The City *of*

SAN DIEGO

FISCAL YEAR 2025-2029
FIVE-YEAR FINANCIAL OUTLOOK

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NOVEMBER 2023

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

The City of San Diego Fiscal Year 2025-2029 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) 2025 Adopted Budget for the General Fund. The purpose of the report is to provide an outlook of the City's General Fund finances over the next five years as forecasted.

The Outlook focuses on baseline revenues and expenditures, including updating forecasts for revenues and expenditures necessary to maintain the City's service levels as reflected in the FY 2024 Adopted Budget. In addition to the baseline forecast, the Outlook includes projected costs for new facilities and planned commitments. The Outlook was developed based on information available and known at the time of the preparation of the report; however, risks to the projections include events that may or will occur during the outlook period whose outcomes are unpredictable or cannot be reasonably quantified at this time. Some of these risks and priorities are discussed in the *Risks to the Outlook* and *Future Fiscal Considerations* sections of this report.

The Outlook is a planning tool to assist in budget decisions related to the allocation of General Fund resources and should not be considered a budget. The Outlook provides the City Council, key stakeholders, and the public with information at the start of the budget process to facilitate a discussion regarding the coming year's General Fund budget allocations. To the extent projected expenditures exceed estimated revenues in any given year of the Outlook, the City will need to address these shortfalls through mitigating actions. As described in the *Potential Mitigation Actions* section of the Report, there is $56.5 million in unassigned fund balance in excess of reserves (excess equity), which can be used to help mitigate some of the deficit projected in FY 2025. However, there are many additional priorities, services, and operational needs beyond those included in this report. Given the limited and one-time nature of the City's available funding sources, the City will need to explore additional mitigating actions, which could include the pursuit of additional one-time and ongoing revenue options, reducing or waiving reserve contributions, repurposing or waiving contributions to the Infrastructure Fund, and budget reductions. In addition, revenue projections are based on current economic indicators, historical trends, industry research, and information from the City's Property Tax and Sales Tax consultants. To the extent any of the underlying assumptions change, actual revenues could change significantly.

Any new expenditures assumed in the Outlook for FY 2025 will be considered during the upcoming FY 2025 Budget Development process and will be dependent upon available resources and consistent with the priorities outlined in the City's Strategic Plan, which include the following five priority areas of focus:

- Create Homes for All of Us
- Protect & Enrich Every Neighborhood
- Advance Mobility & Infrastructure
- Champion Sustainability
- Foster Regional Prosperity

In FY 2024, an equity lens was incorporated into the budgeting process, identifying priority areas for investment, and evaluating the impact of proposed expenditures on historically underserved communities. The budget took concrete steps to start addressing these disparities, increasing funding for programs that benefit historically underserved communities; strategically allocating resources from the Climate Equity Fund to address the impacts of climate change on underserved neighborhoods; and investing in affordable housing and homelessness solutions. In FY 2025, the City will continue to prioritize equity in budget decisions to ensure that the City addresses institutional racism and systemic disparities, providing everyone with equitable access to opportunity and resources to thrive, no matter where they live or how they identify.

The FY 2025 budget process will also consider the City Council's budget priorities, as outlined in IBA Report 23-32: FY 2025 City Council Budget Priorities, which were reviewed on October 30, 2023 by the City Council. As required by the City Charter, the Mayor will present a balanced budget to the City Council by April 15, 2024. The decisions made for the FY 2025 budget will have an impact on the entire outlook period and will be reflected in the FY 2026-2030 Five-Year Financial Outlook Report.

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Summary of Key Financial Assumptions in Baseline

Although the Outlook forecasts a continued recovery from the pandemic, it does so at a more moderate level than the growth seen in the first few years post-pandemic. The Outlook also projects moderate increases in baseline expenditures required to maintain the City's service levels as reflected in the FY 2024 Adopted Budget, and is based on anticipated growth in each expenditure category. Any anticipated growth is highlighted within each baseline revenue and expenditure category throughout the Outlook.

As discussed later in the report, the Outlook was developed based on information available and known at the time of the preparation of the report. Projections were developed using economic and industry research, available data, and reasonable assumptions; however, risks to the projections include events that may or will occur during the outlook period whose outcomes are unpredictable or cannot be reasonably quantified at this time. Examples of these events include an economic downturn, pension cost increases due to updated actuarial assumptions, and salary increases above those assumed in the Outlook.

As depicted in **Table 1.1 – Fiscal Year 2025 – 2029 Financial Outlook, Summary of Key Financial Data**, a projected baseline shortfall, in which baseline expenditures exceed baseline revenues, is projected in FY 2025 through FY 2029.

The following highlight key assumptions included in the Outlook:

- Salary increases for all current negotiated MOUs and an assumed 3.05 percent salary increase for pending MOU negotiations in future years; 3.05 percent is aligned with the assumptions included in the San Diego City Employees' Retirement System (SDCERS) Actuarial Valuation Report as of June 30, 2022;
- Pension contribution or annual Actuarially Determined Contribution (ADC) as projected in the SDCERS City of San Diego Actuarial Valuation Report as of June 30, 2022, estimated amortization of FY 2023 investment losses, estimated amortization of the Proposition B related Unfunded Actuarial Liability, and estimated liability and cost impacts of proposed assumption changes included in the 2023 Actuarial Experience Study prepared by Cheiron;
- City Charter required Proposition H (Infrastructure Fund) contributions throughout the outlook period; and
- General Fund reserve contributions throughout the outlook period in order to reach reserve target levels of 16.7 percent by FY 2030.

Throughout the report, tables may not foot due to rounding differences.

Table 1.1 - Fiscal Year 2025-2029 Financial Outlook Summary of Key Financial Data ($ in Millions)	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029
Property Tax	$801.3	$830.7	$862.8	$895.8	$932.9
Sales Tax	$398.3	$411.8	$430.2	$449.4	$469.4
Transient Occupancy Tax	$181.3	$191.9	$203.2	$215.1	$227.8
Franchise Fees	$116.3	$120.4	$116.0	$118.4	$122.7
All Other Revenue Categories	$522.2	$528.2	$541.7	$547.2	$560.5
BASELINE GENERAL FUND REVENUES	**$2,019.4**	**$2,083.0**	**$2,153.9**	**$2,226.0**	**$2,313.4**
Salaries & Wages (Current MOUs)	$873.8	$900.1	$901.0	$901.2	$901.7
Salaries & Wages (Assumed General Wage Increases at 3.05% Annually)	$16.4	$34.5	$60.9	$88.1	$116.1
Retirement Actuarially Determined Contributions (ADC)	$334.3	$335.4	$332.5	$335.8	$320.9
Estimated Amortization of Proposition B Unfunded Liability	$7.8	$7.8	$7.8	$7.8	$7.8
All other Personnel Expenditures	$225.2	$226.3	$226.9	$227.4	$227.8
Non-Personnel Expenditures	$651.6	$688.4	$722.0	$764.7	$809.3
Charter Section 77.1 - Infrastructure Fund Contribution	$24.0	$23.0	$30.4	$38.3	$46.7
Reserve Contributions	$23.1	$24.0	$22.2	$23.0	$24.2
BASELINE GENERAL FUND EXPENDITURES	**$2,156.2**	**$2,239.5**	**$2,303.8**	**$2,386.3**	**$2,454.7**
BASELINE (SHORTFALL)/SURPLUS	**($136.8)**	**($156.5)**	**($149.9)**	**($160.3)**	**($141.3)**

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Report Outline

The Outlook includes a discussion of General Fund baseline projections for revenues and expenditures, necessary to maintain the City's current service levels. The *Baseline Projections* section of the Outlook consists of the City's projections for the next five fiscal years for ongoing revenues and expenditures, as displayed in **Table 1.1 – Fiscal Year 2025 – 2029 Financial Outlook, Summary of Key Financial Data**. The *Baseline Projections* section includes baseline revenue and expenditure growth, and anticipated adjustments to the FY 2024 Adopted Budget. Examples of anticipated adjustments in the baseline projections include the removal of one-time resources and expenditures included in the FY 2024 Adopted Budget.

Additionally, the Outlook identifies future fiscal commitments identified over the next five years in the *Priorities Beyond the Baseline Expenditures* section of the report. These commitments include:

- Operational impacts of new and expanded Library facilities, as well as new Fire-Rescue and Parks and Recreation facilities scheduled to open within the outlook period;
- Planned expenditures for upgrading the City's current Enterprise Resource Planning system, SAP; and
- The projected future net impact to the General Fund of maintaining homelessness programs and services if additional resources (i.e., grants) are not identified.

The Outlook Report also identifies available funding sources and other potential options that could be used to mitigate projected revenue shortfalls in the *Potential Mitigation Actions* section of the Report. As reported in the FY 2024 First Quarter Budget Monitoring Report (FY 2024 First Quarter Report), $56.5 million in Excess Equity is available to help mitigate the projected shortfall in FY 2025; however, excess equity will not close the gap entirely. As a result, additional mitigation actions are needed to ensure the City has a balanced budget in FY 2025 and beyond. The *Potential Mitigation Actions* section explores other levers that are available to the City to help mitigate projected shortfalls, including items in the City's direct control such as the use of Transient Occupancy Tax fund balance to support eligible General Fund expenditures; reducing or waiving reserve contributions; the suspension or strategic use of Infrastructure Fund contributions; as well as a strategic review of baseline operations to identify opportunities for resource reallocation. To promote the City's financial health for the future, it will be important to address the City's financial challenges early in order to avoid reductions to core City services in the coming years.

The *Potential Mitigation Actions* section also explores resources that will take additional time to be resolved, or are outside of the City's direct control, such as a resolution to the litigation of Measure C which could provide additional Transient Occupancy Tax funding for homelessness programs and services.

New this year, the Outlook Report includes the *General Fund Infrastructure Needs* section outlining specific needs related to the City's Capital Improvements Program (CIP). Unfunded capital needs are not isolated challenges; they compete directly with the budget allocated to General Fund operations such as public safety and neighborhood services. The inclusion of certain components of the City's infrastructure needs is aimed at providing a more holistic view of the City's financial landscape and better reflect the magnitude of the General Fund's structural budget deficit.

Lastly, the *Risks to the Outlook* and *Future Fiscal Considerations* sections of the report detail significant items that could impact the projections reflected in the Outlook including an economic downturn, salary increases above those assumed in the baseline, increases in ADC, fiscal impacts from implementing the City's Climate Action Plan, and incorporating critical enhancements for stormwater and road repair needs. Any new expenditures or enhancements to services will be considered during the upcoming FY 2025 budget development process and will be dependent upon available resources and consistent with the priorities outlined in the City's Strategic Plan.

Per the City Charter, the Mayor will present a balanced budget for the City Council's consideration by April 15, 2024.

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BASELINE PROJECTIONS

The *Baseline Projections* section describes forecasted General Fund revenue and expenditure changes based on growth assumptions and anticipated adjustments to the FY 2024 Adopted Budget at the time of the preparation of this Report. This section provides forecasted growth rates for revenues, including an overview of each 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 required to maintain current service levels and growth assumptions as applicable, within each expenditure category.

Unless otherwise noted, baseline projections assume growth based upon the FY 2024 Adopted Budget with one-time resources and expenditures removed. **Attachment 1: One-Time Resources and Expenditures** provides further detail.

Baseline General Fund Revenues

The following section provides details on the Outlook's baseline General Fund revenue projections. This includes a description of the revenue source, factors impacting the revenue source, and the projected growth rates.

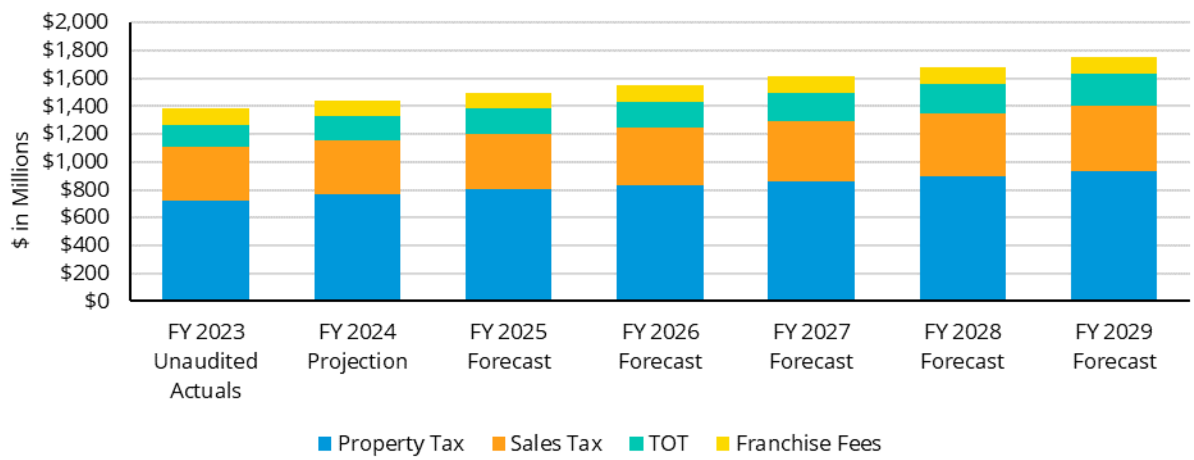
The City's revenue sources have rapidly recovered from the pandemic, and are now anticipated to grow at moderate rates throughout the outlook period when compared to the robust growth that followed the peak of the COVID-19 pandemic. Similar to the FY 2024 Adopted Budget, the Outlook's revenue forecast balances favorable, yet softening, economic conditions with moderate growth in the City's General Fund revenues.

In addition to growth rate percentages applied in each of the major 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 of revenue projections, "High" and "Low" projection scenarios have been included for the City's major revenue sources, including property tax, sales tax, and transient occupancy tax (TOT). Although the "High" and "Low" projections provide a range of possibilities within the current economic parameters, they do not account for a potential recession.

The City's four major General Fund revenue sources, property tax, sales tax, TOT, and franchise fees, represent 71.5 percent of the City's FY 2024 Adopted Budget for the General Fund. As depicted in **Figure 2.1 – Major General Fund Revenues**, the four major revenue sources are projected to increase throughout the outlook period, with sales tax projected to decrease in FY 2024 when compared to the Adopted Budget, before moderately increasing throughout the outlook period. Consistent with the FY 2024 First Quarter Report, the Outlook uses updated major revenue projections as the baseline for the Outlook forecast, which accounts for projected growth beyond what is budgeted in the FY 2024 Adopted Budget. The overall economic assumptions included in the report are in line with information received from industry experts representing the four major revenue categories and overall regional economy, including the City's property tax consultant, HdL Coren & Cone; the City's sales tax consultant, Avenu Insights & Analytics; the San Diego Tourism Authority; the

San Diego Tourism Marketing District; San Diego Gas & Electric; the UCLA Anderson Forecast; and Beacon Economics reports. 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 analyses.

Figure 2.1 - Major General Fund Revenues



Property Tax

Property Tax is the City's largest revenue source, representing 37.6 percent of the General Fund FY 2024 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 City limits. The Property Tax category also includes the Motor Vehicle License Fee (MVLF) backfill payment, which is property tax revenue received from the State of California to replace the MVLF that was repealed in 2004. Additionally, the category includes pass-through and residual property tax payments deposited into the Redevelopment Property Tax Trust Fund (RPTTF) due to the dissolution of Redevelopment Agencies (RDAs) statewide.

Forecast

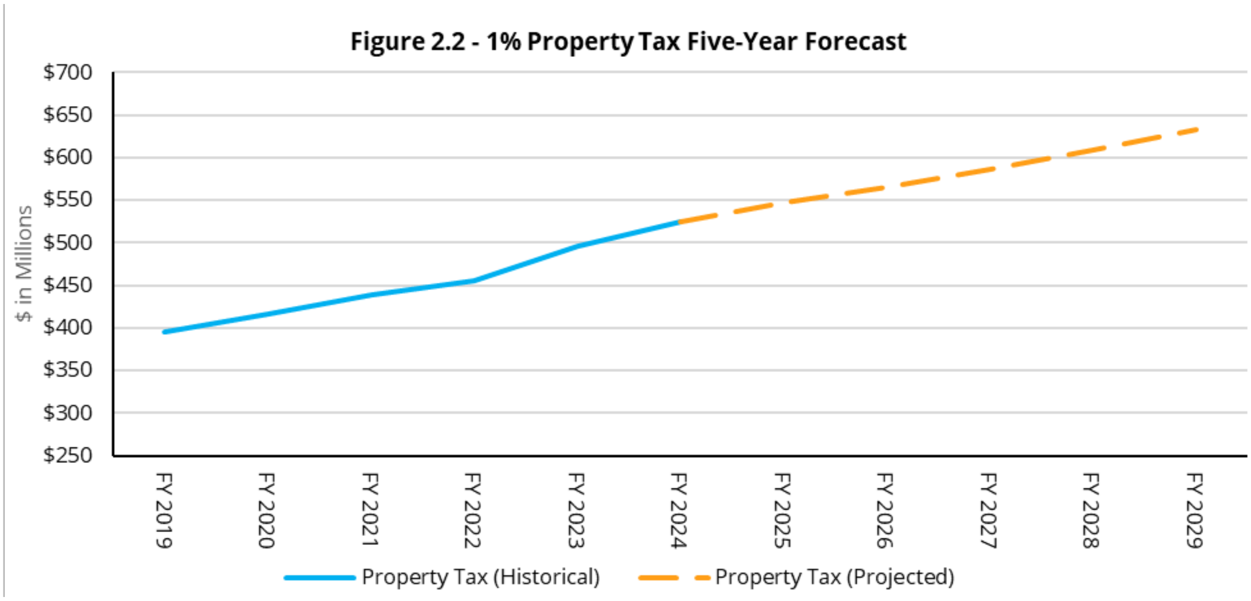
The Outlook for Property Tax assumes growth based upon the updated FY 2024 projection for property tax included in the FY 2024 First Quarter Report, and economic assumptions available at the time of the preparation of this report. **Table 2.1 - Property Tax Five-Year Forecast** displays the FY 2024 Adopted Budget and year-end projection, as well as the forecast for FY 2025 through FY 2029 for the Property Tax category.

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

	FY 2024 Adopted	FY 2024 Projection	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Growth Rate	5.6%	5.6%	4.6%	3.5%	3.7%	3.7%	4.1%
Projection	$ 758.6	$ 771.9	$ 801.3	$ 830.7	$ 862.8	$ 895.8	$ 932.9

As reported in the FY 2024 First Quarter Report, the Property Tax category is projected at $771.9 million, which represents an increase of $13.2 million from the FY 2024 Adopted Budget and serves as the baseline for the Outlook forecast. Due to a lag between the time assessed valuation is set by the County Assessor's Office and Property Tax revenue is received by the City, property tax growth for FY 2024 is based on real estate activity through calendar year 2022. This projection includes significant increases in the assessed value of properties, and higher than previously anticipated home sales. The FY 2024 projection also reflects a decrease in the collection rate for 1.0 percent property tax collections from 99.1 percent to 98.9 percent to align with the actual collection rate in FY 2023**.** Moreover, the FY 2024 projection includes an increase in the MVLF back-fill payment based on the most recent calculation and payment schedule provided by the County of San Diego. These adjustments are considered in the baseline projections for the outlook period.

The growth that is applied to the FY 2024 First Quarter projection to develop the Outlook forecast is based on an analysis of the relationship of property tax to assessed values and assessed valuation growth, followed by adjustments based on the assumptions and economic factors discussed in the *Economic Trends* section below. **Figure 2.2 – 1% Property Tax Five-Year Forecast** represents the historical and projected 1.0 percent property tax amounts.

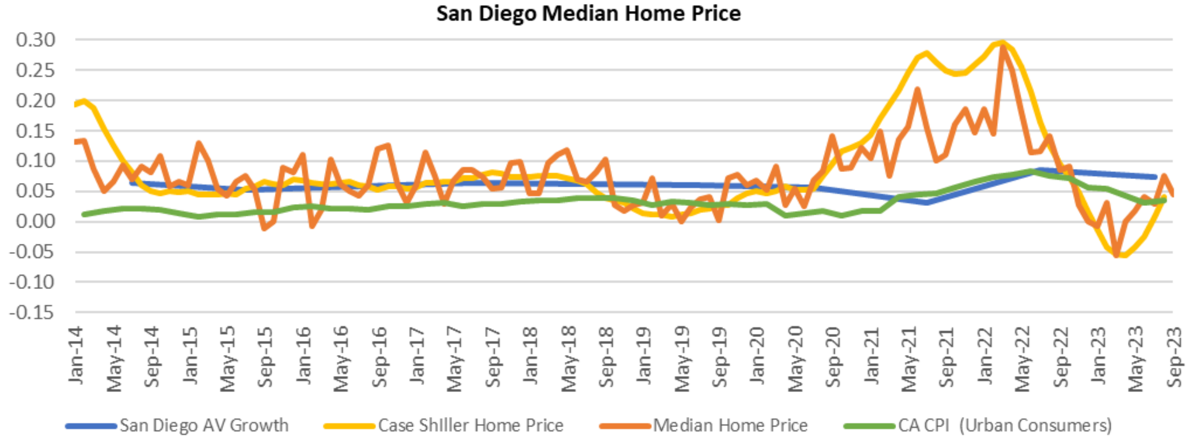


Economic Trends

The major economic drivers of Property Tax revenue are the California Consumer Price Index (CCPI), home sales, home prices, foreclosures, and defaults. The CCPI plays an important part in the assessed valuation of properties that do not sell or are not improved within a given year—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 that this report was prepared, the October 2023 CCPI had not yet been released. The latest CCPI released by the California Department of Finance (DOF) is as of August 2023 at 334.027, which is a 3.6 percent increase from the August 2022 CCPI of 322.275. As a result, the Outlook applies the 2.0 percent maximum that is specified in Proposition 13 to the assessed value of all properties not sold or improved within the given year.

At the beginning of calendar year 2023, the City experienced high growth in home prices, which has remained stable through the calendar year. The median home price reached an all-time high of $915,500 as of August 2023, and is projected to remain relatively steady through the remainder of the calendar year. However, home sales began to slow towards the end of calendar year 2022. This trend has continued through calendar year 2023, with home sales decreasing by 25.8 percent when comparing September 2023 to September 2022 home sales activity. The experienced decline in property sales is attributed to increasing interest rates resulting in unfavorable lending conditions, which when coupled with high median home prices, has further reduced the affordability of homes in the region. Additionally, the low inventory in available housing for sale has also contributed to projected decreasing home sales across the City. A large percentage of homeowners have a low mortgage rate, making it unfavorable for them to sell in this current market and purchase a new home at both a higher interest rate and higher price. **Figure 2.3 – Case-Shiller Home Price Index, California CPI, San Diego Median Home Price** displays the correlation of several economic factors described above since 2014 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, then increasing steadily in calendar year 2022, before showing slight improvements in the past few months. As CCPI is a key driver of the change in the City's assessed valuation as long as it remains above 2.0 percent, the stability in this indicator and the Proposition 13 restrictions have allowed the annual change in assessed valuation to remain steady when compared to the Case-Shiller Home Price Index and the local median home price. Notably, the graph displays a lag of approximately 12-18 months between activity in the local real estate market and the resulting impact on the City's assessed valuation, as noted earlier in the *Property Tax Forecast* section.

