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# General Fund

## Five Year Forecast: 2009-14

*Another very tough budget season that would be even worse without Measure Y revenues*

December 2008



city of san luis obispo

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# General Fund Five Year Forecast: 2009-14

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# 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, debt service and capital improvement plan (CIP) costs. If positive, the balance remaining is available to fund “new initiatives;” if negative, it shows the likely “budget gap” that requires corrective action.

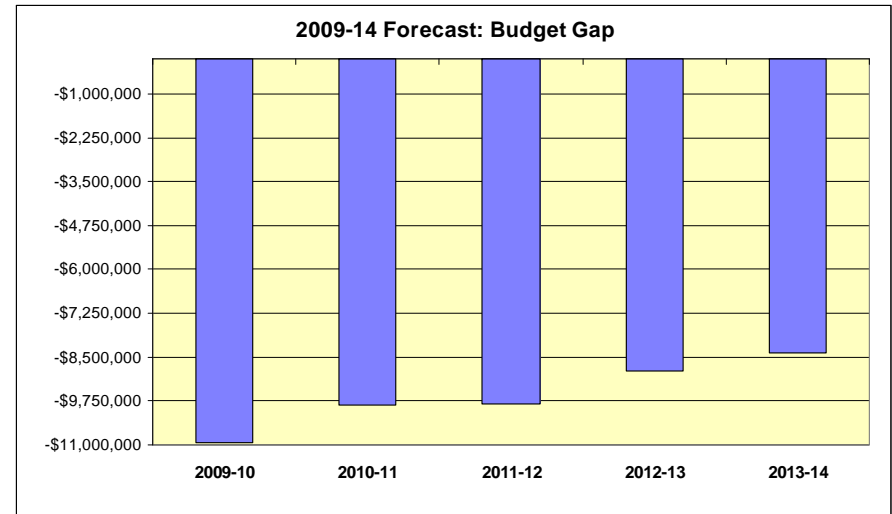
### Very Tough Fiscal Outlook

Consistent with the *General Fiscal Outlook* presented to the Council on November 20, 2008, the forecast concludes that we are facing another very tough budget season that would be even worse without Measure Y revenues.

**Another very tough budget season that would be even worse without Measure Y revenues**

The national and state economies are experiencing their greatest downturns since the Great Depression. While we are better positioned than many communities to deal with this, we are not immune to these powerful economic forces. We have seen – and will continue to see – adverse trends in our top three General Fund revenues of sales, property and transient occupancy taxes.

Combined with unanticipated staffing cost increases of \$2.3 million annually due to an arbitration decision in June 2008, this means we are facing very difficult service delivery decisions in 2009-11.



As reflected above, based on continuing to fund the CIP at the same annual level as the adopted budget for 2007-09 (which reflected a significant increase from 2005-07) and continuing current day-to-day service levels, we are looking at an “order of magnitude” budget gap of about \$9.6 million on average over the next five years.

However, due to assumptions for revenue improvements in the out years, the challenges facing us in 2009-11 are steeper: the average two-year gap projected for 2009-11 is \$10.4 million. This represents a budget gap of about 15% of forecast expenditures. As highlighted in the *General Fiscal Outlook*, this means that without even deeper service cuts in other areas than will already be required, we will not be able to sustain the

#### Does this forecast project a “budget deficit”?

**No.** A “projected budget gap” is not the same as a “budget deficit.” The City will have a budget deficit only if we do nothing. However, by looking ahead and making the tough choices necessary “today” to close projected *future* gaps, we avoid carrying real deficits. Unlike our State and Federal governments, taking proactive steps to avoid deficits is what the City of San Luis Obispo has always done, and it is what we will do prior to adoption of the

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service and infrastructure improvements that were initiated in the 2007-09 Financial Plan, let alone consider further service improvements.

*What is causing this sharp reversal from the brighter outlook two years ago?* These results are directly driven by the key revenue, expenditure and fund balance assumptions that underlie them, which are discussed in detail in this report.

But the short story is this: due to the downturns being felt in virtually all areas of the economy, we are projecting either declines or very tepid growth in all of our key revenues, while costs continue to rise. We do not expect improvements to occur until 2010 at the soonest. While we start with a balanced budget with reserves at policy levels, the laws of mathematics of costs growing much faster than revenues take over quickly. And while we project improvements in our revenue position in the out years, gaps still persist because of the reduced base we begin with in the first two years of the forecast.

### *The Good News*

There is some. Based on the short-term actions taken by the Council in September 2008, we go into 2009-11 with reserves at policy levels of 20% of operating expenditures. This becomes our first line of defense in the event that the economy performs even worse than we estimate – which is certainly possible – or operating costs grow faster than projected.

Reserves are also our first line of defense if there are added State budget takeaways, which are not assumed in this forecast. For this reason, while there may be a limited role for the use of reserves in balancing the budget for 2009-11, we need to be very cautious in doing so: there are just too many uncertainties ahead of us.

### *Very Tough Policy Decisions Ahead*

Based on the results of this forecast, we will be facing very difficult budget decisions as part of the 2009-11 Financial Plan. While new initiatives are always possible, we believe this budget process is going to be about: of the services we provide today, which will we be able to deliver over the next two years?

## 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

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

initiatives within existing resources will require deep reductions—beyond those that will already be needed—in existing services levels in order to do so. However, making trade-offs is what the budget process is all about: determining the highest priority uses of the City's limited resources.

On the other hand, the forecast provides an important framework for decision-making by identifying 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

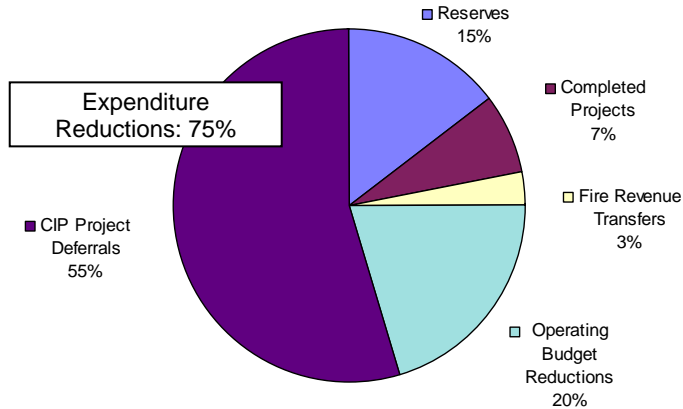
### *Short-Term Budget Actions*

Two years ago, we were facing our best fiscal outlook in many years. Largely due to the passage of Measure Y in November 2006, which enacted a general purpose ½-cent sales tax that generates \$6 million annually, we were able to fund a number of new initiatives in the 2007-09 Financial Plan, including public safety service improvements, restoration of the neighborhood paving program, creek and flood protection improvements, traffic congestion relief, senior services, code enforcement and open space preservation. However, largely due to the binding arbitration decision, on September 30, 2008 the Council took a number of budget rebalancing actions to close a \$4.8 million gap. As reflected in the

