
General Fund
Five Year Forecast: 2007-12

Best Fiscal Outlook in Many Years

December 2006



city of san luis obispo

General Fund Five Year Forecast: 2007-12

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General Fund Five Year Forecast: Introduction

SUMMARY OF FORECAST FINDINGS

The purpose of this forecast is to assess the General Fund's ability over the next five years—on an “order of magnitude” basis—to do three things:

1. Deliver current service levels.
2. Maintain our existing infrastructure and facilities based on past funding levels.
3. Preserve our long-term fiscal health by aligning operating revenues and costs, and maintaining fund balance at policy levels.

The forecast does this by projecting likely revenues and subtracting from them operating costs, debt service and maintenance of *existing* assets (equipment, facilities and infrastructure). If positive, the balance remaining is available to fund “new initiatives;” if negative, it shows the likely “budget gap” if all we do is continue existing service levels and an already reduced level of infrastructure maintenance.

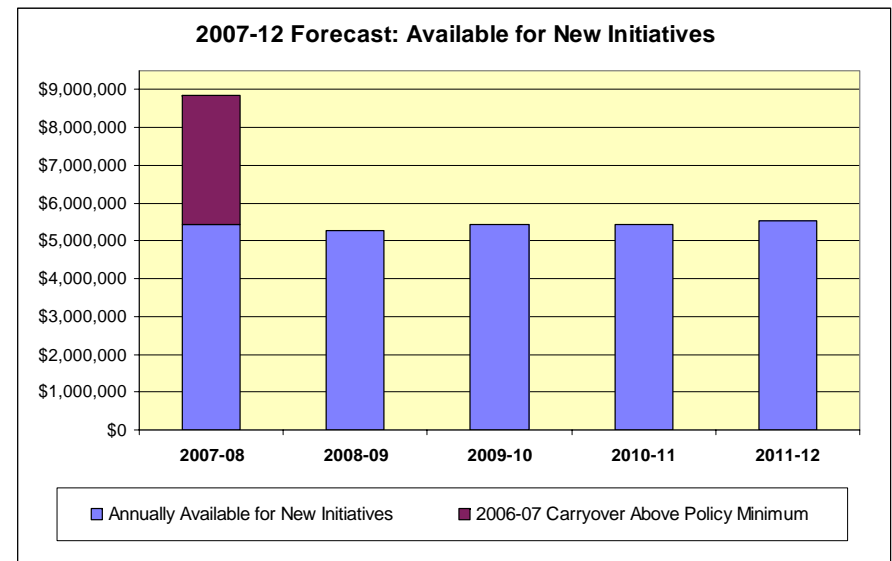
Best Fiscal Outlook in Many Years

Consistent with the *General Fiscal Outlook* presented to the Council on November 16, 2006, the forecast concludes that we enter 2007-09 facing our best fiscal outlook in many years due to three key factors:

1. **Passage of Measure Y.** This ½-cent sales tax measure was adopted with 65% voter approval on November 7, 2006. We estimate that it will generate \$4.5 million in added General Fund revenues beginning in 2007-08.
2. **Structural Budget Balance.** With the actions we have taken beginning in 2002, we have achieved “structural budget balance” for the long-term. This means that the added revenues from Measure Y will not be required simply to forestall even greater cuts, but can be used for service restorations and new initiatives, based on the goals that emerge during the City's budget process.

3. **Strong Financial Condition.** Because of our prudent planning and budget balancing actions, we will go into the 2007-09 Financial Plan process with strong reserves that are above our minimum policy level. While this is a “one-time” source, it can appropriately be used for one-time purposes like facility and infrastructure improvements to our streets, storm drains and parks.

The forecast shows that we have come a long way from the General Fund budget gap of \$7 million that confronted us in 2003-05 (about 20% of General Fund revenues at the time); and the \$2.1 million gap that confronted again two years ago in 2005-07.



As reflected above, based on continuing to fund the Capital Improvement Plan (CIP) at the same annual level as in 2005-07 (which reflected significant reductions from past levels) and continuing current day-to-day service levels, we are looking at an “order of magnitude” ability to consider service restorations or new initiatives, of about \$5.5 million annually; and an additional “one-time” capacity to fund “one-time” things of about \$3.5 million in 2007-09, due to strong ending reserves in 2006-07 above our fund balance policy minimum (20% of operating expenditures) that carryover into 2007-09.

General Fund Five Year Forecast: Introduction

These results are directly driven by key revenue, expenditure and fund balance assumptions, which are discussed in detail in this report.

The Good News

Following five years of cutbacks – which were essential in balancing the budget and placing us in the favorable condition we are in today – we are now in a position to consider service restorations or new initiatives, based on the priorities that emerge from the budget process.

But Tough Policy Decisions Remain

The combination of a structurally balanced budget, strong reserves and the passage of Measure Y go a long way in improving our ability to fund community priorities. However, tough *policy* decisions will remain.

On one hand, we certainly have more resources to address community needs; on the other hand, they are not unlimited. Placed in context, Measure Y represents an increase of about 10% in General Fund resources. Obviously, this improves our funding capacity, but we still have to identify our highest priorities and make wise resource choices accordingly.

And in many ways, this will make the policy environment in making resource decisions more difficult than when times were fiscally tougher: instead of “just saying no,” we will be able to say “yes” to some things – but not *everything*.

In short, even with our improved fiscal situation, significant challenges remain ahead of us in answering the fundamental policy questions posed by the budget process: of all the things we want to do in making our community an even better place to live, work and play, which are the most important? And what are the resource trade-offs we have to make to do them?

FORECAST PURPOSE

It is important to stress that this forecast is not a budget.

It doesn't make expenditure decisions; it doesn't make revenue decisions. Its sole purpose is to provide an “order of magnitude” feel for our ability to

Can we afford new initiatives? This is a basic question of priorities, not of our financial capacity.

continue current services, maintain our existing assets and fund new initiatives. Ultimately, this forecast cannot answer the question: “can we afford new initiatives? This is a basic question of priorities, not of our financial capacity.

However, the forecast shows that we will no longer be facing the cutbacks of the past; and that we can consider some new initiatives in 2007-09.

This forecast also helps identify the key factors affecting our fiscal outlook. Moreover, while the forecast doesn't make budget decisions, it gives us an early “heads-up” in assessing how difficult making these priority decisions will be.

WHERE WE'VE BEEN

Past Fiscal Challenges and Budget Balancing Actions

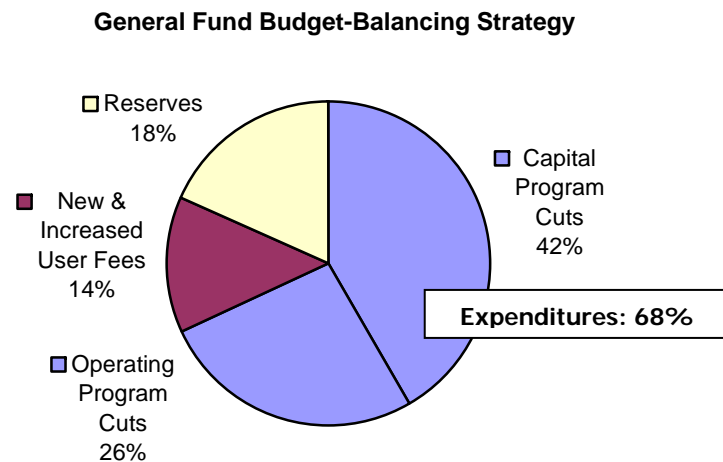
The City has faced continued fiscal challenges for the last five years. On the heels of closing a \$7 million General Fund budget gap in 2003-05 – and another \$1.4 million the following year – we were faced with a \$2.1 million gap in 2005-07, largely due to continued State takeaways.

For 2005-07, we were successful in preparing a Financial Plan that reasonably balanced the delivery of core services with the resources available to us. However, achieving this balance required service reductions in all areas of the City's operations, including public safety and basic infrastructure maintenance.

General Fund Five Year Forecast: Introduction

The following chart summarizes the strategy we have used beginning in 2002 to close budget gaps, which consisted of:

1. Strategic use of reserves.
2. Further reductions in capital and operating program costs and related service levels (including cutting over 25 positions).
3. Implementation of selected new revenues as allowed under Proposition 218.



As reflected in this chart, expenditure cuts accounted for about 70% of our budget balancing strategy. This reflects reductions like a 50% cut in infrastructure maintenance – including 67% cut in paving – and a reduction of 25 full-time equivalent positions, including sworn police officers.

Importance of the Passage of Proposition 1A Two Years Ago. The passage of Proposition 1A two years ago on November 2, 2004 significantly improves our fiscal situation by shielding us from more State budget raids, and thus provides us with greater certainty and stability on this front than we’ve experienced in many years. It also provides added assurance that the new revenues from Measure Y are protected from State takeaways, and will remain local revenues. On the other hand, it is

important to stress that it only helps prevent *added* State budget cuts to cities *in the future*: it doesn’t return *any* past takeaways, which currently cost the City over \$3 million each and every year (and total over \$22 million over the past fifteen years).

KEY BUDGET DRIVERS AFFECTING OUR FISCAL OUTLOOK

① Favorable Revenue Outlook

We are generally facing a favorable revenue outlook for reasons:

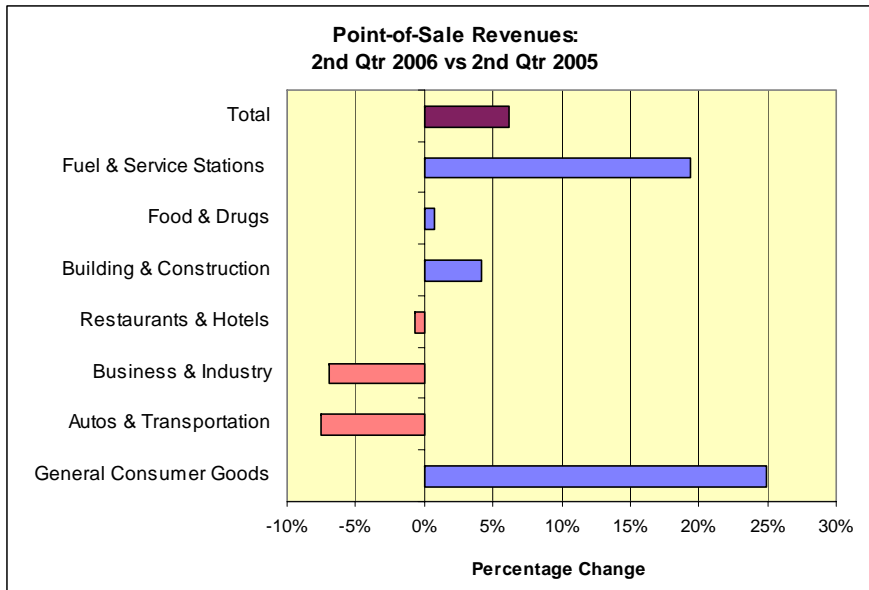
1. New revenues from Measure Y of \$4.5 million annually beginning in 2007-08.
2. Continued strong growth in property tax revenues, our “Number 2” General Fund revenue source.
3. Modest growth in sales tax and transient occupancy tax (TOT), based on projections for new outlets in 2007-09.
4. New revenues from Proposition 42 and Proposition 1B, averaging about \$650,000 annually over the next five years.

Sales tax, property tax and TOT and are the City’s top three General Fund revenues, accounting for about two-thirds of all funding sources. While property tax revenues continue to perform well, the outlook sales tax and TOT revenues show is more uncertain.

Sales Tax. The most recent quarters for which we have underlying sales tax data reflect mixed signals: both quarters show gains in gas station and building supply sales (largely driven by Home Depot) and general consumer goods (largely driven by Costco and the Court Street Center).

However, both auto sales (our “Number 2” sales tax source after general consumer goods) and business-to-business sales show decreases. The following compares results for the second quarter of 2006 (the most recent quarter for which this information is available) compared with the same quarter for 2005:

General Fund Five Year Forecast: Introduction



As shown above, the strong increases in service stations and general consumer goods were able to offset declines in autos and business-to-business sales. However, the added revenues from new outlets are now part of our “base;” and continued decreases in auto sales, given the financial difficulties facing Ford and General Motors, are likely. Moreover, decreases in fuel sales are also likely in the future.

Adding to the uncertain outlook for sales tax revenues is the impact of “pool revenues,” which are largely driven by sales “business-to-business” sales at the Diablo Canyon power plant. As described in the *Historical Trends* section of the forecast, these account for 10% to 15% of our sales tax revenues, and they can be highly volatile. For these reasons, we are projecting modest annual increases in our “base” sales tax revenues of 2% in 2006-07 and 2.5% annually thereafter.

However, we are projecting adding revenues to this base from the following three new outlets:

New Retail Outlets

	Year and Amount Added to the “Base”				
	2007-08	2008-09	2009-10	2010-11	2011-12
Irish Hills Retail	150,500				
Airport Area Annexation		150,000	100,000	100,000	100,000
Auto Center Expansion		275,000	150,000		

The revenue estimates above are “net” of projected transfer affects and service costs, based on the following assumptions:

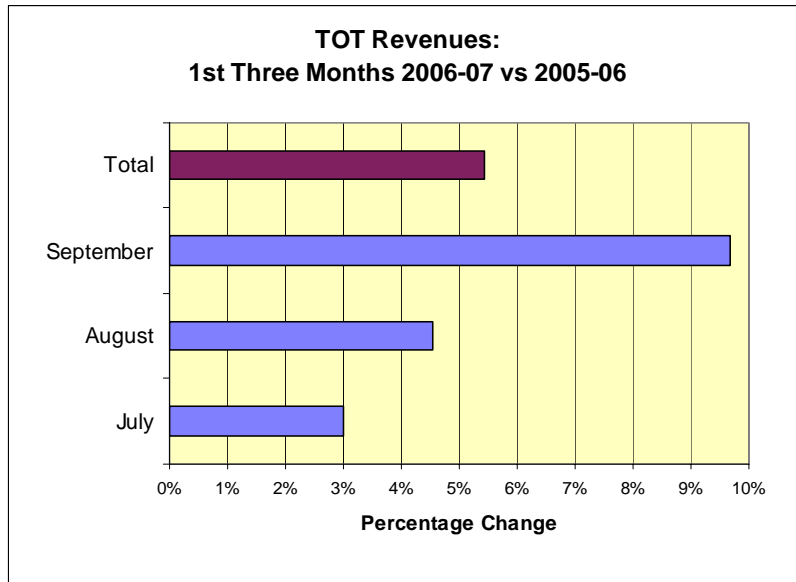
1. **Irish Hills.** Based on likely tenants and estimates for them from our sales tax advisor (Hinderliter DeLlamas), we project \$150,500 in “net” new annual revenues beginning in 2007-08, after accounting for transfer affects from existing businesses.
2. **Airport Area Annexation.** These projections are based on earlier analyses showing \$450,000 in “net” new revenues from annexation from existing businesses. The forecast reflects this assumption, but spreads the addition over several years.
3. **Auto Center Expansion.** Based on likely timeframes for development and revenue estimates prepared with the assistance of our sales tax advisor, we project added annual revenues of \$275,000 in 2008-09 and \$150,000 in 2009-10.

By “Year Five” in the forecast, these new outlets account for about \$1.1 million in new annual revenues.

TOT Revenues. The four years prior to 2005-06 saw very tepid results in TOT revenues. It *declined* by 3% in 2001-02, and only grew by 1% in 2002-03; 2% in 2003-04 and 4% in 2004-05: essentially flat for these four years. However, TOT revenues came back strong in 2005-06, growing by 11%. With this stronger base, we projected 4% growth in 2006-07. Based on results for the first three months of 2006-07, we are on track for this increase.

As reflected in the following chart, year-to-date for the first quarter in 2006-07, TOT revenues are up by 5% compared with the same quarter last year.

General Fund Five Year Forecast: Introduction



Given our strong beginning base and current trends, combined with projected increases in hotel rooms county-wide, we are projecting modest “base” increases of 4% in 2006-07; 2% in 2007-08 and 2008-09; 3% in 2009-10 and 2010-11; and 4% in 2011-12. Additionally, we are projecting the following increases in the “base,” after accounting for transfers from current businesses:

Marriott Courtyard (2007-08): 139 rooms	\$191,800
Hampton Inn (2008-09): 84 rooms	\$109,500

② Strong Beginning Financial Condition

As discussed in the General Fiscal Outlook in November 2006 (and in greater detail in the Comprehensive Annual Financial Report, which will also be presented to the Council at the December 12 Budget Workshop), the financial results for 2005-06 were better than estimated on both the revenue and expenditure side, with each contributing about the same amount to the bottom line: revenues exceeded our projections by about 3%; and expenditures were under budget by about 3%.

Combined with stronger projected results in 2006-07, this results in “carryover” reserves above policy minimums of about \$3.5 million in 2007-09. While this is a “one-time” source, it can appropriately be used for one-time purposes like facility and infrastructure improvements to our streets, storm drains and parks.

③ Stabilized Operating Costs

As projected in 2005-07, our operating costs have stabilized. There are no significant additions to the base, like the maintaining the Damon-Garcia sports fields; responding to special needs like Mardi Gras; or coping with increased insurance and fuel costs.

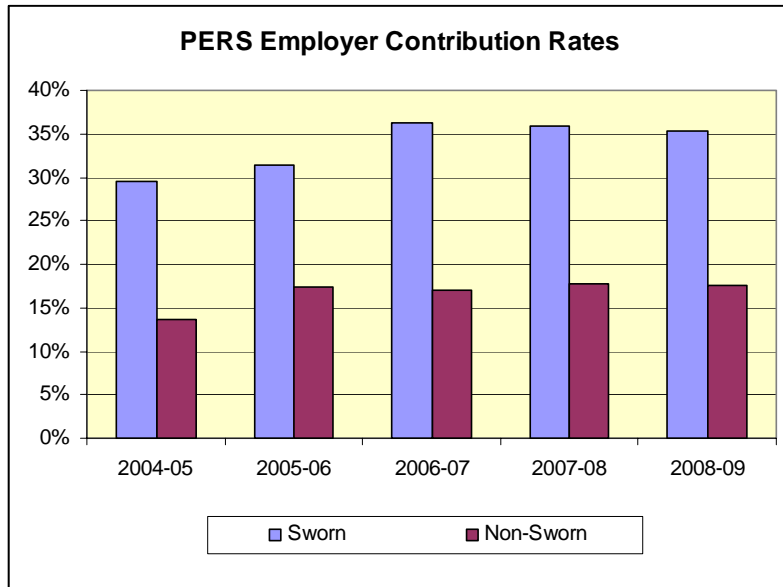
Additionally, as projected back in 2002, stabilization of retirement costs is in fact occurring; and while we are not likely to see reductions in our rates in the near future, continuing increases are not on the horizon.

