wages category is the largest General Fund expenditure category and is comprised of regular salaries and wages, special pays, overtime, step increases, and vacation pay-in-lieu. This category also includes adjustments related to current Memoranda of Understanding (MOU) with each of the City's REOs. The FY 2020 Adopted Budget for General Fund salaries and wages was $645.1 million and included 7,727.86 full-time equivalents (FTE). Salary increases from the FY 2020 Adopted Budget to the FY 2021 through FY 2025 projections is a result of existing contractual obligations with REOs, including special salary adjustments and anticipated salary step increases. Table 2.18 displays the FY 2020 Adopted Budget and the forecast for FY 2021 through FY 2025 for salaries and wages.

Table 2.18 - Salaries and Wages ($ in Millions)

	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Projection	$ 645.1	$ 652.7	$ 654.3	$ 652.2	$ 652.0	$ 653.2

Adjustments within the Salaries and Wages category incorporate only expenditures associated with positions included in the FY 2020 Adopted Budget. The Salaries and Wages category includes an increase of $7.0 million in FY 2021 attributed to the full-year cost of regular salary and special pays that took effect throughout FY 2020. Examples of these adjustments include the general salary increase of 5.0 percent that will take effect in January 2020 for POA members, as well as the special salary adjustments approved for select job classifications that will go in effect in January and April of 2020. Also included in the Salaries and Wages category are the estimated costs for POA's holiday credit on day-off of $2.9 million, that will be reinstated July 2020. Based on the current MOU, when an actual holiday or City-observed holiday falls on a POA employee's regularly scheduled day off, the employee will receive compensation for that day. The estimate for the reinstatement of POA's holiday credit on day off was based on the average hourly rate for all eligible POA employees affected by this change. In addition, a decrease of $2.0 million is projected in overtime costs as a result of the side letter agreement with Local 145 regarding the accumulation of annual leave hour thresholds for Local 145 members. The agreement specifies mandatory pay-in-lieu for Local 145 members who are above set hour thresholds for annual leave and ceasing to accrue annual leave until below the caps established. Therefore, the Outlook is projecting a decrease in overtime costs associated with the reduction of backfilling positions.

The current MOUs with the City's six REOs are set to expire at the end of FY 2020. This Outlook does not project for any impact of future changes to MOUs with REOs; therefore, salaries and wages forecasts are reflective of current MOU provisions. As discussed in the Other Assumptions and Considerations section, a 1.0 percent change in salaries across all MOU's could increase this category by approximately $5.92 million.

Step increases included in the Outlook are equal to the average of the amount budgeted for step increases over the past three fiscal years. The amount projected for step increases is anticipated to remain constant, at $2.3 million annually, throughout the outlook period.

The Salaries and Wages category also includes an adjustment for annual leave payouts for Deferred Retirement Option Plan (DROP) members, which are projected based on DROP participants' exit dates and projected annual leave balances. While a portion of future leave liability expense will be absorbed in departmental budgets, there remains a significant number of employees with high leave balances expected to retire over the next several years. The number of DROP participants anticipated to retire and the projected terminal leave payouts for FY 2021 through FY 2025 are displayed in Table 2.19 below.

Table 2.19 - Salaries and Wages (Annual Leave -DROP) ($ in Millions)						
	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Projected Number of Retirees	91	126	146	97	95	111
Projection	$ 2.2	$ 3.4	$ 4.5	$ 2.4	$ 2.0	$ 3.1

The number of DROP participants anticipated to retire in FY 2025 is not yet available as DROP is a five-year program. Therefore, the FY 2025 projected number of retirees and the Terminal Leave (DROP) projection are based on the averages of FY 2021 through FY 2024.

One-time adjustments to overtime totaling $4.4 million in the FY 2020 Adopted Budget have been removed to establish the baseline for the Salaries and Wages expenditure category. The one-time adjustment in overtime is primarily associated with the Clean SD expansion, which has been recommended to continue in FY 2021 as a critical strategic expenditure. Reference the Critical Strategic Expenditure section of this report for further details.

Table 2.20 - Salaries & Wages (Budgeted Overtime) ($ in Millions)						
	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Projection	$ 72.9	$ 68.5	$ 68.5	$ 68.5	$ 68.5	$ 68.5

Retirement Actuarially Determined Contribution (ADC)

The pension payment or Actuarially Determined Contribution (ADC) paid by the City on July 1, 2019 for FY 2020 was based on the San Diego City Employee's Retirement System (SDCERS) Actuarial Valuation Report prepared by the system actuary, Cheiron, as of June 30, 2018 which was released in December 2018.

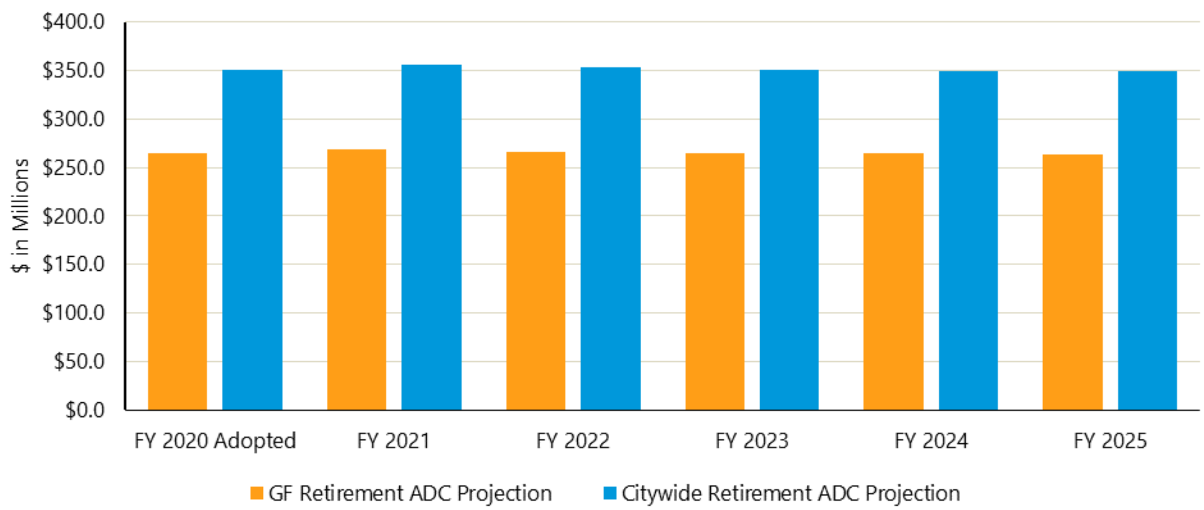
The City's FY 2020 ADC payment was $350.5 million, of which $264.8 million was allocated to the General Fund. Based on current estimates from Cheiron, the ADC for FY 2021 is projected to be $355.5 million, an increase of $5.0 million or 1.4 percent. The General Fund allocation is expected to be $268.6 million or 75.6 percent of the City's total ADC, representing an increase of $3.8 million to the General Fund. The final amount of the City's FY 2021 ADC payment will not be known until the June 30, 2019 actuarial valuation report is released, which is expected to be presented to the SDCERS Board of Administration in January 2020. It is important to note that no adjustments are projected in this report in advance of any SDCERS action, and the ADC projections in this report are based on the SDCERS Actuarial Valuation Report as of June 30, 2018.

The FY 2021 Adopted Budget will include the full ADC amount determined by the actuary in the 2019 valuation report.

Table 2.21 displays both the citywide ADC and the General Fund's proportionate share for FY 2020 through FY 2025 and is based on the SDCERS Actuary Valuation Report as of June 30, 2018.