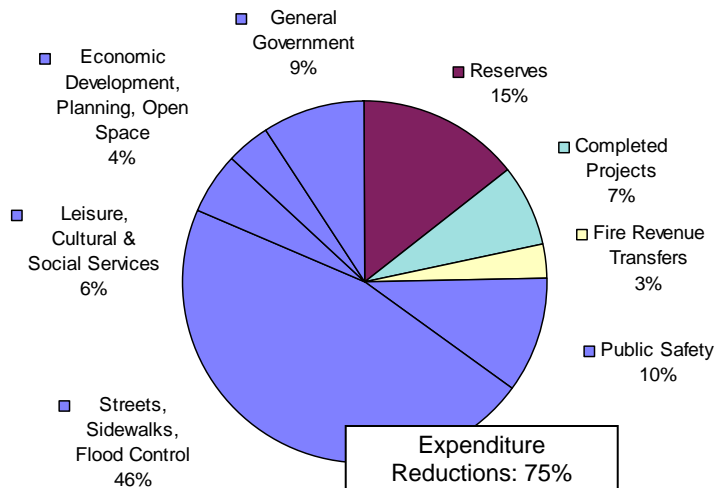
# INTRODUCTION

chart above, 75% of the short-term budget rebalancing actions relied on expenditure reductions (20% operating and 55% capital).

## \$4.8 Million Short-Term Budget Rebalancing Actions



When viewed on a functional basis, the chart below shows that all areas of the City’s operations were affected by the expenditure reductions. It also shows that reduced funding for infrastructure maintenance like streets and flood protection took the lead role in closing the gap.



As noted in the September 30 report, these actions were intended to be short-term steps in rebalancing the 2008-09 budget in the wake of the binding arbitration decision. Long-term budget-balancing will be an integral part of the 2009-11 Financial Plan process.

**Fiscal Health Contingency Plan in Place.** In response to the adverse impacts of the binding arbitration decision, in June 2008 we immediately began implementing the actions set forth in the City’s *Fiscal Health Contingency Plan*. Along with the actions taken by the Council in September 2008, this includes a hiring “chill.” At this point, the “chill” is not an absolute freeze in filling vacant positions. However, City Manager approval is required to fill all vacant regular positions. To do so, Department Heads must demonstrate that it is necessary in meeting public health, safety or other high-priority service needs that cannot be met on an interim basis through contract, overtime or temporary staffing. In implementing the “chill,” the goal is not just short-term savings, but preserving future options in the longer term. This applies to regular positions in the enterprise and other funds as well as the General Fund. It does not apply to filling temporary positions, as this may be one of the strategies for short-term mitigations of the hiring chill.

“Banking” vacant positions has been a key strategy in avoiding lay-offs in the past when responding to tough fiscal times. While we made position reduction decisions in the past based solely on service priorities and minimizing community impacts (not on vacant positions, which are solely due to serendipity), we banked enough vacant positions during the “chill” to avoid regular staff lay-offs. In positioning us for difficult challenges that lie ahead of us in preparing the 2009-11 Financial Plan, the hiring chill will remain in effect until June 2009; and may become a harder “freeze” in the near future.

## KEY BUDGET DRIVERS AFFECTING OUR FISCAL OUTLOOK

### 1 Unfavorable Revenue Outlook

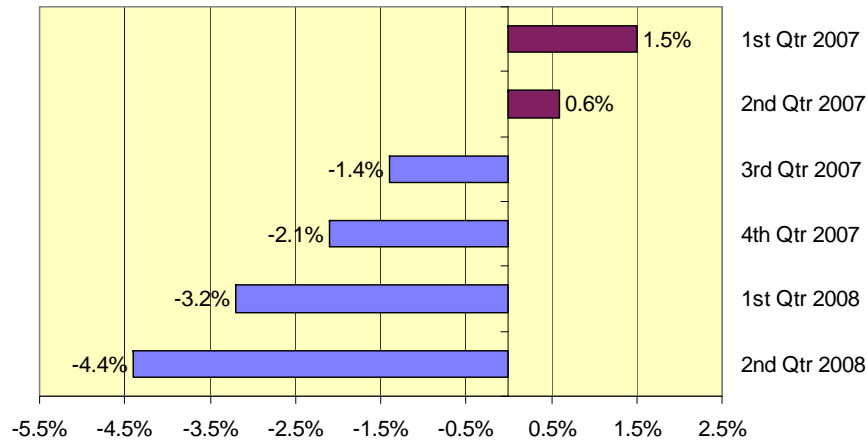
Due to the continuing downward spiral of the economy, we are facing an unfavorable outlook in our top revenues. Sales tax, property tax and transient occupancy tax (TOT) are the City’s top three General Fund

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revenues, accounting for about two-thirds of all funding sources: we project declines or very tepid growth in all three of these.

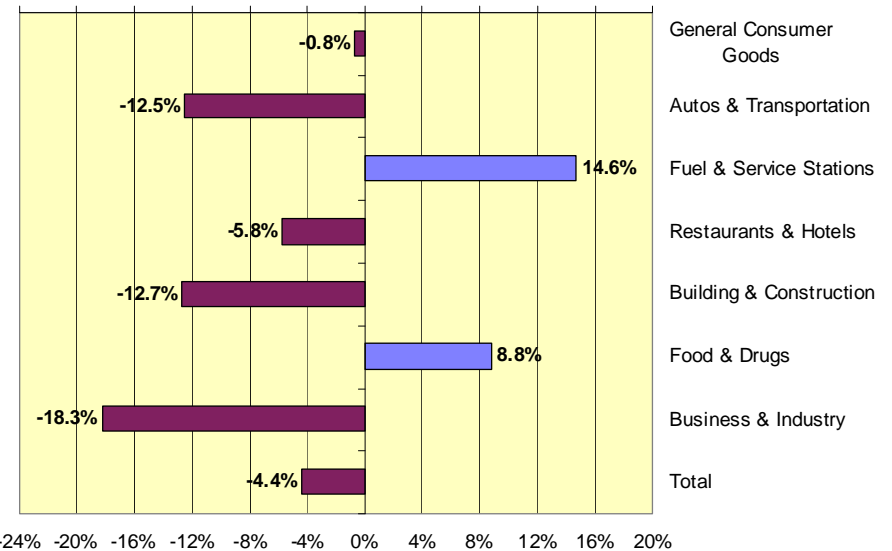
**Sales Tax.** Trends for the most recent six quarters that data is available are not encouraging: they show continuing declines, with decreases of 4% in the most recent quarter (second quarter 2008). Underlying trends have undoubtedly worsened since then.

**Sales Tax % Change: Last Six Quarters**



In the second quarter of 2008 (the most recent quarter for which this information is available), revenues were down compared with the same quarter in 2007 in every category except fuel and food. The increase in food and drugs is most likely an anomaly; and this category only accounts for 7% of our total retail sales. With declining gasoline prices, the increase in fuel will not to continue and in fact, will become “negative” bars in the future.

Sales in general consumer goods, our largest sales tax generator (accounting for about 35% of revenues) were basically flat. And our “number 2” sales tax generator – autos sales, which account for 20% of sales tax revenues, was down 12%. This slide is likely to continue.