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



Since the start of calendar year 2023, both foreclosures and notices of defaults have steadily increased. While the annual percentage change is increasing, the year-to-date counts of foreclosures and notices of defaults are still below historic norms. The increasing trend is anticipated to result in a return to historically normal levels after the lifting of statewide eviction moratoriums that were put in place during the pandemic.

Other factors considered in the development of the revenue projections for Property Tax include mortgage rates, changes to federal tax policy, and property tax refunds. The 30-year mortgage rate has steadily increased in recent months as record high inflation has led the Federal Reserve to increase the federal funds rates in an effort to combat record high inflation and bring the Consumer Price Index (CPI) to a target rate of 2.0 percent. In July 2023, the Federal Open Market Committee (FOMC) increased the target range for federal funds rate to be between 5-1/4 and 5-1/2 percent. Subsequently, on September 20, 2023, the FOMC voted to not raise rates and keep them at the current rate. This was the first time since early 2022, where the FOMC did not raise rates. On November 1, 2023, the FOMC decided to leave the policy interest rate unchanged at the current rate of 5-1/4 and 5-1/2 percent, as it has been since July 2023. In their November 2023 statement, the Federal Reserve stated that:

> "Since early last year, the FOMC has significantly tightened the stance of monetary policy. We have raised our policy interest rate by 5-1/4 percentage points and have continued to reduce our securities holdings at a brisk pace. The stance of policy is restrictive, meaning that tight policy is putting downward pressure on economic activity and inflation, and the full effects of our tightening have yet to be felt. Today, we decided to leave our policy interest rate unchanged and to continue to reduce our securities holdings. Given how far we have come, along with the uncertainties and risks we face, the Committee is proceeding carefully…."[1]

In addition to the above factors, due to the dissolution of RDAs, pass–through and residual property tax payments to the City from the 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. **Table 2.2 – Property Tax Components** and **Figure 2.4 – Property Tax Revenue Projections: Fiscal Years 2025 - 2029** provide details on the components of the FY 2024 Adopted Budget and year-end projection, as well as the forecasted Property Tax revenue for FY 2025 through FY 2029. The current growth rates incorporate a 12-18-month lag time between the time that the assessed valuation is set by the County Assessor's Office and the time that Property Tax revenue is received by the City. It is anticipated that Property Tax will see the impacts from the current year trends in FY 2025 before normalizing in the outer years.

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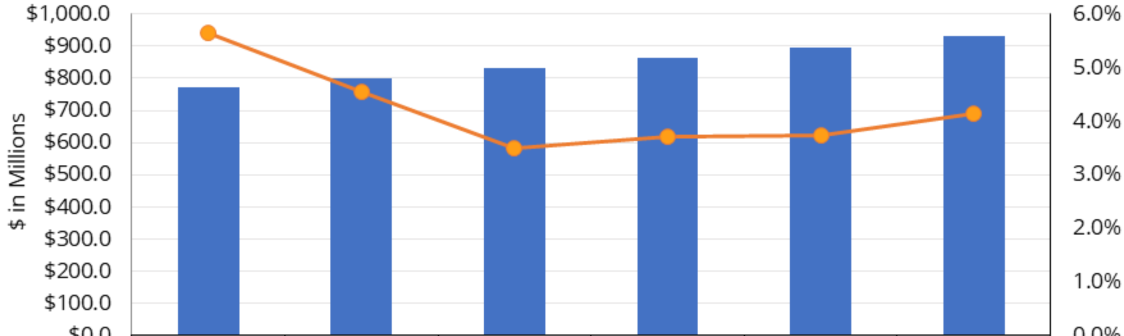
[1] Transcript of Chair Powell's Press Conference. Federal Open Market Committee (FOMC). https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20231101.pdf. November 1, 2023.

Table 2.2 - Property Tax Components ($ in Millions)							
	FY 2024 Adopted	FY 2024 Projection	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Growth Rate	5.6%	5.6%	4.6%	3.5%	3.7%	3.7%	4.1%
1% Property Tax	$ 514.4	$ 524.7	$ 546.8	$ 566.0	$ 586.8	$ 608.5	$ 633.4
MVLF Backfill	$ 191.4	$ 194.2	$ 203.0	$ 210.1	$ 217.9	$ 226.0	$ 235.4
RPTTF Pass-Through Tax Sharing Payment	$ 12.0	$ 12.0	$ 12.5	$ 13.0	$ 13.5	$ 14.0	$ 14.5
RPTTF Residual Property Tax Payment	$ 40.8	$ 40.9	$ 38.9	$ 41.6	$ 44.7	$ 47.3	$ 49.5
Total Property Tax Projection	$ 758.6	$ 771.9	$ 801.3	$ 830.7	$ 862.8	$ 895.8	$ 932.9

Figure 2.4 - Property Tax Revenue Projections: Fiscal Years 2025 - 2029

Projections including Redevelopment Property Tax Trust Fund (RPTTF)



	FY 2024 Projection	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ 771.9	$ 801.3	$ 830.7	$ 862.8	$ 895.8	$ 932.9
Growth Rate	5.6%	4.6%	3.5%	3.7%	3.7%	4.1%

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. **Figure 2.5 – Property Tax Revenue Five-Year Forecast: Fiscal Years 2025 - 2029** reflects the current scenario as well as the "High" and "Low" scenario. In addition, **Table 2.3 – Property Tax Five-Year Forecast: Growth Rate Scenarios** details the assumed growth rates for each scenario for FY 2025 through FY 2029.

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Figure 2.5 - Property Tax Revenue Five-Year Forecast: Fiscal Years 2025 - 2029

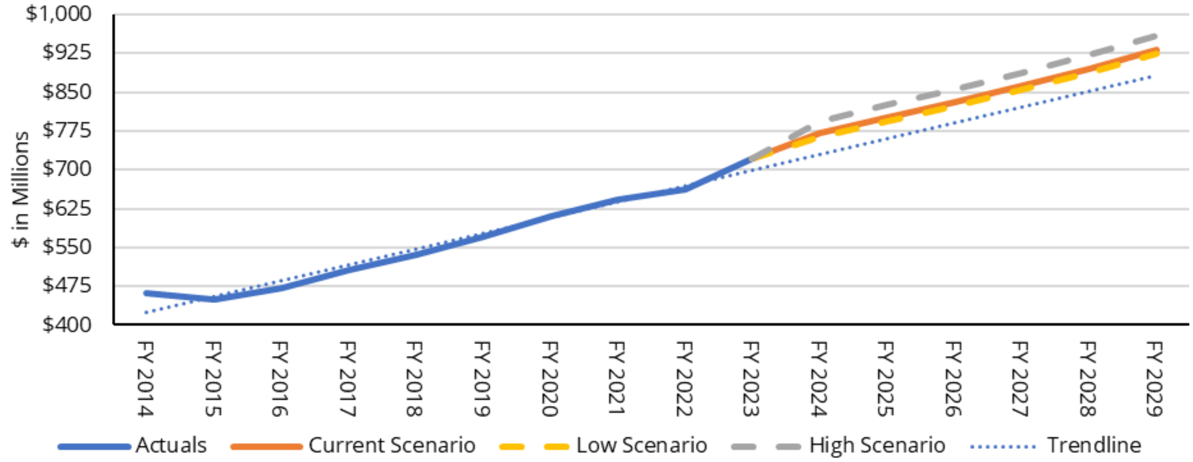


Table 2.3 - Property Tax Five-Year Forecast: Growth Rate Scenarios					
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Current Growth Rate	4.6%	3.5%	3.7%	3.7%	4.1%
High Growth Rate	6.6%	5.5%	5.7%	5.7%	6.1%
Low Growth Rate	3.6%	2.5%	2.7%	2.7%	3.1%

The current growth rates were developed based on the most recent housing market conditions and data available at the time of the preparation of the report. As a result of the 12-18-month lag time for this growth to be recognized in the City's Assessed Valuation, it is expected that Property Tax will see the impacts from current year trends in FY 2026 before normalizing in the outer years. The assumption incorporates the following housing statistics: a decrease of 25.8 percent in year-to-date home sales[2] and increase of 4.6 percent in home prices[2] as of September 2023.

The "Low" scenario assumes a continued increase in mortgage interest rates implemented by the FOMC over the next year. Increased mortgage rates raise the cost of home ownership, thereby slowing the number of home sales. A lower supply in homes for sale also has the potential to negatively impact home sales. Further contributing to the "Low" scenario is that existing higher prices are changing home ownership behaviors and reducing turnover. Higher interest rates and lower turnover could result in lower annual assessed valuation growth rates for FY 2025 through FY 2029. A "Low" scenario would reduce Property Tax projections by $7.7 million in FY 2025 and a cumulative total of $41.6 million throughout the outlook period.

A "High" scenario is projected to exist should homes sales and valuations increase, with slightly restrained growth. Interest rates would remain at the current level or potentially decrease over the next several years, causing high demand for housing and limited inventory, further fueled by

[2] San Diego Residential Home Sale Activity by Month. HDL Coren & Cone. Retrieved September 2023.

continued growth in higher income labor markets. The projections in this scenario reflect higher levels of growth similar to those seen in recent years, during the recovery of the pandemic. A "High" scenario would increase Property Tax projections by $23.0 million in FY 2025 and a cumulative total of $124.8 million throughout the outlook period.

Another factor that may influence the Property Tax forecast relates to the California Department of Finance's 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 and will increase the City's RPTTF residual payment throughout the Outlook. A significant variable in the ROPS enforceable obligations is the dollar amount and terms of the repayment of various outstanding loan agreements.

Sales Tax

The City's second largest revenue source is sales tax, which represents 19.9 percent of the General Fund revenue in the FY 2024 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 deliver goods in 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 Outlook for Sales Tax assumes growth based upon the updated FY 2024 projection for Sales Tax included in the FY 2024 First Quarter Report, and economic assumptions available at the time of the preparation of this report. **Table 2.4 – Sales Tax Five-Year Forecast** displays the FY 2024 Adopted Budget and year-end projection, as well as the forecast for FY 2025 through FY 2029 for the Sales Tax category.

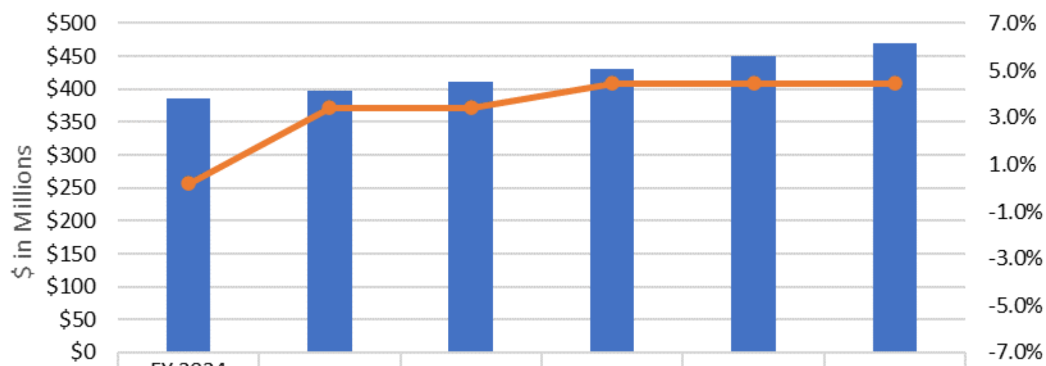
Table 2.4 - Sales Tax Five-Year Forecast
($ in Millions)

	FY 2024 Adopted	FY 2024 Projection	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Growth Rate	1.5%	0.2%	3.4%	3.4%	4.5%	4.5%	4.5%
Projection	$ 401.7	$ 385.2	$ 398.3	$ 411.8	$ 430.2	$ 449.4	$ 469.4

As reported in the FY 2024 First Quarter Report, the Sales Tax category is projected at $385.2 million, which is a decrease of $16.5 million from the FY 2024 Adopted Budget. The FY 2024 projected decrease is primarily attributed to declining consumer spending and the increasing impact of inflation on taxable goods. A continued shift in consumption patterns in the form of reduced purchase quantity, particularly for goods, as a result of rising prices has had an effect on the sales tax collected. As a result of the current trend, the sales tax growth rate has been revised from a 1.5 percent average growth rate included in the FY 2024 Adopted Budget to 0.2 percent following updated information provided by the City's sales tax consultant, Avenu Insights & Analytics. These adjustments are considered in the baseline projections for the outlook period.

The Sales Tax baseline is increased by growth rates that are considered moderate when compared to the accelerated growth and recovery experienced following the COVID-19 pandemic, and includes a return to historically normal growth in the outer years. **Figure 2.6 – Sales Tax Revenue Projection: Fiscal Years 2025 - 2029** displays the relationship between the projected Sales Tax receipts and the forecasted growth rates.

Figure 2.6 - Sales Tax Revenue Projection: Fiscal Years 2025 - 2029



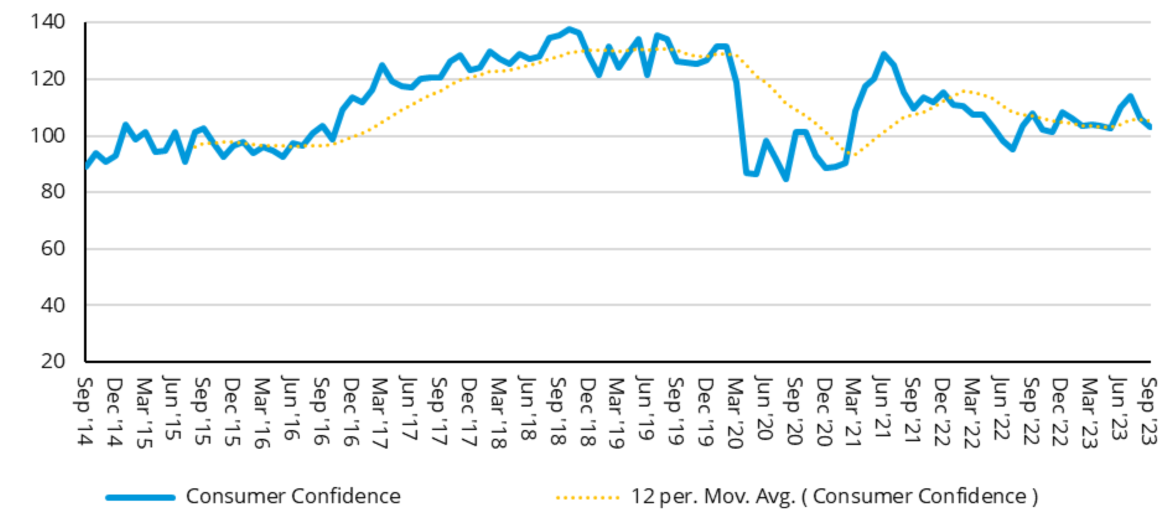
	FY 2024 Projection	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ 385.2	$ 398.3	$ 411.8	$ 430.2	$ 449.4	$ 469.4
Growth Rate	0.2%	3.4%	3.4%	4.5%	4.5%	4.5%

Economic Trends

The primary economic drivers for spending and growth in sales tax receipts include the unemployment rate and consumer confidence, which drive consumer spending, and the San Diego Consumer Price Index (CPI). As preliminarily reported by the California Employment Development Department, the September 2023 unemployment rate for the City of San Diego was 3.9 percent; an increase from the 2.9 percent unemployment rate recorded in September 2022. The City's unemployment has remained at a steady rate, averaging 3.5 percent through September 2022 to September 2023. The unemployment rate has continued to fluctuate month-to-month, recently decreasing slightly by 0.3 percent, when comparing month-to-month data, from the August 2023 rate of 4.2 percent to September 2023.

Moreover, consumer confidence, a measurement of consumers' willingness to spend, continues to fluctuate month-over-month as consumers respond to reservations regarding the current state of the economy, including sustained higher prices on goods and rising interest rates over the last several months. As shown in **Figure 2.7 – Consumer Confidence,** consumer confidence peaked at 114.0 in July 2023, before fluctuating over the next few months. As of September 2023, consumer confidence has decreased to 103.0, which represents a decrease of 4.5 percent from September 2022 of 107.8 and reflects two consecutive months of decline.

Figure 2.7 - Consumer Confidence



Source: The Conference Board – Consumer Confidence Survey ®

While consumer spending had remained strong through the first half of calendar year 2023, industry experts have begun to see a shift in consumption patterns in the form of reduced purchase quantity, particularly for goods, as a result of rising prices. Current consumer spending has begun to fluctuate as a result of the sustained rising cost of goods resulting from persistent inflation.

The San Diego CPI, a metric that measures costs across many consumer items, increased by 4.7 percent from 350.721 in September 2022 to 367.185 in September 2023—continuing a decline from the record high inflation experienced the past year. This decline in CPI is consistent with recent economic reports, including the UCLA Anderson October 2023 Economic Forecast, which assumes CPI will gradually decline, reaching 2.8 percent in the outer years.

The forecast for sales tax reflects a decline in business activity from various sectors. The fluctuating price of gasoline, currently lower than this time last year, as well as a decrease in auto sales and overall lower retail sales, reflects closer to normal consumption as the pent-up demand and unusually high levels of consumption experienced in the prior years post-pandemic has diminished. Local business activity, including business sectors like food products, general retail, and transportation have seen growth year-over-year and are anticipated to experience slower growth in FY 2025 and FY 2026, before returning to more moderate growth in FY 2027 through FY 2029. Moreover, sales tax revenues from online retailers are distributed to the City through the county pool at a rate of approximately 0.5 percent as opposed to 1.0 percent for in-store point-of-sale City sales tax revenues, which reduces the portion of sales tax revenue received by the City. This trend towards online sales is evidenced by the significant percentage of the City's total sales tax revenue received from the county pool steadily increasing over the past several years.

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 using the City's sales tax consultant's optimistic and conservative projections. **Figure 2.8 – Sales Tax Projections: Fiscal Years 2025 - 2029** reflects the current scenario as well as the "High" and "Low" scenario. In addition, **Table 2.5 – Sales Tax Five-Year Forecast: Growth Scenarios** details the assumed projections for each scenario for FY 2025 through FY 2029.

Figure 2.8 - Sales Tax Projections: Fiscal Years 2025 - 2029

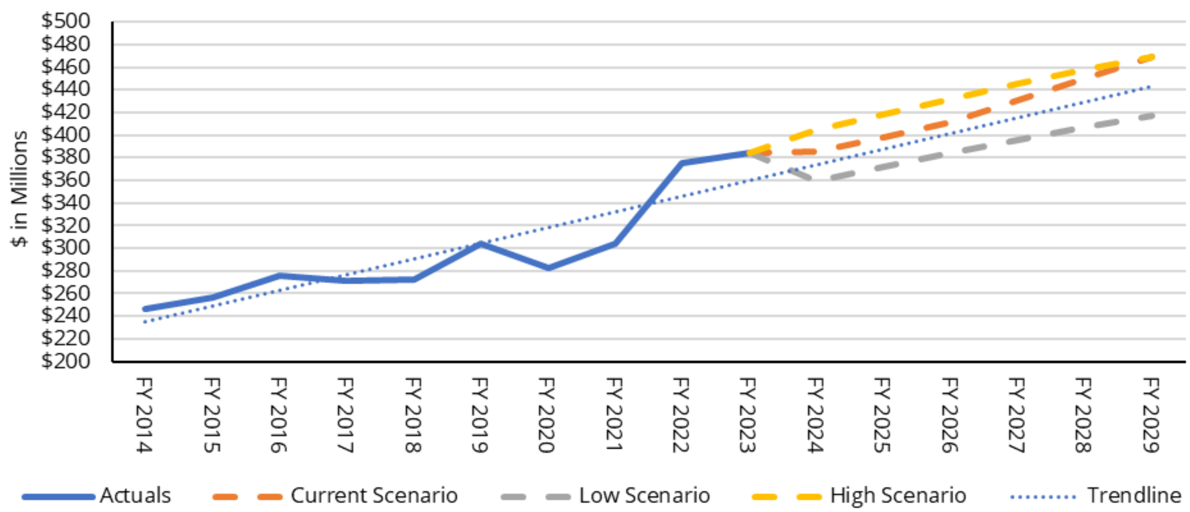


Table 2.5 - Sales Tax Five-Year Forecast: Growth Scenarios ($ in Millions)					
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Current Projection	$ 398.3	$ 411.8	$ 430.2	$ 449.4	$ 469.4
High Scenario Projection	$ 418.2	$ 432.0	$ 445.1	$ 457.4	$ 468.9
Low Scenario Projection	$ 371.6	$ 383.9	$ 395.5	$ 406.4	$ 416.7

The "Low" scenario reflects the City's sales tax consultant's conservative projections. This scenario considers impacts from persistent inflation, consumers' willingness to cut back on spending, higher unemployment, and lower consumer confidence in the local and State economies. A "Low" scenario would reduce sales tax projections by $26.7 million in FY 2025 and a cumulative total of $185.0 million throughout the outlook period.

The "High" scenario reflects the City sales tax consultant's optimistic projections, in which CPI would get closer to 2.0 percent, the unemployment rate would decrease, and consumer confidence would begin to rise, fueling an increase in consumer spending. A "High" scenario would increase sales tax projections by $19.9 million in FY 2025 and a cumulative total of $62.5 million throughout the outlook period.

Transient Occupancy Tax (TOT)

TOT represents 8.6 percent of the City's General Fund FY 2024 Adopted Budget. TOT is levied at 10.5 cents per dollar on taxable rent for a transient's stay of less than one month in 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 Outlook for TOT assumes growth based upon the updated projection included in the FY 2024 First Quarter Report, and economic assumptions available at the time of the preparation of this report. **Table 2.6 – Transient Occupancy Tax (TOT) Five-Year Forecast** displays the General Fund TOT budget and year-end projection for FY 2024, and the forecast for FY 2025 through FY 2029.