Table 2.21 - ADC Pension Payment ($ in Millions)						
	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
GF ADC Estimate (75.6%)	$ 264.8	$ 268.6	$ 266.6	$ 265.0	$ 264.2	$ 263.6
Citywide ADC Estimate	$ 350.5	$ 355.5	$ 352.9	$ 350.7	$ 349.7	$ 348.9

Figure 2.14 - Retirement ADC



Employee Flexible Benefits

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

Flexible benefits include optional and required benefits, such as medical, dental, vision, and basic life insurance plans. For the FY 2020 Adopted Budget, $84.7 million was budgeted in flexible benefits. Table 2.22 displays the projection for flexible benefits for FY 2021 through FY 2025.

Table 2.22 - Flexible Benefits ($ in Millions)						
	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Projection	$ 84.7	$ 84.7	$ 84.7	$ 84.7	$ 84.7	$ 84.7

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

Other Post-Employment Benefits (OPEB)

Other Post-Employment Benefits (OPEB) represent the cost of retiree healthcare. The OPEB Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2018 was approximately $467.7 million and the annual required contribution was determined to be $43.4 million.

In FY 2012, the City entered a 15-year memorandum of understanding with each of the Recognized Employee Organizations regarding reforms to the retiree healthcare benefit for health-eligible employees (Healthcare MOU). The Healthcare MOU sets the City's OPEB contribution at $57.8 million for FY 2013 through FY 2015, with annual increases of up to 2.5 percent based on actuarial valuations. The City also has a trust with the California Employers' Retiree Benefit Trust (CERBT) from which it draws annually to cover the full cost of other post-employment benefits. The following table displays both the citywide OPEB projection and the General Fund's proportionate share for FY 2021 through FY 2025.

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

	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate		2.5%	2.5%	2.5%	2.5%	2.5%
GF OPEB Projection (64.7%)	$ 42.3	$ 43.4	$ 44.5	$ 45.6	$ 46.7	$ 47.9
Citywide OPEB Projection	$ 65.4	$ 67.0	$ 68.7	$ 70.4	$ 72.2	$ 74.0

The FY 2020 Adopted Budget included $42.3 million for the General Fund portion of OPEB. The General Fund portion is determined by the percentage of FTE positions budgeted within the General Fund versus non-general funds. The General Fund's proportionate share of the OPEB payment is projected to increase by 2.5 percent based on the Healthcare MOU agreement.

Workers' Compensation

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

The City's workers' compensation expenses are comprised of two components. Operating expenses are the first component, which covers the costs of current medical expenses and claims. The second component covers contributions to the Workers' Compensation Reserve. Table 2.24 displays the General Fund's projected share of 84.6 percent of Workers' Compensation expenses.

Table 2.24 - Workers' Compensation
($ in Millions)

	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Operating	$ 26.5	$ 28.4	$ 29.1	$ 29.9	$ 30.7	$ 31.4
Reserves	$ -	$ 0.1	$ 0.7	$ 0.7	$ 0.7	$ 0.8
Total	$ 26.5	$ 28.5	$ 29.8	$ 30.6	$ 31.4	$ 32.2

The baseline includes the addition of expenses due to the use of one-time fund balance of $1.4 million to provide rate relief in FY 2020. The projections for operating expenses are based on actual prior year experience and forecasted to increase by 2.58 percent annually based on the Consumer Price Index for Medical Care. Additional information on the Workers' Compensation Reserve can be found in the Reserve Contributions section of this report.

Supplemental Pension Savings Plan (SPSP)

In January 1982, the City established the Supplemental Pension Savings Plan (SPSP), a defined contribution plan. This benefit provides a way for eligible employees to supplement retirement income, with employee contributions matched by the City. Employee eligibility for SPSP is determined by hire date and labor organization. Employees hired between July 1, 2009 and July 20, 2012 are not eligible for entry into SPSP but rather were placed in a 401(a) plan. Employees other than sworn police officers hired after July 20, 2012, the effective date of Proposition B, are placed in the SPSP-H Plan, which is being used as an interim defined contribution retirement plan for benefited employees. Eligible new hires who are non-safety employees are required to contribute 9.2 percent of compensation to the plan, which is matched by a 9.2 percent employer contribution. For safety employees, the mandatory employee and matching employer contribution is 11.0 percent of compensation. The following table displays the projection for SPSP for FY 2021 through FY 2025.

Table 2.25 - Supplemental Pension Savings Plan (SPSP)
($ in Millions)

	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Projection	$ 22.2	$ 22.7	$ 22.7	$ 22.7	$ 22.7	$ 22.7

SPSP is a fringe benefit that is projected based on a percentage of employees' salaries. In the FY 2020 Adopted Budget, SPSP was approximately 3.4 percent of General Fund salaries. For the outlook period, SPSP as a percentage of salaries is projected to remain relatively consistent at 3.5 percent since the baseline for salaries and wages does not project additional new employees. New employee costs including fringe are included in Critical Strategic Expenditures. Additionally, this projection is based on the number of employees that were enrolled in the SPSP-H Plan during the development of the FY 2020 Adopted Budget. All position additions included in the Critical Strategic Expenditures section of this report assume that new employees are hired with post Proposition B plans.

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Other Fringe Benefits

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

Table 2.26- Other Fringe Benefits
($ in Millions)

	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Projection	$ 26.3	$ 28.7	$ 28.7	$ 28.7	$ 28.7	$ 28.7

The baseline includes the addition of Long-term Disability expenses due to the use of one-time fund balance of $2.7 million to provide rate relief in FY 2020. Other Fringe Benefits are projected based on a percentage of employees' salaries. In the FY 2020 Adopted Budget, Other Fringe Benefits were approximately 4.1 percent of General Fund salaries. For the outlook period, that percentage is projected to be consistent at 4.4 percent. Slight increases during the outlook period are a result of salary increases included within the Salaries and Wages category.

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Supplies

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

Table 2.27 - Supplies ($ in millions)						
	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate		4.6%	4.6%	4.6%	4.6%	4.6%
Projection	$ 27.3	$ 30.9	$ 32.3	$ 33.8	$ 35.4	$ 36.7

The FY 2020 Adopted Budget includes one-time expenditures of $0.7 million associated with supplies for the Fire-Rescue Department's staffing model and relief pool, which includes the addition of two fire academies approved in FY 2020. The one-time expenditures are removed from the baseline and partially offset with an additional $3.0 million in expenditures previously supported by one-time use of infrastructure funds for right-of-way operations and maintenance in FY 2020. Additionally, a 4.6 percent increase has been applied based on historical average increases in the Supplies category over the past several years.

Contracts

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

Table 2.28 - Contracts ($ in Millions)						
	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate		3.9%	3.9%	3.9%	3.9%	3.9%
Projection	$ 246.9	$ 247.9	$ 256.8	$ 267.8	$ 279.3	$ 291.6

An annual growth rate of 3.9 percent is applied based on a historical analysis. Adjustments are made to the baseline for known and anticipated events including known public liability insurance costs, and pre-programed Parks Master Plan wind down. The FY 2020 Adopted Budget included $11.3 million in one-time expenditures within the Contracts category. The following summarizes the majority of one-time expenditures that have been removed from the baseline projections:

- $2.7 million in expenditures to expand the Clean SD program
- $2.2 million to support the City's contractual agreement with the San Diego Humane Society for animal services
- $1.5 million for community projects, programs, and services (CPPS) which are calculated based on savings from the prior year budget
- $1.0 million for consultant costs associated with the San Diego Gas and Electric (SDG&E) negotiations. SDG&E currently operates under a 50-year City franchise agreement that is set to expire by January 2021

- $0.80 million for a citywide disparity study. This analysis is done with the intent of identifying any gaps in an agency's contracting with traditionally underrepresented groups and includes recommendations on how to remedy those gaps
- $0.70 million in additional moving expenses associated with the 101 Ash Street building
- $0.50 million in additional one-time vehicle purchases for the support of Parks and Recreation new facilities
- $0.45 million in net expenses for citywide election costs

This is offset with an additional $2.6 million for public liability claims/non-claims included as a one-time use of Public Liability Reserves in FY 2020. This one-time adjustment has been added back to the baseline projection to be accounted for in outlying years.