This is important in assessing our future outlook: since we have a structurally balanced budget for the long-term that fully funds current retirement costs, any improvements in our fiscal situation can go directly to restoring cuts made in infrastructure maintenance – like our street paving program – and addressing other high-priority needs that surface from the Council’s goal-setting process for 2007-09.

PERS Costs in Context. For 2006-07, our estimated PERS cost for employer contributions is \$5.9 million. To place this in perspective, this represents 7% of our total City budget for 2006-07 of \$80.2 million. So, while it’s certainly a significant cost, it is not an undue portion of total City costs. This 7% share has remained stable over the past three years; and it is likely to remain the same (or lower) over the next two years.

Rate Stabilization. As projected, our employer contribution rates have stabilized. We recently received our rates for 2007-08 and projections for 2008-09 from PERS, which reinforce our “stable” outlook. This is reflected in the following chart, which shows the five-year stability in rates for both sworn and non-sworn employees.

General Fund Five Year Forecast: Introduction



Can Rates Go Lower? If PERS most recent yield trends continue, then at some point we can expect that contribution rates will steadily decline to more closely resemble “normal” contribution rates. However, because of PERS “smoothing” methodology, this will take several years. For this reason, we should not assume any significant reductions in the near term. However, we can reasonably assume that the increase in retirement costs is over.

Forecast Assumption. With costs stabilized, we assume operating costs to grow based on inflation and population increases – between 4% to 5% - using the adopted budget for 2006-07 as the base.

④ Infrastructure and Facilities Maintenance

As discussed below, the estimated cost of adequately maintaining, repairing or replacing existing General Fund facilities, infrastructure and equipment we already have in place is about \$8 million annually. This excludes any enhancements or “betterments.” To place this in context:

1. The average annual General Fund CIP in the 2005-07 Financial Plan is about \$2.5 million.
2. For 2006-07, total originally adopted General Fund CIP appropriation was \$2.1 million.

This very lean CIP reflects the significant reductions in infrastructure maintenance we have made in balancing our budget over the last five years – like reducing our street paving program by 67%; and the tough decisions the Council has had to make in preserving critical day-to-day services like police and fire protection.

It also underscores the tough policy decisions ahead of the Council in preparing a balance budget for 2007-09, even with our improved financial outlook.

⑤ Debt Service Costs

There are two key CIP projects in the 2005-07 Financial Plan that are funded by debt financings: the radio system upgrade and public safety dispatch center improvements. As planned, there will no debt service costs for these projects in 2005-07. However, based on current cost estimates, we project \$700,000 in annual debt service costs for these two projects beginning in 2008-09.

⑥ Results of Measure Y

We estimate that Measure Y will generate about \$4.5 million annually during the forecast period, increasing annually by the same growth rate as “base” sales tax revenues. (Measure Y has a “sunset” period of eight years unless renewed by the voter.)

Why does Measure Y produce proportionately less than our “base” 1% rate? Because under State law, the tax base is slightly different: the “base” 1% tax is based on where the sale occurs, whereas the ½-cent Measure Y rate is based on where the purchase is used. This only makes a substantive difference in three areas:

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1. We will not receive ½-cent proceeds from “pool revenues.” As discussed above, this represents between 10% to 15% of our current sales tax revenues.
2. We will also not receive Measure Y proceeds from the purchase of construction materials in the City that are delivered to a site outside of the City limits.
3. Lastly, since place of use can be readily determined based on registrations for cars, boats and airplanes, we will only receive Measure Y proceeds based on these sales to City residents.

Accordingly, our projections for Measure Y revenues are estimates based on the best information available to us, working closely with our sales tax advisor, on the difference for us between place of sale and place of use. As a practical matter, we will not know the actual annual proceeds from Measure Y for another 18 months.

Available for allocation in 2007-09. The added ½-cent sales tax will become effective on April 1, 2007, which means these added revenues will be in place in 2007-09. For this reason, use of these added revenues in meeting the following community priorities that have surfaced over the last eighteen months is likely to be a major focus of the 2007-09 goal-setting and budget process:

1. Repairing and maintaining City streets, potholes, parks and storm drains.
2. Continuing programs that reduce and effectively manage traffic congestion.
3. Improving levels of police, fire and paramedic services.
4. Preserving open space.
5. Protecting senior services and programs.

As noted previously, these added revenues will go a long way in improving our ability to fund community priorities. However, tough policy decisions will remain. On one hand, we certainly have more resources to address community needs; on the other hand, they are not unlimited. Placed in context, Measure Y represents an increase of about 10% in General Fund

resources. Obviously, this improves our funding capacity, but we still have to identify our highest priorities and make wise resource choices accordingly.

BASIC FORECAST FRAMEWORK

Background

The approach we have taken in preparing this forecast builds on our experience over the past fourteen years in developing fiscal projections. While we have prepared various “scenarios” in the past, this forecast presents one set of assumptions for revenues and expenditures. However, the financial model we used in preparing this plan can easily accommodate a broad range of “what if” scenarios.

Summary of Forecast Assumptions

A detailed discussion of the assumptions used in the forecast is provided on page 12. However, the following summarizes key forecast factors:

State Budget Actions. The forecast assumes no adverse budget impacts from State actions. Of course, it doesn’t assume any favorable ones, either.

1. **Internet and Catalog Sales.** The Council is fully aware of the revenue difficulties that the “cyber-economy” poses to the collection of sales taxes, our most important revenue source. While Internet sales are still a relatively small component of total retail sales, all projections indicate significant increases in the future, especially as traditional “bricks and mortar” retailers move to e-commerce themselves.

The forecast does not assume any major revenue losses resulting from this shift for two reasons. First, it would be very difficult to meaningfully assess prospective revenue losses. But more importantly, the forecast assumes (perhaps based more on hope than experience) that there will be a rational resolution to collecting such an important revenue source. For the State of California, sales taxes are its second largest General Fund revenue (after personal income taxes), funding about one-third of State operations. In other states, sales tax revenues play an even larger role. In Texas, for example, there is no income tax,

General Fund Five Year Forecast: Introduction

and sales tax is the primary state revenue source. In short, because this is such a major issue in funding state and local governments throughout the nation, we believe that a reasonable resolution will ultimately emerge.

- Potential Reduction in Telecommunication Revenues.** There are a number of measures under consideration by the both the state and federal governments that could significantly reduce General Fund franchise and utility user tax revenues from telecommunication providers, which includes cable television. No assumptions for this are included in the forecast, but this is an area we will need to closely monitor.
- Grants.** The forecast does not reflect the receipt of any “competitive” grant revenues over the next five years. However, our experience tells us that we will undoubtedly be successful in obtaining grants, but these are for restricted purposes, and are usually for “new” facilities and infrastructure, not the “maintenance-only” projects assumed in the forecast.

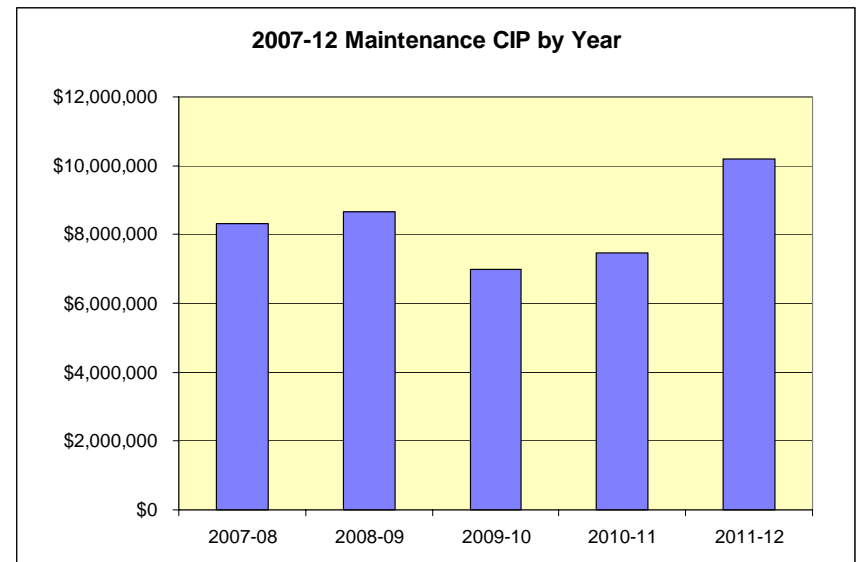
Other “formula grant” programs like community development block grants will help us in achieving CIP goals. However, their use is highly restricted by the granting agencies; and in the case of State grants, we cannot rely upon their continuation. And again, these are largely for “new” facilities and infrastructure, not the “maintenance-only” projects included in the forecast. As such, the forecast does not include any funding from these sources.

- Development Impact Fees.** Assuming a 1% community growth rate, transportation impact fees generate about \$800,000 annually. Like grant revenues, these will certainly help us in funding transportation improvements. However, these revenues are restricted solely to funding improvements related to new development.

On a much smaller scale, the City also receives park in-lieu fees, which are also restricted to funding improvements related to new development. Because of these restrictions, and the fact that by their very nature they are for “new” facilities and infrastructure, we have not included development impact fees in this forecast.

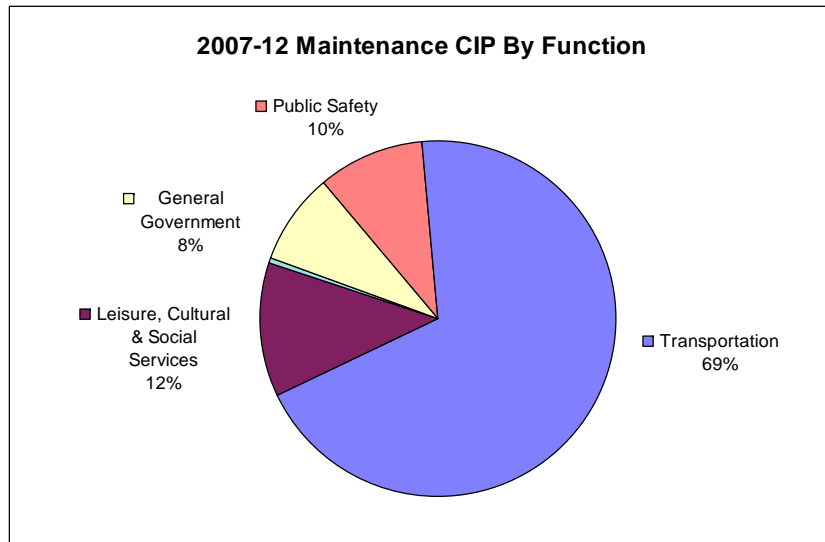
- Operating Program Expenditures.** In general, operating costs are projected to rise by population and inflation, between 4% and 5% annually, using the adopted 2006-07 budget as the base.
- Capital Improvement Plan “Maintenance” Expenditures.** As noted above, the forecast CIP assumes continuing funding levels at the average annual level approved in the 2005-07 Financial Plan – about \$2.5 million annually.

However, to place this in perspective, we have prepared a five-year, “Maintenance-Only” CIP based on adequately maintaining, repairing or replacing existing infrastructure, facilities and equipment already in place. As summarized below, the “Maintenance-Only” CIP averages about \$8.3 million annually:



By function, Transportation—primarily pavement maintenance—accounts for over 70% of total costs:

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The detail for the “Maintenance-Only” CIP is provided on page 16.

What’s not in the “Forecast CIP.” It is important to stress the “maintenance-only” nature of the forecast CIP, which means it *does not* assume new acquisitions and improvements like those in the sidebar.

This doesn’t mean that accomplishing these CIP goals isn’t important; only that doing so will require added allocations beyond those assumed in the forecast.

“New” Projects Not Assumed in the Forecast

- Public Safety Facilities
- Intersection Improvements
- Railroad Crossings
- New Bikeway/Pedestrian Paths
- Flood Protection
- Community/Senior Center
- New Parks
- Downtown Plan Improvements
- Railroad Area Plan
- Mid-Higuera Area Plan
- Open Space Acquisition
- Civic Center Improvements

7. **Debt Service Expenditures.** As noted above, the forecast includes current debt service obligations (about \$2.1 million annually) as well as new debt service of about \$700,000 annually beginning in 2008-09 for the planned radio system upgrade and new public safety dispatch center. It also reflects the final debt service payment in 2010-11 for bonds originally issued in 1986, which reduces debt service costs by about \$350,000 in 2011-12.

What’s Not Here

Just like the “dog that didn’t bark” in a Sherlock Holmes mystery, what is “not here” is an important factor in assessing our fiscal outlook.

There are three projects on the radar which could have profound affects on the City – both positive and negative – that are not “empirically” reflected in the forecast:

Dalidio Ranch. Assuming this project goes forward in the County as approved under Measure J, it could have significant adverse impacts on increased City service costs and reduced sales tax and TOT revenues due to transfers from existing businesses. On the other hand, even if the project was annexed to the City at some point, its fiscal impacts are unclear, and would depend on the financing plans for Prado Road interchange that would subsequently emerge from this process.

Chinatown and Garden Street Terraces. As currently proposed, both of these projects would contain retail, housing and hotel uses, with fiscal impacts on both the cost and revenue side. Both projects are very early in the review process, so it would be premature to reflect their results in the forecast. Moreover, additional analysis about the fiscal impact of these projects is needed, which will occur as part of the project review process.

What’s Most Likely to Change?

By necessity, this forecast is based on a number of assumptions. The following summarizes those areas where we believe changes from forecast assumptions are most likely over the next five years.

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1. **Sales Tax.** There are a number of very complex components that make-up our sales tax base. While assuming a conservative underlying “baseline” growth rate of 2.5%, the forecast is optimistic about revenues from new outlets. However, even the modest 2.5% rate assumes that there will not be any major recessions or restructuring of this revenue source over the next five years. Additionally, we will have a better idea about the performance of sales tax after the Christmas quarter

Lastly, accurately projecting sales tax revenues is further complicated by the difficulty in predicting “pool” revenues, especially those from the Diablo Canyon power plant.

In short, because sales tax revenues are such an important part of our resource picture, assumptions about their performance play a major role in assessing our long-term fiscal health.

2. **TOT.** With only three months of data into the current fiscal year, we will be better able to assess current trends at the mid-year budget review.
3. **Development Review Fees.** These are subject to changes in the construction market, over which the City has no control. Based on results through the first quarter, we are staying with our current estimate for 2006-07; and we are projecting revenues for 2007-12 based on average actual revenues over the last five years.
4. **Operating Cost Increases.** As noted above, the forecast is not the budget. The assumption of annual increases of between 4% and 5%, using the adopted 2006-07 as the base, is just that: an assumption. It is not a detailed assessment of operating cost needs and priorities: this occurs as part of the budget process, not the forecast.
5. **Mid-Year Budget Review.** The operating and CIP cost base for 2007-12 is based on the current 2006-07 budget. However, this is subject to revision at the mid-year budget review based on any unexpected new costs.

SUMMARY

Along with the key factors discussed above that contribute to our favorable fiscal outlook, we are also fortunate to have an excellent “fiscal infrastructure” in place as a basic foundation in making the tough policy decision ahead of us:

1. We are in good fiscal shape.
2. We have good information.
3. We have strong financial systems and procedures in place.
4. We have an excellent organization and capable staff.
5. We have excellent Council leadership.
6. We have a great tradition of responsible stewardship.

This “civic infrastructure” is simply not in place in many other cities. And it will serve us well in successfully meeting the policy challenges ahead of us.



General Fund Five Year Forecast: Summary of Major Assumptions

DEMOGRAPHIC TRENDS

1. **Population and Housing.** Grows by 0.5% in 2006-07; 0.7% in 2007-08; and by 1% for the balance of forecast period.
2. **Inflation.** Grows by 4% annually throughout the forecast period.

EXPENDITURES

1. **Operating Expenditures.** Using the adopted 2006-07 budget as the base, grows by population and inflation (between 4% and 5% annually).
2. **CIP Expenditures.** Based on the average annual CIP for 2005-07 (about \$2.5 million annually). This is significantly less than the "Maintenance-Only CIP," which projects annual cost of about \$8.3 million annually to adequately maintain and replace existing facilities, equipment and infrastructure.
3. **Debt Service.** The forecast includes current debt service obligations (about \$2.1 million annually) as well as new debt service for the planned dispatch center and radio system improvements about (\$700,000). It also reflects the final debt service payment in 2010-11 for bonds originally issued in 1986, which reduces debt service costs by about \$350,000 in 2011-12.

STATE BUDGET ACTIONS

No adverse budget actions during 2007-12 (but no positive ones, either).

KEY REVENUES

Sources used in developing revenue projections for the forecast include long and short-term trends in key City revenues; forecast data for California as developed by the UCLA forecasting project; forecast data for San Luis Obispo County as developed by the UCSB forecasting project (of

which the City is a sponsor); economic trends as reported in the national media; economic and fiscal information developed by the State Legislative Analyst and the State Department of Finance; and materials prepared by the League of California Cities and State Controller's Office.

Ultimately, however, the forecast revenue projections reflect the staff's best judgment about the State budget process, and the performance of the local economy during the next year and how it will affect the City's General Fund revenues.

Top Dozen General Fund Revenues

These "Top Dozen" sources account for about 95% of total projected General Fund revenues.

1. **Sales Tax.** Grows by an underlying growth rate of 2.5% during 2007-12, plus additional "net" revenues from the following new outlets:

	Year and Amount Added to the "Base"				
	2007-08	2008-09	2009-10	2010-11	2011-12
Irish Hills Retail	150,500				
Airport Area Annexation		150,000	100,000	100,000	100,000
Auto Center Expansion		275,000	150,000		

Measure Y and Proposition 172 revenues are projected to grow by the same factors.

2. **Property Tax.** Grows by 8% in 2006-07 and 2007-08; and by 7% annually thereafter.
3. **Transient Occupancy Tax.** Given our strong beginning base and current trends, combined with projected increases in hotel rooms county-wide, grows by 4% in 2006-07; 2% in 2007-08 and 2008-09; 3% in 2009-10 and 2010-11; and 4% in 2011-12. Additionally, we are projecting the following increases in the "base," after accounting for transfers from current businesses:

General Fund Five Year Forecast: Summary of Major Assumptions

Marriott Courtyard (2007-08): 139 rooms	\$191,800
Hampton Inn (2008-09): 84 rooms	\$109,500

4. **Utility Users Tax.** Based on trends for the last five years, grows by 3% throughout the forecast period.
5. **Vehicle License Fees/VLF Swap.** With the recent “swap” in VLF revenues and its revenue base, grows by the same rate as property tax revenues throughout the forecast period.
6. **Business Tax.** Grows by 4% throughout the forecast period based trends for the last five years.
7. **Franchise Fees.** Grows by population and inflation throughout the forecast period.
8. **Gas Tax Subventions.** Grows by population throughout the forecast period based on projected population growth.
9. **Development Review Fees.** Based on the average of actual revenues over the last five years, growing by inflation annually.
10. **Recreation Fees.** Grow by population and inflation throughout the forecast period.
11. **Other Fees.** Grows by population and inflation throughout the forecast period.
12. **Investments.** Based on 3.5% yields and available fund balance.