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

	FY 2024 Adopted	FY 2024 Projection	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Growth Rate	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%
Projection	$ 172.6	$ 171.2	$ 181.3	$ 191.9	$ 203.2	$ 215.1	$ 227.8

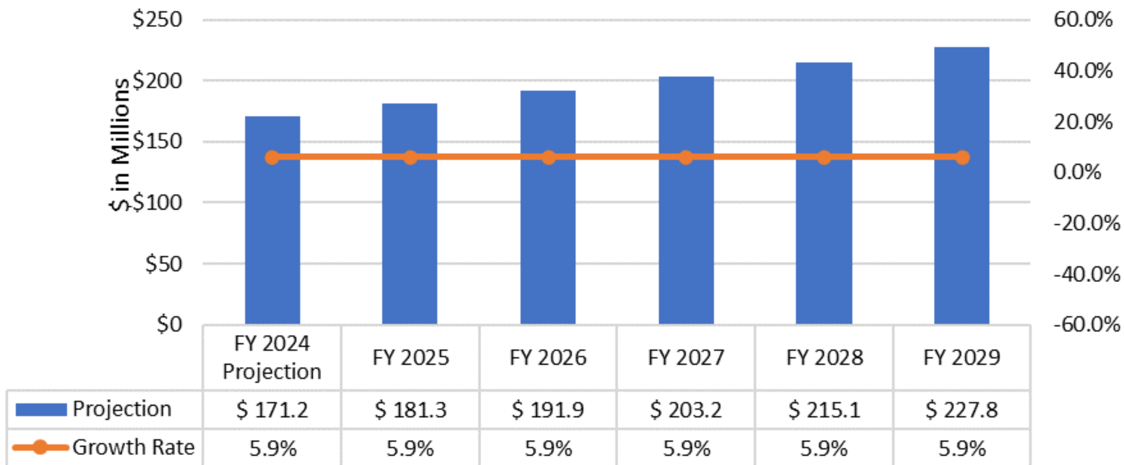
Note: Table 2.6 represents only the General Fund portion of total TOT (5.5 cents of the total 10.5 cents TOT).

As reported in the FY 2024 First Quarter Report, total citywide TOT receipts are projected at $325.5 million; the General Fund's 5.5 cent portion of the total TOT projected receipts is $171.2 million, which represents a decrease of $1.4 million from the FY 2024 Adopted Budget and serves as the baseline for the Outlook forecast. This decrease is primarily attributed to lower than anticipated demand for travel. While continued improvement in leisure travel and the gradual return of business and group travel was anticipated, the level of impact that increased room rates, as a result of elevated inflation, would have on travel demand, was not anticipated. These adjustments are considered in the baseline projections for the outlook period.

A constant growth rate of 5.9 percent is applied to FY 2025 through FY 2029 based on the assumption that TOT growth will continue to trend moderately when compared to the accelerated and robust growth experienced in recent years following the peak of the COVID-19 pandemic. While growth in TOT revenue has been robust in recent years and largely driven by pent-up demand for leisure travel, relevant economic indicators (described in the *Economic Trends* section below) and assumptions from the San Diego County Travel Forecast, point toward a more normalized growth in the outer years. The growth rate of 5.9 percent balances these indices and anticipated trends with continued, yet tempered growth. The 5.9 percent growth rate is based on historical average of year-over-year growth prior to the pandemic.

Figure 2.9 – Transient Occupancy Tax (TOT) General Fund Revenue Projection: Fiscal Years 2025 - 2029 below displays the relationship between the projected TOT receipts and the forecasted growth rates.

Figure 2.9 - Transient Occupancy Tax (TOT) General Fund Revenue Projection: Fiscal Years 2025 - 2029



Economic Trends

The primary economic drivers for TOT revenues are room rates, occupancy, and average daily room rate growth. According to the San Diego Lodging Forecast, which was prepared for the San Diego Tourism Authority (SDTA) by Tourism Economics in July 2023, the number of paid overnight visits is projected to reflect easing of growth in calendar year 2023 before fully recovering to pre-pandemic levels in 2025. **Table 2.7 – San Diego County Tourism Industry** summarizes the projected growth for relevant economic indicators below.

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

	CY 2023	CY 2024	CY 2025	CY 2026	CY 2027
Room Demand (Growth)	1.3%	5.2%	3.8%	2.8%	2.3%
Occupancy	73.5%	77.0%	78.0%	77.9%	78.5%
Avg. Daily Room Rate	$ 207.62	$ 210.66	$ 219.58	$ 227.49	$ 233.59

Source: San Diego Lodging Forecast, July 2023. By Tourism Economics for San Diego Tourism Authority.

As shown in **Table 2.7 – San Diego County Tourism Industry,** the growth of economic indicators that drive TOT revenues is anticipated to ease in calendar year 2023, before returning to moderate growth in calendar year 2024. Room demand is anticipated to increase by 5.2 percent from calendar year 2023 to 2024. As reported in the San Diego Travel Forecast, this growth rate balances the assumption that San Diego room demand is expected to grow at a more moderate level, with the Average Daily Room (ADR) rate expected to slow in growth and normalize in the outer years. When compared to calendar year 2023, occupancy is anticipated to increase by 4.8 percent in calendar year 2024. Moreover, the ADR rate, while still strong, is anticipated to grow at normalized levels. Subsequently, with the anticipated easing of growth in these economic indicators, the Outlook forecasts a moderate growth rate of 5.9 percent throughout the outlook period, reflecting continued performance at normalized levels.

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 using a variability margin of error. This is not a representation of economic assumptions, rather a variability factor used to calculate how revenues can differentiate with a 10.0 percent margin of variability. **Figure 2.10 – Transient Occupancy Tax (TOT) Projections: Fiscal Years 2025 - 2029**, reflects the current scenario as well as the "High" and "Low" scenario. In addition, **Table 2.8 – Transient Occupancy Tax (TOT) Five-Year Forecast: Growth Scenarios** details the assumed projections for each scenario for the current fiscal year as well as FY 2025 through FY 2029.

Figure 2.10 - Transient Occupancy Tax (TOT) Projections: Fiscal Years 2025 - 2029

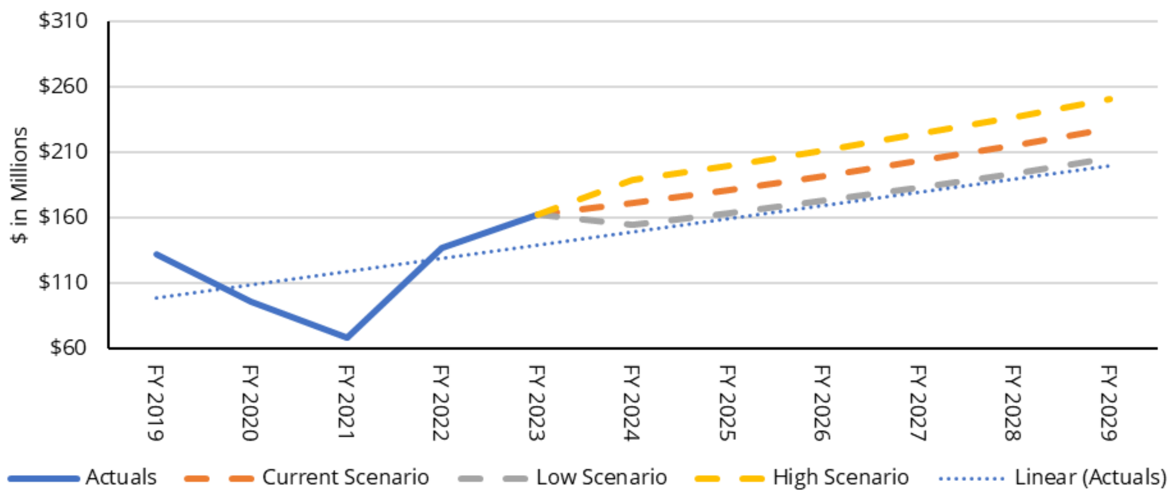


Table 2.8 - Transient Occupancy Tax (TOT) Five-Year Forecast: Growth Scenarios ($ in Millions)					
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Current Projection	$ 181.3	$ 191.9	$ 203.2	$ 215.1	$ 227.8
High Scenario Projection	$ 199.4	$ 211.1	$ 223.5	$ 236.7	$ 250.6
Low Scenario Projection	$ 163.1	$ 172.7	$ 182.9	$ 193.6	$ 205.0

A "Low" scenario would reduce TOT projections by $18.1 million in FY 2025 and a cumulative total of $101.9 million throughout the outlook period. Potential factors that would negatively impact TOT projections include decreased consumer discretionary spending on items such as leisure travel due to sustained inflation, the unemployment rate increasing, and a potential recession.

A "High" scenario would increase TOT projections by $18.1 million in FY 2025 and a cumulative total of $101.9 million throughout the outlook period. Potential factors that would positively impact TOT projections include reduced inflation, reducing potential travel expenses. Additionally, this scenario would reflect a greater demand for business, group, and international travel—sectors that have not fully recovered from the pandemic—and an increase in the number of conventions and special events held across the City.

Franchise Fees

Revenue from franchise fees makes up 5.5 percent of the City's General Fund FY 2024 Adopted Budget. These 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.

SDG&E and cable companies are the largest contributors to Franchise Fees, generating approximately 80.1 percent of Franchise Fee revenue. The growth rate for SDG&E electricity and gas sales is expected to increase through the outlook period to account for projected electricity and gas rate increases as projected from SDG&E's General Rate Case (GRC) filed in July 2023, with the bulk of the rate increase expected in the first two years of the outlook period. The final rate increases, approved by the CPUC, are still yet to be determined.

Additionally, the City receives annual bid payments as part of the recently negotiated agreement with SDG&E for the first five years of the agreement. The FY 2024 Adopted Budget includes an installment payment of $6.2 million, which represents the General Fund portion of the total $11.2 million, followed by annual installments with a 3.38 percent interest rate applied through FY 2026 of the Outlook.

Forecast

The Outlook for Franchise Fees assumes growth based upon the updated FY 2024 projection for Franchise Fees and economic assumptions available at the time of the preparation of this report. The FY 2024 projection includes all General Fund franchise fees, including the Major General Fund revenue portion projected in the FY 2024 First Quarter Report. **Table 2.9 – Franchise Fees Five-Year Forecast** displays the budget and year-end projection for FY 2024 and the forecast for FY 2025 through FY 2029 for revenue from franchise fees.

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

	FY 2024 Adopted	FY 2024 Projection	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Electricity/Gas Growth Rate	8.1%	8.1%	8.0%	5.0%	3.0%	3.0%	5.0%
Cable Growth Rate	-4.8%	-4.8%	-5.5%	-5.9%	-6.2%	-6.5%	-6.8%
Projection	$ 110.3	$ 110.6	$ 116.3	$ 120.4	$ 116.0	$ 118.4	$ 122.7

The Franchise Fees category is projected at $116.3 million in FY 2025, which represents an increase of $5.9 million from the FY 2024 Adopted Budget primarily attributed to an increase in SDG&E revenue, slightly offset with a continued decrease in cable revenue.

Franchise Fees growth rates are projected independently, using historical actuals and relevant information respective to each of the franchise fees—the aggregate of these assumptions results in the total forecast for the Franchise Fees category. Most notably, the growth rate for gas and electricity rates considers an increase in gas and electricity rates based on current market conditions and various factors impacting revenue collected. The City receives an annual cleanup payment from SDG&E in February at which time the revenue projections will be updated. The cable growth rates consider the continuing loss of market share to digital competitors that do not have franchise fees levied against them. These assumptions are further elaborated on in the *Economic Trends* section below.

Economic Trends

San Diego Gas and Electric (SDG&E)

SDG&E franchise fee revenue is based off the most recent revenue projections from SDG&E's 2024 General Rate Case (GRC) application filed in July 2023. SDG&E filed the application with the CPUC, seeking approval to change base rates to customers. If approved by the CPUC, the rate increases would be effective November 2024. Therefore, increased franchise fee revenue from SDG&E is expected in FY 2025 through FY 2029 primarily due to the anticipated rate increases. The GRC projects a blended growth of 24.0 percent for both gas and electricity over the next five years. Although the exact growth per year is undetermined, the Outlook assumes the bulk of the rate increases taking effect at the start of the outlook period. Additionally, increases in electric vehicles, additional housing supply, and increases in investments in the safety and reliability of infrastructure of the energy market and accelerated transition to clean energy through new technology and regional electrification efforts can also contribute to the increases in revenue. Other key variables that impact franchise fee revenue include: solar installations, increased energy efficiencies, building decarbonization, Community Choice Aggregation (CCA) and other rate savings, changes in rate structures, legislative and regulatory mandates, energy storage, and variable weather patterns including fire activity within a given year. **Figure 2.11 – SDG&E Franchise Fee Revenue Variables** depicts how each of these key variables can impact total franchise fee revenue collected from SDG&E.

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Figure 2.11 - SDG&E Franchise Fee Revenue Variables

Source: SDG&E September 2021

Cable Companies

Franchise fees from cable companies are expected to decrease due to the increasing loss of market share to digital competitors. Cable franchise fees are expected to decrease by 5.5 percent in FY 2025. The increasing loss of market share is expected to continue in the outer years as several new digital content providers have entered the market in recent years and significantly impacted the cable market share, decreasing by an additional 0.32 percent in each year of the outlook period. The forecast for cable revenue assumes the current franchise fee agreements.

Scenario Analysis

The factors described above combine to make up the franchise fees projection; however, should one or several of these key variables significantly outweigh other variables in a different pattern from past history, franchise fee revenues will vary from the current projection which is based on historical year-end actuals. Additionally, the quickly changing dynamics of the energy market with the push for climate action goals, clean energy and impacts of climate change, weather, and fire risks, will all impact future growth rates for gas and electric franchise fees. Due to this, past performance may not be a reliable measure for future performance.

For cable revenue, variances in content ownership, media advertising, subscription levels, and pricing may also impact franchise fee growth. Since adequate data on these individual factors for all San Diego cable companies are not yet available to City staff, 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 0.6 percent of the City's General Fund FY 2024 Adopted Budget.

Forecast

Table 2.10 – Property Transfer Tax Five-Tear Forecast displays the FY 2024 Adopted Budget and year-end projection, as well as the forecast for FY 2025 through FY 2029 for Property Transfer Tax.

The FY 2024 projection for Property Transfer Tax is projected similar to the FY 2024 Adopted Budget and serves as the basis for the Outlook projections.

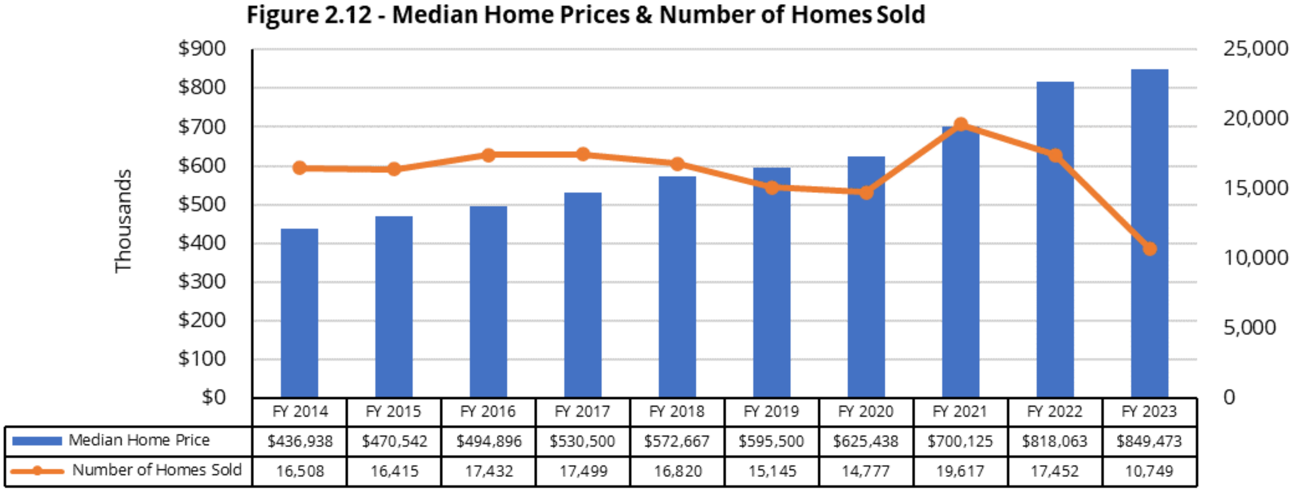
Table 2.10 - Property Transfer Tax Five-Year Forecast ($ in Millions)							
	FY 2024 Adopted	FY 2024 Projection	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Growth Rate	0.0%	0.0%	3.5%	3.7%	3.7%	4.1%	4.1%
Projection	$ 12.0	$ 12.0	$ 12.4	$ 12.8	$ 13.3	$ 13.9	$ 14.4

Property Transfer Tax estimates were developed using current apportionment reports received from the County of San Diego. Growth rates for property transfer tax revenues included through the outlook period reflect those projected for property tax revenues for the corresponding year.

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. The median home price has continued to rapidly grow over the past year; however, there has been a significant decline in the number of home sales when comparing current year-to-date data with the same time period last year. **Figure 2.12 – Median Home Prices & Number of Homes Sold** illustrates the median home prices and number of homes sold. Property Transfer Tax revenue is anticipated to grow gradually throughout the outlook period.

Figure 2.12 - Median Home Prices & Number of Homes Sold



Source: HdL Coren & Cone

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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 2024 Adopted Budget.

Table 2.11 – Licenses and Permits Five-Year Forecast displays the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for revenue from licenses and permits.

Table 2.11 - Licenses and Permits Five-Year Forecast ($ in Millions)						
	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Growth Rate		3.5%	3.5%	3.5%	3.5%	3.5%
Projection	$ 44.9	$ 49.7	$ 47.3	$ 53.4	$ 51.1	$ 57.3

With the exception of Cannabis Business Tax and Short-Term Rental Compliance, a constant growth rate of 3.5 percent is applied from FY 2025 to FY 2029 based on a three-year average of historical revenue growth. Within this category, Cannabis Business Tax and Short-Term Rental Compliance are projected separately from the 3.5 percent growth rate and then aggregated with other revenue from Licenses and Permits. The forecast for FY 2025 reflects a $4.8 million increase from the FY 2024 Adopted Budget primarily due to $5.4 million in licensing and application revenue associated with the Short-Term Residential Occupancy Compliance Program, which are collected every two years, offset with a decline of $1.4 million in Cannabis Business Taxes paid by outlets.

Cannabis Business Tax

Included within the Licenses and Permits category are business taxes received from the sale, distribution, cultivation, and manufacturing of non-medical cannabis products. The City levies a gross receipts tax of 8.0 percent on cannabis retail sales and 2.0 percent for cannabis production facilities.

To develop the Outlook projections, actual sales data from FY 2023 was 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 in the forecast period and the tax rate applied. The projection for cultivation, manufacturing, and distribution of cannabis was calculated following a similar methodology. **Figure 2.13 Cannabis Business Tax Revenue, Fiscal Years 2025 - 2029** depicts the forecasted growth for cannabis business tax revenue, which is expected to remain steady through the outlook period. As the industry continues to evolve, the City will continue to monitor and update projections from all cannabis businesses, as needed.

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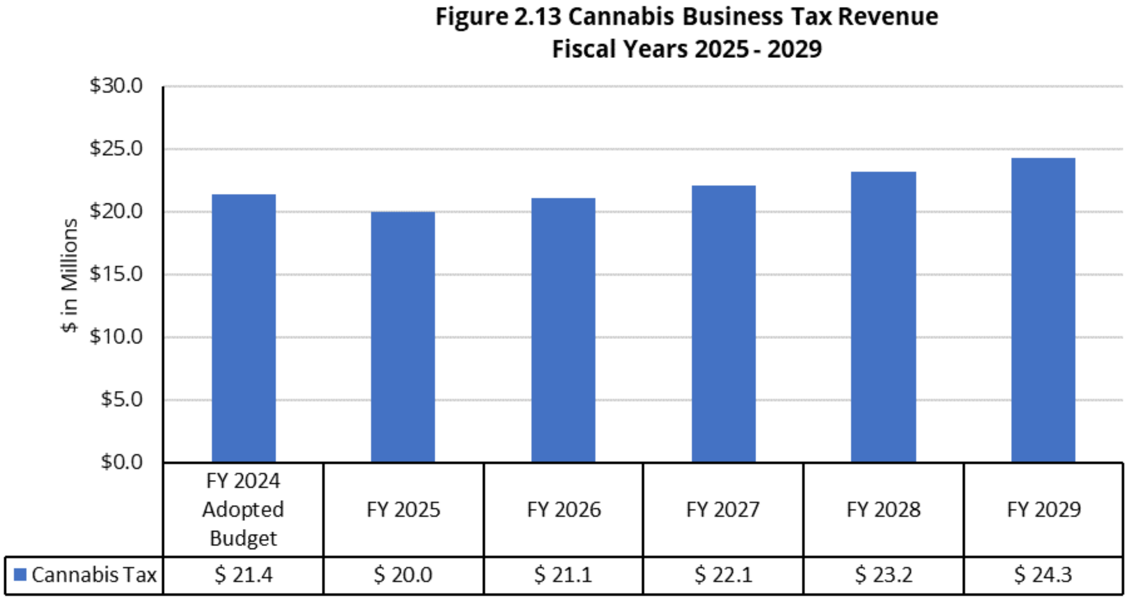

Short-Term Residential Occupancy (STRO) Program

Included within the Licenses and Permits category is revenue received from application and license fees associated with the Short-Term Residential Occupancy (STRO) Program. The purpose of the STRO Program is to regulate short-term residential occupancy in dwelling units to balance the need to preserve neighborhood quality of life with the protection of private property rights. City Council approved the STRO ordinance on February 23, 2021. Licenses are valid for a two-year period. Application and license fees are collected when applications are submitted or renewed. This results in a projected revenue of $6.0 million in FYs 2025, 2027, and 2029 and $1.7 million every other year.

Fines, Forfeitures, and Penalties

The Fines, Forfeitures, and Penalties category includes revenue generated from the violation of laws or regulations, such as California Vehicle Code violations, City parking and ordinance violations, negligent impounds, collection referrals, and litigation awards. This revenue source represents approximately 1.6 percent of the City's General Fund FY 2024 Adopted Budget.

Table 2.12 – Fines, Forfeitures and Penalties Five-Year Forecast displays the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for revenue from fines, forfeitures, and penalties.

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

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Growth rate		1.2%	1.2%	1.2%	1.2%	1.2%
Projection	$ 32.7	$ 33.1	$ 33.5	$ 33.9	$ 34.3	$ 34.7

Revenue from fines, forfeitures, and penalties are projected at a constant rate of 1.2 percent growth for FY 2025 through FY 2029. The growth rate was developed based on overall historical growth in this category. Any future fee increases, including parking citation fees, approved by City Council can have the potential to further impact the forecasted revenue in the outlook period.

Revenue from Money and Property

The Revenue from Money and Property category primarily consists of interest from city investments and rental revenue generated from City-owned properties including Mission Bay Park, Balboa Park, City Pueblo Lands, and Torrey Pines Golf Course. This revenue source represents 3.6 percent of the City's General Fund FY 2024 Adopted Budget.

Table 2.13 – Revenue from Money and Property Five-Year Forecast displays the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for the Revenue from Money and Property category.