Adding to the uncertain outlook for sales tax revenues is the impact of “pool revenues,” which are largely driven by “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.

Based on these factors, we are projecting declines in “base” sales tax revenues of 7.25% in 2008-09 and 2.5% in 2009-10 – a compound drop of 10% over two years, with very tepid growth after this. However, we are projecting adding revenues to this base from the following sources:

### Additions to the Retail Base

	Year and Amount Added to the “Base”				
	2009-10	2010-11	2011-12	2012-13	2013-14
Airport Area Annexation: 1A	210,000	60,000	60,000	60,000	60,000
Airport Area Annexation: 1B					210,000
Target Chinatown		281,300	281,300	295,800	
<b>Total</b>	<b>210,000</b>	<b>341,300</b>	<b>341,300</b>	<b>355,800</b>	<b>270,000</b>

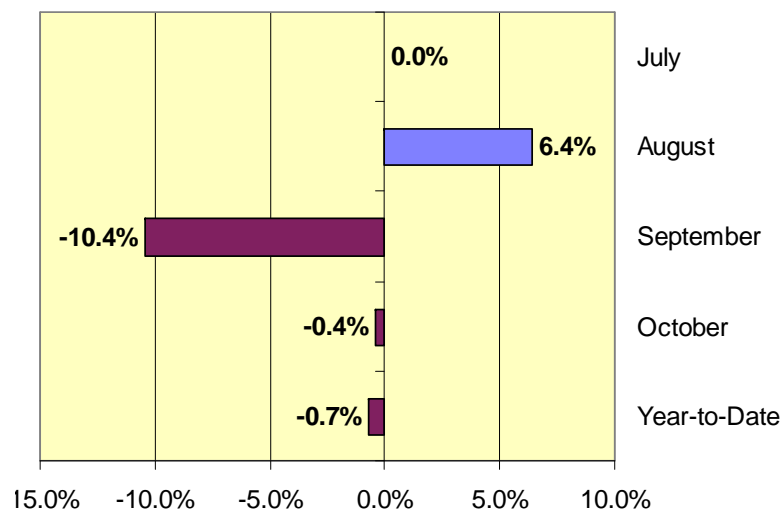
The revenue estimates above are “net” of projected transfer affects and service costs, based on the following assumptions:

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1. **Airport Area Annexation.** These projections are based on current estimates of existing sales tax revenues of about \$600,000, evenly split between areas 1A (already annexed) and 1B, which will estimate will be completed by the fifth year of the forecast. Under our annexation agreement with the County, the “1%” rate currently received by them will be phased into the City over five years (\$60,000 annually). The City’s ½-cent rate from Measure Y begins upon annexation.
2. **Target Store.** Based on likely timeframes for development and revenue estimates prepared with the assistance of our sales tax advisor, we project added annual sales tax revenues from Target of \$562,000 (including Measure Y), with half of this generated in 2010-11 assuming an opening in late 2010.
3. **Chinatown.** Based prior analyses of “net” sales tax revenues, we project \$295,800 beginning in 2012-23.

By “Year Five” in the forecast, these new outlets account for about \$1.5 million in new annual revenues.

**TOT Revenues.** The first four months of 2008-09 show mixed and tepid results at best. Year-to-date, results are essentially flat, with declines in the last two months:



Based on these results, with some optimism based on the recent formation of the Tourism Business Improvement District, we are projecting 1% growth for 2008-09; and modest increases of 2% to 4% in the current base for 2009-14. Additionally, we are projecting the following increases in the “base,” after accounting for transfers from current businesses:

Hampton Inn: 2012-13	\$109,500
Chinatown: 2012-13	485,000
Garden Street Terraces: 2014-15	250,000

**Property Taxes.** While we are not experiencing the depth of property value declines and foreclosures as other areas of the state, we anticipate some reassessments downward, which will largely offset any gains. Accordingly, we project modest increases of 2% in 2009-10 and 3% in 2010-11. This is followed by increases of 4% to 5% in the out years.

### ② Beginning Reserves Consistent with September Estimates

As discussed in the *General Fiscal Outlook* in November 2008 (and in greater detail in the Comprehensive Annual Financial Report, which will also be presented to the Council at the December 16 Budget Workshop), the financial results for 2007-08 are target with our estimates in the September 30, 2008 report to the Council. The good news here is no “new” news.

### ③ Operating Costs

Setting aside the recent binding arbitration decision, our operating costs have largely stabilized. As discussed in *General Fiscal Outlook*, there are no significant additions to the base, like maintaining the Damon-Garcia sports fields; responding to special needs like Mardi Gras; or coping with increased insurance, retirement or fuel costs. And the added cost of binding arbitration decision is now part of our “regular” cost base.

With a stabilized base, the key cost driver at this point is staffing cost increases, which account for 80% of operating costs. These will be largely determined by the “meet and confer” contracts we enter into in the coming

## INTRODUCTION

year. As asked in the *General Fiscal Outlook*, the key question facing us is: will salary agreements look like:

1. The recent arbitration decision, where salary costs (including educational incentives) rose about 9% per year over the last four years.
2. Agreements with all other units, where salary costs rose about 4.5% per year over the last four years?
3. Or more like the 2% salary increase approved for the management group for 2009?

We believe that the assumption of a 2% increase to operating costs is a good benchmark based on several factors:

1. Given the fiscal challenges ahead of us, our goal should be very modest labor agreements.
2. We should see reductions in energy costs for our facilities in general and key uses in specific like the swim center, street lighting and fleet operations.
3. Given recessionary forces, we should see modest increases and declines in some areas for non-staffing costs. We have already experienced this in very competitive construction contract bid awards.

Accordingly, the forecast assumes overall operating cost increases of 2% from the 2008-09 base (excluding the \$975,000 in short-term savings implemented in 2008-09, largely from the “hiring chill”) for 2009-11, growing by population and inflation thereafter.

### **4 Infrastructure and Facilities Maintenance**

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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 \$8.8 million annually. This excludes any enhancements or “betterments.” To place this in context:

1. The adopted General CIP for 2007-09 averaged \$8.1 million, which was a major up-tick from 2005-07.
2. The average annual General Fund CIP in the 2005-07 Financial Plan was about \$2.5 million.
3. For 2006-07, total originally adopted General Fund CIP appropriation was \$2.1 million.

This underscores the tough policy decisions ahead of the Council in preparing a balance budget for 2009-11, given our CIP needs on one hand, and the likelihood of significant CIP reductions on the other.

### **5 Debt Service Costs**

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There are two key CIP projects that will be largely funded by debt financings: the radio system upgrade and public safety dispatch center improvements. We project \$795,000 in annual General Fund debt service costs for these two projects beginning in 2009-10. However, as discussed below, several outstanding debt issues will mature in 2009-14.

## **BASIC FORECAST FRAMEWORK**

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### **Background**

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The approach we have taken in preparing this forecast builds on our experience over the past sixteen 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**

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A detailed discussion of the assumptions used in the forecast is provided on page 10. However, the following summarizes key forecast factors:



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1. **State Budget Actions.** The forecast assumes no adverse budget impacts from State actions. (Of course, it doesn't assume any favorable ones, either.) Given the significant fiscal challenges facing the State, this is a significant assumption. However, based on Proposition 1A protections and the statements of the Governor and legislative leaders so far, we believe that this a reasonable forecast assumption. On the other hand, the uncertainty facing us reinforces the need to maintain strong reserves.