Information Technology

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

Table 2.29 - Information Technology ($ in Millions)

	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate		20.2%	2.5%	-0.7%	0.3%	-1.2%
Projection	$ 39.1	$ 47.0	$ 48.1	$ 47.8	$ 47.9	$ 47.4

Base IT costs are inflated by the California Consumer Price Index. An adjustment to the FY 2020 Adopted Budget for one-time miscellaneous IT costs of $0.8 million serves as the baseline for this category.

The FY 2021 forecast has an increase of $7.9 million associated with non-discretionary IT costs which include desktop support, networks bandwidth, data-centers, cyber security, cloud transformation, and applications. These costs are independently forecasted from base IT costs, since these costs include planned transition and end-of-life equipment replacement which changes from year to year. These estimates are developed assuming that City will maintain the core levels of IT security and services.

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Energy and Utilities

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

Table 2.30 - Energy and Utilities
($ in Millions)

	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate		7.7%	3.5%	3.8%	3.8%	3.5%
Projection	$ 51.5	$ 53.2	$ 55.1	$ 57.2	$ 59.3	$ 61.4

The Energy and Utilities category includes various costs. Each cost component has a different applicable growth rate. The rates for each category, excluding water and wastewater rates, are based on the Annual Energy Outlook 2019 Report prepared by the U.S. Energy Information Administration. Fuel growth rates range from 2.8 percent to 10.0 percent depending on the year and the type of fuel. Electrical growth rates range from 3.7 percent to 6.2 percent. The City's Public Utilities Department determined the water and wastewater growth rates.

The growth rates for the Energy and Utilities category represent a weighted growth rate that was calculated after applying the corresponding growth rate for each component.

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Reserve Contributions

The City's Reserve Fund Policy requires that reserve funds are maintained at certain levels. The City's Reserves include the General Fund Reserve (Emergency Reserve and Stability Reserve), Pension Payment Stabilization Reserve, Public Liability Fund Reserve, Long-Term Disability Fund Reserve, and Workers' Compensation Fund Reserve. The City also maintains other reserves for various enterprise funds which are not included in this report. The Outlook includes annual contributions that fully fund the General Fund reserves to their targeted levels in the City's Reserve Policy.

Table 2.31 details the FY 2020 projected reserve balance in the funds, the percentage targets, and contribution forecasted to maintain the City's reserve funds.

Table 2.31 - Reserve Target Levels
($ in Millions)

	FY 2020 Proj.	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
General Fund Target (%)	15.50%	15.75%	16.00%	16.25%	16.50%	16.70%
General Fund Reserve Level ($)	$ 205.7	$ 218.5	$ 231.8	$ 243.2	$ 255.9	$ 268.1
General Fund Contribution Amount	$ 11.9	$ 12.8	$ 13.3	$ 11.5	$ 12.7	$ 12.2
Pension Stability Target (%)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Pension Stability Reserve Target ($)	$ 26.6	$ 27.4	$ 28.2	$ 28.2	$ 28.1	$ 28.0
Pension Stability Reserve Level Projection ($)	$ 10.6	$ 16.5	$ 22.6	$ 28.2	$ 28.1	$ 28.0
Pension Stability Contribution Amount	$ 10.6	$ 5.8	$ 6.1	$ 5.7	$ -	$ -
Pension Stability Contribution Amount (GF)	$ 4.3	$ 4.5	$ 4.7	$ 4.3	$ -	$ -
Public Liability Target (%)	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Public Liability Reserve Level Goal ($)	$ 32.1	$ 32.1	$ 32.1	$ 32.1	$ 32.1	$ 32.1
Public Liability Reserve Level Projection ($)	$ 32.1	$ 32.1	$ 32.1	$ 32.1	$ 32.1	$ 32.1
Public Liability Contribution Amount	-	-	-	-	-	-
Long-Term Disability Fund Target (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Disability Fund Reserve Target($)	$ 3.9	$ 3.9	$ 3.9	$ 3.9	$ 3.9	$ 3.9
Long-Term Disability Fund Reserve Level Projection ($)	$ 3.9	$ 3.9	$ 3.9	$ 3.9	$ 3.9	$ 3.9
Long-Term Disability Contribution Amount	-	-	-	-	-	-
Workers' Compensation Target (%)	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Workers' Compensation Reserve Target ($)	$ 31.9	$ 32.4	$ 33.2	$ 34.0	$ 34.9	$ 35.8
Workers' Compensation Reserve Level Projection ($)	$ 32.2	$ 32.4	$ 33.2	$ 34.0	$ 34.9	$ 35.8
Workers' Compensation Contribution Amount	$ -	$ 0.2	$ 0.8	$ 0.9	$ 0.9	$ 0.9
Workers' Compensation Contribution Amount (GF)	$ -	$ 0.1	$ 0.7	$ 0.7	$ 0.7	$ 0.8

The General Fund Reserve annual contributions reflect the required amount to reach the policy target levels and meet overall target level of 16.7 percent by FY 2025.

The Pension Payment Stabilization Reserve contributions reflect the current replenishment plan. The target level of 8.0 percent will be met by FY 2023.

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

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

The Workers' Compensation Reserve currently exceeds its target levels. The Outlook projects minor General Fund contributions due to assumed incremental changes in the three-year average of outstanding actuarial liabilities.

Other Expenditures

Expenses included in this category are debt service payments, transfers-out to other funds, capital expenses, and other miscellaneous expenditures. Adjustments are made only to account for anticipated transfers, and projected debt service amounts; therefore, no growth rate is assumed for all other expenditures in this category. The following table displays the FY 2021 through FY 2025 projections for the Other Expenditures Category.

Table 2.32 - Other Expenditures

	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 72.9	$ 65.9	$ 73.1	$ 91.8	$ 89.7	$ 88.3

The one-time expenditures totaling $7.0 million included in the FY 2020 Adopted Budget and removed from the Outlook baseline are detailed below:

- $5.6 million transfer to the General Fund Capital Improvements Program
- $3.9 million one-time funding to support the Commission for Arts and Culture annual allocation

These one-time expenditures are offset with the addition of a $2.5 million associated with the use of Capital Outlay Funds for deferred capital bond debt service in FY 2020.

It is important to note that FY 2020 transfer to Commission for Arts and Culture allocation was funded by one-time General Fund Revenue to support one-time arts & culture Special Promotional Programs for FY 2020. Per the methodology used in the Outlook, the one-time restoration of the arts & culture funding is not assumed in baseline expenditures, rather it is included in the Critical Strategic Expenditures section of this report.

Charter Section 77.1 – Infrastructure Fund

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

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

- Major revenue increment – an amount equal to 50.0 percent of the year over year growth in property tax revenues, unrestricted General Fund TOT, and unrestricted franchise fees (FY 2018 through FY 2022 only)

- Sales tax increment – an amount equal to the annual change in sales tax revenue when compared to the sales tax baseline (FY 2016) as inflated by the lessor of California Consumer Price Index (CCPI) or 2.0 percent
- General Fund Pension Cost Reduction – any amount if pension costs for any fiscal year that are less than the base year (FY 2016)

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

Table 2.33- Infrastructure Deposits
($ in Millions)

	FY 2020 Adopted	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Projection	$ 24.1	$ 25.5	$ 18.7	$ -	$ -	$ -

The Infrastructure Fund is programmed on a year-by-year basis for one-time expenditures and therefore the transfer to the fund is considered one-time in nature. As a result, $24.1 million in one-time expenditures was removed from the FY 2020 Adopted Budget in developing the baseline. The Outlook then projects infrastructure deposits throughout the Outlook pursuant to the City Charter.