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

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ 72.7	$ 74.8	$ 77.0	$ 79.2	$ 81.6	$ 84.0

Within this category, office space rent and Mission Bay Park rents and concessions are analyzed and projected separately and then aggregated with other revenue from money and property. A zero percent growth rate is applied to the other revenues sources within this category from FY 2025 to FY 2029 based on an overall inconsistent historical growth in this category.

Interest on pooled investments is projected based on the current General Fund participation level in the treasury pool and an average of historical actuals. Due to recent market conditions and continuous changes in Federal Funds rates, a zero percent growth is applied year-over-year. This revenue source makes up 2.4 percent of the total Revenue from the Money and Property category and will be closely monitored as part of each year's budget monitoring process.

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, which are anticipated to increase by a net $140,000 in FY 2025. The net increase is due to an increase in operations and maintenance costs received from the non-General Fund departments occupying the Civic Center Plaza building. Partially offsetting the increase is a decrease in rent from the Development Services Department, as they are anticipated to move from the City Operations Building to a non-General Fund owned building beginning in FY 2025.

Revenue from Money and Property includes revenue from Mission Bay Park rents and concessions. Per City Charter Section 55.2, the threshold amount of $20.0 million of Mission Bay Park 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, which is reflected in the *Transfers Out* section of this Report. The Outlook projects that Mission Bay Park rents and concessions revenue will grow at a steady pace of 4.8 percent through the outlook period and exceed the $20.0 million threshold. Per City Charter Section 55.2, the San Diego Regional Parks Improvement Fund receives 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 0.5 percent of the City's General Fund FY 2024 Adopted Budget.

Table 2.14 – Revenue from Federal and Other Agencies Five-Year Forecast displays the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for Revenue from Federal and Other Agencies.

Table 2.14 - Revenue From Federal and Other Agencies Five-Year Forecast ($ in Millions)

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Growth Rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 10.4	$ 9.2	$ 9.2	$ 9.2	$ 9.2	$ 9.2

The forecast for FY 2025 reflects a decrease of $1.1 million from the FY 2024 Adopted Budget. This decrease is primarily due to the removal of $911,000 in one-time revenue from the Emergency Connectivity Fund to support the SD Access 4 All Digital Equity Program, and $197,000 in one-time revenue from the opioid settlement.

Zero-growth is applied to the Revenue from Federal and Other Agencies category as no additional State or federal assistance above the baseline projection is assumed throughout the outlook period due to its unpredictability —any federal or other agency assistance beyond $9.2 million was not known at the time of the preparation of this report.

Charges for Services

The revenue forecasted in the Charges for Services category is primarily comprised of reimbursements for services rendered by the General Fund to non-General Funds and also includes charges for services provided to the public. 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 12.1 percent of the City's General Fund FY 2024 Adopted Budget.

Table 2.15 – Charges for Services Five-Year Forecast displays the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for revenue from Charges for Services.

Table 2.15 - Charges for Services Five-Year Forecast ($ in Millions)

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ 243.4	$ 244.4	$ 247.5	$ 249.2	$ 251.3	$ 252.3

The forecast for FY 2025 reflects an increase of $1.0 million from the FY 2024 Adopted Budget. While a zero-growth rate is applied to the Charges for Services category, select commitments including reimbursements from other funds, are projected independently and then aggregated with other revenues in the Charges for Services category. Reimbursements to the General Fund from the TOT fund are projected to decrease by $3.4 million in FY 2025 due to the removal of the one-time use of fund balance in FY 2024. There currently is an estimated $8.9 million in fund balance in FY 2025, which is directly tied to the forecasted revenue in the TOT major revenue category—as total TOT revenues increase in the outlook period, additional funds become available for qualifying tourism-related activities in accordance with City Council Policy 100-03. This fund balance is available to be used to support additional TOT-related programs or reimburse General Fund departments with eligible TOT-related expenses. This is also discussed in the *Potential Mitigation Actions* section, later in the report. Moreover, based on increases forecasted in the Salary and Wages category, reimbursements from other funds are anticipated to increase by $4.4 million.

Other Revenue

The Other Revenue category includes ambulance fuel reimbursements, corporate sponsorships, unclaimed monies, and other miscellaneous revenues. This revenue source represents 0.1 percent of the City's General Fund FY 2024 Adopted Budget.

Table 2.16 – Other Revenue Five-Year Forecast displays the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for revenue from other sources.

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

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Growth rate		0.0%	0.0%	0.0%	0.0%	0.0%
Projection	$ 2.0	$ 2.0	$ 2.0	$ 2.0	$ 2.0	$ 2.0

The growth rate for Other Revenue is projected to remain unchanged through the outlook period, based on historical trends.

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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, Gas Tax and TransNet Funds, and the one-cent TOT revenue transfer from the TOT Fund. This revenue source represents 7.8 percent of the City's General Fund FY 2024 Adopted Budget.

Table 2.17 – Transfers In Five-Year Forecast displays the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for revenue from Transfers In.

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

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ 156.6	$ 96.5	$ 98.9	$ 101.4	$ 103.9	$ 106.5

The forecast for FY 2025 reflects a decrease of $60.0 million from the FY 2024 Adopted Budget. This decrease is primarily due to the removal of $62.1 million in one-time revenue sources from the baseline projection including: $52.1 million in American Rescue Plan Act (ARPA) funding, $9.0 million from the Monsanto class action settlement, and the transfer of $1.0 million from the Fire/Emergency Medical Services Transport Fund to the General Fund.

A growth rate is not applied to the Transfers In category as each transfer is independent of one another and individually projected. The one-time removals noted above are primarily offset by increases in the 1-cent TOT transfer and Safety Sales Tax—the remaining revenue budgeted in this category are anticipated to remain relatively unchanged throughout the outlook period, including the transfers in from the Gas Tax and TransNet Funds.

The 1-cent TOT transfer is anticipated to increase by $1.6 million based on the current total TOT revenue projection, of which 1-cent of the revenue is allocated to the General Fund to be used for any purpose that the City Council may direct. As total TOT revenues increase in the outlook period, the respective 1-cent allocation to the General Fund increases accordingly.

Safety sales tax reimbursements to the Police and Fire-Rescue Departments are projected to moderately increase throughout the outlook period. Safety sales tax revenue is derived from a half-cent sales tax resulting from the enactment of Proposition 172 in 1994. Each year, 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

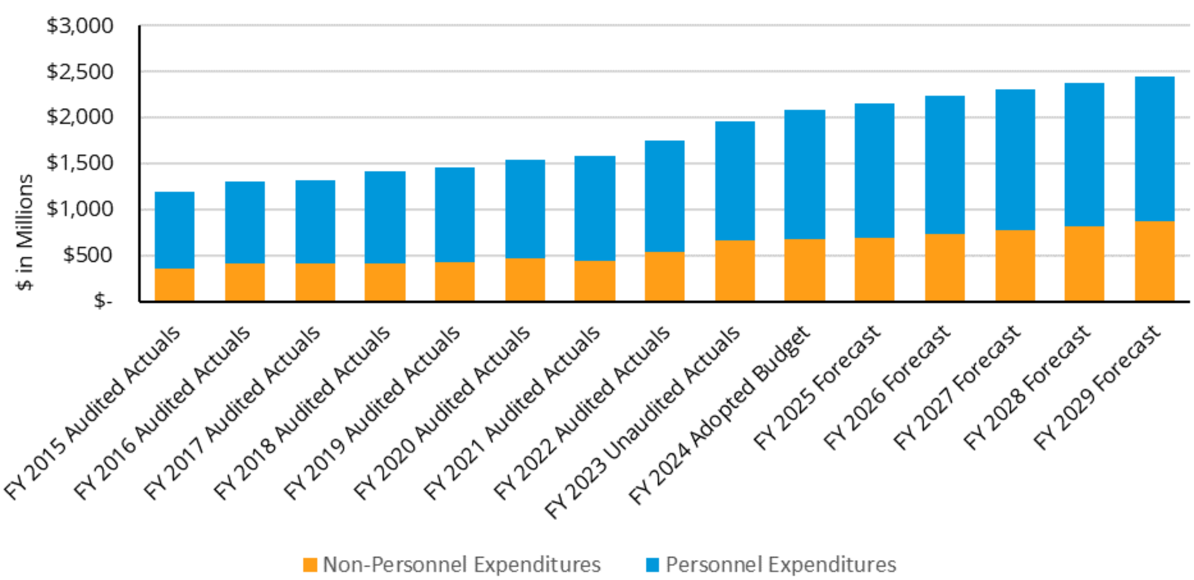
General Fund expenditures are comprised of both personnel and non-personnel expenditures including Salaries and Wages, Supplies, and Contracts & Services. Unless otherwise noted, baseline projections assume growth based upon the FY 2024 Adopted Budget with the removal of one-time expenditures. **Attachment 1: One-Time Resources and Expenditures** further details the one-time resources that have been removed from the baseline projections.

Personnel expenditures account for 67.3 percent of the City's General Fund FY 2024 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); employee flexible benefits; retiree healthcare or Other Post-Employment Benefits (OPEB); workers' compensation; Supplemental Pension Savings Plan (SPSP); and other fringe benefits. Baseline personnel expenditures are projected to increase during the outlook period due to growth in salaries and wages resulting from current agreements between the City and its Recognized Employee Organizations (REOs); an assumed 3.05 percent salary increase for pending MOU negotiations in future years; and projected increases in the City's pension payments (or ADC).

Projections for ongoing non-personnel expenses are also included in the baseline projections and include significant anticipated adjustments required to maintain the City's service levels as reflected in the FY 2024 Adopted Budget.

Figure 2.14 – Baseline Expenditures depicts the forecasted growth in baseline personnel and non-personnel expenditures.

Figure 2.14 - Baseline Expenditures



Salaries and Wages

The Salaries and Wages category is the largest General Fund expenditure category and is comprised of regular salaries and wages, budgeted personnel expenditure savings, termination pay/annual leave payouts, step increases, special pays, overtime, and vacation pay-in-lieu. This category includes the General Fund cost of salaries and wages for the current Memoranda of Understanding (MOUs) with each of the City's Recognized Employee Organizations (REOs). The Outlook also assumes a 3.05 percent annual general wage increase following the current MOUs with each REO in the City.

The FY 2024 Adopted Budget for General Fund salaries and wages was $850.1 million and included 8,512.99 full-time equivalents (FTE) positions. The Salaries and Wages category represents 40.8 percent of the total FY 2024 Adopted Budget for the General Fund. **Table 2.18 – Salaries and Wages – Current MOUs** displays the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for salaries and wages; however, it excludes assumed future salary increases or termination pay, which includes payments associated with Deferred Retirement Option Plan (DROP) participants and termination payouts for any employees that leave City employment. These assumptions will be discussed in the subsequent tables.

Table 2.18 - Salaries and Wages - Current MOUs[1]
($ in Millions)

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ 846.1	$ 877.1	$ 903.3	$ 905.6	$ 905.6	$ 905.6

[1]Table includes the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for salaries and wages, and does not include assumed future salary increases or termination pay, which includes payments associated with DROP participants and termination payouts for any employees that leave the City employment. These assumptions will be discussed in the subsequent tables.

Adjustments within the Salaries and Wages category incorporate only expenditures associated with positions included in the FY 2024 Adopted Budget. The Salaries and Wages category includes increases in FY 2025 and FY 2026 approved in the Municipal Employees Association (MEA); American Federation of State, County, and Municipal Employees (AFSCME Local 127); and Deputy City Attorneys Association (DCAA) MOUs; as well as for unrepresented and unclassified employees. 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 $3.3 million annually, throughout the outlook period.

As previously noted, the Outlook assumes a general wage increase of 3.05 percent for all REO groups following their current MOUs. **Table 2.19 – Salaries and Wages – Assumed General Wage Increases at 3.05% Annually** displays the FY 2025 through FY 2029 forecast for the assumed 3.05 percent annual general wage increase. The 3.05 percent annual general wage increase is consistent with the salary inflation assumptions included in the SDCERS Actuarial Valuation Report as of June 30, 2022, which was released in March 2023. While the SDCERS Board recently increased the salary inflation assumption from 3.05 percent to 3.25 percent, the Outlook maintains the 3.05 percent assumption for consistency with the June 30, 2022 valuation used to determine the ADC for the outlook period. The final negotiated salary compensations will be reported in the FY 2025 Adopted Budget once those fiscal impacts have been determined. Additionally, any future negotiated general wage increases that deviate from the 3.05 percent assumption will impact future year personnel costs included in the outlook period. The *City's Compensation Philosophy & Recruitment and Retention Efforts* under the *Future Fiscal Considerations* section of this report, further elaborates on these potential costs.

Table 2.19 - Salaries and Wages - Assumed General Wage Increases at 3.05% Annually ($ in Millions)						
	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ -	$ 16.4	$ 34.5	$ 60.9	$ 88.1	$ 116.1

The Salaries and Wages category also includes an adjustment for termination pay, which includes both DROP payments and termination payouts for employees who leave City employment and have remaining annual leave. Annual leave payouts for DROP members are projected based on recent activity and participants' projected leave balances; although DROP participants may continue to work at the City for up to five years, recent trends reflect that many DROP participants are not staying the full five years. While a portion of future leave liability expenses can be absorbed in departmental budgets, there remains a significant number of employees with high leave balances expected to retire over the next several years, especially in FY 2025 and FY 2026, as a result of the number of employees who entered DROP during the pandemic. For employees not in DROP, termination pay was based on a five-year average of actual expenditures. The projected termination pay/annual leave payouts for FY 2025 through FY 2029 are displayed in **Table 2.20 – Salaries and Wages (Termination Pay/Annual Leave)**.

Table 2.20 - Salaries and Wages (Termination Pay/Annual Leave) ($ in Millions)						
	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ 4.1	$ 4.5	$ 4.6	$ 3.2	$ 3.4	$ 3.9

The number of DROP participants anticipated to retire in FY 2029 is not yet available as DROP is a five-year program. Therefore, the FY 2029 projected number of retirees and the termination pay/annual leave projection are based on the averages of FY 2025 through FY 2028 with a smoothing approach due to the significant number of retirees who have entered DROP as a result of the pandemic and anticipating a significant number of retirees exiting during the five-year timeframe.

Retirement Actuarially Determined Contribution (ADC)

The pension payment or Actuarially Determined Contribution (ADC) paid by the City on July 1, 2023 for FY 2024 was based on the most recent San Diego City Employee's Retirement System (SDCERS) Actuarial Valuation Report prepared by the system actuary, Cheiron, as of June 30, 2022, which was released in March 2023.

The City's FY 2024 ADC payment was $448.1 million, of which $324.9 million, or 72.5 percent, was allocated to the General Fund. For FY 2025, the ADC is projected to be $471.8 million, which is an increase of $23.7 million, or 5.3 percent. The General Fund allocation, which is based on the General Fund/non-General Fund split included in the FY 2024 Adopted Budget, is projected to be $342.1

million, or 72.5 percent of the City's total ADC. This represents an increase of $17.2 million from the FY 2024 Adopted Budget.

The FY 2025 projected ADC of $471.8 million is based on the SDCERS Actuarial Valuation Report as of June 30, 2022, which was released in March 2023, and includes the following:

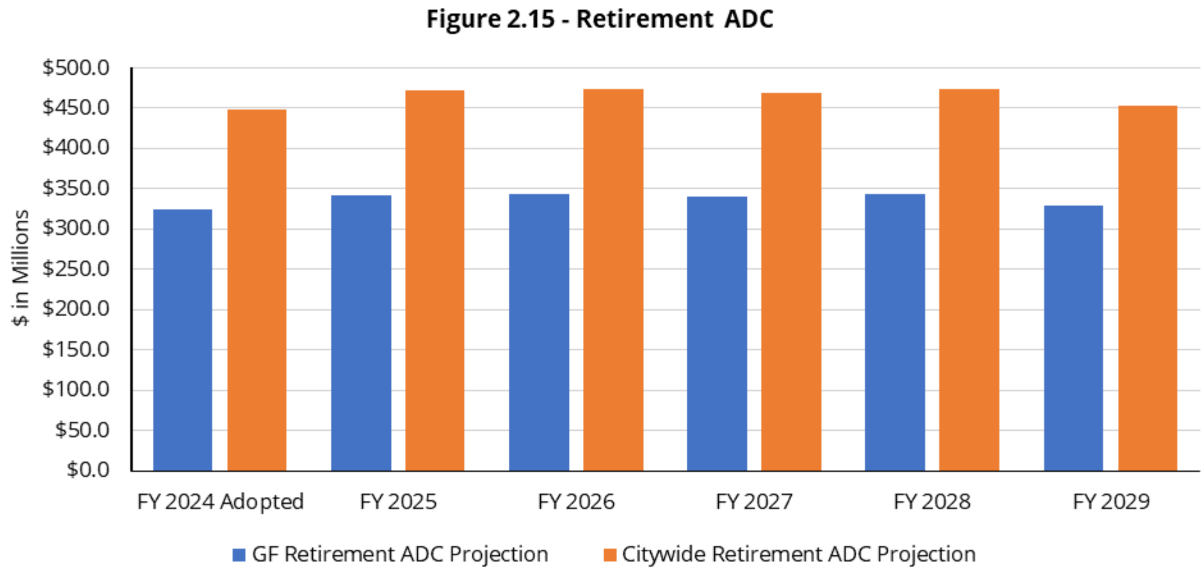
- $436.6 million projected ADC contribution, which includes the normal costs for Proposition B-impacted employees;
- $20.4 million associated with the addition of the estimated liability and cost impact of a cost-of-living adjustment (COLA) increase (from 1.9 percent to 2.0 percent) and other proposed assumption changes included in the 2023 Actuarial Experience Study prepared by Cheiron and approved at the September 8, 2023, SDCERS Board Meeting;
- $10.8 million for the amortization of the unfunded pension liability for Proposition B-impacted employees over a 20- year period; and
- An estimate of $4.0 million from Buck Consultants, an actuarial consulting firm, related to projected increases in the City's ADC payment related to FY 2023 investment losses, which are assumed to be amortized over a 15-year period.

Not included in these numbers are the impact of recently negotiated salary increases with MEA, Local 127 and DCAA, which were higher than the 3.05 percent salary inflation assumption used by the actuary (or the more recently approved 3.25 percent assumption). There may be other experience gains or losses regarding other assumptions that are not included and could impact the Outlook projections. As noted above, the General Fund allocation of the ADC is projected to be $342.1 million, based on the General Fund/non-General Fund split included in the FY 2024 Adopted Budget; however, the final General Fund allocation will not be known until the participation count is finalized for the members participating in the City's pension system and the allocation is recalculated based on the distribution of employees participating in the pension across the City's multiple funds. Additionally, the final amount of the City's FY 2025 ADC payment will not be known until the June 30, 2023, actuarial valuation report is completed in early 2024.

Table 2.21 – ADC Pension Payment and **Figure 2.15 - Retirement ADC** display the citywide ADC and the General Fund's proportionate share for FY 2025 through FY 2029, based on the June 30, 2022 SDCERS Actuary Valuation Report, estimated liability and cost impacts of proposed assumption changes prepared by Cheiron, and estimated amortization of investment losses from Buck Consultants.

Table 2.21 - ADC Pension Payment
($ in Millions)

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF ADC Estimate (72.51%)	$ 324.9	$ 342.1	$ 343.2	$ 340.3	$ 343.6	$ 328.8
Citywide ADC Estimate	$ 448.1	$ 471.8	$ 473.3	$ 469.3	$ 473.9	$ 453.4



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 2024 Adopted Budget, $99.3 million was budgeted in flexible benefits. **Table 2.22 – Flexible Benefits** displays the projection for flexible benefits for FY 2025 through FY 2029.

Table 2.22 - Flexible Benefits
($ in Millions)

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ 99.3	$ 100.2	$ 101.0	$ 101.3	$ 101.3	$ 101.3

Individual flexible benefit costs vary by each employee's benefits selection and the total flexible benefit cost varies by the total number of employees. The flexible benefits baseline projection is held constant throughout the outlook period since position additions are not included as part of the baseline projections and incorporates only known changes per negotiated MOUs with the REOs.

Other Post-Employment Benefits (OPEB)

As noted in the FY 2024 First Quarter Report, the City began offering post-employment retiree health (Retiree Healthcare) benefits to employees in 1982 and closed the plan to new employees hired after July 1, 2005. In FY 2008, the City entered into an agreement with the CalPERS Employer Retiree Benefit Trust (CERBT) to pre-fund expenses related to Retiree Healthcare.

In FY 2012, the City entered into a 15-year memorandum of understanding (MOU) with each of its recognized employee organizations to reform Retiree Healthcare benefits for employees who were members of the closed plan (active employees hired between 1982 and 2005). Retired employees retained their existing healthcare benefits while active employees elected one of three plans (Options A, B, and C). Options A and B offered defined benefit plans, providing a specific annual healthcare benefit amount after retirement. Option C offered a defined contribution plan in the form of a one-time lump sum payment when the employee became service- and age-eligible.

The City has funded Retiree Health care costs on a pay-as-you-go basis. Each year, the City establishes a retiree healthcare employer contribution amount through the annual budgetary process (Annual City Contribution), allocating these costs to various City funds based on employee payroll. Retiree Healthcare costs vary each fiscal year. If the Retiree Healthcare costs for a given fiscal year exceed the Annual City Contribution, the shortfall is paid for by a withdrawal from the CERBT. In contrast, if the Annual City Contribution exceeds the Retiree Healthcare costs for that fiscal year, the City has the option to deposit the surplus into the CERBT. Since these are closed plans, the annual Retiree Healthcare costs are projected to decrease over time as the plans' obligations are met.

The level of funding for Retiree Healthcare is set at the discretion of Management, so long as the City continues to meet obligations to members of the various plans per the Retiree Healthcare MOU approved in FY 2012. In May 2023, the City engaged with actuarial consultants to analyze the City's planned funding strategy. Prior to this, the actuary had assumed that the City would maintain contributions of $65.4 million annually until FY 2035. After FY 2035, the Annual City Contribution would decrease markedly to about $5.2 million since these benefits would be almost entirely pre-funded. After FY 2035, contributions would continue to gradually decrease until no additional contributions would be required after FY 2047. The updated cash flow analysis provided by the actuary presented the City with the option to adjust the Annual City Contribution to approximately $50.0 million beginning in FY 2024 while also drawing from the CERBT and further reducing the annual contributions by 2.0 percent per fiscal year thereafter.

For FY 2024, the Adopted Budget for the Annual City Contribution was set at $65.4 million, of which, the General Fund portion is $43.2 million. By implementing the proposal from the actuary, the adjusted contribution would be reduced to $50.0 million, resulting in budgetary savings Citywide of $15.4 million, of which $10.2 million is related to the General Fund. This reduced contribution will require higher withdrawals from the CERBT; however, the analysis supports that the trust will remain solvent under the assumptions selected so long as the City adheres to the proposed contribution schedule.

As a result of this updated analysis, the Outlook assumes that the City's annual OPEB contributions will continue to decrease by 2.0 percent per fiscal year when compared to the $33.0 million General Fund contribution now projected in FY 2024.