It is important to stress that even if the State's budget solution does not have a large direct impact on the City, deep cuts to schools, health and human services, corrections and higher education will have significant impacts on our community.

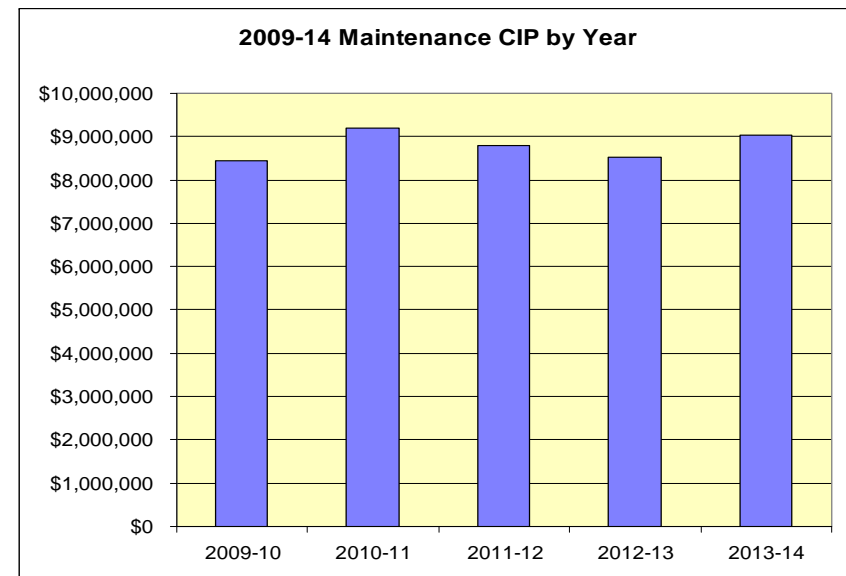
2. **Grants/Economic Stimulus Package.** The forecast does not reflect the receipt of any "competitive" grant revenues over the next five years or the possible receipt of funding from the proposed economic stimulus package. However, our experience tells us that we will undoubtedly be successful in obtaining 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.

3. **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.

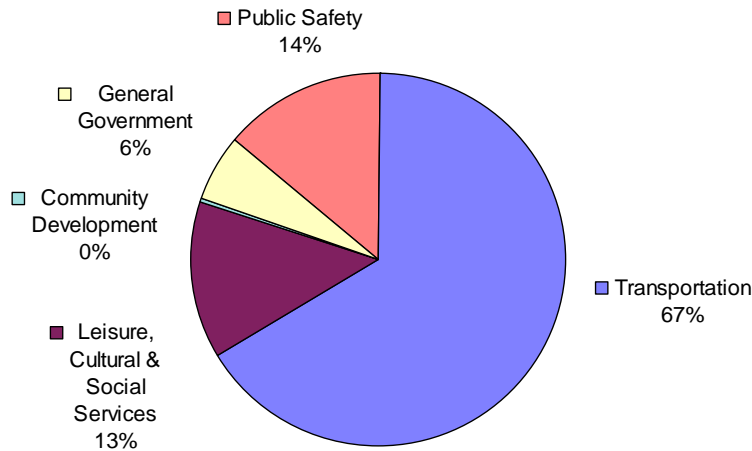
4. **Operating Program Expenditures.** As discussed above, operating costs are projected increase by 2% annually in 2009-11 using 2008-09 as the base; and by population and inflation thereafter: 3.7%.
5. **CIP Expenditures.** To serve as a benchmark in framing the policy choices ahead of us, forecast CIP assumes continuing funding levels at the average annual level approved in the 2007-09 Financial Plan – about \$8.3 million annually adjusted for inflation. 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 \$8.8 million annually, which reinforces the reasonableness of assuming 2007-09 budget levels as the forecast assumption.



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

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**2009-14 Maintenance CIP By Function**



6. **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 \$795,000 annually beginning in 2009-10 for the radio system upgrade and new public safety dispatch center. It also reflects the final debt service payment in 2009-10 for bonds originally issued in 1990, which reduces debt service costs by about \$347,000 in 2010-11; and the final debt service payment in 2012-13 for bonds issued in 1986, which reduces debt service payments by about \$295,000 in 2013-14. The detail for the “Maintenance-Only” CIP is provided on page 14.

**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

**“New” Projects *Not* Assumed in the Forecast CIP**

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

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.

**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, and as such, most likely to be different in the Preliminary Financial Plan that will be presented to the Council and community in May 2009.

1. **Sales Tax.** There are a number of very complex components that make-up the base of our most important revenue source. Moreover, it is the revenue source most affected by downturns in the economy. 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. **Property Taxes.** We are assuming there will not be significant declines in property values or major reassessment downwards. This may simply not be the case if markets continue their freefall.

3. **TOT.** With only four months of mixed data into the current fiscal year, we will be better able to assess current trends at the mid-year budget review.

4. **Development Review Fees.** These are subject to changes in the construction market, over which the City has no control. Given likely reductions in development review activities, we are estimating 25%

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reductions in these revenues from 2007-08 for 2008-09 and 2009-10; 20% in 2010-11; 15% in 2011-12; and 10% in 2012-14.

5. **Operating Cost Increases.** As noted above, the forecast is not the budget. The assumption of annual increases of 2% in 2009-11 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. Moreover, the forecast cannot determine the results of the meet and confer process.
6. **Mid-Year Budget Review.** The operating cost base for 2009-14 is based on the current 2008-09 budget. However, this is subject to revision at the mid-year budget review based on any unexpected new costs.

## SUMMARY

While we face significant fiscal challenges, we go into 2009-11 with a number of positives compared with many communities in California:

1. We have a balanced budget and reserves are at minimum policy levels.
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 fiscal challenges ahead of us.

Moreover, the fact remains that in good times or bad, the fundamental policy questions posed by the budget process are the same: 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?



## SUMMARY OF MAJOR ASSUMPTIONS

### DEMOGRAPHIC TRENDS

1. **Population and Housing.** Population grows by 0.25% in 2009-11; 0.5% in 2010-11; 0.7% in 2011-13 and 2012-13; and by 1.0% for 2013-14.
2. **Inflation.** Grows by 3% annually throughout the forecast period.

### EXPENDITURES

1. **Operating Expenditures.** Using the adopted 2008-09 budget as the base, grows by 2% in 2009-11 and then by population and inflation (between 3.7% annually).
2. **CIP Expenditures.** Based on the average annual CIP for 2007-09 (about \$8.3 million annually). This is less than the “Maintenance-Only CIP,” which projects annual cost of about \$8.8 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 new public safety dispatch center and radio system improvements about (\$795,000). It also reflects the final debt service payment in 2009-10 for bonds originally issued in 1986, which reduces debt service costs by about \$347,000 in 2010-11 and the final debt service payment in 20012-13 for bonds issued in 1986, which reduces debt service costs by about \$295,000 in 2013-14.

