CITY OF SAN DIEGO

FY 2012–2016

Five-Year Financial Outlook
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EXECUTIVE SUMMARY

The City of San Diego FY 2012-2016 Five-Year Financial Outlook (Outlook) continues to serve as a guiding document for long-range fiscal planning and to provide the framework for the development of the City's annual budget. The Outlook incorporates a variety of economic assumptions and expenditure requirements that will likely influence revenues and appropriation needs over the next five years.

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

Forecast Scope and Approach

The City's General Fund is the primary focus of the FY 2012-2016 Five-Year Financial Outlook (Outlook). The Outlook forecasts General Fund revenues and expenditures for five years beginning in FY 2012. Approximately 64.8 percent of the City's budgeted General Fund revenue consists of four revenue sources: property tax, sales tax, transient occupancy tax, and franchise fees. Personnel expenses constitute approximately 72.0 percent of the City's General Fund budget.

The FY 2011 Adopted Budget serves as the baseline for developing the FY 2012-2016 revenue and expenditure forecast. Where applicable, updates have been made to the FY 2011 Adopted Budget based on actual receipts and available information to date which serves as the basis for FY 2012. The FY 2012-2016 forecast has been developed using economic data and growth assumptions from various local, regional, and State sources. Sensitivity analyses are included for major revenue categories to reflect alternative economic recovery assumptions.

As in prior years, the current year adopted budget (FY 2011 Adopted Budget) was used as the baseline for the FY 2012-2016 Five-Year Financial Outlook. The Outlook is revised periodically as new information becomes available. Actual results from FY 2010 and expenditure trends in FY 2011 will be incorporated into the FY 2012 budget process.

Overview

The Five-Year Financial Outlook is updated periodically and issued each fiscal year to provide a framework for budgetary decisions by communicating the City's fiscal priorities and outlining the City's revenue and expenditure trends as well as fiscal challenges.

The economy on a national, State, and local level are all showing signs of economic stabilization and slow growth after the extended recession. Positive indications of growth, however, are tempered by a persistently high level of unemployment in addition to a stagnant residential property market. The extended economic recession, combined with the current slow pace of recovery, has continued to place fiscal strain on the State of California and cities throughout California, including the City of San Diego. Revenues that reflect current economic conditions, such as sales tax and transient occupancy tax, have shown improvement since FY 2010 and the adoption of the FY 2011 budget. The level of revenue forecasted to be generated in FY 2011 however, is still significantly below revenue levels received by the City's General Fund in FY 2008, prior to the impact of the recession on revenues.

Financial Management has revised the City's revenue and expenditure forecasts in the updated FY 2012-2016 Five-Year Financial Outlook. Overall, the FY 2012 General Fund revenue projections based on the latest economic conditions have resulted in a $19.5 million decrease in revenues compared to the FY 2011 Adopted Budget. The $19.5 million revenue decrease is comprised of eliminating $45.3 million in one-time revenues and increased revenues of $25.8 million primarily due to an increase in sales tax and transient occupancy tax projections. The FY 2012 General Fund expenditure projections increased by $37.2 million compared to the FY 2011 Adopted Budget mainly due to: $10.6 million for public liability and workers' compensation reserves; $7.9 million for the McGuigan settlement; $6.6 million for restoration of Fleet usage and assignment fees charged to General Fund departments; $2.5 million for outside legal; $2.0 million vacancy savings adjustment from FY 2011; $1.7 million inflation adjustment for energy and utility expenses; $1.6 million for the General Fund pension annual retirement contribution; and other expenditure increases. The projected decrease in revenues and increase in expenditures has resulted in a projected deficit of $56.7 million for FY 2012.

The projected deficit in the FY 2011-2015 Five-Year Financial Outlook released in April 2010 was $72.5 million which decreased to $56.7 million primarily due to a lower pension annual required contribution for FY 2012.

The major changes from the FY 2011-2015 Outlook (April 2010) for revenues and expenditures are as follows:

FY 2012 Deficit - April 2010 Outlook	**$ (72.5)**
Revenue Changes	
Change in Major Revenues	(0.2)
Change in Departmental Revenues	(5.4)
Total Revenue Change	$ (5.6)
Expense Changes	
OPEB Reduction	(2.9)
ARC Reduction	(21.1)
Expenditure Adjustments	1.4
Debt Service - Deferred CIP	(3.7)
Outside Legal Expenses	2.5
Other Changes	2.5
Total Expense Change	$ (21.4)
Total Deficit Change	$ (15.8)
FY 2012 Deficit - February 2011 Outloo	**$ (56.7)**

The Outlook includes funding projections for significant areas that have been addressed in prior years in order to restore or preserve the fiscal health of the City and/or meet its legal, operational, or community obligations. The rationale for including these expenditures is discussed further in the report. Below is the summary of incremental changes above FY 2011 budgeted levels for significant areas in FY 2012:

- Funding public liability reserves ($5.7 million contribution)
- Funding workers' compensation reserves ($4.9 million General Fund contribution; $6.2 million City-wide)
- Funding the General Fund reserves ($3.5 million to increase reserves to 7.5 percent Reserve Policy target in FY 2012)
- Funding the retirement system based on projected FY 2012 Annual Required Contribution ($1.6 million General Fund contribution; $2.0 million Citywide)

The FY 2012-2016 Outlook is divided into three sections: the ***General Fund Revenue Forecast***, the ***General Fund Expenditure Forecast***, and the ***Conclusion*** sections. The ***General Fund Revenue Forecast*** section covers the development of revenue projections included in the Outlook and includes an overview of current economic trends and their affect on the City's major revenues. The ***General Fund Expenditure Forecast*** section outlines the expenditure forecast including future expenditure requirements and expected growth rates. **Attachment I** provides detailed information on General Fund revenue and expenditure forecasts for FY 2012-2016 and the projected shortfall for each fiscal year. The ***Conclusion*** section outlines possible solutions to address the projected deficit of $56.7 million for FY 2012.

Revenue Forecast

The General Fund revenue categories and related background information are discussed in the revenue forecast section along with methods and assumptions affecting growth projections for each major revenue source. There are four major General Fund revenue sources: property tax, sales tax, transient occupancy tax, and franchise fees, which make up nearly 64.8 percent of budgeted General Fund revenue in FY 2011. These four major revenue sources are affected by changes in local, State, and national economic conditions. Other General Fund revenue sources such as licenses and permits, fines, forfeitures, and penalties are also impacted by economic conditions to varying degrees. The General Fund revenue forecast is based on the City's FY 2011 Adopted Budget adjusted for updated year-end revenue projections where applicable and the removal of one-time revenues. Also included in this revenue forecast are incremental General Fund departmental changes over the FY 2011 Adopted Budget.

The revenue forecast combines an analysis of the economic factors driving the City's revenue base and the specific revenue sources available to the City. While San Diego's economy is increasingly diverse, the City's revenue structure has a lower tax base compared to most other large cities in California. For example, the City does not levy a utility user tax or trash collection fee and has a low business license tax compared to other cities of this size. The City's revenues continue to be affected by decisions made by the State regarding the allocation of local revenue. This and other risks posed by the State's fiscal crisis are discussed in the ***State of California Budget Impacts*** section of the Outlook.

Expenditure Forecast

The General Fund expenditure categories and the related background information are discussed in the expenditure forecast section along with methods and assumptions affecting growth projections for each expenditure category. The General Fund expenditure forecast is based on the FY 2011 Adopted Budget adjusted for the removal of one-time expenditures. Included in these expenditure categories are incremental General Fund departmental changes over the FY 2011 Adopted Budget for new and existing contracts, staffing of new facilities, and Council or other governmental agency mandated expenditures, among others.

Economic Environment

Improving local economic indicators such as median home prices, consumer confidence, and an increase in both local and Statewide consumer spending have resulted in revised revenue projections for the General Fund. These positive indicators are tempered by the lack of improvement in other economic indicators such as high unemployment and continued high countywide residential foreclosures.

Although the growth in certain economic indicators is not close to levels experienced prior to the beginning of the recession in December 2007, improvements in residential real estate and consumer spending locally and Statewide have been consistent since the beginning of the third quarter of FY 2010.

The countywide median home price has increased 20.3 percent as of December 2010 from the lowest point in January 2009[1]. Foreclosures and notices of default have decreased from the highs experienced in 2009, although the amount of foreclosures still greatly exceed levels experienced in FY 2006 and prior, before the onset of the economic recession[2]. Offsetting these positive indicators, however, was a decline in home sales in the second half of calendar year 2010[3]. This decline in home sales is in part attributed to the expiration of tax credit incentives for first-time home buyers in June of 2010.