Table 2.23 – Other Post-Employment Benefits (OPEB) displays the OPEB projection for the General Fund's proportionate share for FY 2025 through FY 2029.

Table 2.23 - Other Post Employment Benefits (OPEB) ($ in Millions)						
	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
GF OPEB Projection (66.1%)	$ 43.2	$ 32.4	$ 31.7	$ 31.1	$ 30.5	$ 29.9

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 their 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 which cover the costs of current medical expenses and claims, and contributions to the Workers' Compensation Reserve. **Table 2.24 – Workers' Compensation** displays the General Fund's projected share of 83.8 percent of Workers' Compensation expenses.

Table 2.24 - Workers' Compensation ($ in Millions)						
	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Operating	$ 37.9	$ 38.8	$ 39.6	$ 40.5	$ 41.4	$ 42.3
Reserves	$ 0.8	$ 0.8	$ 0.7	$ 0.7	$ 0.7	$ 0.7
Total	$ 38.7	$ 39.6	$ 40.3	$ 41.2	$ 42.1	$ 43.0

The projections for operating expenses are based on actual prior year experience and are forecasted to increase by 2.21 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 retirement savings plan. This benefit provides a way for eligible employees to supplement retirement income, with employee contributions matched by the City. As a result of the unwinding of Proposition B, most general members hired on or after July 1, 2009 receive a hybrid retirement plan which includes a reduced defined benefit retirement plan as well as a defined contribution savings plan with a mandatory employee contribution of 1.0 percent of payroll, which the City matches. However, some eligible general members elected to stay in the SPSP-H Plan in lieu of joining SDCERS. These employees are required to contribute a percentage of compensation based on SDCERS member contribution rates to the plan, which is matched by a 9.2 percent employer contribution. **Table 2.25 – Supplemental Pension Savings Plan (SPSP)** displays the projection for SPSP for FY 2025 through FY 2029, which includes those selecting to participate in the SPSP-H Plan, as well as hourly employees. City employees hired after July 10, 2021, with no prior City service, are now being placed in SDCERS and therefore, SPSP is projected to remain constant through the outlook period.

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

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ 10.8	$ 10.8	$ 10.8	$ 10.9	$ 10.9	$ 10.9

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 – Other Fringe Benefits** displays the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for the Other Fringe Benefits category.

Table 2.26 - Other Fringe Benefits
($ in Millions)

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ 35.0	$ 35.1	$ 35.3	$ 35.3	$ 35.5	$ 35.6

Other Fringe Benefits are projected based on a percentage of employees' salaries. In the FY 2024 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 4.1 percent with slight increases during the outlook period as 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 - Supplies** displays the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for the Supplies category.

Table 2.27 - Supplies ($ in millions)						
	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Growth Rate		3.0%	2.8%	2.8%	2.8%	2.8%
Projection	$ 43.8	$ 42.1	$ 43.3	$ 44.5	$ 45.7	$ 47.0

The FY 2024 Adopted Budget includes one-time expenditures of $2.9 million for Supplies. The following summarizes the primary one-time expenditures that have been removed from the baseline projections:

- $1.5 million in the Police Department to support the smart streetlights program;
- $650,000 for repair and maintenance costs for various City facilities;
- $250,000 to support procurement of library materials; and
- $200,000 in the Fire-Rescue Department for Lifeguard training, specialty equipment, and facility improvements.

The Supplies baseline projection is then increased by the forecasted growth in the CPI to account for the average change of costs over the outlook period; the forecast for CPI growth is based on the UCLA Anderson October 2023 Economic Forecast.

Contracts & Services

Contracts & Services are a non-personnel expenditure category that consists of both internal and external contracts and services. External contracts and services are provided by outside companies and/or agencies and include items like outside legal counsel, operation of homeless shelters and services, insurance, rent expenses, and consulting services. Internal contracts and services consist of services that are provided internally (by a City fund or Department), and include items such as refuse disposal fees, fleet vehicle usage and assignment fees, print shop services, and IT support services, including the SAP support allocation and the Information Technology Services transfer. **Table 2.28 – Contracts & Services** displays the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for the Contracts & Services category.

Table 2.28 - Contracts & Services ($ in Millions)						
	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Growth Rate		3.0%	2.8%	2.8%	2.8%	2.8%
Projection	$ 375.5	$ 378.5	$ 393.7	$ 413.3	$ 430.8	$ 455.1

The FY 2024 Adopted Budget included $18.4 million in one-time expenditures within the Contracts & Services category. The following summarizes some of the significant one-time expenditures that have been removed from the baseline projections:

- $4.1 million for one-time fleet vehicle purchases;
- $3.1 million to support the Eviction Prevention Program and Eviction Notice Registry; and
- $2.2 million associated with the contractual agreement with the San Diego Humane Society for Animal Services.

The Contracts & Services baseline projection is increased by the forecasted growth in the CPI to account for the average change of costs over the outlook period; the forecast for CPI growth is based on the UCLA Anderson October 2023 Economic Forecast. Within this category, select commitments including Fleet assignment and usage fees, public liability costs, and election costs are projected separately from the CPI growth rate and then aggregated with other expenditures in the Contracts & Services category.

Vehicle usage fees are projected to decrease by approximately $1.5 million and vehicle assignment fees are projected to increase by approximately $2.2 million in FY 2025. This is primarily due to the projected need to replace approximately 1,701 vehicles during the outlook period coupled with the use of remaining fund balance in the vehicle replacement funds in FY 2024. Additionally, the vehicle replacement projection does not include the potential increased costs for electric vehicles, which is unknown at this time. The *Fleet Electrification Program* section under the *Future Fiscal Considerations* section of this Report, provides an additional update on the City's fleet electrification program.

Public liability insurance premiums are projected to decrease by $1.5 million in FY 2025 compared to the FY 2024 budget; however, this is a $4.8 million increase over the actuals incurred in FY 2024. The Outlook assumes a 20.0 percent growth rate for FY 2025 – 2027, and a 15.0 percent growth rate for the remainder of the outlook period to cover the projected growth in the General Liability and Optional Excess Insurance Program. The public liability claims and non-claims are projected to increase by $3.8 million in FY 2025, and are anticipated to remain consistent throughout the outlook period based on the recent three-year average of public liability operating expenditures.

Election costs are projected to increase by a net of $6.6 million in FY 2025, primarily due to a significant increase in the estimate for ballot measures provided by the Registrar of Voters (ROV). The ROV will transition to an 8.5x11 inch ballot pamphlet this year and has provided the City with preliminary cost estimates for ballot measures for the March 5, 2024 primary, which range from $1.3 - $1.6 million for a 5-page measure (including arguments, rebuttals and impact statement). An average of six ballot measures have been placed on the last three General Election ballots, and an average of one has been placed on the last three primary elections; the outlook assumes these averages in the years with general and primary elections. The costs associated with elections are extraordinarily difficult to predict and are dependent on a variety of factors including the number of participating jurisdictions, number of contests, number and length of ballot measures, and number of registered voters. The Department of Finance will continue to work with the Office of the City Clerk to incorporate the latest information from the ROV and update these estimates during the FY 2025 budget process.

Information Technology

The Information Technology category includes both discretionary expenditures and non-discretionary allocations to General Fund departments. This category includes the costs related to hardware and software maintenance, help desk support, and other information technology (IT) services. **Table 2.29 – Information Technology** displays the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for the Information Technology category.

Table 2.29 - Information Technology ($ in Millions)						
	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Growth Rate		3.0%	2.8%	2.8%	2.8%	2.8%
Projection	$ 58.6	$ 58.2	$ 58.8	$ 59.3	$ 59.9	$ 60.5

The FY 2024 Adopted Budget includes one-time expenditures of $1.1 million in the Information Technology category. The following summarizes the primary one-time expenditures that have been removed from the baseline projections:

- $500,000 to support IT project management for a billing solution & software integration to implement Measure B;
- $375,000 for lease management software; and
- $155,000 for network infrastructure at Your Safe Place – A Family Justice Center.

The baseline discretionary costs are then increased by the forecasted growth in the CPI to reflect the average change of costs over the outlook period; the forecast for CPI growth is based on the UCLA Anderson October 2023 Economic Forecast. Conversely, minimal growth is applied to the baseline non-discretionary accounts due to contractual agreements, in which application maintenance and Get-It-Done associated expenditures are anticipated to increase throughout the outlook period.

Energy and Utilities

The Energy and Utilities category includes the General Fund's costs for electricity, fuel, and other utility and energy expenses. **Table 2.30 – Energy and Utilities** displays the FY 2024 Adopted Budget and the forecast for FY 2025 through FY 2029 for the Energy and Utilities category.

Table 2.30 - Energy and Utilities ($ in Millions)						
	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Growth Rate		4.8%	4.0%	3.6%	3.8%	4.5%
Projection	$ 72.3	$ 75.8	$ 78.9	$ 81.7	$ 84.8	$ 88.6

Each cost component of the Energy and Utilities category has a different applicable growth rate. The majority of the rates for each category are based on the Annual Energy Outlook 2023 Report prepared by the U.S. Energy Information Administration and forecasted CPI growth based on the UCLA Anderson October 2023 Economic Forecast. Fuel growth rates are developed by the General Services

Department for fuel and renewable diesel. Inflation has had a significant impact on fuel prices. With elevated inflation anticipated to continue declining in FY 2025 reaching 2.8 percent by FY 2026, the cost of fuel is also anticipated to decline. Fuel growth rates range from -7.9 percent to 0.14 percent depending on the year and the type of fuel through the outlook period.

The Sustainability and Mobility Department prepared the forecasts for electric and gas services, streetlights and traffic signals categories. Electrical growth rates range from 4.57 percent to 11.3 percent. These projections were calculated using four factors: SDG&E rate increase, building electrification, fleet electrification, and client department adjustments.

- **SDG&E Rate Increase** includes the percentage cost increase for which SDG&E is predicted to charge consumers and businesses. The majority of the city's facilities fall under the medium and large commercial buildings. A 24.0 percent rate increase was applied to electricity and a 19.0 percent rate increase was applied to gas through the outlook period. SDG&E rate increases are guided by the most recent revenue projections from SDG&E's 2024 General Rate Case (GRC) application. SDG&E filed the application with the CPUC, seeking approval to change base rates for customers. The timeline for the rate increases to go into effect is contingent on CPUC's review and approval. It is currently anticipated that the rate increases will go into effect beginning November 2024 once approved by CPUC.
- **Building Electrification** entails replacing natural gas systems with electric alternatives. Due to the fuel switch, there is a decrease in gas offset by an increase in electricity. The "2019 Nonresidential New Construction Reach Code Cost Effectiveness Study" completed by the California Energy Code & Standard, estimates that SDG&E customers would see a 4.0 percent cost increase due to building electrification.
- **Fleet Electrification** is the transition of the city's conventional internal combustion engine vehicles to zero-emission vehicles. The estimated electricity cost from the Fleet Electrification Plan was used to account for the additional cost of fleet EV charging. It should be noted that this added cost would be offset by savings in gasoline and renewable diesel.
- **Client Department Adjustments** were also factored in the analysis to account for any significant operational changes that may impact a City department's energy usage. Some examples of significant operational changes include expanding into a new facility, exiting a facility or significantly expanding the square footage.

The most significant changes are in electric and gas services, forecasting a $1.5 million increase in electric services and an increase of $715,000 in gas services in FY 2025 from the FY 2024 Adopted Budget. Streetlights and traffic signal electricity costs are anticipated to increase by $933,000 in FY 2025 and continue to increase at an average growth of 4.8 percent throughout the outlook period.

The Public Utilities Department (PUD) developed the water and wastewater growth rates[3] included in this outlook. PUD determines the water and wastewater rates through a process prescribed by State

[3] The current water and wastewater rate assumptions included in this outlook diverge from the PUD Outlook starting in FY 2026 due to an increase in capital costs and corresponding debt service, which were incorporated late in the PUD outlook process. The changes would increase rates 1-2.0 percent higher than assumed in this outlook. This difference for a 2.0 percent change equates to approximately $300,000 change in water costs, per year and $20,000 change in sewer costs, which is less than the margin of error of changes in water usage or changes that can occur in the cost-of-service process (where charges are evaluated at the customer class level).

law, which requires a cost-of-service analysis looking at customer class charges and City Council approval of any rate adjustments at a public hearing. The wastewater charges range between 3.5 percent and 4.5 percent throughout the outlook period—growth in FY 2025 is anticipated at 3.5 percent. The water charges assume general City demand remains consistent throughout the outlook period and that rate increases will range between 7.63 percent and 10.41 percent throughout the outlook period—growth in FY 2025 is anticipated at 10.41 percent.

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

Other Expenditures

Expenditures in the Other Expenditures category include debt service payments, transfers-out to other funds, capital expenses, and other miscellaneous expenditures. With the exception of a few accounts like transportation allowance which are grown by CPI, adjustments are made only to account for anticipated transfers and projected debt service payments; therefore, no growth rate is assumed for all other expenditures in this category. **Table 2.31 – Other Expenditures** displays the FY 2024 Adopted Budget and FY 2025 through FY 2029 projections for the Other Expenditures Category.

Table 2.31 - Other Expenditures ($ in Millions)

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ 54.1	$ 41.2	$ 43.7	$ 46.2	$ 48.7	$ 51.6

The FY 2024 Adopted Budget included $16.3 million in one-time expenditures within the Other Expenditures category. The following summarizes the most notable one-time expenditures that have been removed from the baseline projections:

- $8.0 million transfer to the Capital Improvements Program to support street paving, traffic safety improvements, sidewalk repair, and other community projects;
- $5.8 million in proceeds from the sale of Tailgate Park transferred to support the Bridge to Home Program; and
- $2.3 million associated with the transfer of ownership of refuse disposal trucks from the Refuse Disposal Fund to the General Fund.

Debt Service

Table 2.32 - Debt Service Expenditures ($ in Millions)

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ 45.2	$ 55.8	$ 70.1	$ 77.0	$ 94.8	$ 106.5

Updates to the City's existing debt service schedules, including future bond issuances, commercial paper assumptions, PC replacement, vehicle and helicopter replacements, and energy loans are included in the forecast based on projections developed by the Department of Finance, the

Department of Information Technology (DoIT), and the Sustainability & Mobility Department. **Table 2.32 – Debt Service Expenditures** displays the FY 2024 Adopted Budget and FY 2025 through FY 2029 projections for the Debt Service Expenditures, and **Table 2.33 – Debt Service by Category (Principal & Interest)** displays the projected debt service expenditures by category.

Table 2.33 - Debt Service by Category (Principal & Interest)
($ in Millions)

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Bonds	$ 34.4	$ 45.1	$ 53.7	$ 58.9	$ 72.8	$ 78.1
Capital Leases	$ 5.3	$ 5.9	$ 7.5	$ 7.7	$ 7.7	$ 6.6
Energy Efficiency Loans	$ 3.2	$ 2.9	$ 2.9	$ 1.8	$ 1.8	$ 1.7
General Fund Commercial Paper	$ 1.6	$ 0.4	$ 2.4	$ 1.9	$ 2.0	$ 2.0
Stormwater WIFIA Loan	$ 0.7	$ 1.4	$ 3.6	$ 6.7	$ 10.5	$ 18.2
Total	$ 45.2	$ 55.8	$ 70.1	$ 77.0	$ 94.8	$ 106.5

Note: There are existing debt issuances not included in the table (e.g., 2016 Ballpark Refunding Bonds, 2020A Convention Center Refunding Bonds, 2012B Fire & Life Safety Facilities Refunding Bonds, 2013B Balboa Park/Mission Bay Refunding Bonds, and fleet replacement leases) that are paid from sources other than the General Fund but have a pledge of general revenues of the City.

The Outlook incorporates projected long-term lease revenue bond issuances totaling $822.0 million and the majority of the related debt service costs. This includes a $180.0 million Lease Revenue Bond issuance in FY 2024 (with debt service beginning in FY 2025). It also includes $144.0 million Lease Revenue Bond issuances in both FY 2025 and FY 2027 to finance future required City matching funds for Stormwater's Water Infrastructure Finance and Innovation Act (WIFIA) loan (with debt service beginning in FY 2026 and FY 2028, respectively). Additionally, due to continued full use of the General Fund Commercial Paper (CP) Program, the debt service projections include subsequent bond issuances of $88.5 million each year in FY 2026 - FY 2029 to pay down (or "take-out") future outstanding CP notes, and related financing costs (except for the debt service associated with the FY 2029 bond issuance that will commence in FY 2030, which is beyond the outlook period). The actual timing and size of each of these bond issuances will be further evaluated based on cash needs and market conditions closer to issuance.

Along with the $822.0 million in lease revenue bonds, the Outlook includes debt service for the $359.2 million WIFIA Loan which will finance priority Stormwater projects.

Approximately $351.9 million of the total projected long-term lease revenue bond issuances are expected to finance prior appropriations. The remaining $470.1 million is expected to be utilized for the City matching funds required for the Stormwater WIFIA loan and other future appropriations.

The City utilizes lease-to-own financing to fund various vehicles, equipment and Information Technology projects via its Equipment and Vehicle Financing Program (EVFP) or standalone capital leases. Capital Leases, as reflected in **Table 2.33 – Debt Service by Category (Principal & Interest)** include projected debt service costs for existing and anticipated capital leases that are supported by the General Fund. The new anticipated capital leases included in the Outlook are described below:

- General Fund PC replacement provides for the replacement of General Fund departments' computers and supports mobile and telework capabilities. Estimates for this program were provided by DoIT and are included in the baseline projection since it will replace current work computers that are essential to maintaining current service levels. To support this program, DoIT forecasts executing leases with a five-year term in a principal amount of approximately $1.3 million each year throughout the outlook period, with the exception of FY 2026 when a five-year lease of $1.9 million is assumed.
- Replacement of Police and Fire-Rescue helicopters is typically funded with the City's EVFP. The Outlook assumes that three Police helicopters will be replaced for a total of $16.0 million, with the first two helicopters anticipated to be delivered in FY 2025 and a third delivered in FY 2026, with debt service payments beginning in FY 2025, FY 2026, and FY 2027, respectively. The report also assumes the replacement of one Fire-Rescue helicopter, which is currently 37 years old. If approved for replacement in FY 2024, it is assumed the helicopter could cost $16.0 million and be in service by FY 2025, with debt service payments beginning in FY 2025 as well. Estimates for these helicopters are included in the baseline projection since these would replace current helicopters that are essential to maintaining current service levels.

In addition to the capital leases, the Outlook includes borrowing of approximately $267.4 million to fund the General Fund annual fleet replacement needs, which are expected to be funded with the City's EVFP. The debt service for these leases is supported by the Fleet Operations Replacement Fund and the General Fund impact is reflected under usage and assignment charges in the *Contracts & Services section* of the Outlook.

Lastly, the debt service associated with existing California Energy Resources Conservation and Development Commission and General Electric loans, as well as Qualified Energy Conservation Bonds equipment lease payments are included in the Energy Efficiency Loans category.

Impacts on the City's Debt Ratios, as defined in the City's Debt Policy, are evaluated when considering the use of debt financing supported by the General Fund. Generally, annual debt service as a percentage of general fund revenues should remain under 10.0 percent. When combined with pension and OPEB costs the percentage should remain under 25.0 percent. Current projections show the impacts of projected debt service costs will stay within these parameters through FY 2029, reaching highs of approximately 6.4 percent and 23.1 percent, respectively. Additional capital financing needs not assumed in this report, such as any potential General Fund backed debt issued for the Climate Action Plan implementation, may increase the Debt Ratios up to or exceeding the guidelines outlined in the Debt Policy, depending on future General Fund revenues. Reductions in General Fund revenues or increases in pension payments would also adversely affect the Debt Ratios. Any future Council action requesting debt financing, per the Debt Policy, will include an affordability analysis explaining the impacts to the Debt Ratios.

Reserve Contributions

The City's Reserve Policy (Council Policy 100-20) establishes target reserve levels and a time frame for meeting reserve targets. The City's Reserves include the General Fund Reserve (Emergency Reserve and Stability Reserve), Pension Payment Stabilization Reserve (Pension Reserve), Public Liability Fund Reserve, Long-Term Disability Fund Reserve, and Workers' Compensation Fund Reserve. The City also maintains other reserves for various enterprise funds which are not included in this report.

The General Fund Reserve is comprised of the Emergency and Stability Reserves. The Emergency Reserve is maintained to sustain General Fund operations in the case of a public emergency or catastrophic event. The Stability Reserve is maintained to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. In December 2022, the City Council approved updates to the City's Reserve Policy to modify the annual funding targets for the General Fund Emergency Reserve and Stability Reserve, while maintaining the policy goal of 16.7 percent for the General Fund, which is a best practice per the Government Finance Officers Association (GFOA). In line with those updates, FY 2025 includes a contribution of $22.3 million to the General Fund Reserves to meet the FY 2025 Reserve Policy target of 13.58 percent. Additional contributions in the outlook period range from $21.5 million to $23.5 million in FYs 2026 through FY 2029, with the goal of reaching the reserve target of 16.7 percent by FY 2030.

The Pension Reserve was established to mitigate potential increases in the annual pension payment, the Actuarially Determined Contribution (ADC). Per the City's Reserve Policy, the City will fund and maintain a Pension Reserve up to 8.0 percent of the most recent three-year average of the ADC as reported in the most recent Actuarial Valuation Report. As a result of expected increases to the ADC due to the reversal of Proposition B, the FY 2023 Adopted Budget included the use of $7.9 million from the Pension Reserve. The reserve currently does not have a balance and contributions are planned to begin again once the General Fund Reserves reach the target of 16.7 percent by FY 2030.

The Public Liability Fund Reserve is maintained and forecasted at 50.0 percent of the value of outstanding public liability claims. No additional contributions are anticipated in FY 2025 through FY 2029[4].

The Long-Term Disability Fund Reserve is maintained at 100.0 percent of the value of outstanding claims and is forecasted at the target level. No additional contributions are anticipated in FY 2025 through FY 2029.

The Workers' Compensation Fund Reserve is maintained at 12.0 percent of the value of outstanding claims. The Outlook projects a General Fund contribution of $789,000 in FY 2025 and additional contributions in each year of the remaining years throughout the Outlook due to assumed incremental changes in the three-year average of outstanding actuarial liabilities[5].

[4] Assumes a three-year outstanding actuarial liability average from FY 2020 – FY 2022. The FY 2023 outstanding actuarial liability for Public Liability is pending from the actuary and could impact reserve targets.

[5] Assumes a three-year outstanding actuarial liability average from FY 2020 – FY 2022. The FY 2023 outstanding actuarial liability for Workers' Compensation is pending from the actuary and could impact reserve targets.

Table 2.34 – Reserve Target Levels displays the reserve targets and projected reserve contribution amounts by Reserve type.