The FY 2021 portion of the deposit calculation from the major revenue increment is projected at $19.8 million and an additional $5.7 million for a true-up payment. The deposit calculation from the major revenue increment is only in effect for five years (FY 2018 through FY 2022). Commencing in FY 2023, no new deposits are forecasted since there are no sales tax increment or General Fund pension cost savings projected for these years.

Eligible infrastructure expenses are defined to include costs incurred in the acquisition of real property; the construction, reconstruction, rehabilitation, and repair and maintenance of infrastructure; including all costs associated with financing such expenses. The Outlook does not designate the specific uses of these funds. The FY 2021 Proposed Budget presented by the Mayor will include the programs, projects, and services to be budgeted with infrastructure funds to comply with Charter Section 77.1.

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CRITICAL STRATEGIC EXPENDITURES

The Outlook identifies future potential critical needs for the City that are supported by the General Fund. Such critical needs encompass several issues such as critical operational funding necessary for meeting core service levels and are consistent with the City's Strategic Plan. Critical strategic expenditures requests are of the highest priority and reflect the shared goals of the City Council and the Mayor. Requests that are already accounted for in the baseline projections, not fully developed, require additional prioritization, or not previously approved by the Mayor or City Council were not considered critical strategic expenditures for this report. Examples include inflationary and contractual increase requests, which are accounted for in baseline expenditure projections, personnel additions not associated with a critical strategic need, and new programs or enhancements to services that may require additional analysis and research. Any requests submitted for capital project costs, have also not been included in this report, as these requests are accounted for in the Five-Year Capital Infrastructure Planning Outlook. Departments were asked to only submit requests that meet these stringent criteria for inclusion in the Outlook. All department submissions considered in the development of the Outlook are provided to the Office of the Independent Budget Analyst for evaluation in their report.

The Outlook is a planning tool to assist in budget decisions and the allocation of General Fund resources required to meet the City's strategic goals that are critical to core services. The purpose of this section is the identification of future known needs, that are consistent with strategic initiatives supported by the Mayor and the City Council and to provide estimated fiscal impacts of those initiatives.

Total Critical Strategic Expenditures

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
Total Critical Strategic Expenditures	Dept. Total FTE	161.32	247.82	292.32	326.32	372.32
	Dept. Total Revenue	5,387,790	3,091,588	5,263,588	2,746,588	2,746,588
	Dept. Total Expense	67,893,441	91,216,459	108,449,748	118,938,143	125,892,794

The table above summarizes the total critical strategic expenditures including costs associated with citywide initiatives and departmental specific critical strategic expenditures.

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City Clerk

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
Replacement of the Electronic Voting System	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	260,000	10,000	10,000	10,000	10,000
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**260,000**	**10,000**	**10,000**	**10,000**	**10,000**

The Outlook for the City Clerk's Department supports the City's Strategic Plan to ensure equipment and technology are in place that allows employees to achieve high quality public service. The table above identifies the funding need for a replacement of the twelve-year-old voting system and audio-visual equipment in the City Council chambers. City Staff has requested additional Public, Educational, and Government access (PEG) funds that may offset the one-time costs associated with this request in FY 2021. This additional funding source is tied to cable franchise funding, which is expected to decline through the outlook period.

City Treasurer

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
Replace Legacy Delinquent Accounts System & Services	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	550,000	345,000	360,000	378,000	400,000
Collection System Replacement Reductions	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	-	(220,000)	(220,000)	(220,000)	(220,000)
Centralized Payment Processing Solution	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	180,000	210,000	240,000	165,000	185,000
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**730,000**	**335,000**	**380,000**	**323,000**	**365,000**

The Outlook for the Office of the City Treasurer supports the City's Strategic Plan to ensure equipment and technology are in place that allows employees to achieve high quality public service. The table above identifies the funding need for a comprehensive debt collection solution for delinquent accounts and a citywide payment processing platform that will allow for a consolidated online payment solution. City staff have included the expected efficiencies and corresponding reductions related to collecting funds owed for city services starting in FY 2022.

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Citywide Program Expenditures

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
Commercial Paper Expense & Long Term Borrowing Costs	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	-	7,165,633	13,416,266	13,061,266	13,416,266
Restoration of Comission for Arts & Culture Funding	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	3,949,600	3,949,600	3,949,600	3,949,600	3,949,600
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**3,949,600**	**11,115,233**	**17,365,866**	**17,010,866**	**17,365,866**

The Outlook for the citywide program expenditures identifies critical funding for General Fund financing for capital projects.

The table above includes debt service costs for $270.0 million in new financing for ongoing General Fund capital improvements program in FY 2022 through FY 2025. The borrowing amounts and debt service cost projections above assumes a long-term bond issuance in FY 2022 of $88.5 million to pay down/refund the commercial paper notes approved in FY 2018 which are expected to be issued in FY 2019. The bond issuance in FY 2025 has been increased by $4.5 million to provide for the capital financing need.

The timing of each of these bond issuances and a cost-effective financing mechanism (commercial paper or long-term bonds) will be further evaluated based on cash needs and market conditions.

In addition, the citywide program expenditures include the transfer to the Transient Occupancy Tax (TOT) Fund of $3.9 million for the continued funding to support the Commission for Arts and Culture annual allocation. The funding supports the arts, culture and community festivals programming within the City.

Environmental Services

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
Support for CleanSD	FTE	3.00	3.00	3.00	3.00	3.00
	Revenue	-	-	-	-	-
	Expense	2,900,611	2,900,611	2,900,611	2,900,611	2,900,611
	Dept. Total FTE	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**2,900,611**	**2,900,611**	**2,900,611**	**2,900,611**	**2,900,611**

The Outlook for the City's Environmental Services Department supports the City's Strategic Plan by fostering safe and livable neighborhoods that improve quality of life. The table above identifies the funding need for continued support of Environmental Services portion of CleanSD enhancements.

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Fire-Rescue

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
Fire-Rescue Staffing Model and Relief Pool To Reduce Overtime Costs	FTE	37.00	74.00	74.00	74.00	74.00
	Revenue	-	-	-	-	-
	Expense	(451,101)	(1,333,526)	(1,764,850)	(1,764,850)	(1,764,850)
Fire Stations (North University City, Black Mountain, Fairmount Avenue, and Paradise Hills)	FTE	9.00	24.00	24.00	36.00	60.00
	Revenue	-	-	-	-	-
	Expense	1,380,472	3,681,257	3,751,659	5,832,034	9,552,636
Peak Hour Engines	FTE	16.00	32.00	48.00	48.00	48.00
	Revenue	-	-	-	-	-
	Expense	2,193,840	4,387,681	6,581,520	6,581,520	6,581,520
Replace One Fire-Rescue Helicopter	FTE	-	-	-	-	-
	Revenue	-	-	2,000,000	-	-
	Expense	-	1,683,009	2,107,674	3,245,270	3,287,307
	Dept. Total FTE	**62.00**	**130.00**	**146.00**	**158.00**	**182.00**
	Dept. Total Revenue	**-**	**-**	**2,000,000**	**-**	**-**
	Dept. Total Expense	**3,123,211**	**8,418,420**	**10,676,003**	**13,893,974**	**17,656,613**

The Outlook for the City's Fire-Rescue Department supports the City's Strategic Plan to foster safe and livable neighborhoods through timely and effective response in all communities. The table above identifies the funding need for fire academies to support the constant staffing model and establish a relief pool for firefighter personnel, establishment of peak hour engines, replacement of an additional helicopter in FY 2022, and the addition of four new fire stations. The Outlook includes the operational expenses for the following new fire stations:

- FY 2021 – North University City
- FY 2022 – Black Mountain Ranch
- FY 2024 – Fairmont Avenue
- FY 2025 – Paradise Hills

The addition of 74.00 firefighter positions in FY 2022, will contribute to the staffing level need of 111.00 FTE to establish a Relief Pool and maintain the Fire-Rescue Department's constant staffing model to reduce overtime costs. The requested funding includes the addition of two one-time academies to meet the Department's constant staffing model. The costs of additional personnel and academies are offset by a reduction in overtime.