Special Revenue Assumptions

1. **Proposition 42 Revenues.** The City should again begin receiving Proposition 42 revenues in 2008-09. Based on estimates from the League of California Cities, we should receive about \$456,000 annually from these transportation-restricted revenues.

2. **Proposition 1B Revenues.** \$19.9 billion in bonds for transportation purposes were approved by voters in a state-wide election in November 2006. Of this amount, \$1 billion is allocated to cities, and the City’s share is about \$1.4 million. No decisions have been made about when these funds will be distributed to cities. The forecast assumes that 40% of the funds will be received in 2007-08 (\$565,000), with the balance spread evenly over the next three years (\$282,000 each year).
3. **Margarita Specific Plan Area Park Fee Reimbursements.** Under the facility financing plan for this area adopted by the Council in 2004, the area is responsible for financing the park improvements needed to serve it. By building the Damon-Garcia sports fields in advance of development in this area, the City is due significant reimbursements as set forth in the adopted plan, totaling about \$5.1 million. The forecast conservatively estimates annual reimbursements of \$650,000 beginning in 2007-08.

FUND BALANCE

The forecast assumes that fund balance will be maintained at minimum policy levels of 20% of operating expenditures.



Five Year Fiscal Forecast Summary



General Fund Five Year Forecast: 2007-12

	2005-06	2006-07		FORECAST				
	Actual	Budget	Revised	2007-08	2008-09	2009-10	2010-11	2011-12
REVENUES & OTHER SOURCES				2007-09 Financial Plan				
Taxes								
Sales Tax - General (Based on "effective" 1% tax rate)	12,675,900	12,696,100	12,929,400	13,403,100	14,163,200	14,767,300	15,236,500	15,717,400
Sales Tax - Measure Y (Based on 1/2% rate; lower base than "general")				4,500,000	4,755,200	4,958,000	5,115,500	5,277,000
Sales Tax - Proposition 172	301,200	269,500	307,200	318,500	336,600	351,000	362,200	373,600
Property Tax	7,519,600	7,470,200	8,121,200	8,770,900	9,384,900	10,041,800	10,744,700	11,496,800
Transient Occupancy Tax	4,539,200	4,717,000	4,720,800	5,007,000	5,216,600	5,373,100	5,534,300	5,755,700
Utility Users Tax	3,947,300	4,127,300	4,065,700	4,187,700	4,313,300	4,442,700	4,576,000	4,713,300
Franchise Fees	2,101,300	2,213,500	2,185,400	2,288,100	2,402,500	2,522,600	2,648,700	2,781,100
Business Tax	1,578,000	1,615,900	1,633,200	1,698,500	1,766,400	1,837,100	1,910,600	1,987,000
Real Property Transfer Tax	390,600	275,000	350,000	350,000	350,000	350,000	350,000	350,000
Subventions & Grants								
Vehicle License Fees/VLF Swap	2,486,400	3,143,900	3,501,800	3,781,900	4,046,600	4,329,900	4,633,000	4,957,300
Gas Tax (Transfer In)	855,200	824,000	824,000	829,800	838,100	846,500	855,000	863,600
Proposition 42/Proposition 1B	-	-	-	564,700	738,800	738,800	738,800	456,400
Other Subventions & Grants	833,400	360,700	466,100	484,700	504,100	524,300	545,300	567,100
Service Charges								
Development Review Fees	2,777,400	2,659,800	2,659,800	2,628,000	2,733,100	2,842,400	2,956,100	3,074,300
Recreation Fees	1,107,700	1,120,200	1,120,200	1,172,800	1,231,400	1,293,000	1,357,700	1,425,600
Airport Area Specific Plan Reimbursement	323,800							
Margarita Area Park Fee Reimbursements		650,000		650,000	650,000	650,000	650,000	650,000
Other Service Charges	1,271,900	1,565,900	1,565,900	1,639,500	1,721,500	1,807,600	1,898,000	1,992,900
Other Revenues								
Fines & Forfeitures	213,900	253,600	215,000	223,600	232,500	241,800	251,500	261,600
Interest Earnings and Rents	329,200	397,000	425,000	384,800	399,700	415,300	431,700	448,900
Other Revenues	1,124,900	75,000	75,000	75,000	75,000	75,000	75,000	75,000
Total Revenues	44,376,900	44,434,600	45,165,700	52,958,600	55,859,500	58,408,200	60,870,600	63,224,600
EXPENDITURES & OTHER USES								
Operating Programs	38,036,900	40,566,500	40,566,500	42,473,100	44,596,800	46,826,600	49,167,900	51,626,300
Debt Service	1,620,300	2,266,500	2,083,500	2,083,500	2,803,000	2,803,000	2,803,000	2,453,000
Capital Improvement Plan	2,837,700	2,134,100	2,629,100	2,585,300	2,688,700	2,796,200	2,908,000	3,024,300
Total Expenditures	42,494,900	44,967,100	45,279,100	47,141,900	50,088,500	52,425,800	54,878,900	57,103,600
Revenues Over (Under) Expenditures	1,882,000	(532,500)	(113,400)	5,816,700	5,771,000	5,982,400	5,991,700	6,121,000
Available for New Initiatives				8,833,800	5,346,200	5,536,500	5,523,400	5,629,300
FUND BALANCE, BEGINNING OF YEAR	9,743,100	8,663,100	11,625,100	11,511,700	8,494,600	8,919,400	9,365,300	9,833,600
FUND BALANCE, END OF YEAR								
Designated @ 20% of Operating Costs	7,607,400	8,113,300	8,113,300	8,494,600	8,919,400	9,365,300	9,833,600	10,325,300
Undesignated	4,017,700	17,300	3,398,400	-	-	-	-	-
Total Fund Balance, End of Year	11,625,100	8,130,600	11,511,700	8,494,600	8,919,400	9,365,300	9,833,600	10,325,300

■ For 2005-06, operating expenditures include \$1,934,800 in carryovers; 2006-07 expenditures have been adjusted accordingly.

■ Operating program expenditures for all years include General Fund transfers to the Golf Fund. For 2005-06, they also include estimated expenditure savings and MOA costs.

General Fund Five Year Forecast: 2007-12

PROJECTION FACTORS	Historical Trends				Estimated 2006-07	FORECAST PROJECTIONS				
	Actual 2005-06	Last 5 Years	Last 10 Years	Last 15 Years		2007-08	2008-09	2009-10	2010-11	2011-12
Annual Percentage Changes										
DEMOGRAPHICS										
Population	-0.4%	0.3%	0.7%	0.4%	0.5%	0.7%	1.0%	1.0%	1.0%	1.0%
Housing Units	0.5%	0.7%	0.9%	0.7%	0.5%	0.7%	1.0%	1.0%	1.0%	1.0%
Inflation	4.0%	2.5%	2.8%	2.6%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Compound Population & Inflation	3.6%	2.8%	3.5%	3.0%	4.5%	4.7%	5.0%	5.0%	5.0%	5.0%
KEY REVENUES										
Sales Tax (Situs Sales): Baseline	7.9%	6.0%	6.8%	4.9%	2.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Irish Hills Retail - Net						150,500				
Airport Area Annexation - Net							150,000	100,000	100,000	100,000
Auto Center Expansion							275,000	150,000		
Net Increase					2.0%	3.7%	5.7%	4.3%	3.2%	3.2%
Property Tax (Assessed Value)	13.4%	9.4%	7.1%	4.2%	8.0%	8.0%	7.0%	7.0%	7.0%	7.0%
TOT: Baseline	11.3%	3.1%	5.7%	8.5%	4.0%	2.0%	2.0%	3.0%	3.0%	4.0%
Marriott Court Yard (Calle Joaquin area)						191,800				
Hampton Inn (Calle Joaquin area)							109,500			
Net Increase						6.1%	4.2%	3.0%	3.0%	4.0%
Utility Users Tax	7.5%	2.9%	3.8%	3.8%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Business Tax	3.9%	4.4%	6.9%	7.4%	3.5%	4.0%	4.0%	4.0%	4.0%	4.0%
Franchise Fees	4.8%	9.9%	7.0%	6.5%	4.0%	4.7%	5.0%	5.0%	5.0%	5.0%
Vehicle License Fees (VLF)	-23.2%	7.5%	5.4%	4.7%	8.0%	8.0%	7.0%	7.0%	7.0%	7.0%
Gas Tax	2.3%	0.1%	1.3%	1.8%	1.0%	0.7%	1.0%	1.0%	1.0%	1.0%
Proposition 42	Allocation of \$456,400 annually beginning in 2008-09						456,400	456,400	456,400	456,400
Proposition 1B	One-time allocation of \$1,411,900: 40% in 2007-08; balance over 3 years						564,700	282,400	282,400	282,400
Development Review Fees					Budget	<i>Five year average as base in 2007-08 plus inflation for other years</i>				
Recreation Fees					Budget	<i>2005-06 Projection Plus Compound Population and Inflation</i>				
EXPENDITURES										
Operating Programs	Grow by population plus inflation				Base	4.7%	5.0%	5.0%	5.0%	5.0%
Debt Service					Budget	2,083,500	2,803,000	2,803,000	2,803,000	2,453,000
Existing						2,083,500	2,083,500	2,083,500	2,083,500	1,733,500
Dispatch Center Improvements							250,800	250,800	250,800	250,800
Radio System Upgrade							468,700	468,700	468,700	468,700
Capital Improvement Plan	<i>CIP costs grow by average 2005-07 CIP Budget adjusted annually for inflation.</i>				Budget	2,585,300	2,688,700	2,796,200	2,908,000	3,024,300

General Fund Five-Year Fiscal Forecast: "Maintenance-Only" Projects

The following summarizes five-year projections for "maintenance-only" projects. These expenditures will not expand or improve existing assets, but they will ensure that existing facilities, equipment and infrastructure are adequately maintained or replaced so they can be effectively used for their intended purpose. This provides a "baseline" for the five-year fiscal forecast in showing the cost associated with adequately maintaining existing assets. This helps surface what might be available for new facilities or infrastructure after funding maintenance projects and day-to-day service delivery, based on projected revenues; or the resulting budget "gap."

Improvement Projects: Not Included in This Report. The following are examples of improvement projects that are not reflected in this report:

Examples of New Facilities or Infrastructure NOT Included in this Report			
Public Safety Transportation	Police Station Expansion	Leisure, Cultural & Social Services Community Development General Government	Community/Senior Center
	Freeway Interchanges (Like Prado Road or LOVR)		New Parks
	Road Widening and Extensions (Like Marsh Street)		Adobe Restoration
	Intersection Improvements		Historical Museum Expansion
	Railroad Grade Crossings (Like Orcutt Road)		Public Art
	New Sidewalk Construction		Art Center Expansion
	Bicycle Paths		Downtown Plan Improvements
	New Traffic Signals		Railroad District Plan Improvements
	Flood Protection Improvements		Mid-Higuera Plan Implementation
	Utility Undergrounding		Open Space Acquisition
			Creek Enhancements
			Civic Center Improvements
			New Technology Applications

MAINTENANCE PROJECT SUMMARY

The following summarizes projected "capital maintenance" needs by function. This chart is followed by more detailed summaries for each function.

	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Projected Capital Maintenance Needs By Function						
Public Safety	694,900	516,900	497,100	688,100	1,691,300	4,088,300
Transportation	5,416,200	6,102,000	5,402,500	5,505,100	6,286,200	28,712,000
Leisure, Cultural & Social Services	1,357,500	1,407,000	688,300	841,400	806,100	5,100,300
Community Development	41,000	42,700	44,400	46,200	47,900	222,200
General Government	801,000	577,100	352,200	368,700	1,369,000	3,468,000
Total	\$8,310,600	\$8,645,700	\$6,984,500	\$7,449,500	\$10,200,500	\$41,590,800

General Fund Five-Year Fiscal Forecast: "Maintenance-Only" Projects

	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Public Safety						
Police Protection						
<i>Facility Maintenance Projects</i>						
Parking Lot Maintenance 1042 Walnut	80,000					80,000
Exterior Siding/Painting: 1016 Walnut	61,000					61,000
Exterior Painting: 1042 Walnut			40,000			40,000
Interior Painting: 1042 Walnut			17,000			17,000
Tile Showers and ADA Men's Restroom		125,000				125,000
Reroofing: Flat Area of Police Station			70,000			70,000
<i>Technology and Equipment Replacement</i>						
Network Cabling		15,000				15,000
Security Cameras and Monitors				150,000		150,000
Laserfiche System				60,000		60,000
Spillman CAD/RMS Server Replacement	85,000				90,000	175,000
VoicePrint Dispatch Phone Recorder		50,000			125,000	175,000
Public Safety System Replacement				150,000	1,000,000	1,150,000
In-Car Video Cameras	150,000				150,000	300,000
PictureLink Photo Capture Station		15,000				15,000
Audio Visual Equipment Replacement				15,000		15,000
<i>Fleet Replacement Transfer</i>	120,300	126,000	131,800	137,500	143,300	658,900
Total	496,300	331,000	258,800	512,500	1,508,300	3,106,900
Fire & Environmental Safety						
Replace Fire Station 1 Carpet			25,000			25,000
Fire Stations 1 and 2 Parking Lot Maint	30,000					30,000
Resealing: Fire Station 1 Exterior Masonry		25,000				25,000
HVAC Controller Upgrade for Fire Station 1	15,000					15,000
Repainting: Exterior of Fire Station 2			45,000			45,000
<i>Fleet Replacement Transfer</i>	153,600	160,900	168,300	175,600	183,000	841,400
Total	198,600	185,900	238,300	175,600	183,000	981,400
Total Public Safety	694,900	516,900	497,100	688,100	1,691,300	4,088,300

General Fund Five-Year Fiscal Forecast: "Maintenance-Only" Projects

	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Transportation						
Streets - General						
Traffic Sign Replacement	15,000	15,000	15,000	15,000	15,000	75,000
Street Name Sign Replacement	120,000	124,800				244,800
Sidewalk Maintenance	65,000	67,600	70,300	73,100	76,000	352,000
Cross Gutter Replacement	48,000	49,900	51,900	54,000	56,200	260,000
Vertical Control Resurvey	55,000	60,000				115,000
Bridge Maintenance	100,000	104,000	108,200	112,500	117,000	541,700
Marsh Bridge Repair		300,000				300,000
Chorro Street Bridge Rehabilitation (General Fund 20% Match)		120,000			600,000	720,000
Highway 1 Median Replanting		225,000				225,000
Traffic Safety Management	35,000	35,000	35,000	35,000	35,000	175,000
Neighborhood Traffic Management	27,000	28,100	29,200	30,400	31,600	146,300
Streets - Pavement						
Reconstruction, Resurfacing and Resealing	2,520,000	2,600,000	2,680,000	2,760,000	2,840,000	13,400,000
Downtown Street Resurfacing	250,000	260,000	270,000	280,000	290,000	1,350,000
Pedestrian and Bicycle Paths						
Downtown Walkways/Mission Style Sidewalks	35,000	36,100	37,200	38,300	39,400	186,000
Bicycle Path Resurfacing	25,000		26,000		27,000	78,000
Traffic Signals/Street Lights						
Controller Replacements	28,000	29,100	30,300	31,500	32,800	151,700
Signal Pole Relocations	30,000	31,200				61,200
Downtown Street Pole Painting	60,000	62,400	64,900			187,300
Street Light Fused Disconnects	53,000	55,100	57,300	59,600	62,000	287,000
Creek and Flood Protection						
WRF Silt Removal		30,000			30,000	60,000
Morrison Culvert Silt Removal		30,000			30,000	60,000
Prefumo Arm Silt Removal			100,000			100,000
Marsh Street Silt Removal	30,000			30,000		60,000
Tank Farm Bridge Silt Removal	30,000			30,000		60,000
Los Osos Valley Rd Bridge Silt Removal		30,000			30,000	60,000

General Fund Five-Year Fiscal Forecast: "Maintenance-Only" Projects

	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Transportation (Continued)						
San Luis / Prefumo Confluence Clearing	100,000			60,000		160,000
Storm Sewer Replacements	1,500,000	1,560,000	1,620,000	1,680,000	1,750,000	8,110,000
Drainage Inlet / Outlet Replacements	75,000	78,000	81,000	84,000	87,000	405,000
Johnson Underpass Pump Replacement	100,000					100,000
San Luis Creek/Toro Street Bank Stabilization		50,000				50,000
Fleet Replacement Transfer	115,200	120,700	126,200	131,700	137,200	631,000
Total Transportation	\$5,416,200	\$6,102,000	\$5,402,500	\$5,505,100	\$6,286,200	\$28,712,000

General Fund Five-Year Fiscal Forecast: "Maintenance-Only" Projects

	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Leisure, Cultural & Social Services						
Parks and Recreation						
Playground Equipment Replacements	52,800	437,000	29,000	237,700	42,500	799,000
RecWare Safari Upgrades					75,000	75,000
Golf Course Pro Shop Roof Repair	25,000					25,000
Golf Course Golf Cart Replacement	5,000	5,200	5,400	5,600	5,800	27,000
Golf Course Fleet Replacement	33,000		25,000			58,000
Golf Course Maintenance	15,000	15,500	16,000	16,500	17,000	80,000
Golf Course Bridge Replacement #2					120,000	120,000
Golf Course Irrigation Control Repair/Upgrades	60,000					60,000
Laguna Lake Dredging	320,000	200,000	206,000	212,200	218,600	1,156,800
Tennis Court Resurfacing			45,000			45,000
Parks Asphalt Resurfacing/Sealing	45,000	46,400	47,800	49,200	50,700	239,100
Parks Turf Renovation	45,000		45,000		45,000	135,000
Repainting: Parks & Recreation Office Exterior			35,000			35,000
Swim Center Pool Cover Replacement				20,000		20,000
Pool Replastering			15,000	125,000		140,000
Tree Trimming	35,000	36,100	37,200	38,300	39,400	186,000
Downtown Tree Removals/Replacements	20,000	20,600	21,200	21,800	22,500	106,100
Trail Maintenance	25,000	25,800	26,600	27,400	28,200	133,000
ADA Restroom Upgrades/Replacements	550,000	500,000				1,050,000
Reroofing: Meadow Park Multi-Purpose Bldg		40,000				40,000
Mission Plaza Repairs - Stairs, Walls, Rails	50,000		50,000		50,000	150,000
Fleet Replacement Transfer	76,700	80,400	84,100	87,700	91,400	420,300
Total Leisure, Cultural & Social Services	\$1,357,500	\$1,407,000	\$688,300	\$841,400	\$806,100	\$5,100,300

General Fund Five-Year Fiscal Forecast: "Maintenance-Only" Projects

	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Community Development						
Fleet Replacement Transfer	26,000	27,200	28,400	29,700	30,900	142,200
Equipment Replacement	15,000	15,500	16,000	16,500	17,000	80,000
Total Community Development	\$41,000	\$42,700	\$44,400	\$46,200	\$47,900	\$222,200