Table 2.34 - Reserve Target Levels
($ in Millions)

	FY 2024 Proj.	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029
General Fund Target (%)	13.6%	13.6%	14.1%	14.7%	15.4%	16.0%
General Fund Reserve Target ($)	$ 215.4	$ 237.7	$ 261.1	$ 282.6	$ 304.9	$ 328.5
General Fund Reserve Level Projection ($)	$ 215.5	$ 237.7	$ 261.1	$ 282.6	$ 304.9	$ 328.5
General Fund Contribution Amount	$ 8.4	$ 22.3	$ 23.4	$ 21.5	$ 22.3	$ 23.5
Pension Stability Target (%)	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
General Fund Pension Stability Reserve Target ($)	$ 23.4	$ 24.8	$ 25.3	$ 26.5	$ 26.5	$ 26.1
General Fund Pension Stability Reserve Level Projection ($)	$ -	$ -	$ -	$ -	$ -	$ -
General Fund Pension Stability Contribution Amount	$ -	$ -	$ -	$ -	$ -	$ -
Public Liability Target (%)	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Public Liability Reserve Level Goal ($)	$ 38.8	$ 38.8	$ 38.8	$ 38.8	$ 38.8	$ 38.8
Public Liability Reserve Level Projection ($)	$ 38.8	$ 38.8	$ 38.8	$ 38.8	$ 38.8	$ 38.8
Public Liability Contribution Amount	$ -	$ -	$ -	$ -	$ -	$ -
Long-Term Disability Fund Target (%)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Long-Term Disability Fund Reserve Target($)	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0
Long-Term Disability Fund Reserve Level Projection ($)	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0	$ 5.0
Long-Term Disability Contribution Amount	$ -	$ -	$ -	$ -	$ -	$ -
Long-Term Disability Contribution Amount (GF)	$ -	$ -	$ -	$ -	$ -	$ -
Workers' Compensation Target (%)	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Workers' Compensation Reserve Target ($)	$ 35.1	$ 36.1	$ 36.9	$ 37.7	$ 38.5	$ 39.4
Workers' Compensation Reserve Level Projection ($)	$ 35.1	$ 36.1	$ 36.9	$ 37.7	$ 38.5	$ 39.4
Workers' Compensation Contribution Amount	$ 0.9	$ 1.0	$ 0.8	$ 0.8	$ 0.8	$ 0.9
Workers' Compensation Contribution Amount (GF)	$ 0.8	$ 0.8	$ 0.7	$ 0.7	$ 0.7	$ 0.7

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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 categories:

- Sales tax increment – an amount equal to the annual change in sales tax revenue when compared to the sales tax baseline of FY 2016 actual receipts, adjusted by the California Consumer Price Index (CCPI) for FY 2018 through FY 2042; and
- General Fund Pension Cost Reduction – any amount if pension costs for any fiscal year that are less than the base year of FY 2016 for FY 2018 through FY 2042.

Prior to FY 2023, the calculation to fund the Infrastructure Fund included a Major Revenues Increment based on 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. However, the City Charter only required this increment from FY 2018 through FY 2022.

The Outlook projects Infrastructure Fund deposits throughout the Outlook pursuant to the City Charter for each Outlook year. **Table 2.35 – Infrastructure Fund Deposits** reflects the projected contributions for FY 2025 through FY 2029. The forecast represents the portion of the deposit calculation only required from the sales tax increment, as no new deposits are anticipated for the General Fund pension cost savings.

Table 2.35 - Infrastructure Fund Deposits ($ in Millions)

	FY 2024 Adopted	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projection	$ 31.0	$ 24.0	$ 23.0	$ 30.4	$ 38.3	$ 46.7

The FY 2025 forecast includes a $24.0 million Infrastructure Fund contribution, which includes a $20.2 million forecasted annual contribution and a $3.8 million true-up payment based on a reconciliation of FY 2023 budget and actual sales tax receipts collected. When compared to the FY 2024 Adopted Budget, the FY 2025 forecasted contribution represents a decrease of $7.0 million, primarily attributed to recent inflation and a lower sales tax projection than previously anticipated. The sales tax increment is calculated based on the annual change in sales tax revenue when compared to the sales tax baseline of FY 2016 actual receipts, adjusted by the CCPI. As the CCPI increases, as seen in the last year, so does the sales tax base, which adjusts the annual projected contribution. The CCPI assumptions used to forecast the sales tax increment are consistent with the UCLA Anderson October 2023 Economic Forecast for CPI, which anticipates a continued decline in inflation.

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 upcoming FY 2025 Proposed Budget will include the recommended programs, projects, and services to be budgeted with infrastructure funds to comply with Charter Section 77.1.

Priorities Beyond Baseline Expenditures

In addition to the baseline forecast, the Outlook also includes projected costs for new facilities and planned commitments. The forecast includes ongoing and one-time costs associated with the operations of new or expanded facilities that are projected to open within the outlook period. Additionally, planned commitments are included in this section to account for commitments made by the Mayor and/or City Council. These include costs to upgrade the City's current enterprise resource planning system, SAP; and to maintain current service levels committed for homelessness programs and services. These items are City priorities; however, the actual funding of these will be dependent on available resources at the time the FY 2025 Proposed Budget is developed.

The following sections quantify the projected funding needs for new facilities and planned commitments.

New Facilities

Table 2.36 - New Facilities
($ in Millions)

Department	FTE/Rev/Exp	FY2025	FY2026	FY2027	FY2028	FY2029
Library	FTE	-	-	-	-	-
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ -	$ -	$ 0.1	$ 0.1	$ 0.3
Parks and Recreation	FTE	34.00	71.25	88.00	94.00	95.00
	Revenue	$ 0.0	$ 0.1	$ 0.1	$ 0.1	$ 0.1
	Expense	$ 9.8	$ 13.5	$ 16.0	$ 16.3	$ 16.1
Fire-Rescue	FTE	12.00	24.00	24.00	48.00	72.00
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ 2.5	$ 5.8	$ 6.3	$ 12.0	$ 17.8
	Total FTE	**46.00**	**95.25**	**112.00**	**142.00**	**167.00**
	Total Revenue	**$ 0.0**	**$ 0.1**	**$ 0.1**	**$ 0.1**	**$ 0.1**
	Total Expense	**$ 12.3**	**$ 19.3**	**$ 22.5**	**$ 28.5**	**$ 34.3**

The Outlook identifies the funding needed to operate two new libraries and one library expansion, five new fire stations, and 34 new parks and joint-use facilities, which are projected to open within the outlook period—this includes ongoing and one-time expenditures to operate these facilities. The following section provides additional detail for the new facilities projected to open during the outlook period, along with the year the facilities are projected to open.

New facilities operation costs for branch libraries include estimated energy and utilities costs, janitorial and landscaping associated with the new and expanded libraries scheduled to be open in the outlook period. The following is a list of new libraries:

- FY 2027 – Ocean Beach Branch Library Expansion
- FY 2027 – Oak Park Branch Library
- FY 2029 – San Carlos Library

New Fire Station facility operations costs include the addition of 12.00 FTE positions for each new fire station included in the Outlook with an addition of 24.00 FTE positions for the Otay Mesa Fire Station, which includes staffing for two crews. In addition to the personnel costs, the Outlook includes non-personnel expenditures, including station supplies, Personal Protective Equipment (PPE), radio/communication equipment, additional facility supplies, as well as the procurement of three new electric fire engines, one electric truck, and charging infrastructure to operate the new stations. The following is a list of new fire stations:

- FY 2025 – Torrey Pines Fire Station
- FY 2026 – Black Mountain Ranch Fire Station
- FY 2028 – Otay Mesa Fire Station
- FY 2029 – Fairmont Ave Fire Station
- FY 2029 – Skyline Hills Fire Station

The Outlook also identifies the staffing and operating costs for the operations and maintenance of parks and recreation facilities, including 20 new facilities and 14 new joint-use facilities as identified in **Attachment 2 – New Facilities**. The new facilities operating costs include personnel needed to staff the new sites, new vehicles, equipment, and other miscellaneous costs.

Planned Commitments

Table 2.37 - Planned Commitments
($ in Millions)

Department	FTE/Rev/Exp	FY2025	FY2026	FY2027	FY2028	FY2029
Department of Information Technology	FTE	-	-	-	-	-
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ 1.4	$ 14.8	$ 25.1	$ 20.7	$ -
Homelessness Strategies and Solutions	FTE	-	-	-	-	-
	Revenue	$ -	$ -	$ -	$ -	$ -
	Expense	$ 21.4	$ 42.9	$ 46.1	$ 48.9	$ 51.7
	Total FTE	**-**	**-**	**-**	**-**	**-**
	Total Revenue	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
	Total Expense	**$ 22.8**	**$ 57.8**	**$ 71.3**	**$ 69.6**	**$ 51.7**

Department of Information Technology

Enterprise Resource Planning (ERP) System Modernization

The Outlook identifies funding needs in the Department of Information Technology for implementation costs associated with the modernization of the City's current ERP system, SAP, which will reach the end of life on December 31, 2027. The ERP project focuses on implementing a modernized system using emerging cloud, data analytics, and intelligent technologies to improve the user experience and help transform current City business processes. A modernized system will also facilitate optimized application development, integrations and infrastructure management. The full project cost is estimated at $135.1 million citywide, with $62.0 million anticipated to be supported by the General Fund. The costs begin in FY 2025 at $1.4 million and include $14.8 million in FY 2026, $25.1

million in FY 2027, and $20.7 million in FY 2028. The amounts included in the Outlook represent approximately 45.9 percent of the total project cost for the General Fund portion of the total implementation costs.

Homelessness Strategies and Solutions Department

Homelessness Services

The Outlook identifies funding needs to maintain the programs and services provided by the City's Homelessness Strategies and Solutions Department, including homeless shelters and services, outreach efforts, safe parking and safe sleeping, storage, and prevention and diversion programs. Existing programs and services are currently funded by both ongoing and one-time General Fund and grant funding sources.

The Outlook's baseline removes $500,000 in one-time General Fund funding, and $610,000 in Transient Occupancy Tax and Opioid Settlement Fund revenues, and assumes both available and anticipated grant funding, including a projected $22.5 million from the fifth round of the Homeless Housing, Assistance and Prevention (HHAP) Grant Program[6]. No additional rounds of HHAP grant funding are projected starting in FY 2026, since the approval and funding status of HHAP grant funding has not been determined at this time. The combination of existing General Fund and anticipated grant funding still necessitates additional resources to fund continued and increased expenses throughout the outlook period. Barring alternative funding sources, the General Fund's commitment to maintain programs increases from a need of $21.4 million in FY 2025 to between $42.9 million and $51.7 million in FY 2026 through FY 2029.

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[6] HHAP-5 allocations will be based on the City's proportionate share of the state's homeless population as reported by HUD in the 2023 Point in Time count. Actual allocation amounts are anticipated to be provided by the State by the end of January 2024.

Revised Outlook Shortfall Beyond Baseline Expenditures

When new facilities and planned commitments are added to the baseline projections, there is an increase to the projected shortfall in each fiscal year within the outlook period. Current available resources are not sufficient to mitigate the shortfall in FY 2025, and the shortfall persists in FY 2026 through FY 2029. The revised projections beyond the baseline expenditures require additional resources of $171.9 million in FY 2025 and reach $227.3 million in FY 2029.

As depicted in **Table 2.38 - Revised Outlook Surplus/Shortfall**, after adding the above referenced costs, projected expenditures exceed revenues throughout the entire outlook period from FY 2025 through FY 2029.

Table 2.38 - Revised Outlook Surplus/Shortfall
($ in Millions)

	Fiscal Year 2024 Adopted Budget	Fiscal Year 2025	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029
BASELINE GENERAL FUND REVENUES	$ 2,089.9	$ 2,019.4	$ 2,083.0	$ 2,153.9	$ 2,226.0	$ 2,313.4
BASELINE GENERAL FUND EXPENDITURES	$ 2,089.9	$ 2,156.2	$ 2,239.5	$ 2,303.8	$ 2,386.3	$ 2,454.7
BASELINE SURPLUS / (SHORTFALL)	$ -	$ (136.8)	$ (156.5)	$ (149.9)	$ (160.3)	$ (141.3)
NEW FACILITIES		$ 12.3	$ 19.2	$ 22.4	$ 28.4	$ 34.2
PLANNED COMMITMENTS		$ 22.8	$ 57.8	$ 71.3	$ 69.6	$ 51.7
REVISED SURPLUS / (SHORTFALL)		$ (171.9)	$ (233.4)	$ (243.5)	$ (258.3)	$ (227.3)
RECOMMENDED USE OF AVAILABLE EXCESS EQUITY		$ 56.5	$ -	$ -	$ -	$ -
AVAILABLE RESOURCES		$ 56.5	$ -	$ -	$ -	$ -
AMOUNT TO BE MITIGATED AFTER USE OF AVAILABLE RESOURCES		$ (115.4)	$ (233.4)	$ (243.5)	$ (258.3)	$ (227.3)

Note: 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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Potential Mitigation Actions

The Outlook has identified the need for additional resources in order to mitigate projected baseline shortfalls in all five years of the Outlook. Moreover, additional funding sources would need to be identified to fund new facilities and planned commitments. The following section identifies various available funding sources and potential mitigation actions that could be used to address the projected revenue shortfalls. In addition to the mitigation options discussed below, the Department of Finance will work with City Departments to identify non-General Fund resources that could be used to support General Fund operations (e.g., the Environmental Growth Funds) or provide rate relief to the General Fund through the non-discretionary process. Departments will also conduct a strategic review of their programs to identify potential savings by implementing operational efficiencies while maintaining core service levels. As required by the City Charter, the Mayor will present a balanced FY 2025 budget to the City Council by April 15, 2024.

One-Time Resources

Any available resources that are one-time in nature are only available for one-time purposes. It is important to note, per the City's Budget Policy 000-02, the City shall use one-time revenues such as grants, tax windfall, or unrestricted fund balances to pay for one-time expenditures. Furthermore, ongoing expenditures shall be funded by ongoing revenues.

Excess Equity

Excess equity is unassigned fund balance that is not otherwise designated as General Fund Reserves and is available for appropriation. The FY 2024 First Quarter Report currently projects excess equity at $128.9 million. After accounting for the $72.2 million in excess equity programmed in the FY 2024 Adopted Budget, and the additional $250,000 in General Fund reserve contributions needed in FY 2024, this leaves $56.5 million available for future appropriation. These funds could be used in FY 2025, if needed, or planned for use in future fiscal years to fund one-time expenditures. The First Quarter Report has a limited scope, focusing on certain revenues and expenditures in the General Fund. The Department of Finance will develop a more comprehensive estimate as part of the Mid-Year Budget Monitoring Report, which includes a projection of all General Fund revenues and expenditures. At that time, a revised excess equity amount will be projected.

TOT-Eligible General Fund Reimbursements

Per the Transient Occupancy Tax Council Policy 100-03, the purpose of Transient Occupancy Tax (TOT) is to advance the City's economic health by promoting the City of San Diego as a visitor destination. Based on the projected TOT revenue growth anticipated through the outlook period, $8.9 million in estimated fund balance (revenues in excess of expenditures) is projected in FY 2025, followed by additional fund balance in future years (assuming revenue grows as projected). The available fund balance can be used to reimburse General Fund departments with TOT-eligible expenditures, which meet the policy criteria for safety and the maintenance of visitor-related facilities. The Outlook currently identifies and funds $84.8 million in General Fund TOT-eligible reimbursable expenditures, which is consistent with the FY 2024 Adopted Budget, less the $3.4 million budgeted as a one-time resource. If additional TOT-eligible General Fund expenditures are identified, this can assist in mitigating the projected baseline shortfall.

Other Actions

TOT Increase (Measure C)

Measure C was a 2020 citizens' initiative that would raise the Transient Occupancy Tax. The increased tax would support the expansion of the San Diego Convention Center, create a dedicated funding source for homelessness programs and services, and fund necessary road repairs across the City. The Measure was included on the March 3, 2020 ballot and required approval by two-thirds of San Diego voters; however, recent legal rulings indicate that a simple majority was needed to pass because it was a citizens initiative, not the two-thirds super majority vote needed for City sponsored initiatives. On April 6, 2021, the City Council voted to validate Measure C, to assist the City in addressing some of its most significant needs. The City of San Diego, as well as the residents of San Diego, have been waiting on a final decision from the courts on the validity of the measure in order to proceed with implementation. In August 2023, the California State Court of Appeal declared that "Measure C, as a citizens' initiative, was subject to a simple majority vote[;]" however, the court made that determination based on the assumption that Measure C was a citizens' initiative. The appellate court returned the case for additional proceedings to determine if the measure was a citizens' initiative[7,]. Once the case is resolved, an estimated $205.0 million could be generated in the first five years for homelessness programs and services, which would reduce the funding gap for existing programs and services and could lessen impacts to the General Fund.

Suspend or Strategic Use of Infrastructure Fund Contribution

Per Charter Section 77.1, $24.0 million is required to be deposited into the Infrastructure Fund for FY 2025. The Mayor can recommend the suspension of Charter section 77.1 for one fiscal year or for the remainder of a fiscal year. After at least one public hearing on the request of the suspension, the City Council may approve a one-year suspension by a vote of two-thirds of the City Council. Suspending the contribution for FY 2025 will provide the estimated $24.0 million funding source back to the General Fund to help mitigate the projected baseline shortfall. Alternatively, the full $24.0 million contribution can be used to support infrastructure operations and maintenance currently supported by the General Fund, providing one-time savings to the General Fund.

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[7] Alliance San Diego et al. v. City of San Diego et al. Court of Appeal, Fourth Appellate District, Division One ruling. https://www.courts.ca.gov/opinions/documents/D080199.DOC. Retrieved October 26, 2023.

Suspend Reserve Contributions

The General Fund Reserve contributions forecasted in the Outlook were calculated to meet the reserve targets as outlined in the City's Reserve Policy (100-20). The FY 2025 General Fund Reserve contribution is estimated at $22.3 million to meet the 13.58 percent reserve target. Per the City's Reserve Policy, in the event the reserve is reduced below the amount established by the policy or the contribution is suspended, the Mayor shall prepare a plan no later than one year from the reserve action to replenish the reserve balance to the policy level. Suspending the contribution for FY 2025 could provide an estimated $22.3 million back to the General Fund to help mitigate the projected baseline shortfall.

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RISKS TO THE OUTLOOK

The Outlook was developed based on information available and known at the time of the preparation of the report. Projections were developed using economic and industry research, available data, and reasonable assumptions; however, risks to the projections include events that may or will occur during the outlook period whose outcomes are unpredictable or cannot be reasonably quantified at this time.

Actuarially Determined Contribution (ADC)

There are many factors that can affect the Actuarially Determined Contribution (ADC) payment made by the City to the San Diego City Employees' Retirement System (SDCERS). Any variation between the assumptions used by the actuary and actual experience will increase or decrease the City's annual pension payment. These include lower or higher than expected investment returns and increases in salaries above inflation assumptions, among others. The City is currently in negotiations with the public safety REOs regarding the Memoranda of Understanding (MOUs) for FY 2025; since those negotiations are in process, the associated fiscal impacts are not known at this time and not included in the Outlook projections. Additionally, with the reversal of Proposition B, a significant number of employees have entered SDCERS, potentially impacting the current allocation of the ADC between the General Fund and non-General Funds. This impact may result in higher or lower ADC payments for the General Fund. Additionally, a 2023 Actuarial Experience Study was released on September 8, 2023, in which the SDCERS board increased salary inflation and cost of living adjustment assumptions with an estimated cost of $20.4 million citywide, which is reflected in the current Outlook projections. Additional ADC increases are expected as a result of the MOUs negotiated in FY 2023 with MEA, Local 127 and DCAA as General Salary increases exceeded the actuarial assumption of 3.05 percent increases. However, a revised actual liability and cost impact will not be known until the June 30, 2023 valuation is released in January 2024 and approved by the SDCERS board in March 2024.

Salary and Wage Increases

As previously discussed in the *Salaries and Wages category* section of this report, General Fund salaries and wages expenditures represents 40.8 percent of the total FY 2024 Adopted Budget for the General Fund. Any changes in MOU provisions can have large impacts on City expenditures. For example, a 1.0 percent change in salaries for all employees could increase this category by approximately $7.9 million in the General Fund. The Outlook currently assumes the negotiated wage increases for unrepresented and unclassified employees, and the following REOs: DCAA, Local 127 and MEA. A 3.05 percent General Wage increase is assumed for fiscal years in which labor negotiations have not been completed, including those fiscal years beyond those included in the current MOUs. Any deviations from the 3.05 percent, currently included in the Outlook projections, will have a direct impact on the projected General Fund bottom-line and the true impact is not known at this time.

Economic 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 the 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. A recession affects each revenue source differently. Changes to Property Tax revenue are likely to lag since current revenue is based on prior calendar year valuations. However, small percentage changes to property tax growth can equate to large swings in tax revenue. Sales tax and TOT are based on consumers' discretionary funds; therefore, they 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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FUTURE FISCAL CONSIDERATIONS

This section details other future fiscal considerations that are not included in the Outlook forecast, but could have significant impacts on the City's General Fund during the outlook period. As part of the City's effort to incorporate equity into the budgeting process, the Department of Finance worked with the Department of Race and Equity to include an equity description for the following future fiscal considerations, where applicable. The equity descriptions below were prepared by the relevant Departments to articulate what, if any, disparities these programs will address. For the programs that are anticipated to address disparities, Departments have provided information including:

- A description of which designated neighborhoods and communities this program will serve (i.e., Promise Zone, Community of Concern, Community Block Development Grant area, or structurally excluded communities as defined by Council Policy 800-14).
- A discussion of any specific plans, studies, or condition assessments that assess the current state and recommend implementation plan(s) related to the program.
- Information about how the program enhances, or will enhance, access to City services or programs.

Civic Center Revitalization

The City's effort to remake and revitalize the Civic Center core in Downtown continues to move forward in two phases. First, the City is exploring the development of a new City Administration building, and is in the process of identifying a location for the potential building. The Engineering and Capital Projects Department, along with the Mayor's Office, will work with a consultant on this effort, and as costs become available, the department will provide updates. Second, the City has entered into exclusive negotiations with a firm seeking to convert the office building at 101 Ash Street into nearly 400 affordable homes. The firm's submission came in response to a notice of availability (NOA) that the City released soliciting proposals to redevelop five blocks of a six-block area that is currently home to the city administrative complex – City Hall, Civic Center Plaza, City Operations Building and Golden Hall – as well as the San Diego Civic Theater and a parking structure. These negotiations are anticipated to occur over a 90-day period (at a minimum from September through November 2023). Any potential cost estimates will likely be known after this initial 90-day period. Staff will continue to explore redevelopment options for the remaining four blocks that were included in the initial NOA.