Increases in consumer spending on a regional and Statewide basis in the first quarter of FY 2011, compared to FY 2010 levels, illustrate increased optimism for continuing stabilization and recovery. The City's taxable sales increased 6.7 percent from June 2010 through November 2010[4]. The increase in the City's taxable sales may be partially due to improved local consumer confidence which has increased 6.3 percent from January 2010 through November 2010, and has increased 16 out of the last 23 months, thus demonstrating a continued improvement in the taxable sales outlook[5].

Tempering indications of economic stabilization and growth is the continued lack of improvement in other key economic indicators. Regional employment has been significantly impacted by declines in manufacturing, construction, and in other employment sectors. Since the onset of the economic recession in December 2007 through December 2010, manufacturing and construction jobs in the region have declined 11.7 and 28.8 percent, respectively. The City's unemployment rate as of December 2010 is 10.1 percent, a reduction in the total unemployment rate of 1.0 percent from the high of 11.1 percent in January 2010[6]. Gains in employment in the last 12 months from professional/business services and education/health sectors have been offset by declines in federal and local government employment, construction, and manufacturing. Any further increase or a continuing high unemployment rate could negatively impact consumer spending.

This forecast of economic growth is factored into the Outlook's revenue assumptions with conservative growth rates for major revenues in FY 2012 and improving revenue growth in FY 2013 and beyond as economic recovery is expected to continue.

[1] DataQuick Information Systems
[2] County of San Diego Recorder's Office
[3] DataQuick Information Systems
[4] California State Controller's Office
[5] University of San Diego Index of Leading Economic Indicators
[6] California Employment Development Department

State of California Budget Impacts

The State's Proposed FY 2011-2012 Budget released by the Governor on January 10, 2011 identified solutions to correct an estimated $25.4 billion State budget deficit. These solutions include the extension of tax increases, new revenues, reorganization and realignment of services to reduce administrative costs, elimination of redevelopment agencies Statewide, and expenditure reductions.

Some of the revenue increases include the extension of the State's 1.0 percent sales and use tax add-on, motor vehicle license fees, and a personal income tax. Measures that were to expire originally at the end of FY 2011, if approved by the State legislature, are to be extended for additional five years (subject to voter approval). A reorganization of services is based on local agencies (counties) assuming the responsibility for the administration of programs that are currently being handled by various State agencies.

The Governor's Budget also proposed the elimination of redevelopment agencies and enterprise zones, and all agencies established to develop and administer these areas. According to the State's budget proposal, existing redevelopment agencies (RDAs) will be required to cease creation of new obligations and successor agencies will be required to retire RDA debt in accordance with existing payment schedules. Approximately $1.7 billion in property taxes used to fund redevelopment areas would be diverted on a one-time basis to the State's General Fund in FY 2012, with future years' property taxes generated from these areas to be distributed according to currently established property tax allocations to local agencies.

The elimination of redevelopment agencies potentially could have a negative impact on the General Fund over the next five years by ending tax-sharing agreements that directly benefit the City and by discouraging investment that strengthens the City's sales tax and transient occupancy tax revenues.

The City's General Fund is projected to receive $13.8 million in FY 2012 from the City's redevelopment agencies. This amount includes property tax increments of approximately $2.5 million (according to the tax-sharing agreements with the City) and reimbursement from Centre City Development Corporation for PETCO Park debt service payment of $11.3 million.

The State's FY 2012 Budget Proposal includes continued funding for the Citizens' Options for Public Safety (COPS) and Jail Booking Fee Subventions. The City receives an annual payment of $1.6 million for COPS which is included in the forecast in this Outlook. The City pays jail booking fees to the County of San Diego for bookings of municipal code and misdemeanor violations. The booking fee payment is $5.3 million but has been offset by the funding the County receives from the State as part of $35.0 million in booking fees subventions. In FY 2010, the City budgeted $5.3 million for booking fees, and the State paid the County approximately $2.2 million which offsets the City's payment. For FY 2011, the City budgeted $5.3 million and it will not be known until June 2011 how much of the booking fees funding will be paid by the State to the County. The State's FY 2012 Budget Proposal includes $35.0 million in subventions for the Jail Booking Fees program. The Outlook assumes an expense for booking fees of $5.3 million in FY 2012 and beyond.

Staff will continue to analyze and monitor the Governor's FY 2012 Proposed Budget and its potential impacts to the City's General Fund. At this time, the full impact of these propositions cannot be fully estimated.

GENERAL FUND REVENUES

The following section provides details of major and departmental revenue sources for the FY 2011 revenue base, in addition to currently forecasted growth rates used in the Outlook.

Property Tax

Even though the economy is showing some signs of improvement, a lag time of approximately two years exists between the time when real estate values change and the time when this change is reflected in the City's property tax receipts. The FY 2011 property tax receipts reflect housing market activity from calendar year 2009.

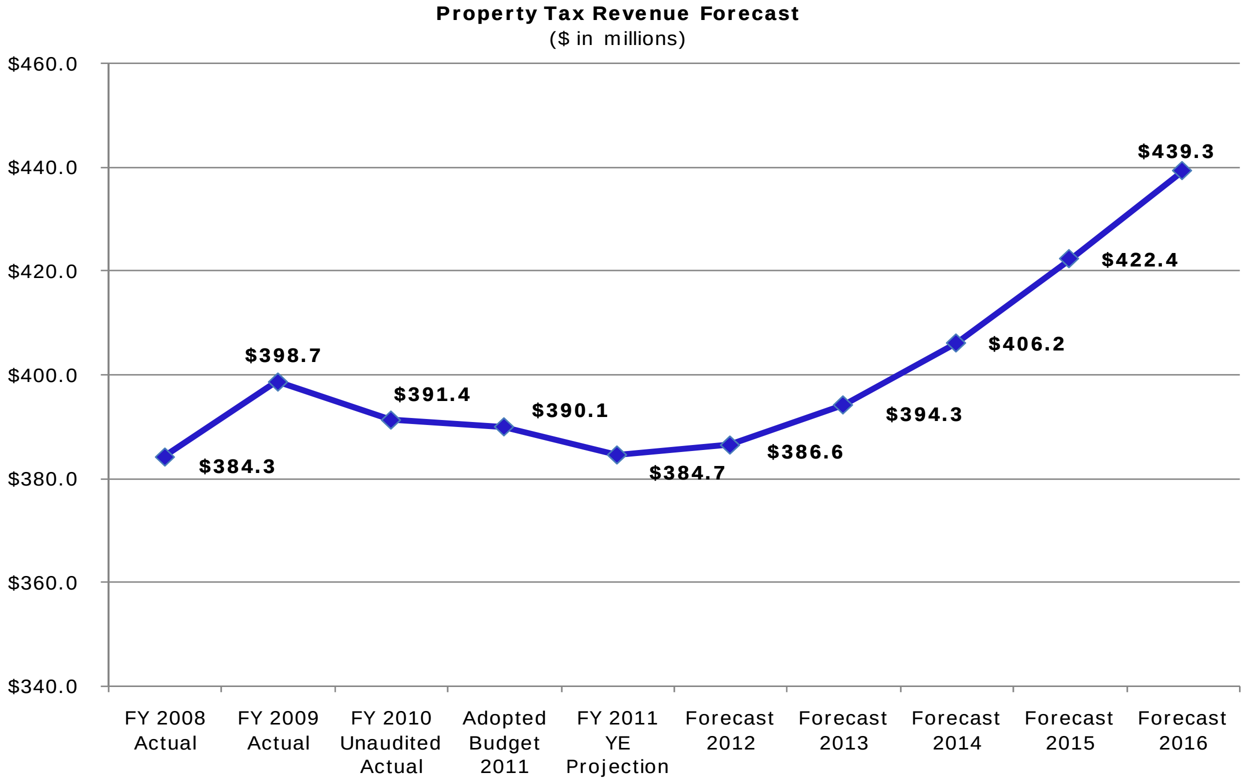
Property tax revenues for FY 2011 are projected to be $384.7 million, a decrease of $5.4 million or 1.4 percent from the FY 2011 Adopted Budget of $390.1 million. This projected reduction in property tax revenue (based on updated information from the County) is due to a 1.47 percent decline in the City's assessed value (AV), a projected decrease in supplemental property taxes, an increased number of refunds for reassessment appeals, and other factors.

Property tax revenues for FY 2012 are projected to increase by 0.5 percent over the FY 2011 revised year-end projection. This increase is based on anticipated growth in median home prices, a slight decline in foreclosures, a slight increase in the collection rate, and a lower level of reassessment appeal refunds. The anticipated growth in median home prices is based on the 10.2 percent growth experienced in calendar year 2010 over calendar year 2009[1]. The following table and graph show amounts of property tax receipts from FY 2008 through FY 2010, budgeted and projected amounts for FY 2011, and forecasted amounts for FY 2012-2016.