The Fire-Rescue Department has identified gaps in service and intends to fill these gaps by phasing-in six peak hour engine (PHE) companies over three years (two PHE per fiscal year) as recommended in the February 2017 Citygate Report. Coverage gaps may be predictable long-term gaps as identified in the Citygate Report or short term such as a significant incident drawing many resources, or planned event leaving certain areas with service gaps. These companies may also be used to send help to an incident instead of pulling other resources out of their home areas. This will significantly improve response time performance citywide, reducing the need to build new fire stations not already in some form of design or construction. The PHE would be in operation 12 hours per day, seven days per week.

In addition, the Fire-Rescue Department has requested the acquisition of one helicopter for the Department's Air Operations Section. The new helicopter will have a larger water tank capacity than the current model and provide additional fire safety for the community. The costs included in the

Outlook include one-time sales tax costs, and debt service payments associated with the financing of the new helicopter beginning in FY 2023, partially offset with revenue associated with the sale of the current helicopter.

Fleet Operations

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
	FTE	-	-	-	-	-
Vehicle Replacements	Revenue	-	-	-	-	-
	Expense	4,333,588	9,574,878	13,822,210	18,333,181	15,297,443
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**4,333,588**	**9,574,878**	**13,822,210**	**18,333,181**	**15,297,443**

The Outlook for the City's Fleet Operations Department supports the City's Strategic Plan to ensure equipment and technology are in place so that employees can achieve high quality public service. The table above identifies the funding needed to maintain the replacement schedule of General Fund vehicles.

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Homeless Programs and Services

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
Temporary Bridge Shelters (4)	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	15,932,300	15,932,300	15,932,300	15,932,300	15,932,300
Transitional Storage Facility (3)	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	2,069,913	2,194,913	2,194,913	2,194,913	2,194,913
Family Reunification	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	-	225,000	225,000	225,000	225,000
Safe Parking (3)	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	540,000	950,667	950,667	950,667	950,667
Rapid Rehousing	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	-	1,350,000	1,350,000	1,350,000	1,350,000
PLEADS	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	-	150,000	150,000	150,000	150,000
Landlord Engagement Program	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	-	250,000	250,000	250,000	250,000
Youth Focused Programs	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	-	352,760	352,760	352,760	352,760
Housing Commission Diversion	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	-	500,000	500,000	500,000	500,000
Wheels of Change	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	250,000	250,000	250,000	250,000	250,000
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**18,792,213**	**22,155,640**	**22,155,640**	**22,155,640**	**22,155,640**

The Outlook for the City's Homelessness Strategies Division supports the Mayor's priorities to reduce homelessness by connecting individuals to stabilizing programs that provide temporary relief from the streets, support them with services and workforce training, and help them find a permanent home. The table above identifies the funding needs for existing programs currently funded through various General Fund and non-general fund sources, including Federal funds, State Homeless Emergency Aid Program (HEAP) funding, and local, one-time funding through the San Diego Housing Commission that is no longer available to fully support the ongoing operations of these programs. The Outlook's baseline General Fund budget includes $9.8 million in ongoing General Fund support and $18.8 million beginning in FY 2021 in critical strategic expenditures for homeless programs and services.

The Outlook contains funding needs for four temporary bridge shelters operated by Veterans Village, Alpha Project and Father Joe's Villages, three transitional storage facilities located in Council Districts 3, 8, and 9, three safe parking lots located in Districts 6 and 7, and other various programs currently administered by the San Diego Housing Commission. Due to the State's Homeless Emergency Aid Program (HEAP) funding ending in FY 2021, the funding needs increase in FY 2022 through FY 2025.

Information Technology

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
Public Safety Radio Site Updates, Licensing, and Support Contract	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	260,400	1,302,000	1,736,000	2,170,000	2,170,000
Enterprise Asset Management Phase II	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	529,200	1,400,000	980,000	1,400,000	1,400,000
Implement of SAP Upgrade with HANA Suite	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	-	-	-	-	3,780,000
Public Safety Radio Replacement Project	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	2,300,000	4,600,000	4,600,000	4,600,000	4,600,000
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**3,089,600**	**7,302,000**	**7,316,000**	**8,170,000**	**11,950,000**

The Outlook for the City's Department of Information Technology (IT) supports the City's Strategic Plan through equipment and technology that allow employees to provide high-quality public service. The table above identifies the funding need associated with the General Fund portion of critical public safety equipment, which includes the public safety radio replacement project and citywide software, hardware, and maintenance costs managed by the Department of IT.

Library

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
Support for Additional Security Guards	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	457,000	457,000	457,000	457,000	457,000
Pacific Highlands Ranch Branch Library	FTE	2.00	9.50	9.50	9.50	9.50
	Revenue	-	-	-	-	-
	Expense	206,600	427,173	854,347	854,347	854,347
	Dept. Total FTE	**2.00**	**9.50**	**9.50**	**9.50**	**9.50**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**663,600**	**884,173**	**1,311,347**	**1,311,347**	**1,311,347**

The Outlook for the City's Library Department supports the City's Strategic Plan to foster services that improve the quality of life in all neighborhoods. The table identifies the funding need for security staff at various library branches and the staffing and operating costs for the new Pacific Highlands branch library, which is the only fully funded library scheduled to go online in the outlook period.

Parks and Recreation

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
	FTE	38.32	54.32	59.82	60.82	60.82
New Facilities	Revenue	167,790	167,790	167,790	167,790	167,790
	Expense	6,173,222	6,926,913	7,010,925	7,063,646	7,027,646
	Dept. Total FTE	**38.32**	**54.32**	**59.82**	**60.82**	**60.82**
	Dept. Total Revenue	**167,790**	**167,790**	**167,790**	**167,790**	**167,790**
	Dept. Total Expense	**6,173,222**	**6,926,913**	**7,010,925**	**7,063,646**	**7,027,646**

The Outlook for the City's Parks and Recreation Department supports the City's Strategic Plan to improve the quality of life in all neighborhoods. The table above identifies the funding need for additional personnel and equipment costs associated with the operation and maintenance of 16 new facilities and 28 new "Play All Day" joint use facilities. Attachment 3 identifies these facilities.

Performance and Analytics

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
	FTE	-	-	-	-	-
Pay Equity Study	Revenue	-	-	-	-	-
	Expense	-	-	250,000	-	-
	Dept. Total FTE	**-**	**-**	**-**	**-**	**-**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**-**	**-**	**250,000**	**-**	**-**

The Outlook for the Performance and Analytics Department supports the City's Strategic Plan to provide high quality public service by promoting a customer-focused culture that prizes consistent, predictable delivery of services. The table above identifies the recommended funding need for a citywide pay equity study. The pay equity study is anticipated to occur at least every three years to identify earning gaps between employee groups. The first study is being conducted in FY 2020 and the Outlook includes the request for another study scheduled in FY 2023.