Equity Description:

The revitalization of Civic Center and the surrounding properties within the six blocks of downtown has long been an impediment to accessing high-quality, consolidated city services, accessing public forums with elected officials, discouraged innovation and urban planning principles, and led to unhealthy buildings due to decades long deferred maintenance and under-utilization. Consolidation of city services downtown will enhance access to residents and business owners looking to conduct business with the City and create greater access to its elected officials. As the Civic Center Revitalization project will cultivate economic opportunities, the Economic Development Department will be responsive to addressing contracting disparities laid out in the 2020 City of San Diego Disparity Study to increase utilization for Minority- and Woman-owned Businesses as opportunities emerge.

Amendment to the People's Ordinance

During the November 2022 election, a majority of City voters approved Measure B, a proposition placed on the ballot by the City Council to amend sections of the Municipal Code commonly referred to as the People's Ordinance. The measure, along with recodifying the City's responsibilities for waste collection services, allowed for the City to recover costs for City force solid waste collection services. Implementing a cost-recoverable fee will eliminate the burden on the General Fund to provide a cost-free service to a portion of the population. Implementation of a new fee structure is a multi-year process that is contingent on Proposition 218 compliance and City Council adoption.

The FY 2024 Adopted Budget includes a total of $1.7 million and 5.00 FTE positions to support a waste collection cost of service study, stakeholder engagement process, and a billing solution and software integration to implement the amendment. Because these services are currently supported by the General Fund, there could be a significant reduction in expenditures in the General Fund once a fee structure is implemented. Savings to the General Fund is anticipated to begin in FY 2026 upon implementation of a fee structure (subject to required approvals).

Equity Description:

The robust community engagement outreach plan will be implemented as part of the department's Cost of Service Study (COSS) to address disparities and equal access to all San Diegans. The goal is to maximize public engagement and input via in-person or virtual public meetings. The outreach plan will be developed in consultation with the Department of Race and Equity and other key city departments to achieve the City's objectives of inclusive community engagement, advancing equitable outcomes and reducing disparities. The COSS will include an equity analysis component to assess the effects of the recommended fee schedule across demographic groups and to consider any potential disparities or burdens placed on specific communities. Implementing the Amendment to the People's Ordinance will establish a service level tailored to the community's desires. By implementing a cost-recoverable fee, the City may enhance service levels to provide weekly automated refuse, recyclable materials, organics collection, regular bulky item collection, and containers. To prevent the disruption of services as the cost-recoverable fee is implemented, the Environmental Services Department will examine opportunities for customers to seek financial assistance if economic hardship is a barrier to accessing services.

Emergency Medical Services (EMS) Alliance Model

In July 2023, the City Council approved a change to how emergency medical services were provided by the City. Under the new Alliance Model, the City assumed medical billing and collections, adjusts Advanced Life Support (ALS) and Basic Life Support (BLS) hours as needed, contracts with multiple

EMS providers, and staffs additional ambulances in times of increased demand, ensuring that the availability of ALS and BLS resources meet public health and safety needs.

The Alliance Model was implemented on October 1, 2023. The intent is that the Alliance Model will be sustainable from patient charges received in the Emergency Medical Services (EMS) Fund. At the conclusion of the five-month transition period, revenue generated from patient charges is anticipated to sustain the system. Budgetary impacts from the Alliance Model are projected to result in an estimated fund balance of $9.0 million in the EMS Fund at the end of FY 2024, which will be reinvested into the emergency medical system (EMS). Beyond the twelve-month evaluation period of the Alliance Model, fiscal impacts cannot be quantified, as the Fire-Rescue Department would need to determine the structure of the next Emergency Medical Services transport system. Any significant changes to the model for the provision of Emergency Medical Services transport services could result in an impact to the General Fund during the outlook period.

Equity Description:

The Alliance Model is intended to address discrepancies in emergency medical response, specifically ambulance service throughout the City. Historically, private ambulance companies have had control of the deployment and status of ambulances in the City, causing some areas to be underserved. Under the Alliance Model, the Fire-Rescue Department will assume the responsibility for deployment and system status. Several communities, particularly neighborhoods in the South Bay and Southeast, have experienced longer response times than the rest of the City. The Fire-Rescue Department is focused on developing deployment models that address the disparity to ensure equal access in South Bay and Southeast neighborhoods.

Included in the Alliance Model is the assumption of the system status control of ambulances, traditionally performed by private ambulance providers. System status control gives the Fire-Rescue Department the ability to dynamically move ambulances throughout the City to ensure the most efficient and effective deployment and ensure all neighborhoods receive the highest level of service with the available resources.

The Alliance Model puts control of the EMS system in the hands of the Fire-Rescue Department. The Department will now have control over the number and deployment of ambulances throughout the City. Additionally, the Department will be able to increase and decrease ambulance unit hours as needed to serve the community as well as increase ambulance service to specific, previously underserved areas.

Zero Emissions Municipal Building Operations Policy

In alignment with the City of San Diego's Climate Action Plan (CAP), the City Council adopted Council Policy 900-03, the Zero Emissions Municipal Buildings & Operations Policy (ZEMBOP) to guide the elimination of fossil fuels from all City facilities by 2035. ZEMBOP requires an electric solution to replace all natural gas systems at end of life, major renovations incorporate electrification retrofits of facilities, and the development of Fossil Fuel Elimination Plans and Fleet Charging Plans for each Asset Managing Department.

To support the development of these plans, the Sustainability and Mobility Department (SuMo) is completing electrification studies at citywide facilities to identify an inventory of gas-burning equipment that will need to be replaced, the number of fleet parking spaces in citywide parking lots that will need to be electrified, the electric infrastructure improvements necessary to support increased electric loads from appliances and fleet vehicles, and the estimated cost to perform these improvements. The electrification studies are complete and early results of the inventory and costs analyses indicate an overall cost of $80.0 to $90.0 million to electrify all facilities and associated fleet parking spaces. This figure is specific to electrification of energy systems and does not include deferred maintenance costs related to Americans with Disabilities Act (ADA) and non-energy facility improvements. It also does not incorporate potential operational savings through energy efficiency measures or integration of energy management systems.

SuMo will incorporate the data from the electrification study into Fossil Fuel Elimination Plans for each asset managing department, which will outline an approximate cost estimate to electrify each facility by 2035. Concurrently, the Department of General Services is preparing Fleet Charging Plans. To address electrification and other clean energy retrofits, SuMo is pursuing public-private partnerships (P3s) with Energy Service Companies (ESCOs) and other clean energy vendors that offer contracting mechanisms like Energy Savings Performance Contracts (ESPCs) whereby the external vendor provides upfront funding to cover the cost of retrofits, and the City relies on guaranteed annual energy savings to pay back the partner's upfront investment over a specified contract term. SuMo is also pursuing clean energy improvements including solar PV (photovoltaic), battery energy storage, and microgrids at select City facilities via the P3 model. While ESPCs and other P3 financing structures will address many electrification retrofits required by the CAP, the program will require significant capital investments that are currently unfunded. However, funding for programmed maintenance could be used for electrification of existing fossil fuel systems in lieu of a repair or replace in kind.

Equity Description:

Improvements to citywide facilities will occur in nearly every neighborhood in the City, including disadvantaged communities. Council Policy 800-14 will be used as a guide to appropriately score capital improvement projects that provide equity benefits. SuMo aims to include facilities that serve residents within historically excluded and underinvested communities where the greatest need exists within each P3 portfolio.

Climate Action Implementation Plan

On Aug. 2, 2022, the City Council adopted an update to the 2015 Climate Action Plan (CAP), setting a new goal of net zero greenhouse gas emissions by 2035. The goals and strategies of the 2022 CAP can be found in the full plan located at the following link: https://www.sandiego.gov/sustainability-mobility/climate-action/cap.

In 2023, staff developed and released an Implementation Plan that provided further information about funding needs, performance metrics, time frame, and implementation pathways. The Implementation Cost Analysis (ICA) was released simultaneously with a detailed five-year projection of staffing and budget needs. Implementing departments completed a first round of work plans that can be found at the following link: https://www.sandiego.gov/sustainability/climate-action-plan/cap. Implementing departments will submit their second annual work plans by the end of 2023.

CAP-related funding needs are not easily isolated but are a portion of a larger project cost. For example, costs associated with energy upgrades required by the Zero Emissions Municipal Building Operations Policy (ZEMBOP) will be a portion of the larger costs of facilities maintenance or renovations. Throughout the year, there are other funding sources (e.g., base budgets or Community Development Block Grants), partnerships, or budget adjustments that may not be captured in this report but do assist in achieving the City's CAP goals. With these new processes in place and continued refinement to the estimated cost of climate action, the City is well equipped to continuously strategically allocate funding, seek additional resources to cover the gaps, and analyze existing resources.

In the period of time covered by this Outlook, the City will accelerate the adoption of electric vehicles, allow employees to work remotely, encourage the use of alternative modes of transportation, and begin to decarbonize municipal buildings. The City has already successfully shifted all City electricity accounts to 100.0 percent clean energy through the formation and launch of San Diego Community Power, adopted comprehensive policies for municipal facilities to transition to net zero, installed bike lanes across the City as well as roundabouts, and launched a free all-electric community circulator. Residents of San Diego have already started to see the benefits of climate action in their neighborhoods with organics waste recycling, new roundabouts, new bicycle infrastructure, and the City's first all-electric fire station. The City remains committed to keeping the economic, social, and environmental principles of sustainability at the forefront of decision-making.

Equity Description:

Achieving net-zero emissions will not only improve the air we breathe; it will make all communities more economically vibrant and more resilient to the more extreme weather patterns we are already experiencing. Implementation of the CAP will include a specific emphasis on equitable implementation in Communities of Concern.

Deferred Maintenance for Public Safety and Neighborhood Facilities

The Department of General Services provides repair, modernization, and improvement services to over 1,600 municipal facilities comprised of 6.5 million square feet of floor space. The General Fund facilities needs are based on condition assessments that identify urgently needed system replacements (i.e., HVAC, elevators), Americans with Disabilities Act (ADA) upgrades, and proposed long-term plans for citywide facilities including the City Administration Building and City Operations Building; police, fire, and lifeguard facilities; libraries, parks, and recreation centers; and other City facilities.

As the City's building infrastructure continues to age, various building components need replacement and repair to keep the buildings functional. As the backlog of repairs increases, so do operational inefficiencies which will in turn increase future expenses as costs for repair eventually become replacement costs. Because of this, it is important to understand the need to ensure the Department of General Services has enough funding to procure the necessary materials, supplies, and equipment to properly plan and perform deferred maintenance work.

To achieve the goals of addressing deferred maintenance and with the vision of becoming a department that will be able to focus on preventative and predictive maintenance, the Department will require new Facility Condition Assessments (FCA) to better understand the current cost associated with addressing the deferred maintenance backlog. The previous FCAs were completed between 2014 and 2016. Future funding will be required to support new FCAs including an estimated $360,000 for a Condition Assessment Report Update, $2.4 million for a new Facilities Condition Assessment Report, and $1.1 million for the Service Yards Condition Assessments. With a more current assessment of the deferred maintenance backlog, Facilities Services will seek to align staffing needs to address the deferred maintenance and to have the capacity to keep up with the maintenance, repairs, replacements, and improvements required to keep City facilities operational and to best serve customer departments and the public. It is anticipated that additional funding will be required for this effort to address deficiencies in staffing, and support needed maintenance and repair.

Equity Description:

The Department of General Services supports multiple General Fund and non-General Fund Departments such as Library, Parks & Recreation, Fire-Rescue, Police, Public Utilities, and Transportation that provide services to City of San Diego residents, including in the Promise Zone and in Communities of Concern. Increasing funding for deferred maintenance enables Facilities staff to support these departments by repairing and maintaining facilities including libraries, parks, recreation centers, fire and police stations, water and wastewater treatment plants, and other buildings where many of those facilities provide services to underserved communities. To enhance equitable responses while addressing the backlog, the division will continue to develop a process that addresses the necessary requirements and responses to ongoing requests from departments through prioritizing urgent needs and balancing fiscal considerations.

Fleet Electrification Program

The City is working to develop a City Fleet Vehicle Replacement and Electrification Strategy consistent with the Climate Action Plan and Municipal Energy Implementation Plan, as well as the California Air Resources Board (CARB) Advanced Clean Fleet regulations which require 50.0 percent of municipal vehicle purchases to be Zero Emission Vehicles (ZEVs) starting in January 2024. The Strategy will outline a timeline and cost estimates to replace gas powered fleet vehicles with ZEVs, install infrastructure and software to support EV charging needs, upgrade fleet repair facilities, and provide staff training. The Department of General Services (DGS) has completed an initial Fleet Electrification Assessment which estimates costs for vehicle replacement, vehicle electricity usage, and vehicle maintenance required to meet CAP goals. These costs for the outlook period are estimated to be $425.0 million citywide, which includes $340.0 million estimated for the General Fund. The assessment also calculates capital costs for ZEV charging hardware and infrastructure improvements to support the hardware at four City operations yards, which is estimated to cost $21.1 million citywide during the outlook period, of which $16.8 million is estimated for the General Fund. The cost estimates are limited to infrastructure upgrades on City property, and these yards account for approximately 30.0 percent of the City's fleet. Other costs not included are utility service upgrades, staff training costs, reconfiguration of repair facilities for EV components, and additional positions for the Department to manage the expanding program. In addition to the Program Manager currently managing the EV program, at least 2.00 new Program Coordinator positions will be needed during the outlook period.

DGS is working closely with the Sustainability and Mobility Department (SuMo) to prepare Fleet Charging Plans as required by the Zero Emissions Municipal Buildings & Operations Policy (ZEMBOP). These plans will identify prospective charging locations for all City-owned vehicles that park overnight at City facilities, such as libraries, parks, and recreation facilities, based on electrification studies being completed by SuMo and in coordination with respective asset-managing departments. Early data from these studies indicate an overall estimated cost of $80.0 to $90.0 million citywide to electrify all facilities and associated fleet parking spaces. The cost to the General fund is estimated to be $64.0 to $72.0 million.

Supporting actions to electrify the City's fleet include work with the Engineering and Capital Projects Department to conduct infrastructure feasibility assessments of City yards for electrification, and coordination with SuMo to evaluate and implement Distributed Energy Resources (DERs) such as solar panels and microgrids at City yards and City facilities.

This is a new program with no identified funding to date. Where the Program requires up-front capital costs, it can save the City money over time, specifically an estimated $11.5 million in fuel savings and maintenance costs, among others, during the outlook period. Maintenance costs were calculated on a dollar per kWh basis using average vehicle maintenance costs and annual mileage per vehicle classification. The overall savings from fleet electrification is highly driven by maintenance cost savings from EVs compared to ICE vehicles. Conversion from fuel to electricity offsets the higher capital costs for EVs. Fuel savings were calculated at the City's current rates of $4.05/gallon of gasoline and $4.85/gallon of diesel, while electricity rates were calculated using an industry-standard 3.0 percent annual escalator, and a blended utility rate of $0.21/kW. The City's fuel consumption is currently two million gallons of gasoline and diesel per year. The estimated 10-year fuel costs are $130.0 million. Electricity costs over the same period are $79.0 million to support the fleet.

Equity Description:

The Department of General Services parks and operates over 4,700 vehicles out of at least 81 City facilities across the City. Thirty-five, or 43.0 percent, of these facilities are located within Communities of Concern. Implementing the fleet electrification program could reduce gasoline and diesel consumption by an estimated 1.7 million gallons and 1.1 million gallons, respectively, during the outlook period, equating to a combined reduction of 27,500 metric tons of CO2e across the City. The City's use of EVs since 2019 has avoided approximately 81,000 kg in GhGs, which is the equivalent of using 36,000 gallons of gasoline and 3,000 gallons of diesel, reducing the impact to the environment.

Compensation Philosophy & Recruitment and Retention Efforts

In 2022 the City of San Diego established a Total Compensation Philosophy that endeavors to pay at least the market median for comparably situated public employees. The City's Compensation Philosophy and recruitment strategies play a critical role in meeting the City's goal of positioning itself as a regional employer of choice and attracting and retaining top talent. The City's goal is to move all classifications toward the market median while focusing on the ability to recruit, retain, and engage highly qualified employees capable of delivering world-class public service to the community; comply with public safety and regulatory requirements; and carry out critical infrastructure needs. This philosophy will also ensure the ability to keep pace with economic inflation over the long term through cost-of-living adjustments.

The City has made significant progress in addressing employee compensation over the past few years including negotiated salary and special pay increases for many of its employees. The City is currently in contract negotiations with its public safety-recognized employee organizations. The Outlook assumes general wage increases of 3.05 percent for years not currently covered by approved labor contracts. Any future negotiated salary increases that deviate from the 3.05 percent assumption included in the Outlook will impact future year personnel costs. For instance, a 1.0 percent general wage increase is estimated at $7.9 million for the General Fund. This estimate is based on the FY 2024 Adopted Budget and does not address known adjustments for FY 2025. Additionally, current and future labor negotiations may include other costs, in addition to general wage increases, such as Special Salary Adjustments, Add-on Pays, and flexible benefit increases, which are not included in the $7.9 million estimate.

In FY 2024, funding was added to the Human Resources Department budget to support the development of a full-cycle recruitment team. Additional funding is needed to support the development of an Employee Compensation program, Human Resources Information System, and Applicant Tracking System to keep pace with industry compensation, recruiting, application, and hiring best practices. Funding will also be needed during the outlook period to enhance critical employee support and development programs to retain current and future talent. These programs will focus on providing opportunities for upskilling the workforce and career advancement.

Equity Description:

The development of total compensation and recruitment programs will ensure City of San Diego employees are paid appropriately for the work they do and provide livable wages that allow employees to live in the communities in which they serve. The program will work to ensure equity between similarly situated employees, diversify recruiting strategies to ensure a community-representative population of applicants, and opportunities are created to support all employees in career advancement goals. Developing a skilled and diverse workforce will serve and support all communities including the designated neighborhoods and communities identified as the Promise Zone, Communities of Concern, Community Block Development Grant areas, and structurally excluded communities as defined by Council Policy 800-14.

Library Master Plan

The Library Master Plan serves as a long-range guide for future City investment in Library spaces. The plan presents an aspirational vision for the San Diego Public Library where the Library and its services are equitable, engaging and experiential; geographically accessible everywhere; and empowered with the necessary resources to thrive. The first phase of the Library Master Plan process began in 2019 with a systemwide assessment, and robust engagement with communities, stakeholders, leadership, and staff. Through data analysis and an examination of library industry best practices in services, technology, and operations, a comprehensive Master Plan Framework document was established and presented to the former Public Safety and Livable Neighborhoods Committee in September 2021 and November 2022.

In the second phase of the plan, listening sessions were held at every library location from November 2022 through February 2023 to gather broad community input on specific needs. The draft Library Master Plan includes this input and provides recommendations to address capital maintenance needs as stand-alone projects, or as part of makeovers, larger renovations, and expansions. The Library Master Plan includes a number of maintenance, repair, and capital improvement recommendations for San Diego Public Library facilities that are largely not included in the Outlook (with the exception of the library facilities planned to open during the outlook period, as highlighted in the *New Facilities* section of this report). The City of San Diego has established policies to guide decisions about which capital improvement projects among the City's many needs will be funded and implemented in any year; these are consolidated in Council Policy 800-14, "Prioritizing Capital Improvement Program Projects," and this policy will be used to evaluate and prioritize the library's facility related needs.

The final draft of the Library Master Plan was presented to the Library Commission on September 13, 2023, then presented to the Community and Neighborhood Services Committee in October 2023, and will be presented to the City Council for adoption in November 2023.

Equity Description:

Equity was built into the planning process of the Library Mater Plan as the 36 library locations were assessed according to the four major principles of the Framework vision – that City of San Diego libraries should be Equitable, Effective, Experiential, and Everywhere. Throughout the life of the Library Master Plan, some degree of improvements will be required at every library location to align them with community priorities, City facility condition assessment goals, and Climate Action Plan targets. The improvements recommended in the plan are based on considerations including facility condition assessments and library service assessments, site-specific opportunities, and community input. As improvements are made, an equity lens will be applied to ensure that each location with a low facility condition score is prioritized.

Communities throughout the City have diverse needs and interests in high-quality library services, programs, technology, and collections. Meeting these needs equitably requires providing communities with the support and assistance they need to achieve equivalent outcomes, as opposed to giving communities the same, standard resources or opportunities. Although the needs and priorities for library service vary by location, all parts of the City require accessible, well-designed library space with enough capacity to meet community needs and service demands, including equitable distribution of attractive library facilities capable of supporting diverse uses and high levels of programming.

Office Optimization Study

The Department of Real Estate and Airport Management (DREAM) began office optimization planning in FY 2021. The City identified the need to analyze current office buildings and work styles, including owned versus leased and overall space needs, the new remote/hybrid work environment, and the future space demands for the City of San Diego's downtown employees. Starting in FY 2023, DREAM received funding for consultant services to conduct a downtown office future space demand analysis. In FY 2023, the project incurred $300,000 in expenditures working on the demand analysis and another $250,000 is anticipated to be spent in FY 2024 to implement the pilot programs and change management strategies. The contract includes an option for an additional $175,000 to be spent in future years.

This analysis will help the City determine the need for office space and costs by developing a program and strategy that utilizes downtown city spaces more optimally through employing office sharing, hoteling, and remote/hybrid work models. The goal is for the consultant to provide a portfolio and workplace analysis, future square footage demand, and to set up a pilot program to test new work models and desk-sharing ratios. Although the consultant cost for this study is relatively small, recommendations that come out of the study could result in a change in funding needs to meet the City's employee space requirements.

Equity Description:

Optimizing the City's downtown office space will allow for planning to provide an equitable working environment for employees and equitable services to the public.

Stormwater Compliance

Significant additional Stormwater funding is needed to meet regulatory compliance obligations, to address threats to life and property posed by flooding, and to reduce pollution entering bodies of water such as local creeks, bays, and the ocean. Many of these costs also address findings and recommendations identified in the City Auditor's Stormwater Audit Report issued in June 2018. The Watershed Asset Management Plan (WAMP) includes operating costs associated with compliance for stormwater regulations, which are projected to reach $233.0 million by 2029 for a total of $1.1 billion over the next five years. Additional resources are needed to support the capital improvement of stormwater infrastructure and watersheds, and are further discussed in the *General Fund Infrastructure Needs* section of this document.

Equity Description:

Stormwater activities will be prioritized in all nine council districts and various Communities of Concern. The Stormwater Department incorporates equity using prioritization methods for a variety of services and projects, most explicitly Asset Management and the Capital Improvement Program, which build equity into the ranking of opportunities to repair and replace infrastructure assets. For example, Stormwater's Street Sweeping Program Optimization procedure requires a quantile analysis to distribute routes into five quintiles based on debris removed per mile swept. Stormwater's Capital Improvement Projects also go through a rigorous prioritization process, per Council Policy 800-14, that incorporates equal and equitable community investment.