($ in millions)

FY 2008 Actual	FY 2009 Actual	FY 2010 Unaudited Actual	Adopted Budget 2011	FY 2011 YE Projection	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
$ 384.3	$ 398.7	$ 391.4	$ 390.1	$ 384.7	$ 386.6	$ 394.3	$ 406.2	$ 422.4	$ 439.3
Growth	3.8%	-1.8%	-0.3%	-1.7%	0.5%	2.0%	3.0%	4.0%	4.0%

[1] DataQuick Information Systems



Property Tax Sensitivity Analysis

The property tax sensitivity analysis reflects alternative economic recovery assumptions and presents a range of revenue scenarios that may occur if the recovery proceeds in a different manner than assumed in the Outlook. Applying a sensitivity analysis to property tax revenue can create trends of growth rates in both 'pessimistic' and 'optimistic' scenarios, and indicate how these trends affect projected revenue receipts. The property tax revenue sensitivity analysis assumed changes in total citywide assessed value (AV) in residential and commercial properties.

The 'pessimistic' forecast assumes slow and continually cautious economic recovery reflecting very slow increases in median home prices, continuing high levels of foreclosures as well as less home sales.

The 'optimistic' scenario is based on the assumption of quicker economic recovery reflecting faster improvement in residential property sales and less foreclosed homes being on the market.

Property Tax Sensitivity Analysis

($ in millions)

Scenario	Forecast FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
Pessimistic	$382.8 **-0.5%**	$386.6 **1.0%**	$394.3 **2.0%**	$406.1 **3.0%**	$418.3 **3.0%**
Current Outlook	$386.6 **0.5%**	$394.3 **2.0%**	$406.2 **3.0%**	$422.4 **4.0%**	$439.3 **4.0%**
Optimistic	$390.4 **1.5%**	$402.2 **3.0%**	$418.2 **4.0%**	$439.2 **5.0%**	$461.1 **5.0%**

Property Transfer Tax

The FY 2011 property transfer tax budget is $4.7 million. Property transfer tax revenue is affected by volume of home sales and home prices, and of December 2010, calendar year 2010 home sales are below prior year's home sale levels. Home prices, however, continue appreciating moderately in San Diego region. The FY 2011 year-end property transfer tax revenue projection of $4.7 million is close to the FY 2011 budgeted amount. A 5.0 percent growth rate is forecasted in FY 2012 for this revenue category with the assumption that home sales will stabilize or increase marginally, but not to levels seen between FY 2004 and FY 2008. The following table and graph show projected growth rates and amounts for property transfer tax revenue for FY 2012-2016.

($ in millions)

FY 2011 Adopted Budget	FY 2011 YE Projection	Forecast FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
$4.7	$4.7	$4.9	$5.3	$5.7	$6.2	$6.8
Growth [1]	**-**	**5.0%**	**7.0%**	**8.0%**	**9.0%**	**9.0%**

[1] The growth may not reflect exact percentage growth due to rounding.

The FY 2011 year-end projection of $4.7 million serves as the baseline for the FY 2012-2016 property transfer tax revenue forecast.

Sales Tax

Sales tax revenue projected for FY 2011 is $204.4 million, an increase of $16.9 million or 9.1 percent from the FY 2011 Adopted Budget of $187.5 million. This increase is due to a positive growth in taxable sales in the first two quarters of FY 2011 with improvements in the general retail, transportation, and business to business categories. Gains in the general retail and transportation categories are mainly due to increases in service station sales and new automobile sales, while declines continued in construction and miscellaneous sales[1]. These improvements in FY 2011 taxable sales have contributed to the projected revenue increase for FY 2012-2016.

The FY 2011 year-end projection for sales tax revenue reflects a modest 2.0 percent growth for the remainder of the fiscal year. While consumer spending has experienced an increase, the California Employment Development Department reported that San Diego's unemployment rate is 10.1 percent and the State of California's unemployment rate is 12.3 percent as of December 2010. With unemployment rates for both San Diego and the State of California above the national unemployment rate of 9.1 percent, conservative projections in sales tax growth are being used in this Outlook. Any drop in consumer spending will quickly impact the sales tax revenue received by the City. If economic indicators continue to improve, the growth rates in this Outlook for sales tax revenue will be revised as part of the Mayor's FY 2012 Proposed Budget or FY 2012 May Revise.

With moderate growth in taxable sales experienced in the beginning of FY 2011, economists forecast that taxable sales will remain steady through the third quarter of FY 2011, as compared to the previous fiscal year's comparable quarters. Taxable sales are also projected to experience modest growth in the fourth quarter of FY 2011 and first quarter of FY 2012. According to the State Board of Equalization (BOE), taxable sales are forecasted to have an average growth of 7.4 percent between the first quarter of FY 2011 and first quarter of FY 2012. These growth rates are Statewide and while indicative of an optimistic view of sales tax revenue, they do not directly correspond to the San Diego region sales tax growth rates included in the Outlook.

Projected growth in taxable sales for FY 2012 is 2.4 percent over the FY 2011 year-end projection. This projection is based on the analysis of the most recent sales tax actual receipts, the current and projected activity of key economic indicators (described earlier), and one-time allocation adjustments made by the BOE. In comparison, the FY 2012 sales tax revenue projected growth prepared for the City by its sales tax consultant, MuniServices, is 2.4 percent, which is based on projections for each economic segment of taxable sales. These segments include general retail, food products, transportation, construction, and other categories as well as the analysis of all major retailers, including their performance and permit activity. The most recent projection in the UCLA Anderson Forecast reflects a more optimistic growth of 4.8 percent (Statewide) for FY 2012 based on a projected "modest growth and distressingly high unemployment" for the first half of FY 2012 with accelerating growth in the second half of FY 2012. The BOE projected the State's taxable sales to grow by 9.0 percent in the first quarter of FY 2012 indicating an even a stronger growth in taxable sales than the UCLA Anderson Forecast projection.

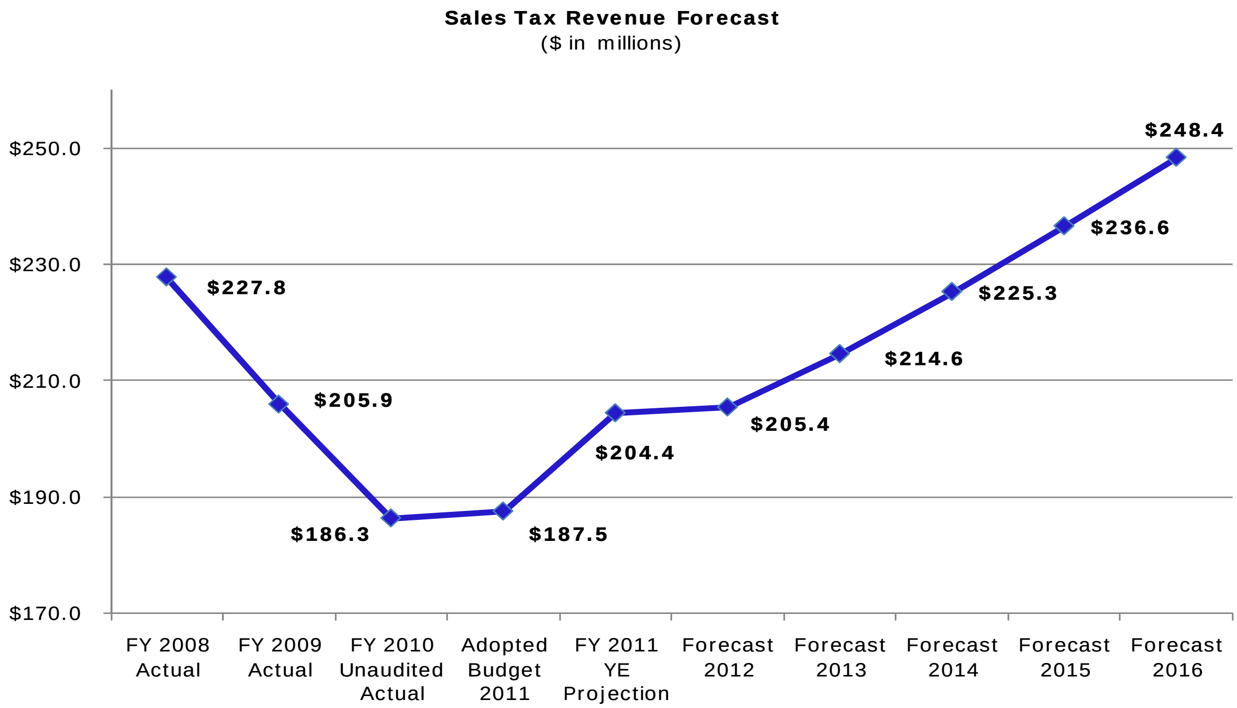
The following table and graph show amounts of sales tax receipts from FY 2008 through FY 2010, budgeted and projected amounts for FY 2011, and forecasted amounts for FY 2012-2016.