General Fund Five-Year Fiscal Forecast: "Maintenance-Only" Projects

	2007-08	2008-09	2009-10	2010-11	2011-12	Total
General Government						
Information Technology						
Technology Maintenance Projects	100,000	103,000	106,100	109,300	112,600	531,000
Office Application Software Replacement	75,000	75,000			250,000	400,000
Mobile Data Computers	400,000				400,000	800,000
Network Switch Replacements	50,000	51,500	53,000	54,600	500,000	709,100
Storage Area Network Replacements		75,000		150,000		225,000
Firewall Replacements		15,000			15,000	30,000
Fiber Optic Maintenance	25,000	25,800	26,600	27,400	28,200	133,000
Main Data Facility Maintenance	25,000	25,800	26,600	27,400	28,200	133,000
Geographic Information Services						
Aerial Photo Revisions	35,000		35,000		35,000	105,000
Replace GPS System	50,000					50,000
Buildings						
Brick Sealant at City/County Museum			25,000			25,000
Reroofing: Corporation Yard Bldg B		76,000				76,000
Reroofing: Wastewater Shop Building			20,000			20,000
Reroofing: City Hall	15,000	70,000				85,000
Fuel Island Walls Rebuilding	5,000		45,000			50,000
HVAC Control Systems Conversions	16,000	20,000				36,000
City Hall Exterior Repainting		40,000				40,000
Electric Room Building Repainting	5,000		14,900			19,900
Fleet Replacement Transfer	31,500	33,100	34,600	36,100	37,600	172,900
Total General Government	801,000	577,100	352,200	368,700	1,369,000	3,468,000

Historical Trends: Overview

In preparing the five-year fiscal forecast, the following historical trends were reviewed for a fifteen year period and are presented in the following schedules:

POPULATION, HOUSING AND COST OF LIVING

- Annual Growth Rates for Last 15 Years
- Compound Annual Growth Rates for Last 15 Years

OVERVIEW OF GENERAL FUND REVENUE SOURCES

Where They Come From and How They're Doing

- Actual Revenues for the Fiscal Year Ended June 30, 2006
- Major Revenue Trends, Last 15 Years - Actual and Adjusted for Increases in Population and Cost of Living

OVERVIEW OF GENERAL FUND EXPENDITURES

Where They Go and How They're Doing

- Actual Operating Expenditures for the Fiscal Year Ended June 30, 2006
- Operating Expenditure Trends, Last 15 Years - Actual and Adjusted for Increases in Population and Cost of Living
- Total Expenditures By Type for the Fiscal Year Ended June 30, 2006
- CIP Expenditure Trends, Last 15 Years - Actual and Adjusted for Cost of Living
- Debt Service Expenditures, Last 15 Years

MAJOR GENERAL FUND REVENUE SOURCES

Last 15 Years - Actual and Adjusted for Increases in Population and Cost of Living

- | | |
|---------------------------|------------------------|
| ■ Sales Tax | ■ Vehicle License Fees |
| ■ Property Tax | ■ Business Tax |
| ■ Transient Occupancy Tax | ■ Gas Tax Subvention |
| ■ Utility Users Tax | ■ Franchise Fees |

SUPPLEMENTAL INFORMATION FOR SALES, PROPERTY AND TRANSIENT OCCUPANCY TAXES

OPERATING PROGRAM EXPENDITURES

Last 15 Years - Actual and Adjusted for Increases in Population and Cost of Living

- | | |
|--------------------------------------|--|
| ■ Public Safety: Police | ■ Leisure, Cultural & Social Services |
| ■ Public Safety: Fire | ■ Community Development |
| ■ Public Utilities/Disaster Response | ■ General Government |
| ■ Transportation | ■ Total Operating Program Expenditures |

Why Look at Past Trends?

Understanding where we've been helps us understand where we're headed.

***The past doesn't determine the future.
But if the future won't look like the
past, why not?***

Historical Trends: Population, Housing and Cost of Living

Population

Fiscal Year Ending	Amount	Percent Change
1991	42,020	
1992	42,249	0.5%
1993	42,922	1.6%
1994	43,397	1.1%
1995	43,917	1.2%
1996	41,404	-5.7%
1997	41,807	1.0%
1998	42,201	0.9%
1999	42,446	0.6%
2000	44,174	4.1%
2001	44,218	0.1%
2002	44,426	0.5%
2003	44,359	-0.2%
2004	44,176	-0.4%
2005	44,619	1.0%
2006	44,439	-0.4%

State of California,
January 1 of Each Year

Consumer Price Index: U.S.

Fiscal Year Ending	Index Amount	Percent Change
1991	134.6	
1992	138.1	2.6%
1993	142.6	3.3%
1994	146.2	2.5%
1995	150.3	2.8%
1996	154.4	2.7%
1997	159.1	3.0%
1998	161.6	1.6%
1999	164.3	1.7%
2000	168.7	2.7%
2001	175.1	3.8%
2002	177.1	1.1%
2003	181.7	2.6%
2004	185.2	1.9%
2005	190.7	3.0%
2006	198.3	4.0%

U.S. City Average, All Urban Consumers
January 1 of Each Year

Consumer Price Index: So. California

Fiscal Year Ending	Index Amount	Percent Change
1991	140.0	
1992	144.3	3.1%
1993	149.2	3.4%
1994	152.2	2.0%
1995	154.3	1.4%
1996	155.7	0.9%
1997	159.1	2.2%
1998	161.0	1.2%
1999	164.1	1.9%
2000	167.9	2.3%
2001	174.2	3.8%
2002	178.9	2.7%
2003	185.2	3.5%
2004	188.5	1.8%
2005	195.4	3.7%
2006	206.0	5.4%

Los Angeles-Riverside-Orange
All Urban Consumers, January of Each Year

Compound Growth

Fiscal Year Ending	Percent Change
1991	
1992	3.2%
1993	4.9%
1994	3.7%
1995	4.0%
1996	-3.2%
1997	4.0%
1998	2.5%
1999	2.3%
2000	6.9%
2001	3.9%
2002	1.6%
2003	2.4%
2004	1.5%
2005	4.0%
2006	3.6%

CPI based on U.S. index as recommended
by the U.S. Bureau of Labor Statistics

Annual Growth Rate

Last 2 Years	0.3%
Last 5 Years	0.1%
Last 10 Years	0.7%
Last 15 Years	0.4%

Annual Growth Rate

Last 2 Years	3.5%
Last 5 Years	2.5%
Last 10 Years	2.5%
Last 15 Years	2.6%

Annual Growth Rate

Last 2 Years	4.5%
Last 5 Years	3.4%
Last 10 Years	2.8%
Last 15 Years	2.6%

Annual Growth Rate

Last 2 Years	3.8%
Last 5 Years	2.6%
Last 10 Years	3.3%
Last 15 Years	3.0%

Housing Units

Fiscal Year Ending	Amount	Annual Change	Percent Change
1991	18,090		
1992	18,167	77	0.4%
1993	18,216	49	0.3%
1994	18,269	53	0.3%
1995	18,352	83	0.5%
1996	18,403	51	0.3%
1997	18,550	147	0.8%
1998	18,642	92	0.5%
1999	18,776	134	0.7%
2000	18,871	95	0.5%
2001	19,355	484	2.6%

What Do These Charts Show?
Population, housing and inflation trends for the past 15 years. These are considered in making revenue and expenditure forecasts.

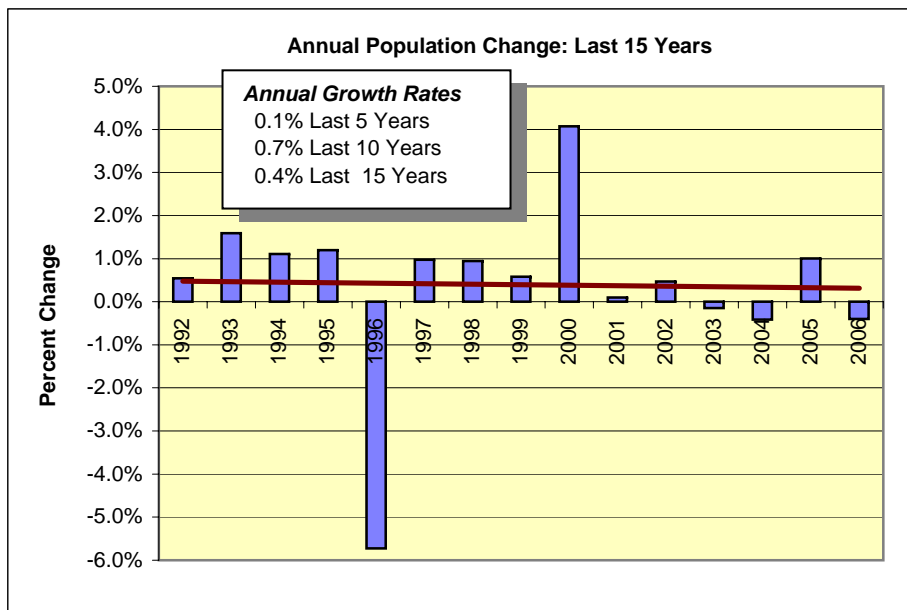
Fiscal Year Ending	Amount	Annual Change	Percent Change
2002	19,461	106	0.5%
2003	19,558	97	0.5%
2004	19,617	59	0.3%
2005	19,962	345	1.8%
2006	20,062	100	0.5%

Annual Growth Rate

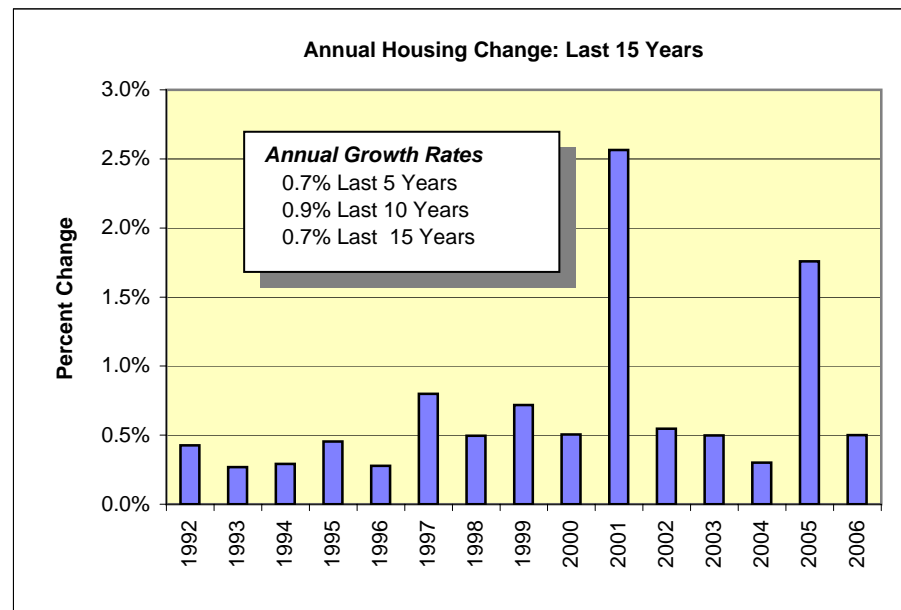
Last 2 Years	1.1%
Last 5 Years	0.7%
Last 10 Years	0.9%
Last 15 Years	0.7%

State of California, January 1 of Each Year

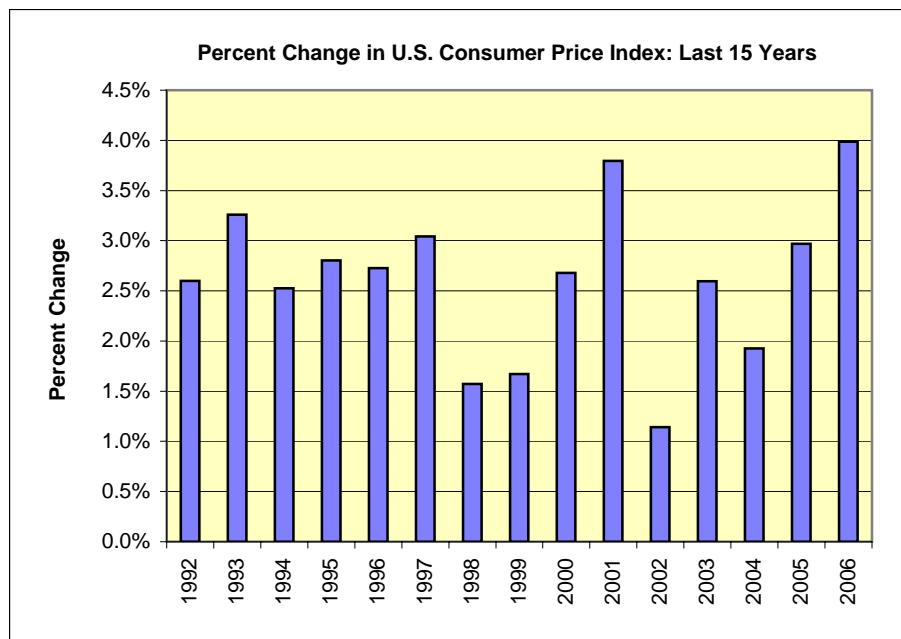
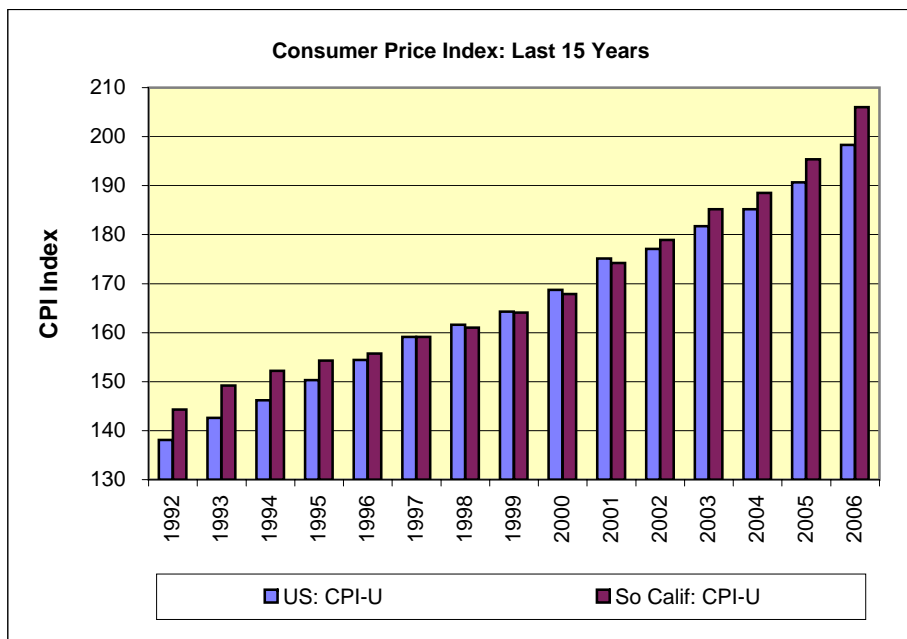
Graphics: Population, Housing and Cost of Living



1996 and 2000 most likely reflect reporting anomalies.



2001 and 2005 most likely reflect reporting anomalies.



General Fund Revenues: Where They Come From and How They're Doing

General Fund Revenues and Other Source: Actual

Fiscal Year Ended June 30, 2006	Actual	Percent of Total
Major Sources		
Sales Tax	12,675,900	28%
Property Tax	7,519,600	17%
Transient Occupancy Tax	4,539,200	10%
Utility Users Tax	3,947,300	9%
Vehicle License Fees/VLF Swap	2,486,400	6%
Franchise Fees	2,101,300	5%
Business Tax	1,578,000	4%
Gas Tax	855,200	2%
Total Major Sources	\$35,702,900	81%
Service Charges		
Development Review Fees	2,777,400	6%
Recreation Fees	1,107,700	2%
Other Service Charges	1,271,900	3%
Use of Money & Property	329,200	1%
Other Subventions & Grants	833,400	2%
Fines & Forfeitures	213,900	0%
Other Sources *	2,140,500	6%
Total Sources	\$44,376,900	101%

* Includes transfers from Gas Tax, TDA and other funds.

Top 10 Revenues: 95% of Total

When service charges and interest earnings are included, top ten revenues account for 95% of total revenues.