Street Repair Program

The Transportation Department's Street Repair Program consists of asphalt repair, asphalt trench restoration, and street asset management. The Asphalt Repair Section repairs, maintains, and improves the City's over 3,000 miles of streets and alleys to provide high-quality infrastructure that individuals can safely drive, roll, and ride on and supports Departments citywide to ensure continuity in the roadway network. The Street Asset Management Section includes an Asset Management team, Geographic Information Systems (GIS) team, and Slurry Seal contracting group. This section acts as the project manager and is responsible for producing slurry seal contracts, managing crack seal projects, conducting condition assessments, and managing asset inventory through GIS and Cartegraph.

The Transportation Department's long-term goal is to maintain the City's street network in good condition which equates to an average network pavement condition index (PCI) of 70 or above. The Department developed two funding scenarios, using updated data from the recent pavement condition assessment, to determine the operations and maintenance and capital funding needs for pavement management. The first scenario assessed the funding needs to achieve a PCI of 70 in five years and the second scenario assessed the funding needs to achieve a PCI of 70 in 10 years.

To assist with achieving the average network PCI of 70, the addition of a new Asphalt Repair team consisting of 16.00 FTE positions is needed to repair small street segments next to other resurfacing projects to maximize upgrades in the right-of-way to provide continuity of road maintenance and repairs. The team will also take proactive mill and pave work to street segments that are a heavy maintenance burden on the pothole patching teams. Adding this third Mill and Pave crew will increase the number of street miles repaired by in-house crews from 4.7 miles to 10.0 miles annually. Additionally, the addition of 4.00 FTE positions will support the Department's planning and scheduling of work, optimizing field data collection, and provide SAP/EAM training to all Department staff. To assist with achieving an average network PCI of 70, the Transportation Department will need to add an additional 20.00 FTE positions and non-personnel expenditures estimated to be $2.5 million, as well as one-time contractual funding estimated to be $1.7 million. Additional resources are needed to support the capital improvement of City streets and are further discussed in the *General Fund Infrastructure Needs* section of this document.

Equity Description:

Street maintenance and repairs will be prioritized using a process that ranks street segments based on road condition, number of road users (functional road classification), proximity to high use areas, and equitable community investments (which includes neighborhoods and communities identified as the Promise Zone, Communities of Concern, Community Block Development Grant areas, and structurally excluded communities as defined by Council Policy 800-14. The outcome of this prioritization is to ensure investments in road infrastructure with the greatest impact for the maximum number of users.

Streetlights and Sidewalks

The Transportation Department is responsible for the repair and maintenance of over 60,000 streetlights and over 4,000 lights in parks, community ball fields, and other City facilities. The Department also shares responsibility with Caltrans for maintaining lights on freeways on and off ramps that intersect City streets. The City's streetlight crews respond to all emergency calls involving streetlight assets, including knocked over poles, conduit damage, vandalism and area outages and are responsible for maintaining complex and antiquated lighting systems and infrastructure, including 44 streetlight series circuits that exist in older neighborhoods of the City. The City currently has a streetlight repair backlog of approximately 5,900 cases. In order to address this backlog and keep up with ongoing future repair requests, the Transportation Department will need to add an additional 29.00 FTE positions and non-personnel expenditures estimated to be $3.5 million, as well as one-time contractual funding estimated to be $8.7 million. Additional resources are needed to support the capital improvement of City streetlights (including replacement of series circuits) and are further discussed in the *General Fund Infrastructure Needs* section of this document.

The Transportation Department is responsible for maintaining over 4,500 miles of concrete sidewalk plus the planning and construction of new concrete sidewalks, (in addition to other concrete infrastructure, including roadways, alleys, curb ramps, and curbs and gutters). The City currently has a sidewalk replacement backlog of approximately 37,000 locations. In order to address this backlog and keep up with ongoing future repair requests, the Transportation Department will need to add an additional 23.00 FTE positions and non-personnel expenditures estimated to be $4.4 million, as well as contractual funding estimated to be $3.0 million. Additional resources are needed to support the capital improvement of City sidewalks and are further discussed in the *General Fund Infrastructure Needs* section of this document.

Equity Description:

Streetlight and sidewalk maintenance and repairs will be using established processes to ensure investments in infrastructure have the greatest impact for the maximum number of users. For streetlights, the Streetlight Safety Priority Score includes the following factors: crime rate, road usage, block outage, proximity to schools and parks, collision history, age of notifications, liability and claims, historic service levels, and communities of concern. For sidewalk maintenance and repairs, a Pedestrian Priority Model is used which ranks locations with the highest density of pedestrians, and Council Policy 800-14 is used to integrate equity for cost sharing and funding opportunities to maximize maintenance and repairs, and safe mobility for all users.

Community Action Plan on Homelessness

The Community Action Plan on Homelessness is a comprehensive, 10-year plan that builds on recent progress, lays out short-term achievable goals, and serves as a guide for long-term success in addressing homelessness. In 2019, the City of San Diego and its partners, with support from the Corporation for Supportive Housing (CSH), developed the Community Action Plan on Homelessness that created numerical targets for crisis response, diversion, and permanent housing solutions. In 2023, the need and financial modeling for the Plan was updated based on new data, trends, and resources available, and was presented as an informational item to the Land Use and Housing Committee in October 2023. According to the update, the City is estimated to need approximately $1.9 billion dollars in new funding over six years, and $1.4 billion in capital costs for supportive housing. For year one, the system needs an additional $280.0 million above what is currently budgeted to meet the need for crisis response, prevention, and housing interventions (not including capital costs for supportive housing development). Of this amount, an estimated $26.5 million is needed to meet the emergency shelter bed need of 932 additional beds, for a total of $125.0 million over five years. The annual estimates do not include capital costs for shelter or project startup costs, as well as costs for continued or increased outreach and specialized services. Estimates for those costs may be created as part of the work under the Community Action Plan in the future.

Equity Description:

As the City considers how to best meet the considerable needs identified in the Community Action Plan on Homelessness, the Homelessness Strategies and Solutions Department will continue to address disparities, broaden access to resources for all individuals experiencing homelessness, and address the needs of specific homeless populations. Neither race, nor age, nor gender, nor physical ability should be an indicator of access to homeless programs and services. As the City continues to implement the CAPH, there will be a focus on neighborhoods where communities experience increased rates of housing instability, are more likely to experience homelessness, and prioritize those areas for prevention resources.

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GENERAL FUND INFRASTRUCTURE NEEDS

This Outlook marks a departure from previous years' as it is the first time specific needs related to the City's Capital Improvement Projects (CIP) Program are incorporated. The inclusion of certain components of the City's infrastructure needs is aimed at providing a more holistic view of the City's financial landscape and better reflect the magnitude of the General Fund's structural budget deficit.

It is crucial to understand that unfunded capital needs are not isolated challenges; they also compete directly with the budget allocated towards General Fund operations such as public safety and neighborhood services. While the City has relied on restricted revenue sources, one-time allocations, and debt financing to fund the CIP program, these funding sources are not sufficient to support the growing infrastructure needs of the City. Absent a new revenue source, additional General Fund resources that would otherwise fund operations will have to be either directed as one-time allocations to the CIP program, or committed from the General Fund to ongoing financing costs.

The information below selectively incorporates needs from a range of asset types including streets, stormwater infrastructure, and City facilities. Please note that the scope of this analysis is not exhaustive, and excludes certain other asset categories. A more complete analysis will be reflected in the FY 2025-2029 Five-Year Capital Infrastructure Planning Outlook to be released on January 12, 2024.

Transportation – Road Repair Program

The Transportation Department's long-term goal is to maintain the City's street network in good condition, which equates to an average network pavement condition index (PCI) of 70 or above. Because of long term under-investments in the City's road network, the PCI has fallen well below 70 since the last condition assessment performed in 2016. The Transportation Department ran a scenario to determine the operations, maintenance, and capital funding needs for pavement management using updated data from the recent pavement condition assessment. This scenario assessed the funding needs to achieve a PCI of 70 in 10 years. Additional costs over the outlook period are projected to be $1.4 billion for non-personnel expenses and would require an additional estimated 56.00 FTE positions with associated revenue to offset personnel expenses. This scenario assumes that the Transportation Department resumes the planning, management, and inspections of all elements of the City Street Repair Program and adds funding in FY 2027 for a street condition assessment.

The department plans to address these needs through various revenue sources, such as the Road Maintenance & Rehabilitation Account, Gas Tax, and TransNet revenues. However, these funds are generally allocated for maintenance, leaving capital needs in direct competition with other General Fund commitments. The table below reflects the estimated funding gap projected for road repair over the outlook period, and it assumes that the full funding needs are available for the department to deploy the most cost-effective strategy to address road repairs and investments at the time needed (no deferred repairs). In a resource-limited scenario, long-term costs are more expensive because road repairs would not take place at the most cost-effective time.

Table 2.39 - Road Repair Funding Gap					
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Projected Miles	**506.8**	**377.5**	**569.6**	**434.3**	**357.0**
O&M and Capital Needs	$ 176.5	$ 269.8	$ 316.0	$ 420.1	$ 498.7
Projected Revenue Sources	$ 46.1	$ 57.4	$ 61.7	$ 61.1	$ 69.8
Funding Gap	**$ 130.4**	**$ 212.4**	**$ 254.3**	**$ 359.0**	**$ 428.9**

It is important to note that there are 62 miles of unimproved streets and alleys across the City (17 unpaved and 45 paved), and costs associated with upgrading these locations are not included in the above estimate. Cost estimates average $24.0 million/mile to pave unimproved road segments, and there is no current funding source for unimproved streets and alleys.

Stormwater Infrastructure

The Stormwater Department's funding needs are calculated based on the City's Watershed Asset Management Plan (WAMP), which encompasses both physical assets like pipes, channels, pump stations and storm drains, as well as programmatic assets such as personnel and operational activities. The WAMP financial model reveals that a significant number of physical stormwater assets are past their useful lives, leading to a rollover of unfunded needs each fiscal year and an increasing number of emergency repairs following significant rain events. As a result, the projected total funding requirement for stormwater infrastructure has risen to approximately $2.2 billion over the next five fiscal years. While this figure reflects existing capital needs over the next five fiscal years, the City would not be able to fully expend these funds over the outlook period, even if the program was fully funded, due to execution capacity. Additional operating capacity would be required as described in the *Stormwater Compliance* Section of the report. A portion of the capital costs will be funded by a Water Infrastructure Finance and Innovation Act (WIFIA) loan awarded by the Federal Environmental Protection Agency (EPA). The loan and required match total $733.0 million to fund a portion of the Stormwater CIP Program over the next five years. The EPA will finance 49.0 percent of this loan, with the City providing a 51.0 percent match. The City's match is expected to be funded with a combination of grants and other financing proceeds from lease revenue bonds or State Revolving Loan funds. However, absent any other dedicated funding source, debt service for repayment of the WIFIA loan and any City issued debt will likely need to be paid by the General Fund (see *Debt Service* section for additional information on projected debt service expenditures).

The **Table 2.40 – Storm Water Funding Gap** below reflects unfunded stormwater infrastructure costs over the outlook period beyond what is projected to be funded through the WIFIA program:

Table 2.40 - Storm Water Funding Gap					
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Flood Resilience	$ 99.3	$ 244.5	$ 164.8	$ 101.4	$ 219.8
Water Quality	$ 113.0	$ 285.0	$ 110.1	$ 143.3	$ 161.5
Funding Gap	**$ 212.3**	**$ 529.5**	**$ 274.9**	**$ 244.7**	**$ 381.3**

Table 2.40 – Storm Water Funding Gap reflects costs for flood resilience and water quality related capital assets and excludes operating costs. The entire unfunded capital need for flood resilience is spread over FY 2026 through 2029 since many drainage assets are past their useful lives and in need of repair or replacement to prevent future emergencies. The unfunded needs for water quality related assets are shown spread over the compliance period associated with currently adopted regulations such as Total Maximum Daily Loads (FY 2026-2035) and extend beyond this outlook period.

To address this funding gap, in 2019 the City began the development of a stormwater funding strategy to identify a sustainable long-term funding mechanism for the Stormwater Program. The final funding strategy update was presented to Council in February 2022. The recommended funding strategy implementation includes the following four principal factors:

1. Further reduce costs and maximize efficiencies.
2. Continue to invest in stormwater program innovation.
3. Maximize existing funding sources, grants, and loans.
4. Pursue development of dedicated funding mechanism for stormwater.

New and Existing City Facilities

The most recent condition assessments for City Facilities were completed between FY 2014 and FY 2016[8]. Many identified needs remain to be addressed but need to be reconciled to the current list of required improvements. The condition assessment estimated funding needs of approximately $508.0 million for the then 560 City-occupied facilities and 133 leased General Fund facilities (excluding the City Administration Building, City Operations Building, and other City Concourse facilities). This was the estimate to bring General Fund facilities from a Facility Condition Index (FCI) score of 29 (Fair) to 12 (Good). Once this facility condition assessment is updated, funding needs are expected to increase based on the continual deterioration of facilities, as well as impacts from Climate Action Plan and Zero Emissions Municipal Buildings & Operations Policy (ZEMBOP) requirements.

The FY 2024 Adopted Budget also includes public safety and neighborhood services capital projects for new and existing facilities with unidentified funding that will likely require significant General Fund contributions or General Fund-backed financing:

- $188.6 million - Regional Park and Mission Bay Park Improvements
- $90.8 million - Ocean Beach Pier Project
- $76.7 million - New Parks and Recreation Projects
- $40.7 million - Coastal Erosion Access Projects
- $75.6 million - New Fire and Lifeguard Stations
- $18.4 million - Fire-Rescue Air Operations Facility Phase II
- $37.4 million - New Libraries and Library Improvements

[8] Cost Estimates are based on the Condition Assessment Update City Council Report 16-014 presented to City Council on April 12, 2016. In addition, assessment information of leased facilities was included in the analysis.

Other critical needs that have not yet been included in the budget are listed below:

- $130.7 million - Police Plaza Reconfiguration and Firearm Training Facility
- $177.4 million - Fire-Rescue Training Facility
- $15.0 million - Police CAD Replacement

The list above is not intended to represent a complete list of all City facility improvements needed. Rather, it attempts to summarize some of the active projects that are already in the CIP program but require additional funds to complete. The City has some dedicated funding sources for City facilities such as Mission Bay and Regional Park Improvement Funds and Impact Fees. The City also relies on federal and State grants when available. However, the funding needs for facilities-related capital improvements far exceed these resources. As stated earlier, absent a new revenue source, additional General Fund resources that would otherwise fund operations will have to be either directed as one-time allocations to the CIP program or committed from the General Fund to ongoing financing costs.

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CONCLUSION

The purpose of the Outlook is to provide a comprehensive forecast of the City's General Fund finances over the next five fiscal years, and to serve as a framework for the development of the FY 2025 Adopted Budget. It is a long-range fiscal planning guide that focuses on baseline revenues and expenditures, while also considering new facilities and planned commitments beyond the baseline, to help guide future fiscal and policy decisions. The Outlook was developed based on information available and known at the time of the preparation of the report; however, risks to the projections include events that may or will occur during the outlook period whose outcomes are unpredictable or cannot be reasonably quantified at this time.

The projections included in the Outlook show the importance of developing multi-year strategies to correct the projected structural deficits, where ongoing expenditures exceed ongoing revenues. The projected shortfalls also demonstrate the need for additional ongoing available resources to support the critical needs of the City. Based on the forecast for baseline expenditures and revenues, growth in expenditures is anticipated to outpace the growth in revenues for all five years of the Outlook. The shortfall is based on the following key factors:

- Reduction of one-time revenue sources used to support the FY 2024 Adopted Budget, including $124.2 million in one-time American Rescue Plan Act funding and excess equity that was used to balance the budget;
- Moderate, but softening growth in revenues when compared to the robust growth that followed the height of the COVID-19 pandemic;
- Projected growth in expenditures needed to maintain the City's service levels as reflected in the FY 2024 Adopted Budget; and
- Inflationary pressures increasing non-discretionary General Fund costs, budgetary additions in recent fiscal years to comply with regulatory mandates, and negotiated salary adjustments to address vacancies.

The City can partially address these baseline shortfalls through a variety of mitigating actions, such as the use of one-time resources like Excess Equity, and the use of Transient Occupancy Tax fund balance to support eligible General Fund expenditures. However, once forecasted costs for priorities beyond the baseline are included in the Outlook, including costs for new facilities and planned commitments, the forecasted shortfall grows considerably and extends throughout the outlook period. In addition to new facilities and planned commitments, there are many additional priorities, services, compliance, operational, and capital needs beyond those included in this report. Given the limited and one-time nature of the City's available funding sources, the City will need to explore additional mitigating actions in future years, which could include reduction or suspension of reserve contributions, suspension or strategic use of contributions to the Infrastructure Fund, budget reductions, and the pursuit of additional one-time and ongoing revenue sources.

The Outlook is not a budget document and is intended to provide the City Council, key stakeholders, and the public with information to facilitate an informed discussion in preparation for the development of the FY 2025 Adopted Budget. Any new expenditures assumed in the Outlook for FY 2025 will be considered during the upcoming FY 2025 budget development process and will be dependent upon available resources and consistent with the priorities outlined in the City's Strategic Plan.

The FY 2025 budget process will continue to prioritize equity in budget decisions to ensure that the City addresses institutional racism and systemic disparities, providing everyone with equitable access to opportunity and resources to thrive, no matter where they live or how they identify. The FY 2025 budget process will also consider the City Council's budget priorities, as outlined in IBA Report 23-32: FY 2025 City Council Budget Priorities, which were reviewed on October 30, 2023 by the City Council. As required by the City Charter, the Mayor will present a balanced budget to the City Council by April 15, 2024. The decisions made for the FY 2025 budget will have an impact on the entire outlook period and will be reflected in the FY 2026-2030 Five-Year Financial Outlook Report.

ATTACHMENT 1
ONE-TIME RESOURCES AND USES OF FUNDS

The tables below detail the one-time resources and expenditures that were included in the Fiscal Year 2024 Adopted Budget that were adjusted to develop FY 2025-2029 Five-Year Financial Outlook baseline budget.

One-Time Resources		
Fund Balance in Excess of Reserves (Excess Equity)	$	64,065,498
American Rescue Plan Act Funds		52,066,296
Monsanto Class Action Settlement		9,000,000
Sale of Tailgate Park		5,847,660
TOT Transfer		3,377,000
Fire/Emergency Medical Services Transport Fund Transfer		1,000,000
Internal Service Funds Use of Fund Balance		851,366
SD Access for All		648,160
Short-Term Residential Occupancy Revenue		645,000
Employ and Empower Grant		263,127
Opioid Settlement Funds		197,000
One-Time Resources Total	**$**	**137,961,107**

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One-Time Uses		
Bridge to Home Program	$	5,847,660
Eviction Prevention Program		3,000,000
Purchase of Refuse Packers		2,631,288
Animal Services Contract		2,200,000
Citywide Elections		1,925,674
Smart Streetlights Deployment		1,500,000
Sidewalk Construction on Saturn Boulevard		1,500,000
Enhanced Traffic Safety Measures		1,500,000
Barrio Logan Traffic Calming Truck Route Project Design		1,200,000
Vehicles for New Facility		1,080,000
Youth Care and Development Program		1,000,000
Rental of Police Firearms Training Facility		975,000
Vehicles for Enhanced Hot Spot Crew		970,000
Mission Beach Seawall Repair Project Design		750,000
Paradise Hills Community Park Trail Project Design		750,000
Infrastructure Repair and Maintenance		750,000
North Park Recreation Center Project Design		750,000
City Heights Urban Village Revitalization Project Design		750,000
Vehicles to Support Community Risk Reduction		750,000
Sidewalk Ramping Crews		702,500
Dog Park Improvements		600,000
Billing Solution Software Implementation		500,000
Day Center Site Improvements		500,000
Citywide Space Planning and Condition Assessments		500,000
Convoy District Gateway Sign Project		500,000
Small Business Enhancement Program		500,000
Vehicles and Equipment for Park Rangers		406,900
Cannabis Social Equity Program Support		396,253
Reimbursements for Joint Use Agreements		380,980
Lease Management Software		375,000
Median Maintainance		323,925
Biannual Independent Performance Audit		300,000
Repaving of Mission Boulevard		300,000
American with Disabilities Act Evaluation		262,000
Library Materials		250,000
Enhanced Sworn Recruiting Efforts		225,000
Focused Economic Development Strategy		200,000
Lifeguard Training and Equipment		200,000
Network Access at Your Safe Place		155,000

One-Time Uses (continued)		
Apparatus Doors Replacement		155,000
Opioid and Fentanyl Prevention Program/Campaign		135,000
Assistance to Firefighters Grant Match		108,004
External Legal Counsel		100,000
Eviction Notice Registry		100,000
Specialized Consultant		100,000
New Employee Supplies		97,555
Vehicles to Support Organic Waste Diversion		85,000
Tenant Improvements, Relocation, and Rent		64,625
Urban Forestry Vehicles		50,000
City Clerk Software Enhancements		38,050
SD Access for All		15,000
One-Time Uses Total	**$**	**38,455,414**

ATTACHMENT 2
NEW FACILITIES

New Facilities	
Parks and Recreation	
Pacific View Elementary Joint Use	2025
Boone Elementary School Joint Use	2025
Whitman Elementary School	2025
Spreckels Elementary Joint Use	2025
NTC/Esplanade	2025
Canon Street Pocket Park	2025
Hidden Trails Neighborhood Park	2025
Dennery Ranch Neighborhood Park	2025
Fire-Rescue	
Torrey Pines Fire Station	2025
Parks and Recreation	
Rowan Elementary Joint Use	2026
Bruce Brown Memorial Park	2026
East Village Green	2026
Pacific Beach Elementary Joint Use	2026
Eastbourne Neighborhood Park	2026
Federal Boulevard Pocket Park	2026
Junipers Park	2026
Mira Mesa Aquatic Center	2026
Mira Mesa CP	2026
NTC Building 619	2026
Solterra Vista NP	2026
Fire-Rescue	
Black Mountain Ranch Fire Station	2026
Parks and Recreation	
Black Mountain Ranch Park Phase 2	2027
Groove NP Park (Southwest NP)	2027
Jones Elementary Joint Use	2027
North Central Square	2027
Old Logan Hts Library	2027
Perry Elementary School Joint Use	2027
Shoal Creek NP	2027
Library	
Ocean Beach Library	2027
Oak Park Library	2027
Parks and Recreation	
Foster Elementary JU	2028
Grant K-8 JU	2028
Hickman Elementary Joint Use	2028
Lafayette Elementary Joint Use	2028
Toler Elementary JU	2028
Walden NP	2028
Fire-Rescue	
Otay Mesa Fire Station	2028
Parks and Recreation	
Florence Elementary JU	2029
Mission Valley NP (Hazard Center Development)	2029
Library	
San Carlos Library	2029
Fire-Rescue	
Fairmont Ave Fire Station	2029
Skyline Hills Fire Station	2029