[1] MuniServices, LLC

($ in millions)

FY 2008 Actual	FY 2009 Actual	FY 2010 Unaudited Actual	Adopted Budget 2011	FY 2011 YE Projection	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
$227.8	$205.9	$186.3	$187.5	$204.4	$205.4	$214.6	$225.3	$236.6	$248.4
Growth [1]	-9.6%	-9.5%	0.6%	9.7%	2.4%	4.0%	5.0%	5.0%	5.0%

[1] Reflects projected growth in taxable sales for FY 2012-2016 and not a growth in revenue over prior year



Sales Tax Sensitivity Analysis

The sales tax sensitivity analysis reflects alternative economic recovery assumptions and presents a range of revenue scenarios that may occur if the recovery proceeds in a different manner than assumed in the Outlook. Similar to the property tax sensitivity analysis, applying a sensitivity analysis to sales tax revenue can create trends of growth rates in both ‘pessimistic’ and ‘optimistic’ scenarios, and indicate how these trends affect projected revenue receipts. The sales tax revenue sensitivity analysis assumed changes in taxable sales and consumer spending. Recovery in consumer spending has begun in FY 2011 and all three scenarios in the following table assume that this increase in consumer spending will continue.

The ‘pessimistic’ scenario assumes that continued high unemployment in the local and State economies will impact the size of the recovery as a double-digit unemployment rate continues through the rest of FY 2011 and into FY 2012, with a gradual recovery and stabilization below historical growth levels.

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

Sales Tax Sensitivity Analysis

($ in millions)

Scenario	Forecast FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
Pessimistic	$201.6 **2.0%**	$209.1 **3.0%**	$217.5 **4.0%**	$226.2 **4.0%**	$235.2 **4.0%**
Current Outlook	$205.4 **2.4%**	$214.6 **4.0%**	$225.3 **5.0%**	$236.6 **5.0%**	$248.4 **5.0%**
Optimistic	$209.8 **4.5%**	$221.2 **5.0%**	$234.5 **6.0%**	$248.6 **6.0%**	$263.5 **6.0%**

Safety Sales Tax

The FY 2012 safety sales tax projection is $6.5 million, a 2.4 percent increase over the FY 2011 year-end projection of $6.4 million. The marginal growth in forecasted safety sales tax revenue is based on the same factors as previously discussed in the sales tax section. The growth rates in safety sales tax mirror the sales tax growth rates in FY 2012-2016. The FY 2011 year-end projection of $6.4 million serves as the baseline for the FY 2012-2016 safety sales tax revenue forecast. The following table and graph show growth rates and amounts of safety sales tax receipts forecasted for FY 2012-2016.

$ in millions

FY 2011 Adopted Budget	FY 2011 YE Projection	Forecast FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
$6.3	$6.4	$6.5	$6.8	$7.1	$7.5	$7.9
Growth (1)	**-**	**2.4%**	**4.0%**	**5.0%**	**5.0%**	**5.0%**

(1) The growth may not reflect exact percentage growth due to rounding.

Transient Occupancy Tax

Growth in year-over-year transient occupancy tax (TOT) receipts since March 2010 has been encouraging and is reflective of the overall travel demand outlook for calendar years 2010 and 2011.

Nationwide for calendar year 2010, business travel was expected to grow by 4.4 percent over calendar year 2009, according to the most recent report from the San Diego Convention and Visitors Bureau (CONVIS). Leisure travel in calendar year 2010 was also expected to experience improvement and better than expected performance in overnight visits was expected to be realized[1]. Many tourists changed visits to overnight stays from day trips,

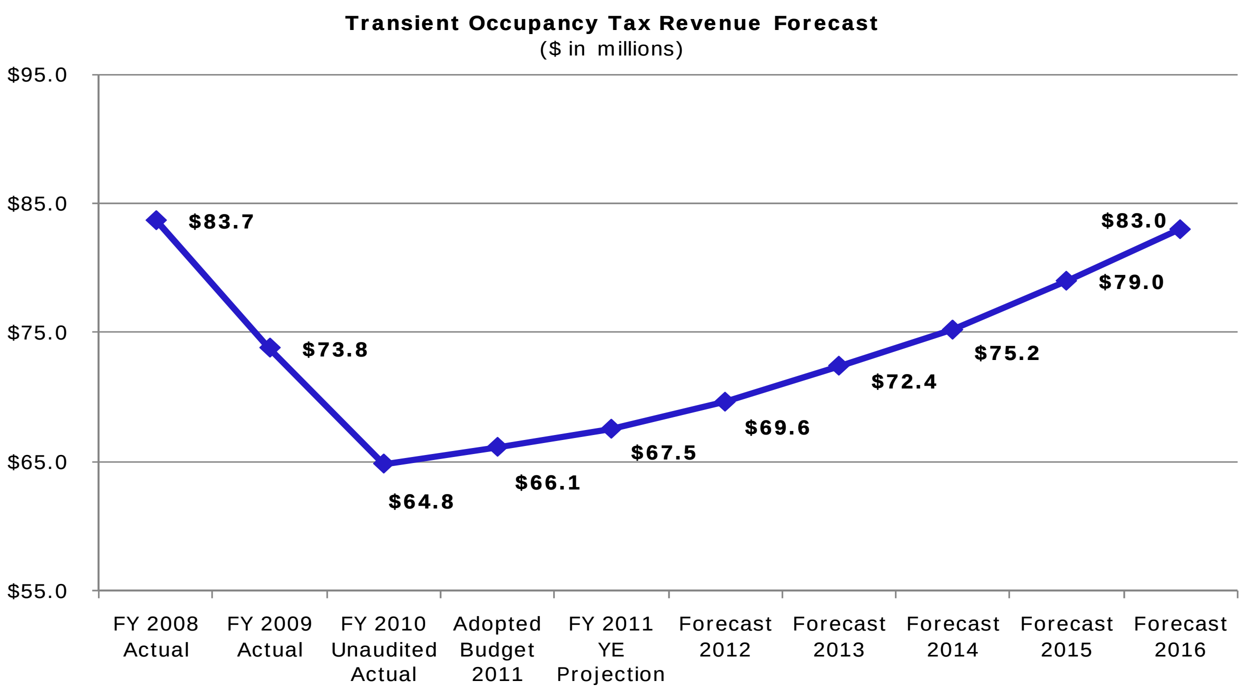
[1] 2010 Visitor Industry Performance Summary was not available at the time of preparation of this report

possibly incentivized by lower daily room rates. Stronger growth rate in travel is expected in calendar year 2011 as the economy comes out of the recession and continues to stabilize and strengthen. For the San Diego region, growth in room demand is expected to be 6.3 percent and 2.4 percent for calendar years 2010 and 2011 respectively, and overnight visits are expected to grow 4.2 percent and 2.3 percent during the same time frame. The improvement in room demand has an effect on room rates which have stabilized after a nearly two-year downturn. The average daily rate is expected to reach $127.6 in calendar year 2011, a 4.8 percent increase over the anticipated the calendar year 2010 ending level, which followed a 12.5 percent decline in calendar year 2009[1].

Forecasted General Fund TOT revenue for FY 2012 is $69.6 million ($132.8 million Citywide), an increase of 3.0 percent over the FY 2011 year-end projection of $67.5 million for General Fund ($128.9 million Citywide). TOT revenue is forecasted to improve annually after FY 2012 with 4.0 percent growth in FY 2013 and FY 2014, and then returning to historical growth rates of 5.0 percent in FY 2015 and FY 2016. The following table and graph show TOT receipts from FY 2008 through FY 2010, budgeted and projected amounts for FY 2011, and forecasted amounts for FY 2012-2016.

($ in millions)	FY 2008 Actual	FY 2009 Actual	FY 2010 Unaudited Actual	Adopted Budget 2011	FY 2011 YE Projection	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
General Fund	$ 83.7	$ 73.8	$ 64.8	$ 66.1	$ 67.5	$ 69.6	$ 72.4	$ 75.2	$ 79.0	$ 83.0
City-Wide	$ 159.3	$ 140.7	$ 123.2	$ 126.2	$ 128.9	$ 132.8	$ 138.1	$ 143.7	$ 150.8	$ 158.4
Growth (1)	-	-11.9%	-12.2%	2.0%	4.2%	3.0%	4.0%	4.0%	5.0%	5.0%

(1) The growth for FY 2012-2016 may not reflect exact percentage growth due to rounding.