Major Sources: 15 Year Trends

Fiscal Year Ending	Amount	Percent Change
1991	17,377,300	
1992	18,195,000	4.7%
1993	18,718,800	2.9%
1994	18,522,500	-1.0%
1995	19,182,700	3.6%
1996	19,811,100	3.3%
1997	20,648,300	4.2%
1998	22,154,400	7.3%
1999	23,185,000	4.7%
2000	25,609,500	10.5%
2001	27,298,600	6.6%
2002	28,722,000	5.2%
2003	29,541,700	2.9%
2004	31,285,600	5.9%
2005	32,712,500	4.6%
2006	35,702,900	9.1%

Major Sources : 15 Year Trends

Average Annual Growth Rate

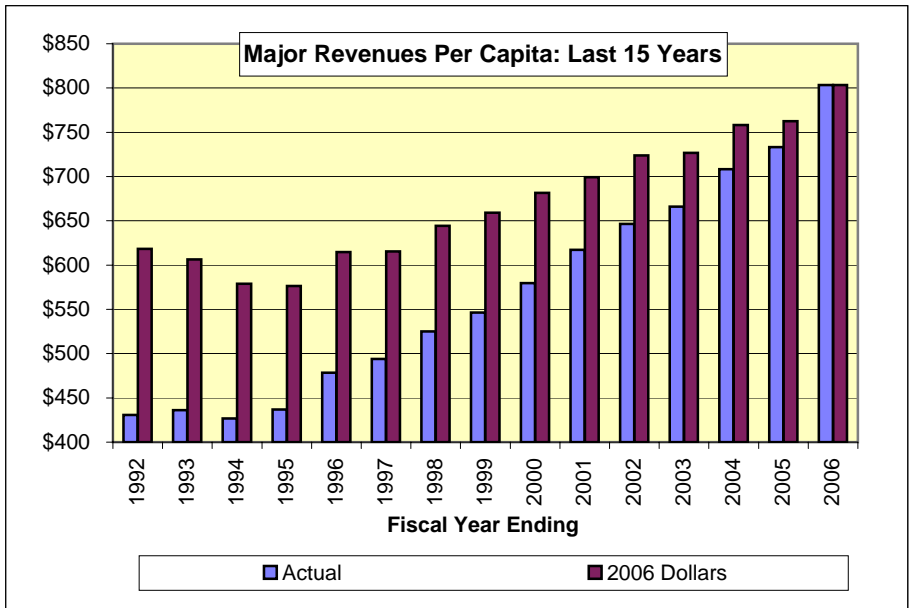
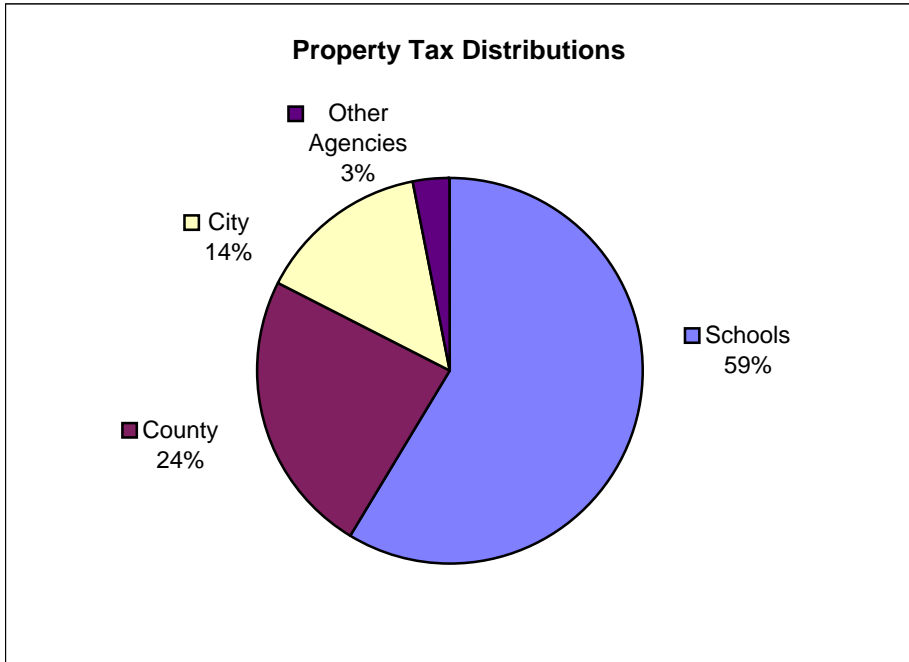
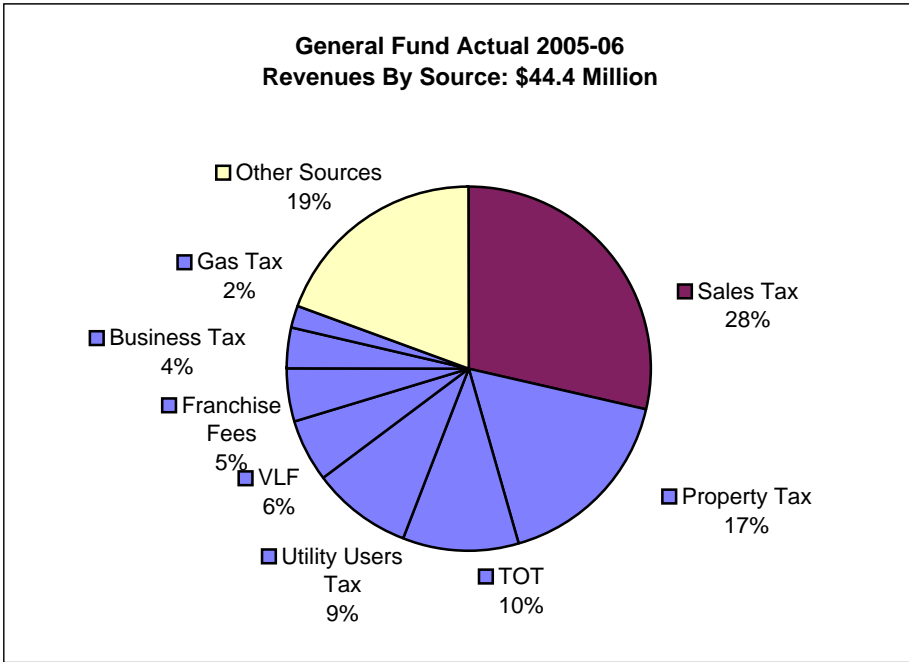
	Actual	Adjusted*
Last Year	9.1%	5.4%
Last 2 Years	6.9%	3.0%
Last 5 Years	5.5%	2.8%
Last 10 Years	6.1%	2.7%
Last 15 Years	5.0%	1.9%

* Adjusted for compound changes in population and cost of living (CPI) in order to reflect "true" growth in revenues.

What Do These Charts Show?

Where our major revenues come from, and how they've performed over the past 15 years, including comparisons with increases in population and inflation.

Graphics: General Fund Revenue



- ### Major General Fund Revenues
- Account for over 80% of General Fund Revenues**
- Sales Tax
 - Property Tax
 - Transient Occupancy Tax
 - Utility Users Tax
 - Vehicle License Fees/VLF Swap
 - Franchise Fees
 - Business Tax
 - Gas Tax

General Fund Expenditures: Where They Go and How They're Doing

General Fund Operating Expenditures: Actual

Fiscal Year	Actual	Percent of Total
Ended June 30, 2006		
Public Safety	19,247,000	53%
Transportation	1,967,800	6%
Leisure, Cultural & Social Services	5,280,500	15%
Community Development	4,308,400	12%
General Government	4,967,400	14%
TOTAL	\$35,771,100	100%

General Fund Expenditures and Uses By Type: Actual

Fiscal Year	Actual	Percent of Total
Ended June 30, 2006		
Operating Programs (See Note)	35,771,100	88%
Debt Service	1,620,300	4%
Capital Improvement Plan (CIP)	2,354,100	6%
Fleet Replacement Transfers	483,800	1%
Transfers to Golf, CDBG and DA Fund	330,800	1%
TOTAL	\$40,560,100	100%

Excludes encumbrances and carryovers totaling \$1,934,800 in 2005-06.

General Fund Operating Expenditures

15 Year Trends

Fiscal Year Ending	Amount	Percent Change
1991	18,763,500	
1992	20,220,500	7.8%
1993	19,800,300	-2.1%
1994	19,170,000	-3.2%
1995	19,644,900	2.5%
1996	19,953,000	1.6%
1997	20,891,500	4.7%
1998	20,730,900	-0.8%
1999	22,497,000	8.5%
2000	23,747,500	5.6%
2001	25,324,200	6.6%
2002	28,158,700	11.2%
2003	30,404,800	8.0%
2004	33,245,900	9.3%
2005	34,182,800	2.8%
2006	35,771,100	4.6%

What Do These Charts Show? How General Fund resources are used, and they've increased over the past 15 Years compared with population and inflation.

General Fund CIP Expenditures: 15 Year Trends

Excluding Debt Financed Projects and Fleet Replacements

Fiscal Year Ending	Actual	Adjusted *
1991	2,496,700	3,678,300
1992	2,122,100	3,047,200
1993	182,300	253,500
1994	4,166,300	5,651,000
1995	2,354,900	3,107,000
1996	737,400	947,100
1997	2,928,700	3,650,300
1998	3,581,300	4,394,600
1999	4,734,300	5,714,000
2000	5,521,400	6,490,200
2001	6,131,200	6,943,600
2002	5,547,900	6,212,000
2003	2,846,500	3,106,600
2004	3,427,700	3,670,200
2005	1,807,100	1,879,100
2006	2,354,100	2,354,100

Average Annual Growth Rate

	Actual	Adjusted*
Last Year	4.6%	1.0%
Last 2 Years	3.7%	0.0%
Last 5 Years	7.2%	4.5%
Last 10 Years	6.1%	2.7%
Last 15 Years	4.5%	1.4%

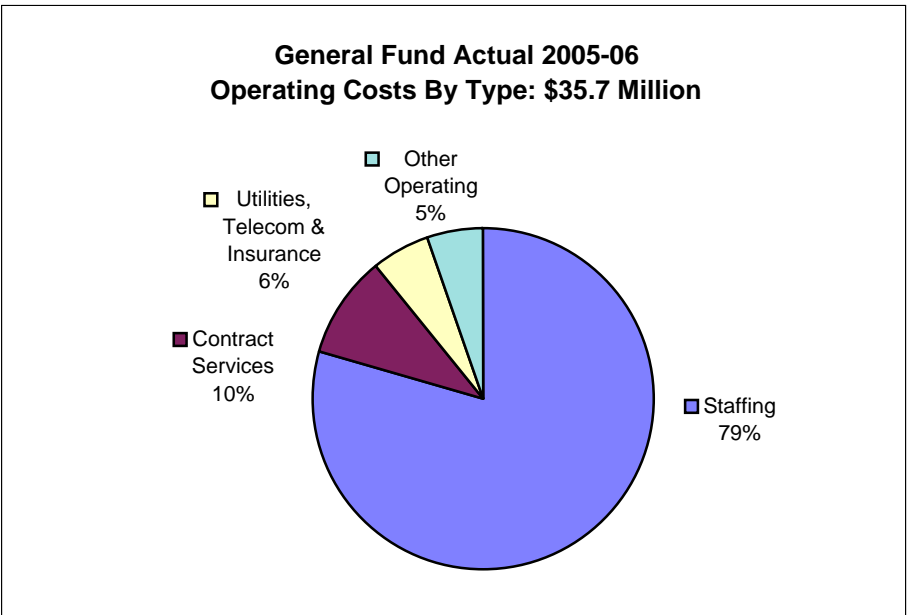
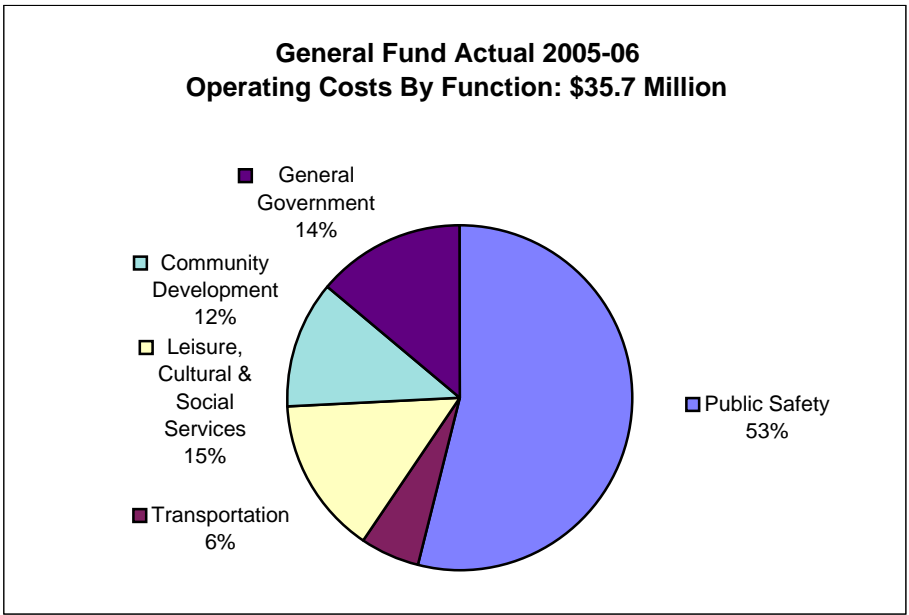
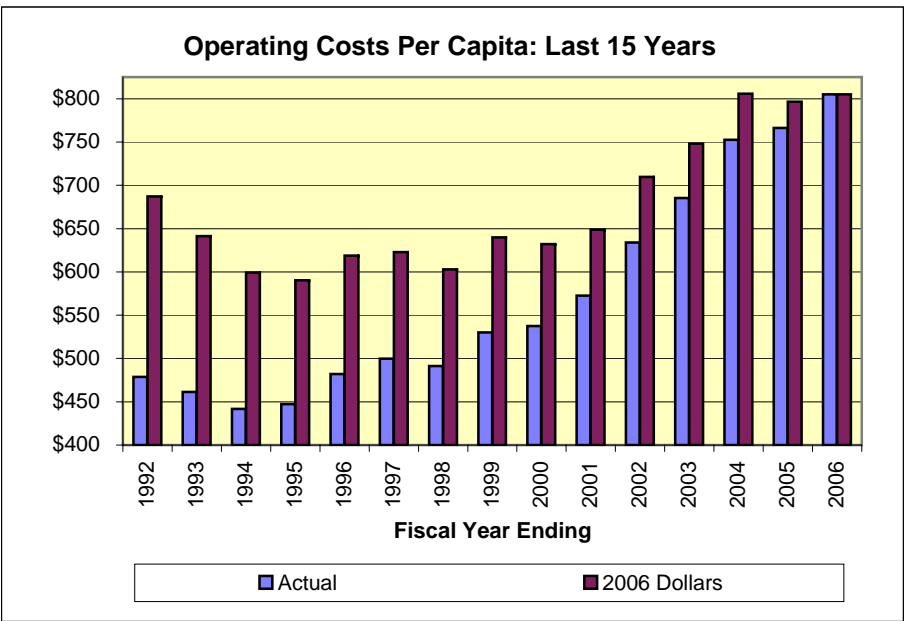
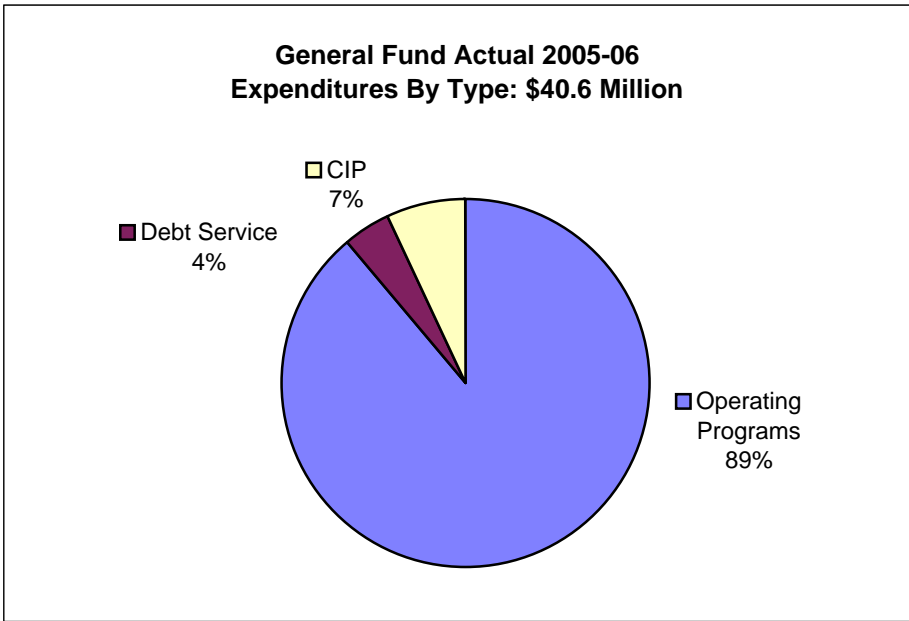
* Adjusted for compound changes in population and cost of living (CPI) in order to reflect "true" growth in expenditures

Average Annual General Fund CIP Expenditures

	Actual	Adjusted*
Last Year	2,354,100	2,354,100
Last 2 Years	2,080,600	2,116,600
Last 5 Years	3,196,700	3,444,400
Last 10 Years	3,888,000	4,441,500
Last 15 Years	3,229,500	3,828,000

* Adjusted for changes in cost of living (CPI) from 2006

Graphics: General Fund Expenditures



General Fund Expenditures: Where They Go and How They're Doing

Debt Financed General Fund CIP Projects: Last 15 Years

<i>Net Proceeds</i>	Actual	Adjusted*
1996 Lease Revenue Bonds	6,400,000	8,219,700
1999 Lease Revenue Bonds	6,100,000	7,362,300
2006 Lease Revenue Bonds	6,755,100	6,755,100
Annual Averages		
2 Year Annual Average	3,377,550	3,377,550
5 Year Annual Average	1,351,000	2,823,500
10 Year Annual Average	1,925,500	1,411,700
15 Year Annual Average	1,283,700	1,489,100

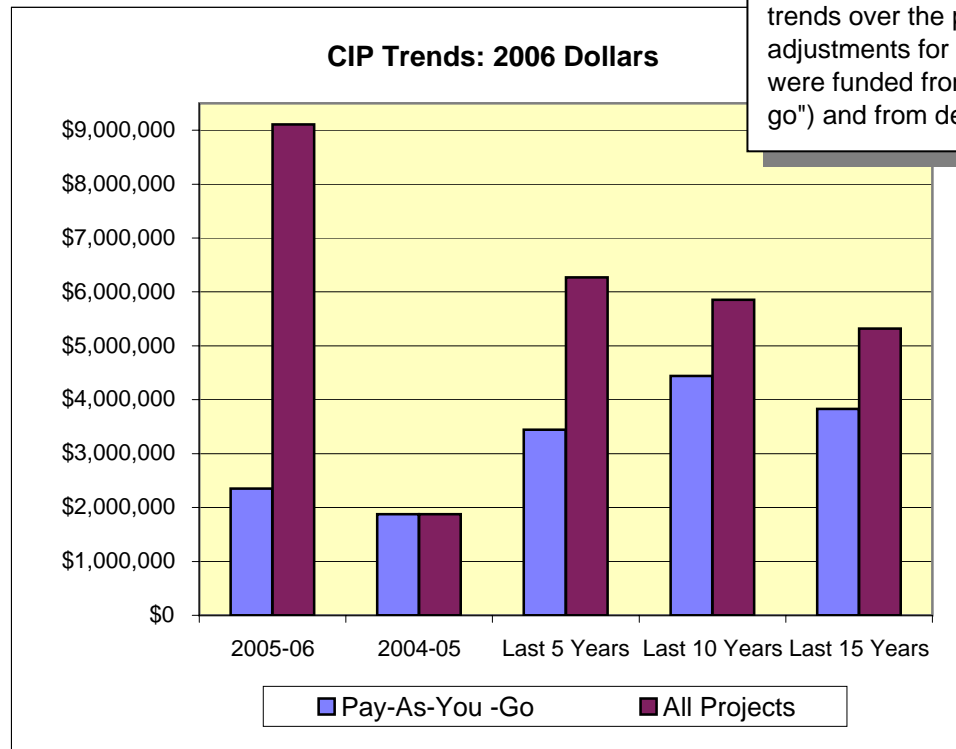
Average General Fund CIP Expenditures: Last 15 Years

Excluding Debt Financed Projects	Actual	Adjusted*
Last 2 Years	2,080,600	2,116,600
Last 5 Years	3,196,700	3,444,400
Last 10 Years	3,888,000	4,441,500
Last 15 Years	3,229,500	3,828,000
Including Debt Financed Projects	Actual	Adjusted*
Last 2 Years	5,458,150	5,494,150
Last 5 Years	4,547,700	6,267,900
Last 10 Years	5,813,500	5,853,200
Last 15 Years	4,513,200	5,317,100

Excluding Equipment Replacements

* Adjusted for changes in cost of living (CPI) from 2006

What Do These Charts Show? CIP expenditure trends over the past 15 years, including adjustments for inflation. It shows CIP costs that were funded from current sources ("pay-as-you-go") and from debt financings.