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Police

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
Addition of Sworn Positions and Equipment	FTE	-	21.00	42.00	63.00	85.00
	Revenue	-	-	-	-	-
	Expense	-	3,465,444	6,479,301	9,493,158	12,672,037
Helicopter Fleet Replacement and Maintenance Savings	FTE	-	-	-	-	-
	Revenue	-	565,000	517,000	-	-
	Expense	(1,150,000)	(743,000)	(75,000)	(872,000)	(654,000)
Neighborhood Policing Overtime	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	4,327,050	4,327,050	4,327,050	4,327,050	4,327,050
Support for CleanSD	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	3,549,407	3,549,407	3,549,407	3,549,407	3,549,407
Mobility Enforcement	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	170,000	170,000	170,000	170,000	170,000
Police Recruitment and Retention	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	250,000	518,680	250,000	532,680	250,000
	Dept. Total FTE	**-**	**21.00**	**42.00**	**63.00**	**85.00**
	Dept. Total Revenue	**-**	**565,000**	**517,000**	**-**	**-**
	Dept. Total Expense	**7,146,457**	**11,287,581**	**14,700,758**	**17,200,295**	**20,314,494**

The Outlook for the City's Police Department supports the City's Strategic Plan for fostering safe and livable neighborhoods through the protection of lives, property and the environment through timely and effective response in all communities. The table above identifies the funding need for the addition of 63.00 of the 85.00 sworn Police Officer positions needed to return police staffing to the 2009 levels of 2,128 sworn officers by FY 2024, with the remaining 22.00 Police Officer positions expected in FY 2025. Also identified is funding for Neighborhood Policing Overtime, micro-mobility enforcement, and promotional examinations and recruiting efforts to determine candidates eligible for promotion to sergeant and lieutenant ranks. In addition, the table includes a lease to own financing plan for two new helicopters and the associated one-time sales tax costs which are offset by savings in maintenance costs associated with the procurement of four helicopters within the outlook period.

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Real Estate Assets – Facilities Services

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
Asbestos Remediation	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	150,000	150,000	150,000	150,000	150,000
Stadium Operations - Facilities Maintenance	FTE	-	(30.00)	(30.00)	(30.00)	(30.00)
	Revenue	-	(3,081,202)	(3,081,202)	(3,081,202)	(3,081,202)
	Expense	-	(3,081,202)	(3,081,202)	(3,081,202)	(3,081,202)
	Dept. Total FTE	**-**	**(30.00)**	**(30.00)**	**(30.00)**	**(30.00)**
	Dept. Total Revenue	**-**	**(3,081,202)**	**(3,081,202)**	**(3,081,202)**	**(3,081,202)**
	Dept. Total Expense	**150,000**	**(2,931,202)**	**(2,931,202)**	**(2,931,202)**	**(2,931,202)**

The Outlook for the City's Real Estate Assets Department supports the City's Strategic Plan by providing high quality public service. The table above identifies the funding need for asbestos remediation at City owned facilities operated by General Fund departments. Also identified, are the reductions in Stadium facilities maintenance due to the anticipated sale of the stadium site expected to occur in FY 2020. The Outlook assumes stadium facilities maintenance will be required throughout FY 2021 for a combination of regular stadium operations and property transfer related activities. Please refer to the Other Assumptions and Considerations section regarding assumptions on the fiscal impact associated with the potential proceeds from the sale of the stadium site on the General Fund.

Department of Sustainability

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
Climate Adaptation and Resiliency Support	FTE	1.00	1.00	1.00	1.00	1.00
	Revenue	-	-	-	-	-
	Expense	442,614	352,614	352,614	352,614	352,614
Ongoing Smart Streetlights Program	FTE	-	-	-	-	-
	Revenue	-	-	-	-	-
	Expense	2,273,100	2,835,990	2,931,943	3,031,136	2,003,688
CAP Implementation	FTE	1.00	1.00	1.00	1.00	1.00
	Revenue	-	-	-	-	-
	Expense	358,339	358,339	358,339	358,339	358,339
SDG&E Franchise Fee Consultant	FTE					-
	Revenue	-	-	-	-	-
	Expense	1,000,000	-	-	-	-
	Dept. Total FTE	**2.00**	**2.00**	**2.00**	**2.00**	**2.00**
	Dept. Total Revenue	**-**	**-**	**-**	**-**	**-**
	Dept. Total Expense	**4,074,052**	**3,546,942**	**3,642,895**	**3,742,088**	**2,714,640**

The Outlook for the City's Department of Sustainability supports the City's Strategic Plan for fostering safe and livable neighborhoods and the ongoing commitment to meet greenhouse gas emissions reduction goals identified in the City's Climate Action Plan. The table above identifies the addition of funding needs for the establishment of a Climate Adaptation and Resiliency plan and ongoing support for the General Fund portion of the Smart Streetlights Program as well as implementation of goals identified in the Climate Action Plan.

Also identified in the table is funding related to support the renewal of the San Diego Gas and Electric (SDG&E) franchise fee agreement. SDG&E currently operates under a 50-year City franchise that was granted in 1970. The agreement is set to expire in 2020 and the city anticipates the need to retain outside consultants to prepare for and advise the City during these negotiations and evaluate the City's energy distributor.

Transportation and Storm Water

Request	FTE/Rev/Exp	FY 2021	FY2022	FY 2023	FY2024	FY 2025
Sidewalk Repair and Replacement Team Support	FTE	21.00	23.00	23.00	23.00	23.00
	Revenue	730,000	730,000	730,000	730,000	730,000
	Expense	4,368,900	2,898,359	2,898,359	2,898,359	2,898,359
Pipe Repair Team Support	FTE	24.00	24.00	24.00	24.00	24.00
	Revenue	3,750,000	3,750,000	3,750,000	3,750,000	3,750,000
	Expense	7,035,084	5,735,084	5,735,084	5,735,084	5,735,084
Support for Achieving Street Resurfacing Goals	FTE	7.00	7.00	7.00	7.00	7.00
	Revenue	540,000	540,000	540,000	540,000	540,000
	Expense	870,877	675,975	675,975	675,975	675,975
Street Sweeping Team Support	FTE	2.00	4.00	6.00	6.00	6.00
	Revenue	200,000	420,000	640,000	640,000	640,000
	Expense	232,426	380,852	529,278	445,278	445,278
	Dept. Total FTE	**54.00**	**58.00**	**60.00**	**60.00**	**60.00**
	Dept. Total Revenue	**5,220,000**	**5,440,000**	**5,660,000**	**5,660,000**	**5,660,000**
	Dept. Total Expense	**12,507,287**	**9,690,270**	**9,838,696**	**9,754,696**	**9,754,696**

The Outlook for the City's Transportation and Storm Water Department supports the City's Strategic Plan in achieving safe and livable neighborhoods and investing in quality infrastructure by performing the services summarized in the table above. The identified funding need allows for faster mitigation of damaged sidewalks via additional asphalt ramping, concrete replacement crews and slicing contract support. Additionally, support for an in-house storm drain pipe repair team, as identified in the June 2018 Audit, is included. The table also identifies the addition of engineering and support staff to maintain the City's street pavement Overall Condition Index (OCI) rating. Lastly, the table includes the expected General Fund portion of revenue related to the additional positions.

Furthermore, the Outlook includes funding for additional posted street sweeping routes to comply with the Storm Water Permit issued by the Regional Water Quality Control Board. The CIP needs for storm water flood risk management and water quality improvement projects have been identified and will be discussed in the Five-Year Capital Infrastructure Planning Outlook scheduled to be released in January 2020.

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POTENTIAL MITIGATION ACTIONS

The Outlook has identified the potential need to identify additional sources of funds as a result of the growth in ongoing expenditures outpacing the growth in ongoing revenues. The Mayor will present a balanced FY 2021 budget in April 2020 to the City Council. If the projected revenues and sources of funds do not improve, several mitigation actions, including budget reductions, will need to be considered. The following section presents potential measures to address the potential need for additional resources in FY 2021.