### STATE BUDGET ACTIONS

No adverse budget actions during 2009-14 (but no positive ones, either). Given the significant fiscal challenges facing the State, this is a significant assumption. However, even if the State’s budget solution does not have a large direct impact on the City, deep cuts to schools, health and human

services, corrections and higher education will have significant impacts on our community.

### 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.** Declines in “base” sales tax revenues of 7.25% in 2008-09 and 2.5% in 2009-10 followed by modest growth of 2% to 3.7% during the remaining years of the forecast, plus additional “net” revenues from the following new outlets:

	Year and Amount Added to the “Base”				
	2009-10	2010-11	2011-12	2012-13	2013-14
Airport Area Annexation: 1A	210,000	60,000	60,000	60,000	60,000
Airport Area Annexation: 1B					210,000
Target		281,300	281,300		
Chinatown				295,000	
<b>Total</b>	<b>210,000</b>	<b>341,300</b>	<b>341,300</b>	<b>355,000</b>	<b>270,000</b>

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

## SUMMARY OF MAJOR ASSUMPTIONS

2. **Property Tax.** Grows by 2% in 2009-10; by 3% in 2010-11; by 4% in 2011-12; and by 5% annually thereafter.
3. **Transient Occupancy Tax.** Given current trends, combined with the recent formation of the Tourism Business Improvement District, grows by 1% in 2008-09; and modest increases of 2% to 4% thereafter. Additionally, we are projecting the following increases in the “base,” after accounting for transfers from current businesses:
 

Hampton Inn: 2012-13	\$109,500
Chinatown: 2012-13	\$485,000
Garden Street Terraces: 2014-15	\$250,000
4. **Utility Users Tax.** Based on trends for the last five years, grows by population and inflation throughout the forecast period.
5. **Vehicle License Fees/VLF Swap.** With the “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 0.25% in 2009-10; by 0.50% in 2010-11; by 0.70% in 2011-12 and 2012-13; and by 1% in 2013-14.
9. **Development Review Fees.** Based on a percentage reduction from the 2007-08 actual revenues ranging from a 25% reduction in 2008-09 to a 10% reduction in 2012-14.
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% yields and available fund balance.

## Special Revenue Assumptions

1. **Proposition 42 Revenues.** The City should receive about \$456,400 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. The City received approximately \$711,000 in 2007-08. The forecast assumes that \$657,700 will be received in 2008-09.
3. **Mutual Aid Reimbursements.** The forecast assumes that we will have \$250,000 in mutual aid reimbursements. This revenue results when Fire personnel respond to significant events (usually wildland fires) for which we receive reimbursement from Federal or State sources. The revenues are shown “net” of our direct costs of responding to the event. Response to these types of events is volatile and difficult to predict, however experience shows that we should anticipate some level of revenue from this source each year. These revenues were usually high in 2007-08 and 2008-09.
4. **Insurance Refunds.** The forecast assumes that in 2008-09 we will receive \$593,000 on deposit with the CJPIA for workers’ compensation liabilities incurred before moving to it for coverage in 2005. This is reflected in the “other revenue” line.

## FUND BALANCE

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

## GENERAL FUND FIVE YEAR FISCAL FORECAST: 2009-14

	2007-08 Actual	2008-09		FORECAST				
		Budget	Revised	2009-10	2010-11	2011-12	2012-13	2013-14
<b>REVENUES &amp; OTHER SOURCES</b>				<i>2009-11 Financial Plan</i>				
<b>Taxes</b>								
Sales Tax - General (Based on "effective" 1% tax rate)	13,581,700	13,525,000	12,597,000	12,342,100	12,836,400	13,558,800	14,317,700	14,967,500
Sales Tax - Measure Y (Based on 1/2% rate; lower base than "general")	5,996,600	5,900,000	5,561,800	5,572,800	5,778,100	6,085,700	6,409,500	6,796,700
Sales Tax - Proposition 172	288,400	341,700	267,500	260,800	271,200	286,500	302,500	316,200
Property Tax	8,374,200	9,274,500	8,792,900	8,968,800	9,237,900	9,607,400	10,087,800	10,592,200
Transient Occupancy Tax	5,054,700	5,223,400	5,105,200	5,207,300	5,311,400	5,470,700	6,229,300	6,728,500
Utility Users Tax	4,177,700	4,313,300	4,313,800	4,456,200	4,612,200	4,782,900	4,959,900	5,158,300
VLF Swap	3,280,100	3,470,900	3,288,300	3,354,100	3,454,700	3,592,900	3,772,500	3,961,100
Franchise Fees	2,361,700	2,402,500	2,438,600	2,519,100	2,607,300	2,703,800	2,803,800	2,916,000
Business Tax	1,866,400	1,939,600	1,913,100	1,989,600	2,069,200	2,152,000	2,238,100	2,327,600
Real Property Transfer Tax	213,000	275,000	200,000	200,000	225,000	225,000	225,000	225,000
<b>Subventions &amp; Grants</b>								
Vehicle License In-Lieu Fees (VLF)	190,300	208,000	176,500	180,000	185,400	192,800	202,400	212,500
Mutual Aid Reimbursements	1,171,600		998,200	250,000	250,000	250,000	250,000	250,000
Gas Tax/TDA and Other Transfers In	874,400	860,400	860,400	862,600	866,900	873,000	879,100	887,900
Proposition 42/Proposition 1B Transfers In	842,900	456,400	1,114,100	456,400	456,400	456,400	456,400	456,400
Other Subventions & Grants	639,400	593,500	593,500	611,300	629,600	648,500	668,000	688,000
<b>Service Charges</b>								
Development Review Fees	2,705,600	2,586,600	2,029,200	2,029,200	2,164,500	2,299,800	2,435,000	2,435,000
Recreation Fees	1,207,500	1,072,900	1,246,800	1,287,900	1,333,000	1,382,300	1,433,400	1,490,700
Other Service Charges	1,547,100	1,333,500	1,363,500	1,408,500	1,457,800	1,511,700	1,567,600	1,630,300
<b>Other Revenues</b>								
Fines & Forfeitures	228,200	232,500	228,200	235,000	242,100	249,400	256,900	264,600
Interest Earnings and Rents	1,116,700	865,700	740,700	387,000	393,300	472,500	556,300	574,600
Other Revenues	151,100	75,000	693,000	100,000	100,000	100,000	100,000	100,000
<b>Total Revenues</b>	<b>55,869,300</b>	<b>54,950,400</b>	<b>54,522,300</b>	<b>52,678,700</b>	<b>54,482,400</b>	<b>56,902,100</b>	<b>60,151,200</b>	<b>62,979,100</b>
<b>EXPENDITURES &amp; OTHER USES</b>								
Operating Programs	48,365,200	48,636,900	49,765,100	52,002,500	53,042,600	55,005,200	57,040,400	59,322,000
Debt Service	2,078,000	2,696,300	2,075,900	2,870,500	2,523,500	2,523,500	2,523,500	2,228,500
Capital Improvement Plan	11,478,200	7,559,100	5,488,300	8,318,800	8,568,400	8,825,500	9,090,300	9,363,000
<b>Total Expenditures</b>	<b>61,921,400</b>	<b>58,892,300</b>	<b>57,329,300</b>	<b>63,191,800</b>	<b>64,134,500</b>	<b>66,354,200</b>	<b>68,654,200</b>	<b>70,913,500</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(6,052,100)</b>	<b>(3,941,900)</b>	<b>(2,807,000)</b>	<b>(10,513,100)</b>	<b>(9,652,100)</b>	<b>(9,452,100)</b>	<b>(8,503,000)</b>	<b>(7,934,400)</b>
<b>Budget Gap</b>				<b>(10,942,700)</b>	<b>(9,860,100)</b>	<b>(9,844,600)</b>	<b>(8,910,100)</b>	<b>(8,390,700)</b>
<b>FUND BALANCE, BEGINNING OF YEAR</b>	18,830,000	14,512,700	12,777,900	9,970,900	10,400,500	10,608,500	11,001,000	11,408,100
<b>FUND BALANCE, END OF YEAR</b>								
Designated @ 20% of Operating Costs	9,673,000	9,727,400	9,953,000	10,400,500	10,608,500	11,001,000	11,408,100	11,864,400
Undesignated	3,104,900	843,400	17,900	-	-	-	-	-
<b>Total Fund Balance, End of Year</b>	<b>12,777,900</b>	<b>10,570,800</b>	<b>9,970,900</b>	<b>10,400,500</b>	<b>10,608,500</b>	<b>11,001,000</b>	<b>11,408,100</b>	<b>11,864,400</b>