General Fund Expenditures: Where They Go and How They're Doing

General Fund Debt Service Obligations Last 15 Fiscal Years

Fiscal Year Ending	Amount	Operating Revenues	Percent of Operating Revenues
1992	540,600	19,239,900	2.8%
1993	945,500	21,279,664	4.4%
1994	951,300	21,680,800	4.4%
1995	947,400	22,433,500	4.2%
1996	663,600	22,527,000	2.9%
1997	792,600	23,837,500	3.3%
1998	1,312,600	25,399,000	5.2%
1999	1,311,100	27,867,200	4.7%
2000	1,209,000	33,130,800	3.6%
2001	2,075,600	34,077,500	6.1%
2002	1,715,200	34,834,600	4.9%
2003	1,696,100	34,415,600	4.9%
2004	1,760,200	36,872,400	4.8%
2005	1,672,600	38,325,500	4.4%
2006	1,620,300	43,164,400	3.8%

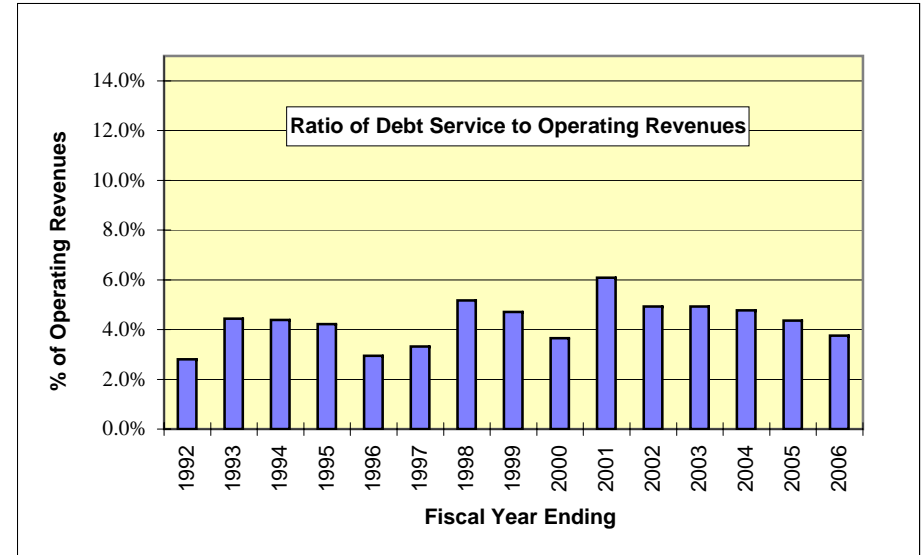
Note: Operating revenues exclude transfers in from Gas Tax, TDA and other funds.

The City's debt management policies state that:

In evaluating debt capacity, general-purpose annual debt service payments should generally not exceed 10% of General Fund revenues; and in no case should they exceed 15%.

As reflected by these charts, we have remained well below these guidelines.

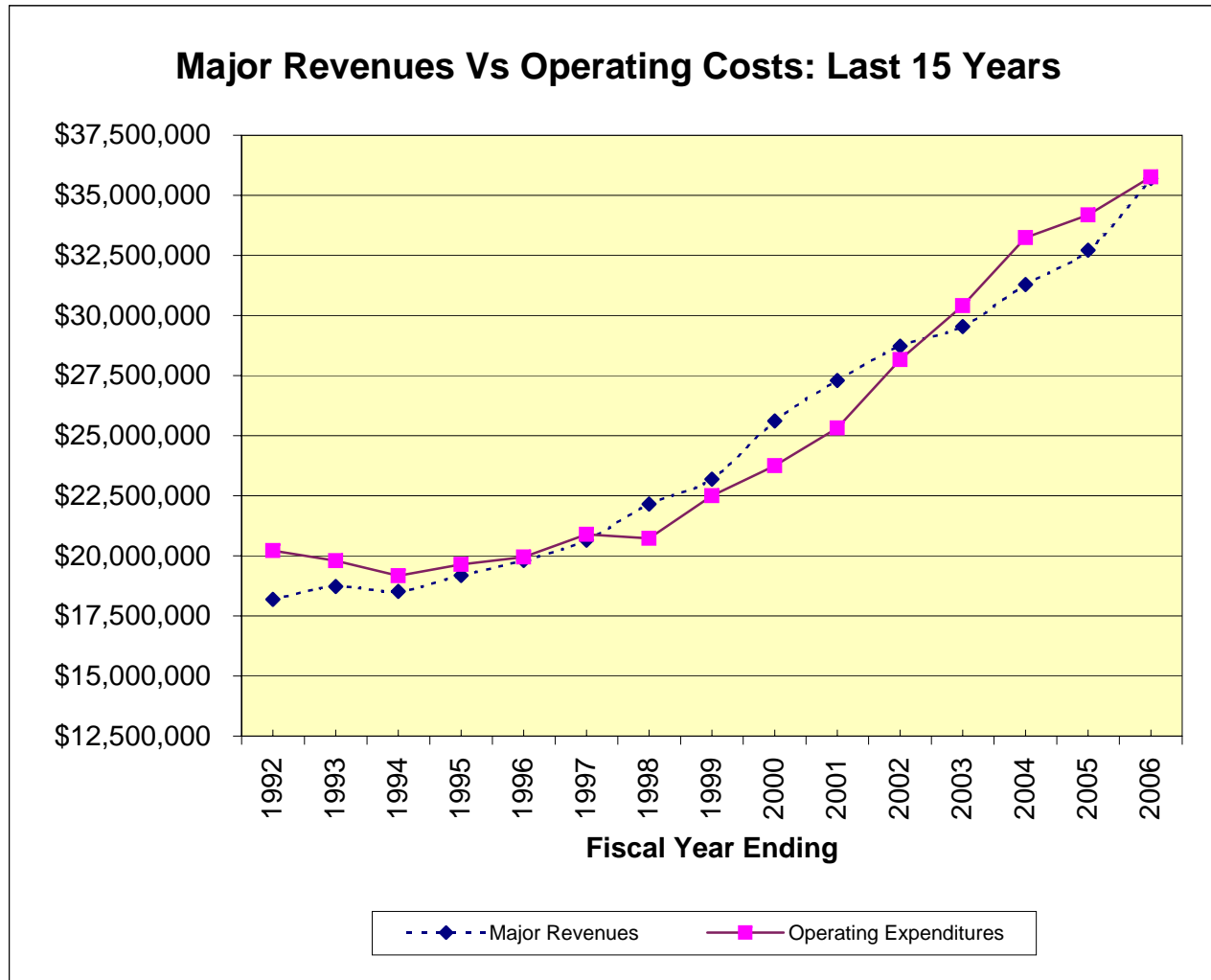
Ratio of General Fund Debt Service Costs to Operating Revenues Last 15 Years



What Do These Charts Show?

Debt service payments have stayed a small part of General Fund revenues over the past 15 years. This underscores our conservative use of debt financing.

Graphics: Major Revenues Compared with Operating Expenditures: Last 15 Years



Historical Trends: Major Revenue Sources

Sales Tax**

Fiscal Year Ending	Amount	Percent Change
1991	6,285,900	
1992	5,850,900	-6.9%
1993	6,212,400	6.2%
1994	6,029,900	-2.9%
1995	6,422,400	6.5%
1996	6,589,500	2.6%
1997	6,869,000	4.2%
1998	7,521,100	9.5%
1999	8,099,000	7.7%
2000	9,283,400	14.6%
2001	9,516,400	2.5%
2002	10,099,200	6.1%
2003	10,179,300	0.8%
2004	11,294,300	11.0%
2005	11,745,400	4.0%
2006	12,675,900	7.9%

Property Tax**

Fiscal Year Ending	Amount	Percent Change
1991	4,128,900	
1992	4,314,800	4.5%
1993	4,016,100	-6.9%
1994	3,647,500	-9.2%
1995	3,714,700	1.8%
1996	3,821,900	2.9%
1997	3,873,500	1.4%
1998	3,966,300	2.4%
1999	4,169,300	5.1%
2000	4,501,300	8.0%
2001	4,799,800	6.6%
2002	5,219,000	8.7%
2003	5,584,200	7.0%
2004	6,069,600	8.7%
2005	6,630,600	9.2%
2006	7,519,600	13.4%

Transient Occupancy Tax (TOT)**

Fiscal Year Ending	Amount	Percent Change
1991	1,396,500	
1992	1,940,400	38.9%
1993	2,276,700	17.3%
1994	2,337,100	2.7%
1995	2,462,000	5.3%
1996	2,641,500	7.3%
1997	2,845,300	7.7%
1998	3,002,900	5.5%
1999	3,256,800	8.5%
2000	3,582,700	10.0%
2001	3,920,200	9.4%
2002	3,790,300	-3.3%
2003	3,840,800	1.3%
2004	3,922,200	2.1%
2005	4,079,800	4.0%
2006	4,539,200	11.3%

Utility Users Tax

Fiscal Year Ending	Amount	Percent Change
1991	2,282,500	
1992	2,605,600	14.2%
1993	2,563,700	-1.6%
1994	2,698,100	5.2%
1995	2,745,600	1.8%
1996	2,725,400	-0.7%
1997	2,828,200	3.8%
1998	2,991,400	5.8%
1999	2,943,400	-1.6%
2000	3,079,100	4.6%
2001	3,425,200	11.2%
2002	3,532,300	3.1%
2003	3,666,200	3.8%
2004	3,669,200	0.1%
2005	3,670,200	0.0%
2006	3,947,300	7.5%

Annual Growth Rate

	Actual	Adjusted*
Last Year	7.9%	4.2%
Last 2 Years	6.0%	2.1%
Last 5 Years	6.0%	3.2%
Last 10 Years	6.8%	3.4%
Last 15 Years	4.9%	1.8%

Annual Growth Rate

	Actual	Adjusted*
Last Year	13.4%	9.5%
Last 2 Years	11.3%	7.3%
Last 5 Years	9.4%	6.6%
Last 10 Years	7.1%	3.7%
Last 15 Years	4.2%	1.2%

Annual Growth Rate

	Actual	Adjusted*
Last Year	11.3%	7.4%
Last 2 Years	7.6%	3.7%
Last 5 Years	3.1%	0.4%
Last 10 Years	5.7%	2.3%
Last 15 Years	8.5%	5.4%

Annual Growth Rate

	Actual	Adjusted*
Last Year	7.5%	3.8%
Last 2 Years	3.8%	0.0%
Last 5 Years	2.9%	0.3%
Last 10 Years	3.8%	0.5%
Last 15 Years	3.8%	0.8%

* Adjusted for compound changes in population and cost of living (CPI) in order to reflect "true" growth in revenues.

** Because there have been significant changes in the underlying factors that determine these three revenue sources, see the supplemental analysis that follows this summary.

What Do These Charts Show?

The performance of each of our major revenue sources over the past 15 years, including comparisons with increases in population and inflation.

Historical Trends: Major Revenue Sources

Vehicle License Fees (VLF)/VLF Swap

Fiscal Year	Amount	Percent Change
1991	1,487,200	
1992	1,465,900	-1.4%
1993	1,551,600	5.8%
1994	1,559,700	0.5%
1995	1,526,600	-2.1%
1996	1,617,200	5.9%
1997	1,694,600	4.8%
1998	1,829,300	7.9%
1999	1,928,800	5.4%
2000	2,130,900	10.5%
2001	2,297,700	7.8%
2002	2,467,400	7.4%
2003	2,621,600	6.2%
2004	2,013,300	-23.2%
2005	2,187,000	8.6%
2006	2,486,400	13.7%

Business Tax

Fiscal Year	Amount	Percent Change
1991	554,200	
1992	606,000	9.3%
1993	714,400	17.9%
1994	746,800	4.5%
1995	787,800	5.5%
1996	824,500	4.7%
1997	905,900	9.9%
1998	1,069,600	18.1%
1999	1,041,500	-2.6%
2000	1,107,800	6.4%
2001	1,275,200	15.1%
2002	1,355,900	6.3%
2003	1,429,900	5.5%
2004	1,475,100	3.2%
2005	1,518,800	3.0%
2006	1,578,000	3.9%

Franchise Fees

Fiscal Year	Amount	Percent Change
1991	569,200	
1992	663,500	16.6%
1993	700,300	5.5%
1994	714,200	2.0%
1995	728,600	2.0%
1996	831,900	14.2%
1997	841,000	1.1%
1998	889,900	5.8%
1999	883,900	-0.7%
2000	1,089,600	23.3%
2001	1,211,800	11.2%
2002	1,388,100	14.5%
2003	1,356,500	-2.3%
2004	1,967,800	45.1%
2005	2,005,600	1.9%
2006	2,101,300	4.8%

Gas Tax

Fiscal Year	Amount	Percent Change
1991	672,900	
1992	747,900	11.1%
1993	683,600	-8.6%
1994	789,200	15.4%
1995	795,000	0.7%
1996	759,200	-4.5%
1997	790,800	4.2%
1998	883,900	11.8%
1999	862,300	-2.4%
2000	834,700	-3.2%
2001	852,300	2.1%
2002	869,800	2.1%
2003	863,200	-0.8%
2004	874,100	1.3%
2005	875,100	0.1%
2006	855,200	-2.3%

Annual Growth Rate **

	Actual	Adjusted*
Last Year	13.7%	9.8%
Last 2 Years	11.2%	7.1%
Last 5 Years	2.5%	-0.1%
Last 10 Years	4.9%	1.6%
Last 15 Years	3.9%	0.8%

Annual Growth Rate

	Actual	Adjusted*
Last Year	3.9%	0.3%
Last 2 Years	3.4%	-0.3%
Last 5 Years	4.4%	1.7%
Last 10 Years	6.9%	3.5%
Last 15 Years	7.4%	4.2%

Annual Growth Rate

	Actual	Adjusted*
Last Year	4.8%	1.2%
Last 2 Years	3.3%	-0.4%
Last 5 Years	12.8%	9.9%
Last 10 Years	10.5%	7.0%
Last 15 Years	9.7%	6.5%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-2.3%	-5.6%
Last 2 Years	-1.1%	-4.7%
Last 5 Years	0.1%	-2.5%
Last 10 Years	1.3%	-1.9%
Last 15 Years	1.8%	-1.2%

* Adjusted for compound changes in population and cost of living (CPI) in order to reflect "true" growth in revenues.

** Due to State takeaways in 2003-04 and 2004-05, averages are significantly skewed.

What Do These Charts Show?

The performance of each of our major revenue sources over the past 15 years, including comparisons with increases in population and inflation.

Supplemental Historical Trends: Sales, Property and Transient Occupancy Taxes

Sales Tax

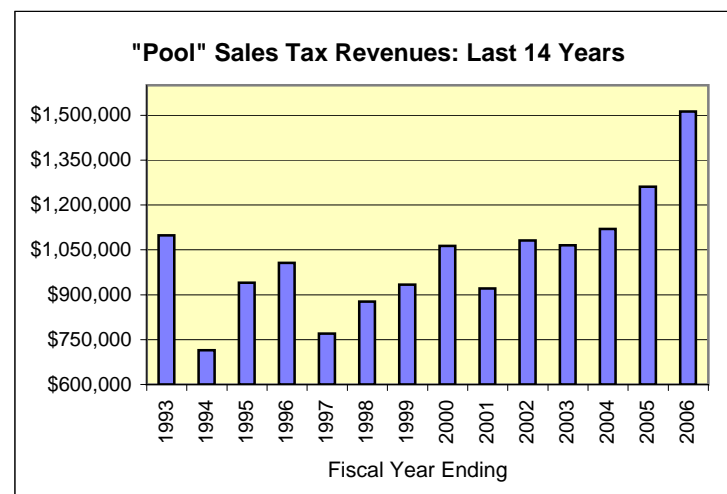
While sales taxes are usually generated on a "situs" basis (city or county unincorporated area where the sale takes place), there are a variety of retail transactions that are allocated on a "pool" basis because the State Board of Equalization believes that it would be too difficult to do otherwise. These are generally known as "use taxes." A significant portion of the City's sales tax revenues come from the "pool" - between 10% to 15%. Allocations from the pool are made in proportion to a city's or county's share of situs revenues; as such, we receive about 35% of County pool revenues. While used car sales between private parties is a large component of the pool for all cities in the State, we have a unique situation in San Luis Obispo due to the Diablo Canyon power plant: it is a large sales tax generator, and all of these revenues go into the County pool. These revenues are especially pronounced during reactor refueling, which occurs about every 14 to 16 months.

However, beginning in 1997, the State Board of Equalization changed its allocation procedures. Now, any individual transaction in excess of \$500,000 that would otherwise be distributed through the pool is allocated on a situs basis. We initially estimated that this change would result in a loss to the City of about \$180,000 on an annualized basis. However, it turns out that this is more difficult to project than we originally thought, because we did not lose all Diablo Canyon revenues - just those with a value greater than \$500,000 per transaction. Cumulatively, it appears that retail activity at Diablo Canyon for individual transactions under \$500,000 remains high. This is reflected in pool revenues for the last five years, when they have either increased or remained relatively constant rather than decreased sharply as we would have otherwise expected.

"Pool" Revenues. Largely driven by the Diablo Canyon power plant, these continue to be a major part of City sales tax revenues.

Because the pool is such a large portion of our total sales revenues and is so volatile based on factors unrelated to the City's retail base, a better indicator of trends is taxable sales on a situs basis, which is presented below. To put the significance of this in perspective, the adjacent chart summarizes City pool sales tax revenues for the past fourteen fiscal years.

"Pool" Revenues	
1992-93	1,098,100
1993-94	714,500
1994-95	939,700
1995-96	1,005,900
1996-97	769,900
1997-98	876,600
1998-99	933,500
1999-00	1,063,500
2000-01	920,600
2001-02	1,080,900
2002-03	1,065,100
2003-04	1,120,200
2004-05	1,261,100
2005-06	1,512,000
14 Year Avg	\$ 1,025,800



Property Tax

Because the City's property tax revenues have been subject to major takeaways by the State, assessed value trends are a much better indicator for this revenue source than actual property tax revenues.

Transient Occupancy Tax (TOT)

The City has made significant changes in the transient occupancy tax (TOT) rate from 1991 through 1993, increasing from 6% to 9% in October of 1991; and then to 10% in October of 1993. As such, sales from transient occupancy rentals ("hotel rooms") is a better indicator for this revenue source than actual TOT revenues.

Summary charts for these three revenue sources reflecting the "bases" discussed above are presented on the following page.