[1] September 2010 Quarterly Travel Forecast, Tourism Economics

TOT Sensitivity Analysis

The TOT sensitivity analysis reflects alternative economic recovery assumptions and presents a range of revenue scenarios that may occur if the recovery proceeds in a different manner than assumed in the Outlook. Similar to the property tax and sales tax sensitivity analyses, applying a sensitivity analysis to TOT revenue can create trends of growth rates in both ‘pessimistic’ and ‘optimistic’ scenarios, and indicate how these trends affect projected revenue receipts. The growth in TOT revenue assumes continued increase in consumer and business spending on travel in the City throughout the forecast in all three scenarios.

The ‘pessimistic’ scenario assumes slow recovery in spending in both leisure and business travel in FY 2012 and FY 2013 as spending remains low due to high unemployment rate and reduced income.

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

Transient Occupancy Tax Sensitivity Analysis
($ in millions)

Scenario	Forecast FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
Pessimistic	$68.2 **1.0%**	$69.6 **2.0%**	$71.7 **3.0%**	$74.5 **4.0%**	$77.5 **4.0%**
Current Outlook	$69.6 **3.0%**	$72.4 **4.0%**	$75.2 **4.0%**	$79.0 **5.0%**	$83.0 **5.0%**
Optimistic	$70.2 **4.0%**	$73.8 **5.0%**	$77.4 **5.0%**	$82.1 **6.0%**	$87.0 **6.0%**

Franchise Fees

Franchise fees include payments from San Diego Gas and Electric (SDG&E) and cable television providers for the use of the City’s rights-of-way, in addition to refuse hauler fees paid to the City based on the total amount of refuse hauled annually. The FY 2011 revised revenue projection for franchise fee revenues is $68.1 million, an increase of $0.9 million over budgeted amounts due to increased cable television revenues through the first six months of FY 2011. All franchise fee revenues (including SDG&E and cable television, which make up 81.5 percent of budgeted franchise fees) are projected to grow at 2.5 percent in FY 2012 and 3.0 percent annually in FY 2013-2016. This growth rate is a conservative estimate based on historical growth rates.

($ in millions)

FY 2011 Adopted Budget	FY 2011 YE Projection	Forecast FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
$67.2	$68.1	$69.8	$71.8	$74.0	$76.2	$78.5
Growth [(1)]	-	**2.5%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**

[(1)] The growth may not reflect exact percentage growth due to rounding.

Motor Vehicle License Fees

The FY 2011 revenue projection for motor vehicle license fees (MVLF) is $2.8 million. The forecast for MVLF revenue in FY 2012 is $2.6 million, which is based on 5.0 percent growth over the FY 2011 year-end projection less $300,000 of additional MVLF fees budgeted in FY 2011. The $300,000 is the amount of penalties and interest from late payments made to the State which are distributed to local governments. This additional revenue of $300,000 is not expected to be received in FY 2012. The Outlook forecasts that MVLF revenues will continue to grow by 5.0 percent each year between FY 2013-2016. The forecast takes into consideration increasing Department of Motor Vehicle (DMV) administrative costs, which consume a larger share of the City's MVLF revenue allocation. The FY 2011 year-end revenue projection was reduced to reflect the State's increased administrative cost. Only a slight growth in MVLF revenue is forecasted between FY 2012-2016 due to the unpredictability of administration charges by the State that offset City revenue.

The FY 2011 year-end projection of $2.8 million serves as the baseline for the FY 2012-2016 MVLF revenue forecast.

FY 2011 Adopted Budget	FY 2011 YE Projection	Forecast FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
$ 3.9	$ 2.8	$ 2.6	$ 2.7	$ 2.8	$ 3.0	$ 3.1
Growth	-	**5%** [(1)]	**5.0%**	**5.0%**	**5.0%**	**5.0%**

Interest Earnings

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

For FY 2011, the General Fund budget for interest earnings is $1.7 million. For FY 2012, the interest earnings projection is $1.7 million increasing to $6.1 million in FY 2014 and beyond based on a potential improvement in the interest rate environment.

License and Permits

The Licenses and Permits revenue category is comprised of business license and rental unit taxes, parking meter revenue, and other permits, such as alarm and occupational licenses. The FY 2011 year-end projection is $29.0 million, which is a reduction of $2.6 million or 8.2 percent from the FY 2011 Adopted Budget. This reduction is due to a delay in bringing the Parking Utilization Plan (Plan) to City Council in FY 2011 and a revision of the revenue estimates. The purpose of this Plan is to implement demand pricing to increase utilization of meters, with the effect of increasing parking meter revenues. The Plan will be brought to Council with revised revenue projections, but until the Plan is implemented additional revenues have not been included in the Outlook. The $0.5 million reduction in FY 2012 from the FY 2011 year-end projection is due to the elimination of one-time revenues from business tax revenues included in FY 2011. No growth is expected in this revenue category for FY 2012-2016 based on historical trends.

Fines, Forfeitures, and Penalties

The Fines, Forfeitures, and Penalties revenue category includes parking citations, litigation awards, traffic school fees, impound fees, and other vehicle related citations. The FY 2011 revised projection in this revenue category is based on an increase of $1.6 million in parking citation revenue due to the pass-through of State mandated surcharges to the offender, which was previously paid from City revenues ($1.6 million assumes revenue generated through the second half of this fiscal year effective January 2011). This amount is projected to increase by $1.6 million in FY 2012 based on the full fiscal year revenue of $3.2 million. The parking citation revenue will fluctuate based on overall compliance and the number of citations issued. All other revenues included in this category are projected to remain flat for FY 2012-2016.

Revenue from Money and Property

The Revenue from Money and Property category includes rents and concessions from miscellaneous City-owned properties including Mission Bay, Pueblo Lands, and lease revenue generated from City-owned buildings. The FY 2011 Adopted Budget for this revenue category is $30.7 million from Mission Bay leases which included $4.3 million in one-time revenue (the transfer of fund balance from the Mission Bay Improvements Park Fund). This one-time revenue was eliminated from the FY 2012 projection, resulting in a 8.6 percent decline from FY 2011 Adopted Budget in this revenue category. The Mission Bay revenues are projected to grow annually at 2.0 percent between FY 2012-2016, while all other rents and concessions are projected to remain flat throughout FY 2012-2016.

Revenues from Federal and Other Agencies

The Revenues from Federal & Other Agencies category includes federal and State grants, and reimbursements to the City. The FY 2011 Adopted Budget for Revenue from Federal & Other Agencies is $2.2 million. No growth is forecasted for this revenue category for FY 2012-2016.

Charges for Current Services

The revenue forecasted in the Charges for Current Services category is comprised of charges for services provided to the public and other City funds. The major components in this category (in the FY 2011 Adopted Budget) are the Engineering Department's services to other City funds totaling approximately $37.0 million, $19.0 million in Park and Recreation Department's charges, and $21.0 million in general government services billings (GGSB). The remaining portion in this revenue category is miscellaneous departmental user fees such as recreational fees, inspection fees, and others. Growth for FY 2012-2016 in this revenue category assumes marginal growth in GGSB revenues paid into the General Fund and no increase in departmental revenues.

Other Financial Sources and Uses

The Other Financial Sources and Uses revenue category represents transfers to the General Fund from Non-General funds and other agencies. The major components in this category in the FY 2011 Adopted Budget are General Fund savings of $24.6 million carried from FY 2010 (one-time revenue), $9.5 million from undesignated fund balances from FY 2010 (one-time revenue), $11.8 million in the one-cent TOT revenue transfer from the TOT Fund, and approximately $65.5 million of transfers to miscellaneous General Fund departments.

The reduction in the Other Financial Sources and Uses revenue category in FY 2012 is mainly attributed to a decrease in one-time transfers in FY 2011 described above (the $24.6 million in savings from FY 2011 and a $9.5 million release of undesignated fund balances), as well as the elimination of $3.4 million in the debt service payment for the 1996A Certificates of Participation for the Balboa Park/Mission Bay Improvements Program due to the maturity of the Certificates in FY 2011. No growth is projected in this revenue category with the exception of growth in TOT and changes in departmental revenues.

Other Revenue

The Other Revenue category is mainly comprised of donations, unclaimed monies, and other miscellaneous revenues and was budgeted at $2.5 million in FY 2011. One-time revenues of $0.1 million are eliminated in FY 2012 for a total revenue projection of $2.4 million. No growth is expected in this revenue category for FY 2012-2016.