■ For 2007-08, operating expenditures include \$2,051,200 in carryovers; 2008-09 expenditures have been adjusted accordingly.

■ Operating program expenditures for all years include General Fund transfers to the Golf and CDBG Funds. For 2008-09, they also include estimated expenditure savings and MOA costs.

## GENERAL FUND FIVE YEAR FISCAL FORECAST: 2009-14

PROJECTION FACTORS	Historical Trends				Estimated	FORECAST ASSUMPTIONS				
	Actual 2007-08	Last 5 Years	Last 10 Years	Last 15 Years	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
<b>Annual Percentage Changes</b>										
<b>DEMOGRAPHICS</b>										
Population	0.5%	0.2%	0.6%	0.4%	0.25%	0.25%	0.50%	0.70%	0.70%	1.00%
Housing Units	0.6%	0.7%	0.8%	0.7%	0.25%	0.25%	0.50%	0.70%	0.70%	1.00%
Inflation	3.9%	3.6%	3.2%	2.7%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Compound Population & Inflation	4.8%	3.2%	3.3%	3.1%	3.26%	3.30%	3.50%	3.70%	3.70%	4.00%
<b>KEY REVENUES</b>										
Sales Tax (Situs Sales): Baseline	-2.9%	6.1%	6.2%	5.5%	-7.25%	-2.5%	2.0%	3.7%	3.7%	3.7%
Airport Area Annexation 1A: 1%						60,000	60,000	60,000	60,000	60,000
Airport Area Annexation 1B: 1%										60,000
Airport Area Annexation 1A: 1/2-cent						150,000				
Airport Area Annexation 1B: 1/2-cent										150,000
Target (Net): 1%							187,500	187,500		
Target (Net): 1/2-cent							93,800	93,800		
Chinatown (Net): 1%									197,200	
Chinatown (Net): 1/2-cent									98,600	
Net Increase					-7.25%	-2.02%	4.00%	5.63%	5.60%	4.54%
Property Tax (Assessed Value)	7.3%	9.2%	8.2%	6.5%	5.00%	2.00%	3.00%	4.00%	5.00%	5.00%
TOT: Baseline	5.6%	5.7%	5.4%	5.5%	1.00%	2.00%	2.00%	3.00%	3.00%	4.00%
Chinatown									485,000	
Garden Street Terrace										250,000
Hampton Inn (Calle Joaquin Area)									109,500	
Net Increase						2.00%	2.00%	3.00%	13.87%	8.01%
Utility Users Tax	2.0%	2.7%	3.5%	3.4%	3.26%	3.30%	3.50%	3.70%	3.70%	4.00%
Business Tax	9.4%	5.5%	5.8%	6.7%	2.50%	4.00%	4.00%	4.00%	4.00%	4.00%
Franchise Fees	9.7%	12.8%	11.0%	9.0%	3.26%	3.30%	3.50%	3.70%	3.70%	4.00%
VLF Swap	3.3%	7.5%	7.5%	6.1%	5.00%	2.00%	3.00%	4.00%	5.00%	5.00%
Gas Tax	2.7%	0.3%	-0.1%	1.8%	0.25%	0.25%	0.50%	0.70%	0.70%	1.00%
Development Review Fees	Percentage reduction from 2007-08 actual				75%	75.0%	80.0%	85.0%	90.0%	90.0%
Recreation Fees	<i>2008-09 Projection Plus Compound Population and Inflation</i>									
<b>EXPENDITURES</b>										
Operating Programs	Grow by 2% in 2009-11; and then by population and inflation					2.00%	2.00%	3.70%	3.70%	4.00%
Debt Service						<b>2,870,500</b>	<b>2,523,500</b>	<b>2,523,500</b>	<b>2,523,500</b>	<b>2,228,500</b>
Existing						2,075,900	1,728,900	1,728,900	1,728,900	1,433,900
Dispatch Center Improvements						374,800	374,800	374,800	374,800	374,800
Radio System Upgrade						419,800	419,800	419,800	419,800	419,800
Capital Improvement Plan						8,318,800	8,568,400	8,825,500	9,090,300	9,363,000

## FORECAST "MAINTENANCE-ONLY" CIP PROJECTS

The following summarizes five-year projections for "maintenance-only" projects. These expenditures will not expand or improve existing assets, but 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			
<b>Public Safety</b> <b>Transportation</b>	Police Station Expansion	<b>Leisure, Cultural &amp; Social Services</b>  <b>Community Development</b>  <b>General Government</b>	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.