Supplemental Historical Trends: Sales, Property and Transient Occupancy Taxes

Situs Retail Sales (in thousands)

Calendar Year	Amount	Percent Change
1989	533,554	
1990	541,450	1.5%
1991	516,279	-4.6%
1992	515,772	-0.1%
1993	516,852	0.2%
1994	543,789	5.2%
1995	550,603	1.3%
1996	593,809	7.8%
1997	643,816	8.4%
1998	695,615	8.0%
1999	775,276	11.5%
2000	873,912	12.7%
2001	896,127	2.5%
2002	916,628	2.3%
2003	989,718	8.0%
2004*	1,050,959	6.2%

Assessed Value (in millions)

Fiscal Year Ending	Amount	Percent Change
1991	2,001	
1992	2,165	8.2%
1993	2,242	3.6%
1994	2,299	2.5%
1995	2,397	4.3%
1996	2,482	3.5%
1997	2,523	1.7%
1998	2,608	3.4%
1999	2,721	4.3%
2000	2,914	7.1%
2001	3,140	7.8%
2002	3,409	8.6%
2003	3,682	8.0%
2004	4,028	9.4%
2005	4,414	9.6%
2006	4,781	8.3%

Taxable "Hotel Room" Sales

Fiscal Year Ending	Amount	Percent Change
1991	23,797,000	
1992	23,275,000	-2.2%
1993	24,191,700	3.9%
1994	24,598,900	1.7%
1995	23,667,400	-3.8%
1996	26,415,000	11.6%
1997	28,453,000	7.7%
1998	30,029,000	5.5%
1999	32,568,000	8.5%
2000	35,827,000	10.0%
2001	39,202,000	9.4%
2002	37,903,000	-3.3%
2003	38,408,000	1.3%
2004	39,222,000	2.1%
2005	40,798,000	4.0%
2006	45,392,000	11.3%

What Do These Charts Show? Trends for the past 15 years for the underlying "base" for our top three revenues.

Annual Growth Rate

	Actual	Adjusted*
Last Year	6.2%	2.5%
Last 2 Years	7.1%	3.2%
Last 5 Years	6.3%	3.6%
Last 10 Years	6.9%	3.5%
Last 15 Years	4.7%	1.7%

Annual Growth Rate

	Actual	Adjusted*
Last Year	8.3%	4.6%
Last 2 Years	8.9%	5.0%
Last 5 Years	8.8%	6.0%
Last 10 Years	6.8%	3.4%
Last 15 Years	6.0%	2.9%

Annual Growth Rate

	Actual	Adjusted*
Last Year	11.3%	7.4%
Last 2 Years	7.6%	3.7%
Last 5 Years	3.1%	0.4%
Last 10 Years	5.7%	2.3%
Last 15 Years	4.5%	1.5%

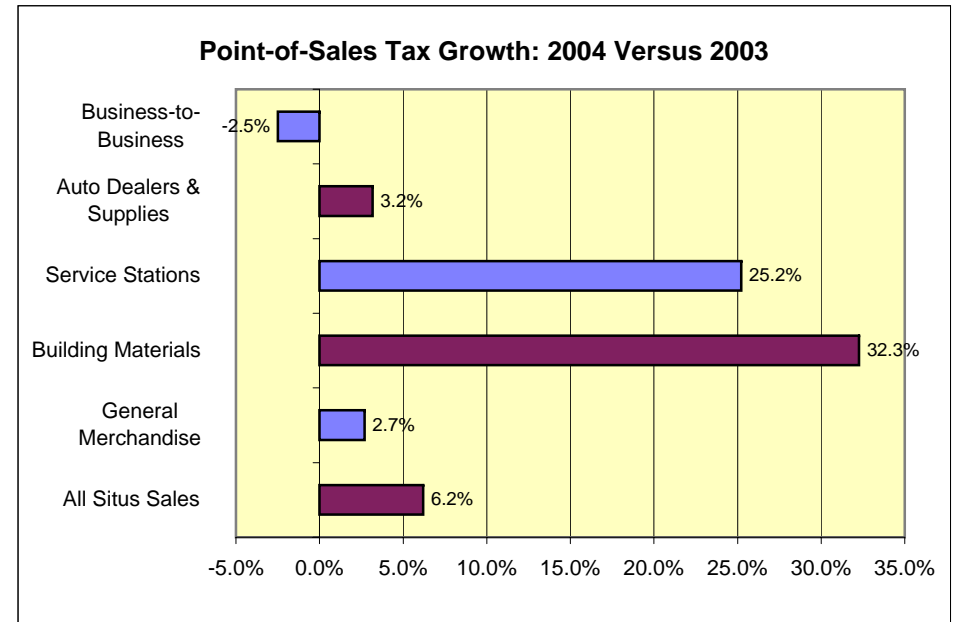
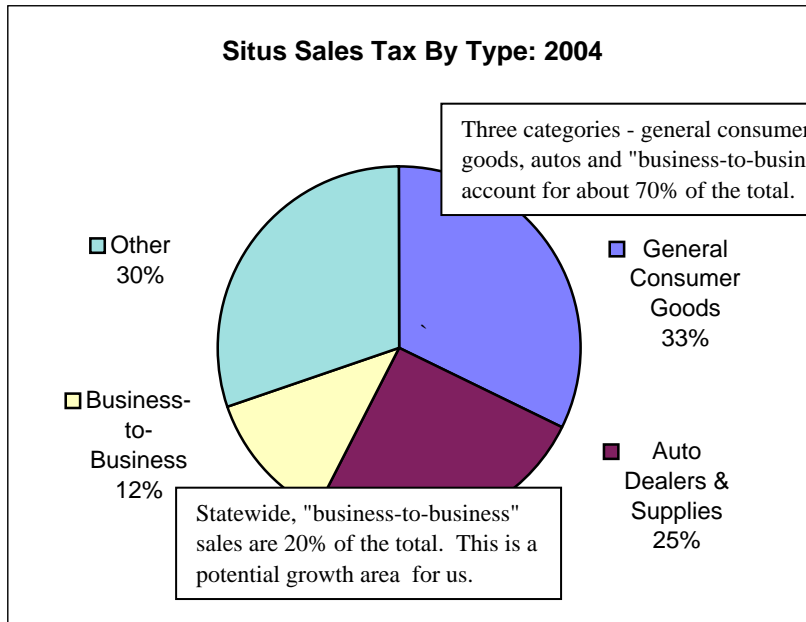
* Most recent year that actual results are available from the State Board of Equalization.

Sales Tax Revenues: Diverse

As reflected by the following, sales growth through 2004 was largely driven by building materials and service stations. Growth in general consumer goods such as apparel and general merchandise, which we traditionally think of as "retail sales," was sluggish. However, as shown on the following page, our most recent experience is different than this.

"Situs" Sales Tax Revenues By Type: Last Five Years

In Thousands	Calendar Year					2004	
	2000	2001	2002	2003	2004	% of Total	% Change
Apparel Stores	28,579	27,980	28,353	30,810	33,265	3%	8.0%
General Merchandise Stores	89,439	92,943	89,437	89,161	89,933	9%	0.9%
Home Furnishings and Appliances	32,733	38,244	40,320	41,464	44,366	4%	7.0%
Other Retail Stores	134,628	128,757	143,054	162,394	171,361	16%	5.5%
Total General Consumer Goods	285,379	287,924	301,164	323,829	338,925	32%	4.7%
Food and Drug Stores	40,082	41,648	41,725	44,797	43,218	4%	-3.5%
Eating and Drinking Places	86,949	93,548	97,084	101,327	105,322	10%	3.9%
Building Material and Farm Implements	58,643	55,664	55,756	82,841	109,562	10%	32.3%
Auto Dealers and Supplies	189,569	230,098	238,449	255,849	263,973	25%	3.2%
Service Stations	49,397	50,532	47,479	48,325	60,508	6%	25.2%
Total Retail Stores	710,019	759,414	781,657	856,968	921,508	88%	7.5%
All Other Outlets (Mostly "Business to Business") 8	163,893	136,713	134,971	132,750	129,441	12%	-2.5%
TOTAL	\$873,912	\$896,127	\$916,628	\$989,718	\$1,050,949	100%	6.2%



Point-of-Sale Revenues: Most Recent Two Quarters

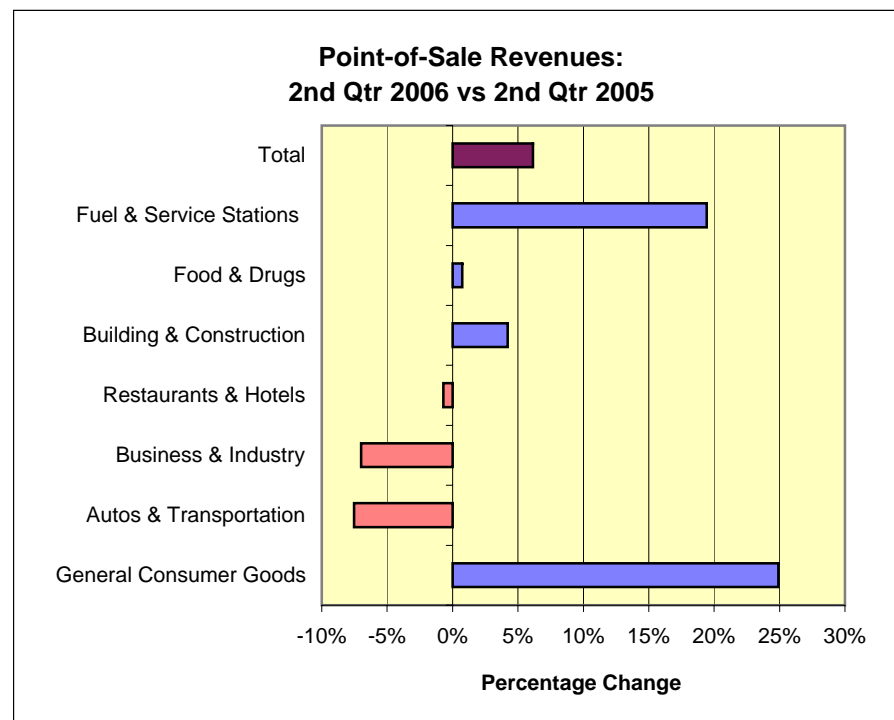
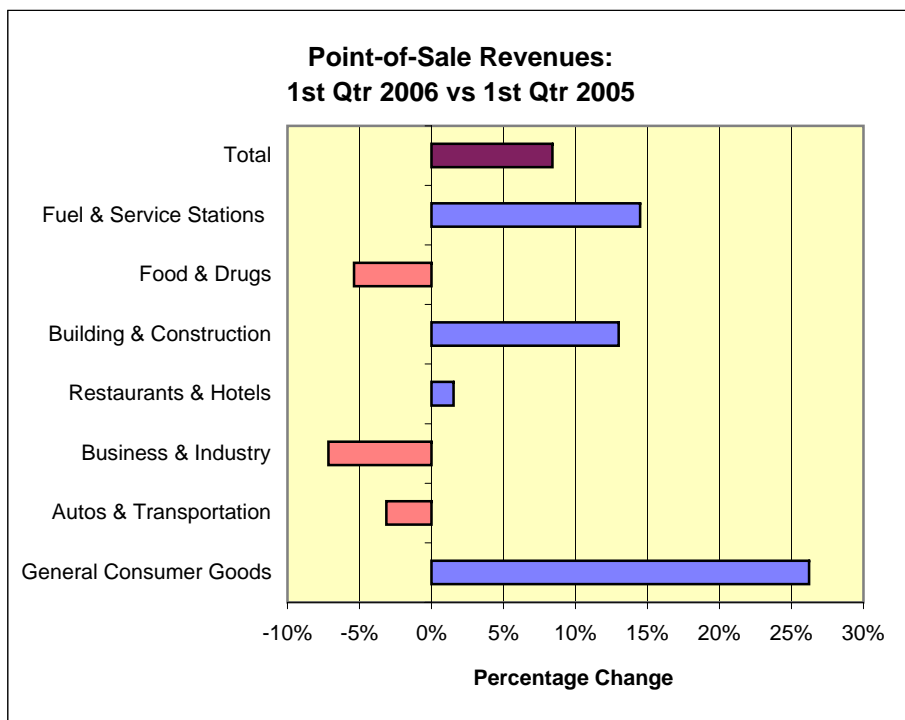
First Quarter of 2006 Compared with 2005

Point-of-Sale Receipts	1st Qtr 06	1st Qtr 05	% Change
General Consumer Goods	914,190	724,261	26.2%
Autos & Transportation	688,701	711,029	-3.1%
Business & Industry	171,253	184,472	-7.2%
Restaurants & Hotels	284,477	280,179	1.5%
Building & Construction	328,940	291,119	13.0%
Food & Drugs	164,122	173,447	-5.4%
Fuel & Service Stations	219,127	191,405	14.5%
Total	\$2,770,810	\$2,555,912	8.4%

Second Quarter of 2006 Compared with 2005

Point-of-Sale Receipts	2nd Qtr 06	2nd Qtr 05	% Change
General Consumer Goods	929,054	743,821	24.9%
Autos & Transportation	711,494	769,521	-7.5%
Business & Industry	200,339	215,393	-7.0%
Restaurants & Hotels	302,957	305,085	-0.7%
Building & Construction	346,715	332,689	4.2%
Food & Drugs	183,445	182,103	0.7%
Fuel & Service Stations	281,892	236,029	19.4%
Total	\$2,955,896	\$2,784,641	6.1%

Based on information provided by the City's sales tax advisor, Hinderliter deLlamas, adjusting for late payments and apportionment errors.

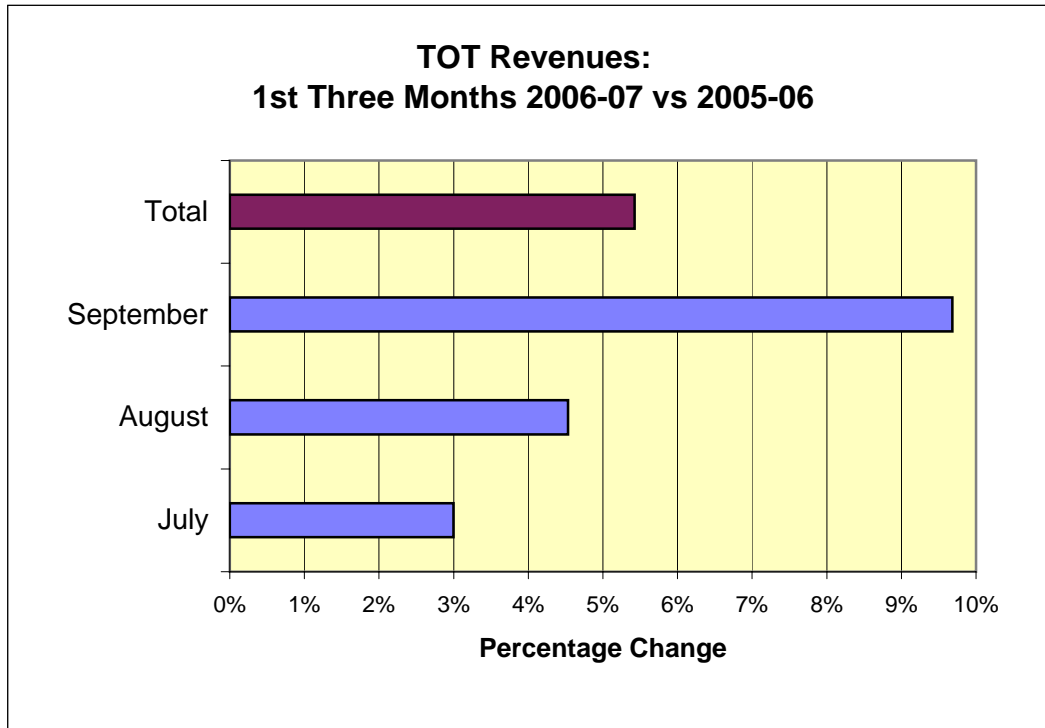


What Do These Charts Show? For the most recent quarters, point-of-sale revenues show decreases in automobile and business-to-business sales, with gains led by fuel sales, building materials (largely attributable to Home Depot) and general consumer goods (largely due to the opening of Costco and the Court Street Center).