GENERAL FUND EXPENDITURES

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

Salaries and Wages

There is a minor projected growth in salaries and wages between FY 2012 and FY 2016. In FY 2012, salaries and wages are projected at $478.3 million, which is a $1.7 million increase over FY 2011 budgeted levels. In fiscal years prior to FY 2011, estimated vacancy savings were factored into the current year's budget based upon an anticipated percentage of vacant positions. Starting in FY 2011, with the implementation of the Human Capital Management module of SAP and the new Public Budget Formulation System, the City has the tools to more accurately budget personnel expenditures based on actual salary expenditures. This new methodology to calculate vacancy savings was first used in FY 2011 Adopted Budget. The methodology overestimated savings in some departments due to a higher than normal number of vacant positions. As such, the salaries and wages budget in FY 2011 was understated by approximately $1.7 million. Staff will fully evaluate salary expenditures across all General Fund departments as part of the FY 2011 Mid-Year Budget Monitoring Report. The FY 2012 budget will include any necessary adjustments to incorporate actual expenditure trends in FY 2011 and an adjusted vacancy factor if required.

Salary Annual Leave

While a portion of future leave liability expense has been absorbed in departmental budgets, there is a large number of employees with high leave balances expected to retire over the next several years. The FY 2011 Adopted Budget includes $1.9 million for this expense and is based on anticipated retirements from the Deferred Retirement Option Plan (DROP) within the fiscal year and the projected value of the accrued leave balance that is paid upon termination of employment. The projection for FY 2012 is $2.1 million, and is forecasted to increase to $6.3 million in FY 2014 and decline to $1.6 million in FY 2016, based on the expected number of retirees. Fluctuations are due to the number of employees eligible to retire each year.

The FY 2011 Adopted Budget and FY 2012-2016 forecast for the City's salary annual leave payments are presented in the following table.

($ millions)	FY 2011 Adopted Budget	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
Salary Annual Leave	$ 1.9	$ 2.1	$ 3.0	$ 6.3	$ 4.1	$ 1.6

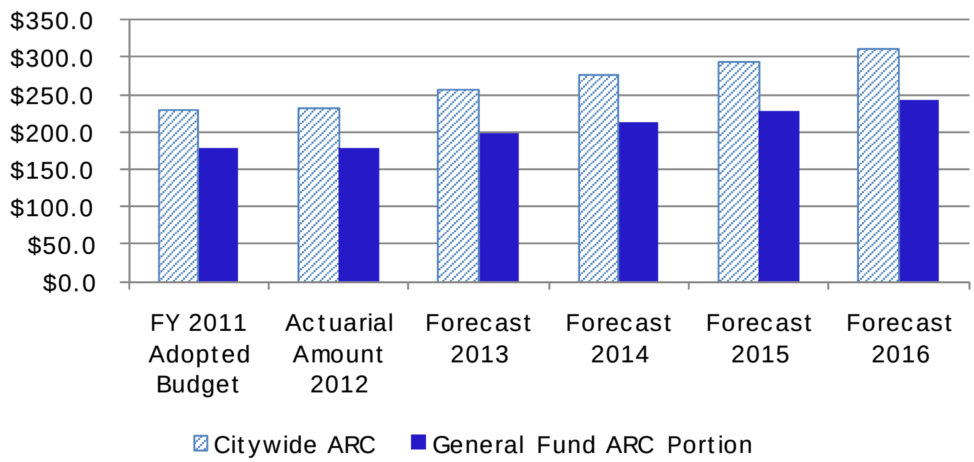
Retirement

The City's FY 2011 Annual Required Contribution (ARC) payment is $229.2 million (as determined by the June 30, 2010 valuation by the San Diego City Employees' Retirement System (SDCERS) actuary), with $177.6 million budgeted in the General Fund. Based on estimates from the SDCERS actuary, the Citywide FY 2012 ARC payment is expected to be $231.2 million, of which $179.2 million is the General Fund budgeted contribution. The ARC payment increases to $312.5 million Citywide by FY 2016 with the General Fund contribution expected to be $242.2 million.

The FY 2011 Adopted Budget and FY 2012-2016 forecast for the City's ARC payments are presented in the following table.

($ millions)	FY 2011 Adopted Budget	Actuarial Amount 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
Citywide ARC	$229.2	$231.2	$256.6	$276.2	$294.7	$312.5
General Fund ARC Portion	$177.6	$179.2	$198.9	$214.1	$228.4	$242.2

Retirement ARC Contributions
(in millions)



Other Post-Employment Benefits

Other Post-Employment Benefits (OPEB) represent the cost for retiree healthcare. The City has been prefunding future liabilities in addition to funding the pay-as-you-go portion that provides for annual healthcare coverage for City retirees. As of the June 30, 2010 actuarial valuation, the FY 2012 OPEB annual required contribution (ARC) is $98.5 million for the City's post-retirement medical benefit program. The valuation assumed a 6.7 percent discount rate and calculated a total actuarial accrued liability of $1.3 billion[1]. The FY 2011 OPEB ARC is budgeted at $57.8 million. The Outlook assumes no growth in retiree health payments in FY 2012-2016.

($ millions)	FY 2011 Adopted Budget	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
Citywide OPEB	$57.8	$57.8	$57.8	$57.8	$57.8	$57.8
General Fund OPEB portion	$40.2	$40.2	$40.2	$40.2	$40.2	$40.2

Fringe Benefits

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

Flexible Benefits

Flexible Benefits is an Internal Revenue Service (IRS) qualified plan designed to allow employees to choose their health benefits. Costs are fixed by position, and total flexible benefit costs vary as the number of positions changes. In FY 2011, $37.7 million was budgeted in flexible benefits. Growth is not expected between FY 2012-2016 under the assumption that growth in positions will be limited.

[1] Buck Consultants report, November 12, 2010

Supplies, Contracts, Information Technology, Energy / Utilities

All non-personnel expenditures can be classified into the five expenditure categories of supplies, contracts, information technology (IT), energy and utilities, and other (discussed below). The FY 2011 Adopted Budget for these categories totals $242.6 million. No inflationary growth is forecasted for any expense category with the exception of a 5.0 percent growth rate for energy and utilities due to rising energy prices and gasoline costs. Supplies, contracts, and information technology expenditures include slight increases associated with departmental contractual agreements and other mandated expenses for FY 2012-2016.

Other Expenditures

Expenses categorized in this section include transfers for debt service payments and other required payments for General Fund obligations. Transfers in this expense category include a $15.1 million public liability claims fund transfer, a $4.1 million transfer to appropriated reserve, $3.4 million in transfers to Mission Bay/San Diego Regional Park Improvements Funds, $2.8 million in capitalized lease payments for Fire and Police helicopters, and others.

Also included in this expenditure section are General Fund departmental expenditures for FY 2012 which include increases to the City's preservation of benefits payment, property tax administration fees paid to the County, Citywide one-time expenses for redistricting, and fees charged to General Fund departments for purchases and maintenance of vehicles for the City fleet. No inflation rate is applied to this expenditure category in the Outlook.

This category also includes funding for deferred capital project debt service for capital improvements (repairs of City facilities as well as repairs and improvements to streets, sidewalks, and storm drains). The City continues to address a backlog of deferred projects estimated to be $800 - $900 million with future issuances of bonds to address deferred capital projects expected in FY 2012 and FY 2015.

The City refunded Deferred Capital Improvement Lease Revenue Bonds in FY 2010 under the 2010A Master Refunding Bonds issuance and expects to issue new bonds in FY 2012 and FY 2015 of approximately $100 million per issuance. Both issuances are projected to be structured so that debt service payments begin in FY 2013 and FY 2016. Total projected debt service for capital project bonds are as follows:

Annual Debt Service ($ millions)

Deferred Capital Project Bonds	FY 2011 Adopted Budget	Forecast FY 2012	Forecast FY 2013	Forecast FY 2014	Forecast FY 2015	Forecast FY 2016
2010A Master Refunding Bonds [1]	$ 6.9	$ 7.4	$ 7.3	$ 7.3	$ 7.3	$ 7.3
2012 Projected Issuance	-	-	$ 7.4	$ 7.4	$ 7.4	$ 7.4
2015 Projected Issuance	-	-	-	-	-	$ 7.4
Total	**$ 6.9**	**$ 7.4**	**$ 14.7**	**$ 14.7**	**$ 14.7**	**$ 22.1**

[1] The 2010A Master Refunding Bonds includes Deferred Capital Improvements Lease Revenue bonds, Qualcomm Stadium bonds and Balboa Park bonds; however, this table reflects only the deferred Capital Improvements Lease Revenue bonds.

The amount budgeted for debt service in FY 2011 is $6.9 million for existing bonds that have been refunded with the issuance of the 2010A Master Refunding Bonds listed above. The FY 2012 and FY 2015 issuances are approximately $100 million in principal per issuance, each payable over a 30-year term. The amount of deferred maintenance debt service included in this expenditure category in each fiscal year of the Outlook reflects the incremental increase of debt service over the $6.9 million budgeted in FY 2011.