	2009-10	2010-11	2011-12	2012-13	2013-14	Total
<b>Projected Capital Maintenance Needs By Function</b>						
Public Safety	969,200	1,506,100	451,800	1,280,100	1,709,300	5,916,500
Transportation	5,305,300	5,678,400	6,060,700	6,435,200	5,648,000	29,127,600
Leisure, Cultural & Social Services	1,372,300	1,359,300	1,812,000	470,300	884,200	5,898,100
Community Development	39,300	40,900	42,400	44,000	45,500	212,100
General Government	531,700	582,100	399,500	277,300	738,900	2,529,500
<b>Total</b>	<b>\$8,217,800</b>	<b>\$9,166,800</b>	<b>\$8,766,400</b>	<b>\$8,506,900</b>	<b>\$9,025,900</b>	<b>\$43,683,800</b>



**FORECAST "MAINTENANCE-ONLY" CIP PROJECTS**

	2009-10	2010-11	2011-12	2012-13	2013-14	Total
<b>Public Safety</b>						
<b>Police Protection</b>						
<i>Facility Maintenance Projects</i>						
Parking Lot Maintenance 1042 Walnut	82,000					82,000
Exterior/Interior Painting: 1042 Walnut				80,000		80,000
Tile Showers and ADA Men's Restroom		510,000				510,000
Replace Sewer Lateral at 1016 Walnut	25,000					25,000
Replace HVAC Ducting in Records Area			30,000			30,000
<i>Technology and Equipment Replacement</i>						
Network Cabling			15,000			15,000
Security Cameras and Monitors		153,000				153,000
Mobile Data Computers/Video Sys Replacement				400,000		400,000
Laserfiche System		60,000				60,000
CAD/RMS Server Replacement		235,000			235,000	470,000
VoicePrint Dispatch Phone Recorder					62,000	62,000
Public Safety System Replacement				153,000	1,000,000	1,153,000
In-Car Video Cameras				235,000		235,000
PictureLink Photo Capture Station				15,000		15,000
Audio Visual Equipment Replacement		16,000				16,000
<i>Fleet Replacement Transfer</i>	214,700	224,000	233,400	242,700	252,000	1,166,800
<b>Total Police Protection</b>	<b>321,700</b>	<b>1,198,000</b>	<b>278,400</b>	<b>1,125,700</b>	<b>1,549,000</b>	<b>4,472,800</b>

**FORECAST "MAINTENANCE-ONLY" CIP PROJECTS**

	2009-10	2010-11	2011-12	2012-13	2013-14	Total
<b>Public Safety (Continued)</b>						
<b>Fire &amp; Environmental Safety</b>						
<i>Facility Maintenance Projects</i>						
Cardiac Monitors	30,000	30,000				60,000
SCBA Replacement	250,000					250,000
Carpet Replacement: Fire Station 1			25,000			25,000
Parking Lot Maintenance: Fire Station 2	30,000					30,000
Resealing: Fire Station 1 Exterior Masonry	27,000					27,000
Repainting: Exterior & Interior of Fire Station 2	45,000					45,000
Repainting Engine Bay of Fire Station 3		15,000				15,000
Replace Floor & Showers at Fire Station 3	45,000					45,000
Bay Doors Control System: All Fire Stations	66,000					66,000
Emergency Generator: Station 4	18,000	120,600				138,600
<i>Fleet Replacement Transfer</i>	136,500	142,500	148,400	154,400	160,300	742,100
<b>Total Fire &amp; Environmental Safety</b>	<b>647,500</b>	<b>308,100</b>	<b>173,400</b>	<b>154,400</b>	<b>160,300</b>	<b>1,443,700</b>
<b>Total Public Safety</b>	<b>969,200</b>	<b>1,506,100</b>	<b>451,800</b>	<b>1,280,100</b>	<b>1,709,300</b>	<b>5,916,500</b>

## FORECAST "MAINTENANCE-ONLY" CIP PROJECTS

	2009-10	2010-11	2011-12	2012-13	2013-14	Total
<b>Transportation</b>						
<b>Streets - General</b>						
Traffic Sign Replacement	15,000	15,000	15,000	15,000	15,000	75,000
Street Name Sign Replacement				120,000	125,000	245,000
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 Rehab/Replacement (20% Match)	120,000			1,000,000		1,120,000
Chorro Street Bridge Rehabilitation (20% Match)			120,000			120,000
Highway 1 Median Replanting	40,000		225,000			265,000
Pismo Retaining Wall	50,000	500,000				550,000
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
<b>Streets - Pavement</b>						
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
<b>Pedestrian and Bicycle Paths</b>						
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
<b>Traffic Signals/Street Lights</b>						
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
Detection Upgrades			30,000			30,000

**FORECAST "MAINTENANCE-ONLY" CIP PROJECTS**

	2009-10	2010-11	2011-12	2012-13	2013-14	Total
<b>Transportation (Continued)</b>						
<b>Creek and Flood Protection</b>						
Laguna Lake Outlet Weir			350,000			350,000
Old Garden Creek Rip Rap at Broad	20,000		100,000			120,000
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
<b>Fleet Replacement Transfer</b>	107,300	112,000	116,700	121,400	126,000	583,400
<b>Total Transportation</b>	<b>\$5,305,300</b>	<b>\$5,678,400</b>	<b>\$6,060,700</b>	<b>\$6,435,200</b>	<b>\$5,648,000</b>	<b>\$29,127,600</b>

## FORECAST "MAINTENANCE-ONLY" CIP PROJECTS

	2009-10	2010-11	2011-12	2012-13	2013-14	Total
<b>Leisure, Cultural &amp; Social Services</b>						
<b>Parks and Recreation</b>						
Playground Equipment Replacements	305,000	369,000	385,800	60,000	90,500	1,210,300
RecWare e-Scheduling Upgrades			112,000			112,000
Emerson Park Pavement			100,000			100,000
French Park Light Replacements			40,000			40,000
Islay Park Play Surface Replacement	25,000					25,000
Jack House Elevator Removal		100,000				100,000
Laguna Lake Dredging	320,000	200,000	206,000	212,200	218,600	1,156,800
Laguna Lake Park Repairs: Erosion	25,000		200,000			225,000
Mission Plaza Repairs: Walk Surface/Walls		250,000	50,000		50,000	350,000
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	20,000					20,000
Restroom Rehab: Golf, Jack House, Johnson Park	300,000	25,000	300,000	25,000	300,000	950,000
Swim Center Pool Cover Replacement		23,000				23,000
Par Course Park Exercise Equipment Replacement		30,000				30,000
Pool Replastering	20,000	160,000				180,000
Downtown Tree Removals/Replacements	25,000	25,000	26,000	26,000	28,000	130,000
Trail Maintenance	25,000	25,800	26,600	27,400	28,200	133,000
Reroofing: Meadow Park Multi-Purpose Bldg	5,000	40,000				45,000
Sinsheimer Stadium Repairs	50,000					50,000
Paint Exteriors: Senior Center & Ludwick Center			90,000			90,000
Return Air Ducting & Economizer at Ludwick Ctr			45,000			45,000
Jack House Repairs	100,000					100,000
Replace Lighting & T-Bar Ceiling at Swim Center			25,000			25,000
<b>Fleet Replacement Transfer</b>	62,300	65,100	67,800	70,500	73,200	338,900
<b>Total Leisure, Cultural &amp; Social Services</b>	<b>\$1,372,300</b>	<b>\$1,359,300</b>	<b>\$1,812,000</b>	<b>\$470,300</b>	<b>\$884,200</b>	<b>\$5,898,100</b>

## FORECAST "MAINTENANCE-ONLY" CIP PROJECTS

	2009-10	2009-11	2011-12	2012-13	2013-14	Total
<b>Community Development</b>						
Fleet Replacement Transfer	24,300	25,400	26,400	27,500	28,500	132,100
Equipment Replacement	15,000	15,500	16,000	16,500	17,000	80,000
<b>Total Community Development</b>	<b>\$39,300</b>	<b>\$40,900</b>	<b>\$42,400</b>	<b>\$44,000</b>	<b>45,500</b>	<b>\$212,100</b>