One-Time Resources

Any available resources that are one-time in nature are only available for one-time purposes.

- The Homeless Housing, Assistance and Prevention (HHAP) Program was approved by Governor Gavin Newsom on July 31, 2019. The HHAP Program grant is a one-time grant that provides the City with funds to support, expand and/or develop initiatives for homelessness. The total funding the City will receive is estimated at $20.0 million in FY 2020; however, final allocations are still pending finalization by the Department of Housing and Urban Development. All or a portion of these funds may be used to offset current and/or future homeless programs, which are listed in the Critical Strategic Initiatives section of this report. The guidelines and direction on how to allocate the funding within the City is still pending.
- In the FY 2020 First Quarter Budget Monitoring Report, the FY 2020 ending fund balance (excess equity) is projected to be $22.1 million. This will be updated during the FY 2020 Mid-Year Budget Monitoring Report once the audit of the FY 2019 financial statements is complete and will include updated FY 2020 projections. These funds could be used in either FY 2020 or in future fiscal years to fund one-time expenditures.

Budget Reductions

To address the projected revenue shortfall, General Fund departments will be requested to submit budget reduction proposals. Any budget reduction proposals submitted for consideration are only proposals subject to careful evaluation. All potential solutions to mitigate the projected revenue shortfall will be carefully considered to ensure the overall impact to the services provided is minimized and that the City continues to provide the high level of service that is expected.

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OTHER ASSUMPTIONS AND CONSIDERATIONS

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

Ballot Measures

Measure G, regarding the sale of the stadium site to San Diego State University (SDSU), was approved by the voters in November 2018. The fiscal impact associated with the potential proceeds of the sale of the stadium site on the General Fund has not been reflected in the Outlook due to the pending negotiations and use of the proceeds at the time of the preparation of this report.

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

MOUs and ADC

As previously discussed in the Salaries and Wages category section of this report, the current MOUs with the six REOs are set to expire at the end of FY 2020. Since over 69.9 percent of expenditures in the FY 2020 Adopted Budget are related to wages and fringe benefits, small changes in MOU provisions can have large impacts on City expenditures. For example, a 1.0 percent change in salaries across all MOU's could increase this category by approximately $5.92 million. The City is currently in negotiations will all REOs regarding the current MOUs and changes to MOUs provision; therefore, the associated fiscal impact is not known at this time, and as a result are not included in the Outlook projections.

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

Recession

The impact of a future economic recession has not been incorporated into this Outlook. In each fiscal year of the Outlook, growth is projected from its prior year. Based on historical examples of a recession, the City's Major Revenues, (Property Tax, Sales Tax, TOT, and Franchise Fees) could be significantly impacted. Prior recessions have impacted the City's aggregated Major Revenues by -1.0 percent to -4.9 percent. For example, a 1.0 percent decrease across all major revenues could reduce revenues by approximately $10.8 million. A recession affects each revenue source differently. Changes to Property Taxes are likely to lag since current revenue is based on prior calendar year valuations. Property Taxes are also less variable due to the amount of base assessed valuations that are below market value. However, small percentage changes to property tax growth can equate to large swings in taxes. Sales tax and TOT are based on consumer's discretionary funds; which are more quickly and erratically impacted by a recession. The Department of Finance will continue to monitor major revenue projections and economic indicators throughout the fiscal year and report any fluctuations in revenue.

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CONCLUSION

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

Based upon baseline projections, growth in ongoing expenditures is anticipated to outpace growth in ongoing revenues in FY 2021. Beginning in FY 2022, revenue growth is projected to exceed anticipated expenditure growth. A structural shortfall is forecasted based on the following key factors:

- Moderate growth in revenue
- Projected growth in expenditures
- Reserve Contributions
- Critical Strategic Expenditures

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

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration in April 2020.

ATTACHMENT 1
FY 2021 – 2025 FIVE-YEAR FINANCIAL OUTLOOK
($ in millions)

GENERAL FUND REVENUES	Fiscal Year 2020 Adopted Budget	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
Property Tax	$ 601.9	$ 636.1	$ 666.5	$ 696.7	$ 726.6	$ 755.9
Sales Tax	297.9	311.1	321.1	331.0	340.9	350.8
Transient Occupancy Tax	136.9	141.8	146.9	152.2	157.6	163.1
Franchise Fees	82.0	84.1	86.0	87.9	89.6	91.4
Property Transfer Tax	10.3	10.9	10.9	10.9	10.9	10.9
Licenses and Permits	22.5	23.1	23.7	24.3	24.9	25.5
Cannabis Business Tax	12.2	19.7	22.8	24.5	26.6	29.7
Fines, Forfeitures and Penalties	31.1	31.2	31.3	31.3	31.4	31.5
Revenue from Money and Property	64.4	65.5	65.7	66.0	64.5	68.7
Revenue from Federal and Other Agencies	6.4	6.3	6.3	6.3	6.3	6.3
Charges for Services	176.4	163.8	170.6	177.4	177.9	177.9
Other Revenue	3.2	2.7	2.7	2.7	2.7	2.7
Transfers In	104.1	99.7	100.9	102.3	103.6	105.0
BASELINE GENERAL FUND REVENUES	**$ 1,549.2**	**$ 1,595.7**	**$ 1,655.1**	**$ 1,713.3**	**$ 1,763.5**	**$ 1,819.3**

GENERAL FUND EXPENDITURES	Fiscal Year 2020 Adopted Budget	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
Salaries & Wages	$ 645.1	$ 652.7	$ 654.3	$ 652.2	$ 652.0	$ 653.2
Retirement Actuarially Determined Contribution (ADC)[1]	264.8	268.6	266.6	265.0	264.2	263.6
Employee Flexible Benefits	84.7	84.7	84.7	84.7	84.7	84.7
Other Post Employment Benefits (OPEB)	42.3	43.4	44.5	45.6	46.7	47.9
Workers' Compensation	26.5	28.4	29.1	29.9	30.7	31.4
Supplemental Pension Savings Plan (SPSP)	22.2	22.7	22.7	22.7	22.7	22.7
Other Fringe Benefits	26.3	28.7	28.7	28.7	28.7	28.7
Personnel Expenditures	**$ 1,111.9**	**$ 1,129.1**	**$ 1,130.6**	**$ 1,128.8**	**$ 1,129.7**	**$ 1,132.3**
Supplies	$ 27.3	$ 30.9	$ 32.3	$ 33.8	$ 35.4	$ 36.7
Contracts	246.9	247.9	256.8	267.8	279.3	291.6
Information Technology	39.1	47.0	48.1	47.8	47.9	47.4
Energy and Utilities	51.5	53.2	55.1	57.2	59.3	61.4
Reserve Contributions	16.2	17.4	18.8	16.6	13.6	13.0
Charter Section 77.1 - Infrastructure Fund Contribution	24.1	25.5	18.7	0.0	0.0	0.0
Other Expenditures	72.9	65.9	73.1	91.8	89.7	88.3
Non-Personnel Expenditures	**$ 478.1**	**$ 487.7**	**$ 503.0**	**$ 514.9**	**$ 525.2**	**$ 538.4**
BASELINE GENERAL FUND EXPENDITURES	**$ 1,590.0**	**$ 1,616.9**	**$ 1,633.6**	**$ 1,643.7**	**$ 1,654.9**	**$ 1,670.7**
BASELINE SURPLUS / (SHORTFALL)		**$ (21.2)**	**$ 21.6**	**$ 69.6**	**$ 108.6**	**$ 148.7**
RECOMMENDED CRITICAL STRATEGIC INITIATIVES		**$ 62.5**	**$ 88.1**	**$ 103.2**	**$ 116.2**	**$ 123.1**
(AMOUNT TO BE MITIGATED) /AVAILABLE RESOURCES[2]		**$ (83.7)**	**$ (66.6)**	**$ (33.6)**	**$ (7.6)**	**$ 25.5**

Numbers may not add to exact figures due to rounding.