Outside Legal

The $2.5 million in outside legal expenses in FY 2012 included in the Outlook consists of $1.5 million in expected litigation expenses related to the Kinder Morgan litigation and $1.0 million in contingency for outside legal expenses. The City has retained an outside legal litigation counsel against energy company Kinder Morgan to recover damages for environmental contamination of City-owned and Public Utilities Enterprise Fund-owned lands located at Qualcomm Stadium, and water contamination of an aquifer in Mission Valley. The cost for the retention of outside counsel in FY 2011 and FY 2012 is expected to total $3.0 million. This cost will be shared equally by the City's General Fund and the Public Utilities Enterprise Fund. The Public Utilities Enterprise Fund will pay $1.5 million for expenses in FY 2011, while the City's General Fund will pay the remaining $1.5 million in FY 2012. The continuing $1.0 million is a contingency for other outside legal expenses.

General Fund Reserves

The City's Reserve Policy was established to demonstrate the City's desire to restore and maintain its financial standing and credit worthiness to bond rating agencies and the financial community; to potentially reduce borrowing costs; and to ensure all major funds have reserve levels adequate to withstand the economic impact of unanticipated events such as natural disasters, reductions in revenues caused by other agencies, and events such as September 11,

2001. These events not only impacted revenues as travel and consumer spending decreased, but also led to increased costs for needed security and safety responses to a potential threat.

The City's Reserve Policy requires that the General Fund reserves equal 8.0 percent of General Fund revenues by FY 2012. The FY 2011 Budget included a one-year suspension of the annual incremental increase of 0.5 percent to the General Fund reserve for FY 2011. As a result, the Reserve Policy requirement for the General Fund reserve of achieving 8.0 percent in FY 2012 was delayed to FY 2013. The contribution to the General Fund reserve in FY 2012 reflects 7.5 percent of the total General Fund revenues.

The FY 2012-2016 Outlook includes a contribution of $3.5 million in FY 2012 to reach the required target rate of 7.5 percent. The amount of the contribution may change depending on the closing of FY 2010 as mentioned in the ***Forecast Scope and Approach*** section. The following table outlines projected contributions to meet the General Fund Reserve Policy goal of 8.0 percent in FY 2013 and beyond.

($ millions)	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
Operating Revenue	$1,077	$1,104	$1,138	$1,175	$1,212
Reserve Policy Target	7.5%	8.0%	8.0%	8.0%	8.0%
General Fund Contribution to Reserves	$3.5	$7.5	$2.8	$2.9	$3.0

The City's Revised Reserve Policy was presented to the Budget and Finance Committee in the fall of 2010. The City's Reserve Policy is currently being revised to reflect the targets described in this section.

Public Liability Fund Reserve

The City continues with the Reserve Policy goal to build sufficient reserves to pay outstanding and forecasted obligations, similar to the Workers' Compensation Fund Reserve. The City's most recent assessment of the average outstanding public liability is currently estimated at $114.5 million.

The City's Reserve Policy calls for 50.0 percent of the average value of the outstanding actuarial liability to be placed in reserves by FY 2018. The Outlook assumes a contribution of $5.7 million to the Public Liability Fund Reserve for FY 2012. The following table demonstrates the reserve goals and annual contributions forecasted in the FY 2012-2016 Outlook. The contributions for FY 2012-2016 needed to meet the reserve targets for FY 2012-2016 are forecasted as follows:

($ millions)	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
Public Liability % Target	20.0%	25.0%	30.0%	35.0%	40.0%
General Fund Contribution	$5.7	$5.7	$5.7	$5.7	$5.7

Workers' Compensation Fund Reserve

The City works to build sufficient reserves to pay accrued and forecasted liabilities, based on annual valuation reports prepared by an independent actuary. The City's Workers' Compensation liabilities are estimated based on changes in claims and updated actuarial information. Per the City's Reserve Policy, the annual reserve contributions are set biennially based on the average actuarial valuations for the three prior fiscal years. Based on the latest estimate, there is an average outstanding liability of $155.0 million in Workers' Compensation for claims Citywide.

According to the City's Reserve Policy, dedicated reserves equal to 50.0 percent of the value of outstanding claims shall be placed in reserves by FY 2018. The following table demonstrates the total annual reserve contribution forecasted in the FY 2012-2016 Outlook to meet the workers' compensation reserve goal.

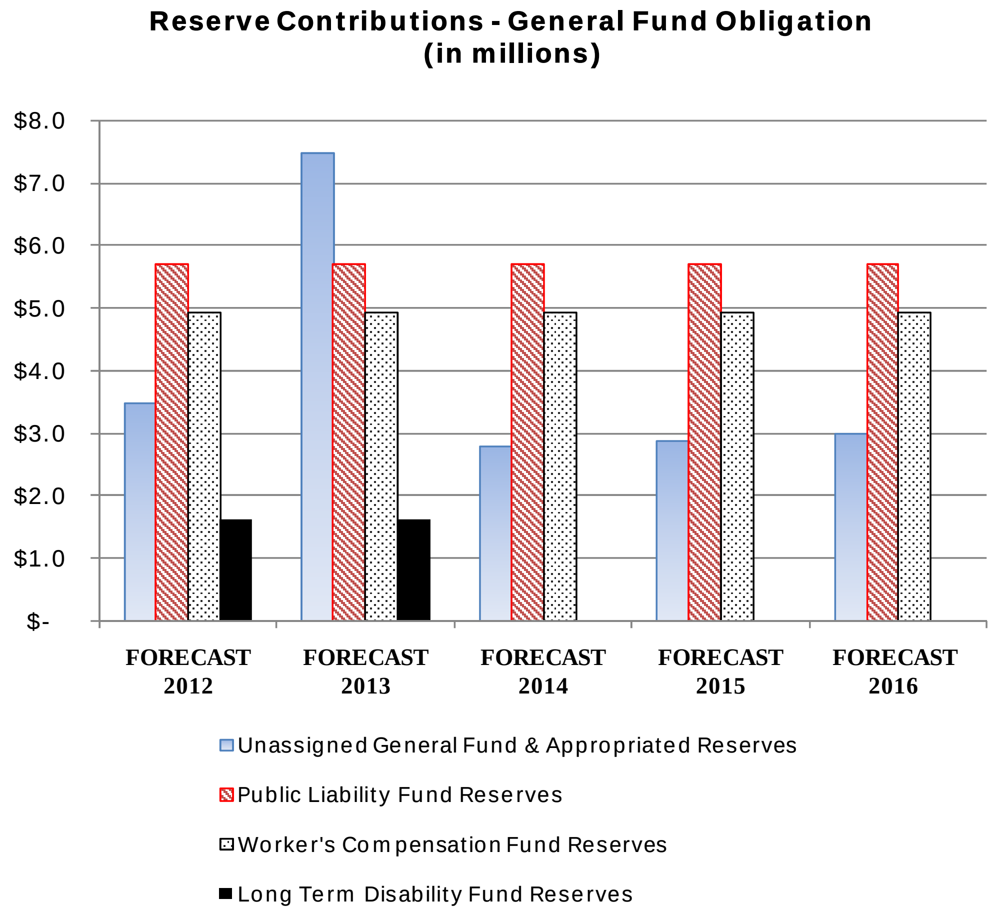
($ millions)	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
Workers' Compensation % Target	26%	30%	34%	38%	42%
City Contribution	$6.2	$6.2	$6.2	$6.2	$6.2
General Fund Portion	$4.9	$4.9	$4.9	$4.9	$4.9

Long Term Disability Fund Reserve

The City's Long Term Disability Fund Reserve Policy target of $12.0 million is anticipated to be achieved by FY 2013. Contributions to the fund reserve are forecasted at $2.3 million for FY 2012. Contributions to the fund reserve continue into FY 2013 and then cease in FY 2014. The negative amount listed in FY 2014 and beyond in **Attachment I** is based on the elimination of this expense that was included in the FY 2011 base budget.

($ millions)	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
City Contribution	$2.3	$2.3	-	-	-
General Fund Portion	$1.6	$1.6	-	-	-

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



McGuigan Settlement

The settlement between the City of San Diego and William J. McGuigan (also known as the "McGuigan Settlement") is another expenditure commitment for the City for four years. Under this settlement, the City was obligated to pay $173.0 million into SDCERS by June 2011 to address previous underfunding, which occurred between 1996 and 2005. The McGuigan Settlement was modified, as approved by the City Council on March 9, 2010, allowing the City to prepay to SDCERS approximately $38.3 million, the remaining settlement balance as of June 30, 2010. Under the terms of the modification and in order to direct a final payment to

SDCERS, the City made a cash payment of approximately $5.5 million and financed the balance, approximately $32.8 million, through a third party financial institution. The City will make four annual payments related to the financing of approximately $9.0 million in FY 2012 through FY 2015. The General Fund's proportionate share of these payments total approximately $7.9 million annually.