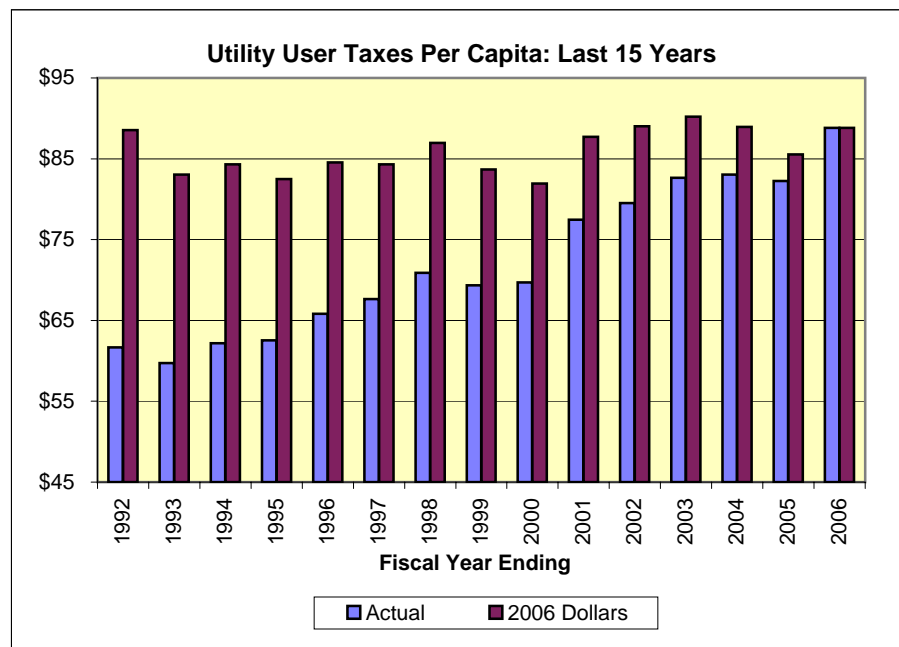
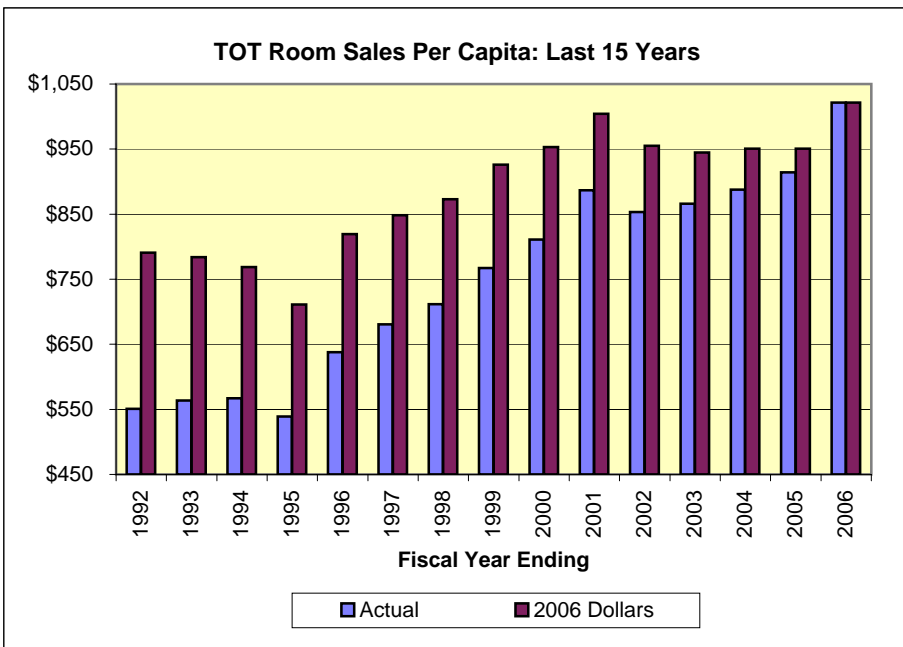
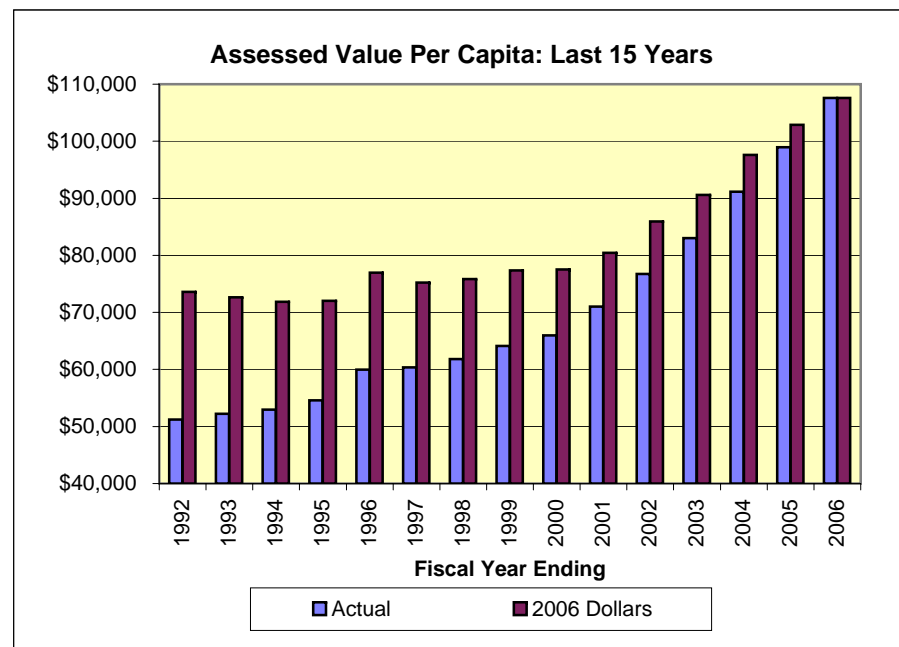
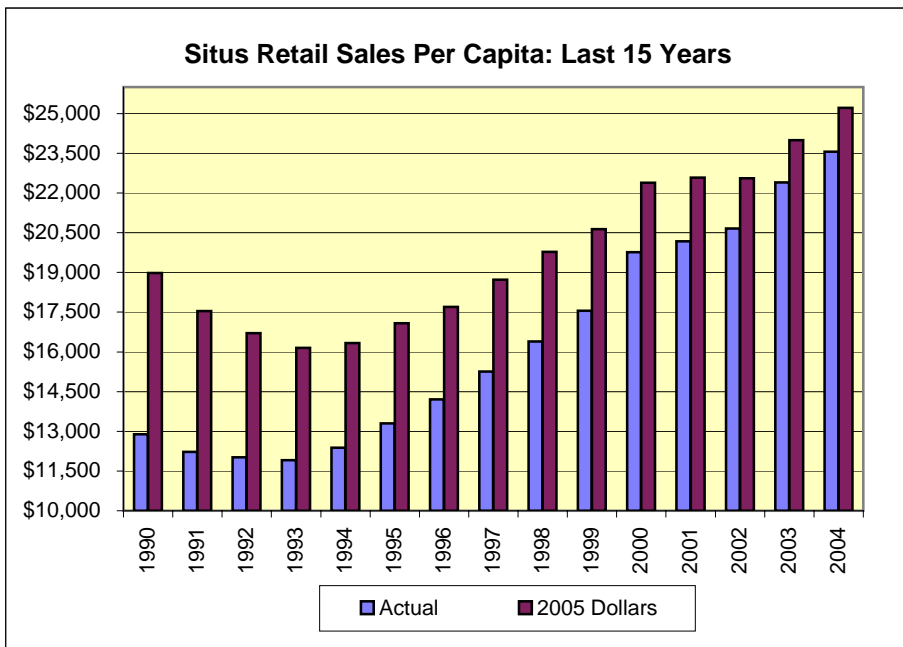
TOT Revenues: First Three Months of 2006-07

2006-07 Compared with 2005-06

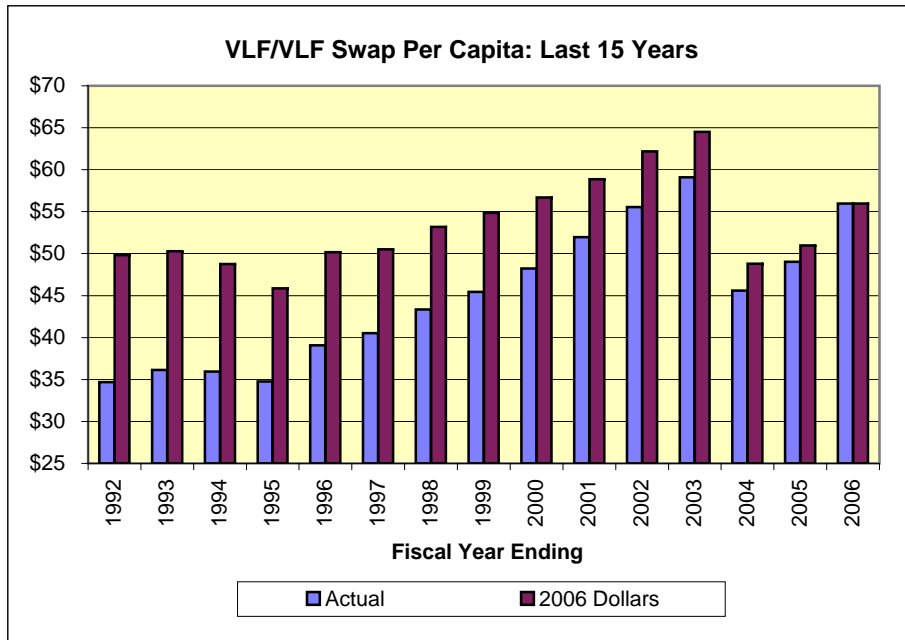
Point-of-Sale Receipts	YTD: 2006	YTD: 2005	% Change
July	521,789	506,594	3.0%
August	530,657	507,639	4.5%
September	432,587	394,404	9.7%
Total	\$1,485,033	\$1,408,637	5.4%



Graphics: Top Five General Fund Revenues: Last 15 Years



Graphics: Top Five General Fund Revenues: Last 15 Years



Development Review Fees: Last Five Years

Planning Fees

Fiscal Year Ending	Revenue
2002	456,800
2003	480,700
2004	669,600
2005	830,200
2006	816,600
Five Year Average	\$650,800

Building

Fiscal Year Ending	Revenue
2002	1,512,000
2003	1,410,900
2004	1,048,300
2005	1,023,700
2006	1,298,700
Five Year Average	\$1,258,700

Engineering

Fiscal Year Ending	Revenue
2002	393,100
2003	255,300
2004	272,200
2005	534,600
2006	516,300
Five Year Average	\$394,300

Fire

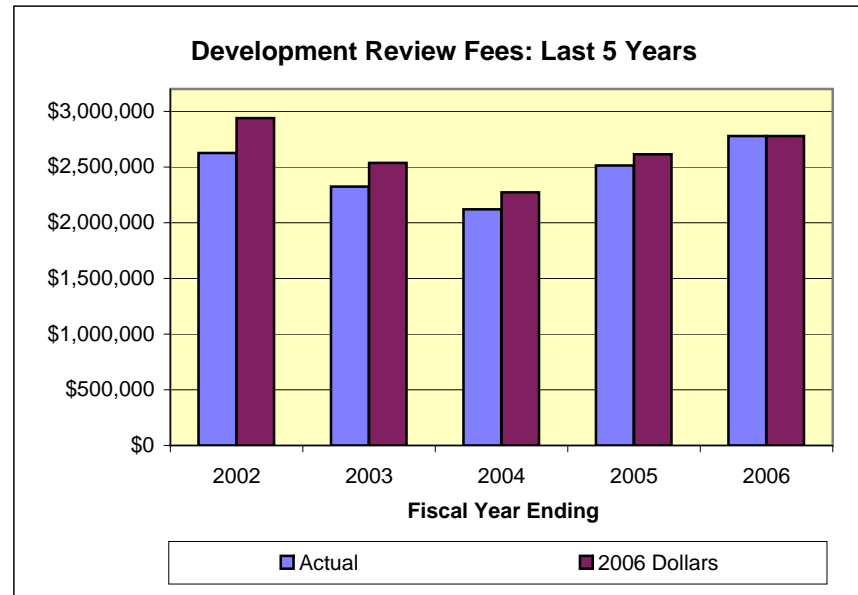
Fiscal Year Ending	Revenue
2002	263,500
2003	178,400
2004	130,800
2005	125,400
2006	145,800
Five Year Average	\$168,800

Total

Fiscal Year Ending	Revenue
2002	2,625,400
2003	2,325,300
2004	2,120,900
2005	2,513,900
2006	2,777,400
Five Year Average	\$2,472,600

Adjusted*
2,939,700
2,537,700
2,270,900
2,614,100
2,777,400
\$2,628,000

* Adjusted for changes in cost of living (CPI) from 2006



Historical Trends: Operating Program Expenditures

Public Safety: Police

Fiscal Year Ending	Amount	Percent Change
1991	4,776,000	
1992	5,456,600	14.3%
1993	5,615,000	2.9%
1994	5,686,500	1.3%
1995	5,863,100	3.1%
1996	5,937,700	1.3%
1997	6,114,700	3.0%
1998	6,086,900	-0.5%
1999	6,417,400	5.4%
2000	6,901,900	7.5%
2001	7,340,700	6.4%
2002	7,990,700	8.9%
2003	8,822,800	10.4%
2004	9,758,100	10.6%
2005	10,121,500	3.7%
2006	10,948,000	8.2%

Public Safety: Fire

Fiscal Year Ending	Amount	Percent Change
1991	3,849,500	
1992	3,885,500	0.9%
1993	3,989,900	2.7%
1994	4,106,100	2.9%
1995	4,061,000	-1.1%
1996	4,336,100	6.8%
1997	4,431,800	2.2%
1998	4,302,300	-2.9%
1999	4,729,000	9.9%
2000	4,581,900	-3.1%
2001	4,841,200	5.7%
2002	5,906,500	22.0%
2003	6,505,200	10.1%
2004	7,495,900	15.2%
2005	7,702,700	2.8%
2006	8,299,000	7.7%

Public Utilities/Disaster Response

Fiscal Year Ending	Amount	Percent Change
1991	15,600	na
1992	58,000	na
1993	67,800	na
1994	105,300	na
1995	366,600	na
1996	0	na
1997	0	na
1998	0	na
1999	0	na
2000	0	na
2001	0	na
2002	0	na
2003	0	na
2004	0	na
2005	0	na
2006	0	na

Transportation **

Fiscal Year Ending	Amount	Percent Change
1991	1,414,800	
1992	1,401,000	-1.0%
1993	1,432,500	2.2%
1994	1,369,200	-4.4%
1995	1,386,900	1.3%
1996	1,462,900	5.5%
1997	1,565,300	7.0%
1998	1,401,200	-10.5%
1999	1,497,700	6.9%
2000	1,501,100	0.2%
2001	1,659,700	10.6%
2002	1,954,100	17.7%
2003	2,015,900	3.2%
2004	1,854,200	-8.0%
2005	2,020,300	9.0%
2006	1,967,800	-2.6%

Annual Growth Rate

	Actual	Adjusted*
Last Year	8.2%	4.4%
Last 2 Years	5.9%	2.1%
Last 5 Years	8.4%	5.6%
Last 10 Years	6.4%	3.0%
Last 15 Years	5.8%	2.7%

Annual Growth Rate

	Actual	Adjusted*
Last Year	7.7%	4.0%
Last 2 Years	5.3%	1.4%
Last 5 Years	11.6%	8.7%
Last 10 Years	7.0%	3.6%
Last 15 Years	5.5%	2.4%

Annual Growth Rate

	Actual	Adjusted*
Last Year	na	na
Last 2 Years	na	na
Last 5 Years	na	na
Last 10 Years	na	na
Last 15 Years	na	na

Annual Growth Rate

	Actual	Adjusted*
Last Year	-2.6%	-6.0%
Last 2 Years	3.2%	-0.6%
Last 5 Years	3.8%	1.2%
Last 10 Years	3.3%	0.1%
Last 15 Years	2.5%	-0.5%

* Adjusted for compound changes in population and cost of living (CPI) in order to reflect "true" growth in expenditures

This includes solid waste mgt costs from response costs of \$286,600 in 1994-95. Solid waste mgt costs were transferred to the Water Fund beginning in 1995-96, along with fully offsetting revenues.

** 1989-99 through 1998-99 adjusted for changes in budgeting for contract street sealing costs; effective 2000-01, now shown as CIP expenditures.

What Do These Charts Show?

The performance of each of operating cost areas over the past 15 years, including comparisons with increases in population and inflation.

Historical Trends: Operating Program Expenditures

Leisure, Cultural & Social Services

Fiscal Year Ending	Amount	Percent Change
1991	3,291,200	
1992	3,328,000	1.1%
1993	3,137,400	-5.7%
1994	2,936,700	-6.4%
1995	2,848,800	-3.0%
1996	3,099,800	8.8%
1997	3,223,700	4.0%
1998	3,177,500	-1.4%
1999	3,308,200	4.1%
2000	3,822,100	15.5%
2001	4,113,300	7.6%
2002	4,540,000	10.4%
2003	4,753,800	4.7%
2004	4,896,400	3.0%
2005	5,145,500	5.1%
2006	5,280,500	2.6%

Community Development

Fiscal Year Ending	Amount	Percent Change
1991	2,441,300	
1992	2,879,900	18.0%
1993	2,640,000	-8.3%
1994	2,452,000	-7.1%
1995	2,355,400	-3.9%
1996	2,323,300	-1.4%
1997	2,522,500	8.6%
1998	2,762,800	9.5%
1999	3,162,600	14.5%
2000	3,102,100	-1.9%
2001	3,501,200	12.9%
2002	3,852,000	10.0%
2003	3,925,000	1.9%
2004	4,420,600	12.6%
2005	4,360,000	-1.4%
2006	4,308,400	-1.2%

General Government

Fiscal Year Ending	Amount	Percent Change
1991	2,975,100	
1992	3,211,500	7.9%
1993	2,917,700	5.7%
1994	2,514,200	-13.8%
1995	2,763,100	9.9%
1996	2,793,200	1.1%
1997	3,033,500	5.7%
1998	3,000,200	-1.1%
1999	3,382,100	12.7%
2000	3,838,400	13.5%
2001	3,868,100	0.8%
2002	3,915,400	1.2%
2003	4,382,100	11.9%
2004	4,820,700	10.0%
2005	4,832,800	0.3%
2006	4,967,400	2.8%

Total

Fiscal Year Ending	Amount	Percent Change
1991	18,763,500	
1992	20,220,500	7.8%
1993	19,800,300	-2.1%
1994	19,170,000	-3.2%
1995	19,644,900	2.5%
1996	19,953,000	1.6%
1997	20,891,500	4.7%
1998	20,730,900	-0.8%
1999	22,497,000	8.5%
2000	23,747,500	5.6%
2001	25,324,200	6.6%
2002	28,158,700	11.2%
2003	30,404,800	8.0%
2004	33,245,900	9.3%
2005	34,182,800	2.8%
2006	35,771,100	4.6%

Annual Growth Rate

	Actual	Adjusted*
Last Year	2.6%	-0.9%
Last 2 Years	3.9%	0.1%
Last 5 Years	5.2%	2.5%
Last 10 Years	5.6%	2.2%
Last 15 Years	3.4%	0.3%

Annual Growth Rate

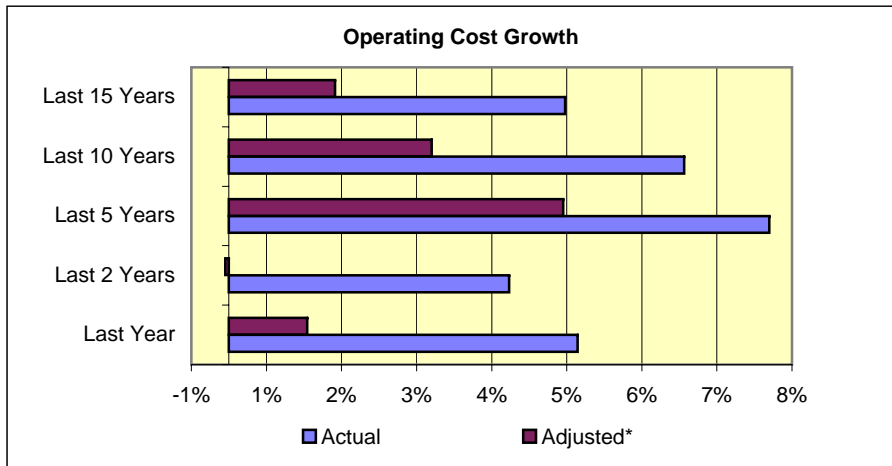
	Actual	Adjusted*
Last Year	-1.2%	-4.6%
Last 2 Years	-1.3%	-4.9%
Last 5 Years	4.4%	1.7%
Last 10 Years	6.6%	3.2%
Last 15 Years	4.2%	1.1%

Annual Growth Rate

	Actual	Adjusted*
Last Year	2.8%	-0.8%
Last 2 Years	1.5%	-2.2%
Last 5 Years	5.2%	2.5%
Last 10 Years	5.8%	2.4%
Last 15 Years	4.6%	1.5%

Annual Growth Rate

	Actual	Adjusted*
Last Year	4.6%	1.0%
Last 2 Years	3.7%	0.0%
Last 5 Years	7.2%	4.5%
Last 10 Years	6.1%	2.7%
Last 15 Years	4.5%	1.4%



* Adjusted for compound changes in population and cost of living (CPI) in order to reflect "true" growth in expenditures

What Do These Charts Show? The performance of each of operating cost areas over the past 15 years, including comparisons with increases in population and inflation. The summary graph shows that except for the average of the two last years, operating costs have never grown by less than compound increases in population and inflation.