1The final amount of the City's FY 2021 ADC payment will not be known until the June 30, 2019 actuarial valuation report is released, which is expected to be presented to the SDCERS Board Administration in January 2020.

[2]Per City Charter Section 69, the Mayor will propose a balanced budget by the 15th of April preceding each fiscal year.

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ATTACHMENT 2
ONE-TIME RESOURCES AND USES OF FUNDS

The tables below detail the one-time resources and expenditures that were included in the Fiscal Year 2020 Adopted Budget that were adjusted to develop FY 2021-2025 Five-Year Financial Outlook baseline budget.

One-Time Resources	
Use of Excess Equity	$ 40,758,191
TOT Excess Fund Balance	10,900,000
Transfer of Excess Long-Term Disability Reserves	4,833,310
Reimbursement for Disparity Study from Engineering & Capital Projects Fund	800,000
Use of Non-General Fund Fund Balances	641,652
Reimbursement for Supplemental Environmental Projects - RWQCB	491,383
Redevelopment Property Trust Fund (RPTTF) Distributions	328,440
Facility Franchise Agreement Revenue	290,000
Reimbursement for Debt Management services from Public Utilities Department	137,981
Proposed Departmental Revenues Determined to be One-Time	111,699
Reimbursement for Fire-Rescue Citygate Consulting Services	80,751
Reimbursement for Mission Bay Summer Trash Collection from TOT Revenue	70,000
Otay Mesa Enhanced Infrastructure Financing District (EIFD) Reimbursements	1,500
One-Time Resources Total	**$59,444,907**

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One-Time Uses	
Transfer to the Infrastructure Fund (Charter Section 77.1)	$24,073,271
Contribution to General Fund Reserve - FY2019 Reserve Target of 15.25%	8,600,000
Clean SD Expansion	6,450,018
Transfer to the Capital Budget	5,550,000
Transfer to Replenish the Pension Payment Stabilization Reserve	4,334,238
Commission for Arts & Culture Funding	3,949,600
Contribution to General Fund Reserve - FY2020 Reserve Target of 15.50%	3,300,000
Animal Control and Services Program	2,174,519
Community Projects, Programs, and Services (CPPS) Funds	1,491,803
Consultant for Energy Franchise Agreement Negotiations	1,000,000
Disparity Study	1,000,000
Fire Rescue Staffing Model and Relief Pool - Supplies for Two (2) Fire Academies	862,648
Companion Unit Fee Waiver Program	800,000
Various Information Technology Expenditures	787,802
New Parks and Recreation Facilities	761,350
Relocation to 101 Ash Street Building	689,152
RWQCB Penalty and Supplemental Environmental Projects	501,411
Neighborhood Policing Overtime	447,050
Citywide Election Costs	429,664
Lateral and Recruitment Incentive Programs	400,000
Library Programming and Technology Upgrades	400,000
Brush Management and Abatement	350,000
Enterprise Asset Management and Get it Done Support	350,000
Climate Action Resiliency Plan	300,000
Fire-Rescue Wellness Program	300,000
Private Property Graffiti Abatement	300,000
Police Promotional Examinations	270,200
Mobility: Mobility Action Plan	250,000
Pay Equity Study	250,000
Police Officer Homebuyer Down Payment Assistance Pilot	250,000
Mobility: Street Corral Painting and Dedicated Bus Lane Pilot	250,000
Mobility: Mobility Monitoring	225,000
Fire-Rescue Helicopter Pilot Training	185,400
Emergency Command and Data Center (ECDC) Expansion	160,000
Mobility: Dockless Mobility Enforcement	150,000
Diversity Training	150,000
Citygate Consulting Services for ECDC	138,000
Advanced Lifeguard Academy	113,350
Consulting Support for Climate Action Plan (CAP) - Sustainability Department	100,000
Tree Trimming	100,000
Mobility: Vision Zero Education	100,000
Mission Beach Trash Collection	70,000
Real Estate Consultant for Sale of San Diego County Credit Union (SDCCU) Stadium	60,450
Supplies for Police Supplemental Civilian Positions	6,060
Supplies for Homeless Coordination Positions in Neighborhood Services	3,600
Supplies for Fire-Rescue Fire Company Inspection Program (FCIP)	2,160
Use of Excess Workers' Compensation Reserves for Expenditure Rate Relief	-1,190,000
Use of Excess Long-Term Disability (LTD) Reserves for Expenditure Rate Relief	-2,029,713
Use of Capital Outlay Fund for Deferred Capital Bond Debt Service	-2,500,000
Use of Excess Public Liability Reserves for Expenditure Rate Relief	-2,600,000
Use of Infrastructure Funds for Right of Way Maintenance	-3,995,198
One-Time Uses Total	**$60,121,835**

ATTACHMENT 3
NEW FACILITIES

New Facilities	
Parks	
Play All Day- Harriet Tubman Charter Elementary Joint Use	2021
Play All Day- Hickman Elementary School Joint Use	2021
Play All Day- Johnson Elementary Joint Use	2021
Play All Day- Lafayette Elementary Joint Use	2021
Play All Day- Marie Curie Elementary Joint Use	2021
Play All Day- Pacific Beach Elementary Joint Use	2021
Play All Day- Rolando Park Elementary Joint Use	2021
Play All Day- Rowan Elementary Joint Use	2021
Play All Day- Salk Neighborhood Park and Joint Use Development	2021
Play All Day- Sequoia Elementary Joint Use	2021
Play All Day- Standley Middle School Joint Use	2021
Play All Day- Standley Middle School Joint Use Pool	2021
Play All Day- Taft Middle Joint Use	2021
Play All Day- Wangenheim Middle School Joint Use	2021
14th Street Promenade	2021
Bay Terrace Recreation and Senior Center	2021
Canon Street Pocket Park - CIP S16047	2021
Children's Park Enhancement	2021
Franklin Ridge Pocket Park	2021
La Paz Mini Park	2021
Fire	
North University City	2021
Parks	
Play All Day- Benchley / Weinberger Elementary Joint Use	2022
Play All Day- Hawthorne Elementary Joint Use	2022
Play All Day- Jones Elementary Joint Use	2022
Play All Day- King Chavez Elementary Charter School Joint Use	2022
Play All Day- Pacific View Elementary Joint Use	2022
Dennery Ranch Neighborhood Park - CIP S00636	2022
East Village Green NP - CIP S16012	2022
Fairbrook Neighborhood Park - CIP S01083	2022
NTC Building 619	2022
Olive Street Mini Park - CIP S10051	2022
Riviera Del Sol Neighborhood Park	2022

New Facilities	
Fire	
Black Mountain Ranch	2022
Library	
Pacific Highlands Ranch	2023
Parks	
Play All Day- Dewey Elementary Joint Use	2023
Play All Day- Florence Elementary School Joint Use	2023
Play All Day- Toler Elementary Joint Use	2023
Play All Day- Webster Elementary Joint Use	2023
Mira Mesa Community Park (Phase III) - CIP L16002	2023
Hidden Trails Neighborhood Park - CIP S00995	2023
Parks	
Play All Day- Lindbergh-Scheweitzer Elementary Joint Use	2024
Play All Day- Spreckels Elementary Joint Use	2024
Fire	
Fairmount Avenue	2024
Fire	
Paradise Hills	2025