Transfer to San Diego Regional Park & Mission Bay Park Improvement Funds

The Mission Bay Ordinance sets the minimum threshold amount of Mission Bay rents and concession revenues that are to be placed into the General Fund for use in any municipal purpose without restriction at $23.0 million. Pursuant to public action on a November 2008 ballot measure, this threshold will remain at the same level until FY 2015, at which time it will be reduced to $20.0 million. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Park Improvements Fund and the Mission Bay Park Improvements Fund each year. The amount budgeted for transfer into these funds in FY 2011 is $3.4 million based on projected revenue from Mission Bay lease revenue. **Attachment I** shows the incremental amount over the FY 2011 Adopted Budget. The large increase in the projected transfer in FY 2015 is due to the decrease in this General Fund minimum threshold of $23.0 million to $20.0 million and the anticipated growth in Mission Bay lease revenue.

($ millions)	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
Transfer to San Diego Regional Park and Mission Bay Park	$3.9	$4.4	$5.0	$8.5	$9.1

Quiet Zone Maintenance

A Quiet Zone will be established in downtown San Diego at railroad tracks and crossings (Park Boulevard to Laurel Street) in an effort to increase safety and limit noise from train horns in residential areas. Safety enhancements such as additional gates, medians, traffic signals, and warning lights will be installed at railroad crossings within the Quiet Zone. Completion of the project is expected in the winter of 2012. Annual maintenance costs will be required upon project completion; $0.1 million is forecasted annually for General Fund maintenance in FY 2012-2016 for such costs.

Storm Water Runoff Compliance

Compliance with federal and State of California storm water regulations imposes an expenditure obligation on the City. In FY 2011, $35.2 million was budgeted for the Storm Water Department.

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

The actual needs and funding requirements for storm water compliance are currently under review, and if these do not align with the level of funding currently budgeted, a potential budget adjustment may take place.

CONCLUSION

The FY 2012-2016 Outlook identifies structural challenges facing the City in the upcoming fiscal years. The Mayor has committed to bring the Five-Year Financial Outlook into balance by FY 2013. The FY 2012 budget will be balanced through a combination of organizational restructures, one-time cost savings, the implementation of the ten fiscal reforms called for in Proposition D, and cuts in City services that are expected to impact every department.

The ten fiscal reforms and their current status are as follows:

1. Eliminate employee retirement offsets for elected officials and unrepresented City employees. Status: Completed.
2. Adopt a managed competition guide for various City services. Status: Guide completed, two managed competition processes underway (see below).
3. Complete a DROP cost neutrality study. Status: completed.
4. Solicit requests for qualifications to assume operations of the Miramar Landfill. Status: Underway
5. Eliminate terminal leave for all City employees. Status: Subject to meet and confer - reached tentative agreements with bargaining units subject to ratification.
6. Reduce retirement offset costs for represented City employees. Status: Subject to meet and confer - ongoing.
7. Reduce retiree healthcare liability. Status: Subject to meet and confer - ongoing.
8. Solicit proposals to provide City information technology services. Status: Underway
9. Establish a second tier pension plan for new firefighters. Status: Subject to meet and confer - ongoing.
10. Adopt an ordinance for a voluntary defined contribution pension plan for City employees. Status: Subject to meet and confer - ongoing.

The managed competition guide (reform #2) has been completed, and managed competition processes are currently underway for publishing and fleet maintenance services. It is estimated that the City may save $100,000-$200,000 in FY 2012, and between $2.75 million-$7.0 million annually in FY 2013 and beyond. In addition, managed competition processes will soon be initiated for public utilities, street sweeping, sidewalk and street pavement maintenance, and traffic pavement markings. It is estimated that savings of $1.75 million to $4.5 million annually may be realized in FY 2013 and in future years as a result.

In addition to the ten fiscal reforms, department consolidations and organizational flattening will generate future savings to the City. These savings will be evaluated and incorporated into the FY 2012 Proposed Budget to the extent possible. While all of the reforms and organizational efforts will produce significant future savings, several reforms may not be completed in time to offset the FY 2012 projected budget deficit of $56.7 million. Therefore, wide-ranging service reductions will be needed to balance the FY 2012 budget. These solutions and any additional ongoing solutions identified would address projected future deficits as well.

REVISED ATTACHMENT I

FISCAL YEAR 2012 - 2016 FIVE YEAR FINANCIAL OUTLOOK

GENERAL FUND REVENUES	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Property Tax (Includes Transfer Tax)	$ 391.5	$ 399.6	$ 411.9	$ 428.6	$ 446.1
Sales Tax (Includes Safety Sales Tax)	211.9	221.4	232.4	244.1	256.3
Transient Occupancy Tax	69.6	72.4	75.2	79.0	83.0
Franchise Fees	69.8	71.8	74.0	76.2	78.5
Motor Vehicle Licensing Fees	2.6	2.7	2.8	3.0	3.1
Interest Earnings	1.7	4.1	6.1	6.1	6.1
Licenses & Permits	28.5	28.5	28.5	28.5	28.5
Fines, Forfeitures, and Penalties	36.0	36.0	36.0	36.0	36.0
Revenue from Money & Property	39.9	40.4	40.9	41.5	42.1
Revenue from Federal & Other Agencies	2.2	2.2	2.2	2.2	2.2
Charges for Current Services	147.0	147.4	147.9	148.3	148.8
Other Financial Sources & Uses	73.7	74.7	78.0	78.6	79.4
Other Revenue	2.4	2.4	2.4	2.4	2.4
TOTAL GENERAL FUND REVENUES	**$ 1,076.7**	**$ 1,103.6**	**$ 1,138.4**	**$ 1,174.6**	**$ 1,212.4**

GENERAL FUND EXPENSES	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Salaries & Wages	$ 478.3	$ 479.8	$ 480.3	$ 480.7	$ 480.9
Salary Annual Leave	2.1	3.0	6.3	4.1	1.6
Retirement (1)	179.2	198.9	214.1	228.4	242.2
Employee Offset Savings	9.2	9.2	9.2	9.2	9.2
OPEB/Retiree Health	40.2	40.2	40.2	40.2	40.2
Fringe Benefits	46.5	46.7	46.7	46.8	46.8
Flexible Benefits	37.8	37.9	37.9	38.0	38.0
Supplies	22.5	22.7	23.0	23.1	23.1
Contracts	161.0	163.7	164.8	162.0	161.8
Information Technology	25.9	25.9	26.8	26.2	26.0
Energy/Utilities	34.6	36.4	39.3	40.4	42.4
Other	70.4	74.4	74.6	73.0	83.6
TOTAL GENERAL FUND EXPENSES	**$ 1,107.7**	**$ 1,138.8**	**$ 1,163.2**	**$ 1,172.1**	**$ 1,195.8**

INCREMENTAL EXPENDITURE ADJUSTMENTS*	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Outside Legal	$ 2.5	$ 1.0	$ 1.0	$ 1.0	$ 1.0
General Fund Reserves (2)	3.5	7.5	2.8	2.9	3.0
Public Liability Fund	5.7	5.7	5.7	5.7	5.7
Workers' Compensation Fund	4.9	4.9	4.9	4.9	4.9
Long Term Disability Reserve (3)	-	-	(1.6)	(1.6)	(1.6)
McGuigan Settlement	7.9	7.9	7.9	7.9	-
Transfer to SDRPI Fund & MBPI Fund (4)	0.5	1.1	1.6	5.2	5.7
Quiet Zone Maintenance	0.1	0.1	0.1	0.1	0.1
INCREMENTAL REVENUE ADJUSTMENTS *	**Fiscal Year 2012**	**Fiscal Year 2013**	**Fiscal Year 2014**	**Fiscal Year 2015**	**Fiscal Year 2016**
Special Promotional TOT Revenue Change (5)	0.7	(1.4)	7.7	9.6	6.6
TOTAL INCREMENTAL ADJUSTMENTS	**$ 25.8**	**$ 26.8**	**$ 30.0**	**$ 35.6**	**$ 25.4**
TOTAL SURPLUS / (DEFICIT)	**$ (56.7)**	**$ (61.9)**	**$ (54.9)**	**$ (33.1)**	**$ (8.8)**

* Reflects incremental adjustments over FY 2011 Adopted Budget

(1) Based on $231 million total City contribution.

(2) Reflects 7.5% in FY 2012 and 8.0% in FY 2013 and beyond.

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

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

(5) Negative values represent additional TOT revenue, positive values represent required additional support to meet current special promotional funding levels.