**FORECAST "MAINTENANCE-ONLY" CIP PROJECTS**

	2009-10	2009-11	2011-12	2012-13	2013-14	Total
<b>General Government</b>						
<b>Information Technology</b>						
Technology Maintenance Projects	100,000	103,000	106,100	109,300	112,600	531,000
Office Application Software Replacement		250,000				250,000
Network Switch Replacements	50,000	51,500	53,000	54,600	500,000	709,100
Storage Area Network Replacement	150,000					150,000
Firewall Replacements	25,000			25,000		50,000
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
<b>Geographic Information Services</b>						
Aerial Photo Revisions	35,000		35,000		35,000	105,000
Enterprise GIS Virtual Servers	15,000					15,000
<b>Buildings</b>						
Brick Sealant at City/County Museum	15,000					15,000
Fuel Island Walls Rebuilding	5,000	45,000				50,000
HVAC Control Systems Conversions	16,000	20,000				36,000
City Hall Exterior Repainting		30,000				30,000
Electric Room Building Repainting	5,000		14,900			19,900
Replace City Hall Main Entry Steps			90,000			90,000
Replace HVAC compressors at Corp Yard	21,000					21,000
Reclaimed Water Syst: Corp Yard Car Wash Bay			15,000			15,000
Fuel System Upgrade	15,000					15,000
<b>Fleet Replacement Transfer</b>	29,700	31,000	32,300	33,600	34,900	161,500
<b>Total General Government</b>	<b>\$531,700</b>	<b>\$582,100</b>	<b>\$399,500</b>	<b>\$277,300</b>	<b>\$738,900</b>	<b>\$2,529,500</b>

# 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
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%
2007	44,489	0.1%
2008	44,697	0.5%

State of California,  
January 1 of Each Year

### Consumer Price Index: U.S.

Fiscal Year Ending	Index Amount	Percent Change
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%
2007	202.4	2.1%
2008	211.1	4.3%

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

### Consumer Price Index: So. California

Fiscal Year Ending	Index Amount	Percent Change
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%
2007	212.6	3.2%
2008	220.9	3.9%

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

### Compound Growth

Fiscal Year Ending	Percent Change
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%
2007	2.2%
2008	4.8%

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	0.2%
Last 10 Years	0.6%
Last 15 Years	0.4%

### Annual Growth Rate

Last 2 Years	3.2%
Last 5 Years	3.0%
Last 10 Years	2.7%
Last 15 Years	2.7%

### Annual Growth Rate

Last 2 Years	3.6%
Last 5 Years	3.6%
Last 10 Years	3.2%
Last 15 Years	2.7%

### Annual Growth Rate

Last 2 Years	3.5%
Last 5 Years	3.2%
Last 10 Years	3.3%
Last 15 Years	3.1%

### Housing Units

Fiscal Year Ending	Amount	Annual Change	Percent Change
1993	18,216		
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%
2002	19,461	106	0.5%
2003	19,558	97	0.5%

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

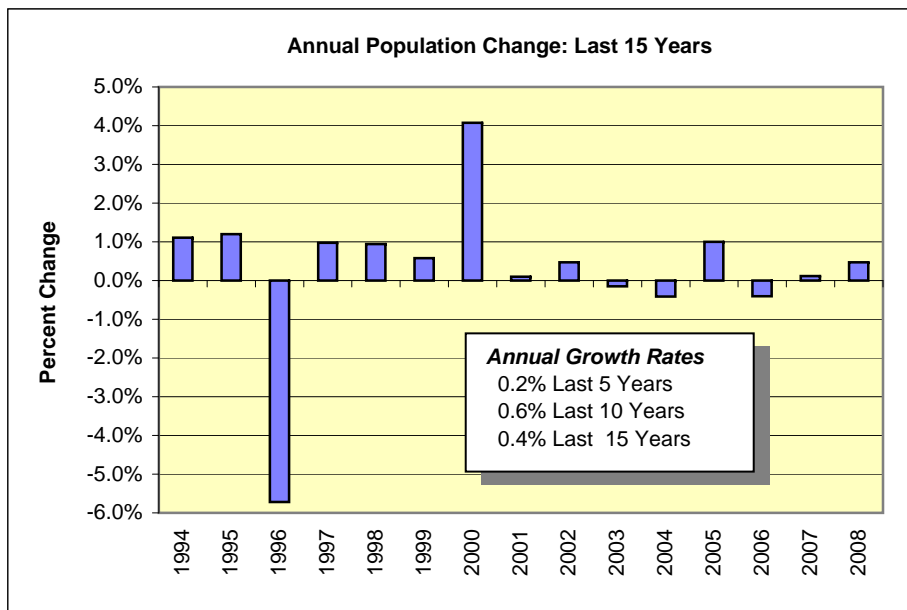
Fiscal Year Ending	Amount	Annual Change	Percent Change
2004	19,617	59	0.3%
2005	19,962	345	1.8%
2006	20,062	100	0.5%
2007	20,102	40	0.2%
2008	20,222	120	0.6%

### Annual Growth Rate

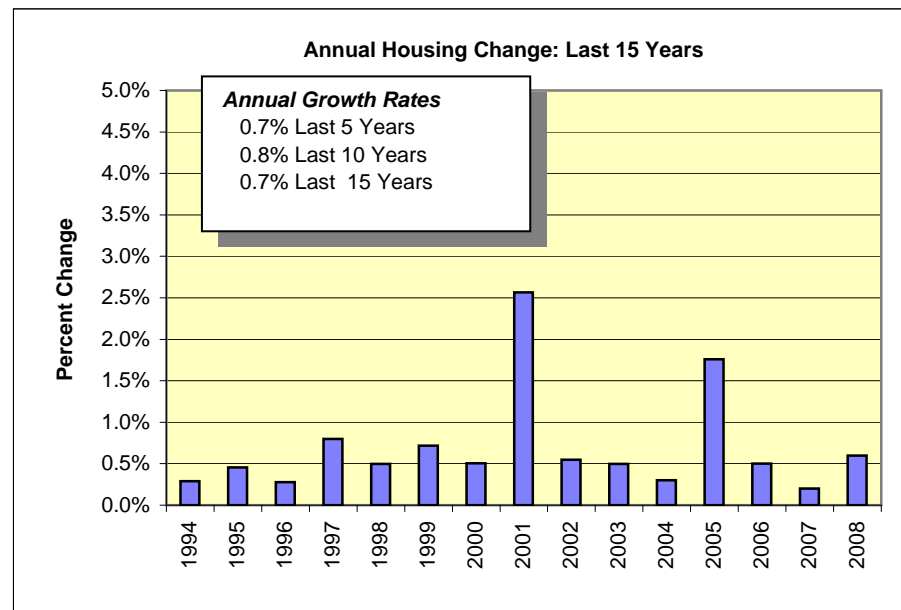
Last 2 Years	0.4%
Last 5 Years	0.7%
Last 10 Years	0.8%
Last 15 Years	0.7%

State of California, January 1 of Each Year

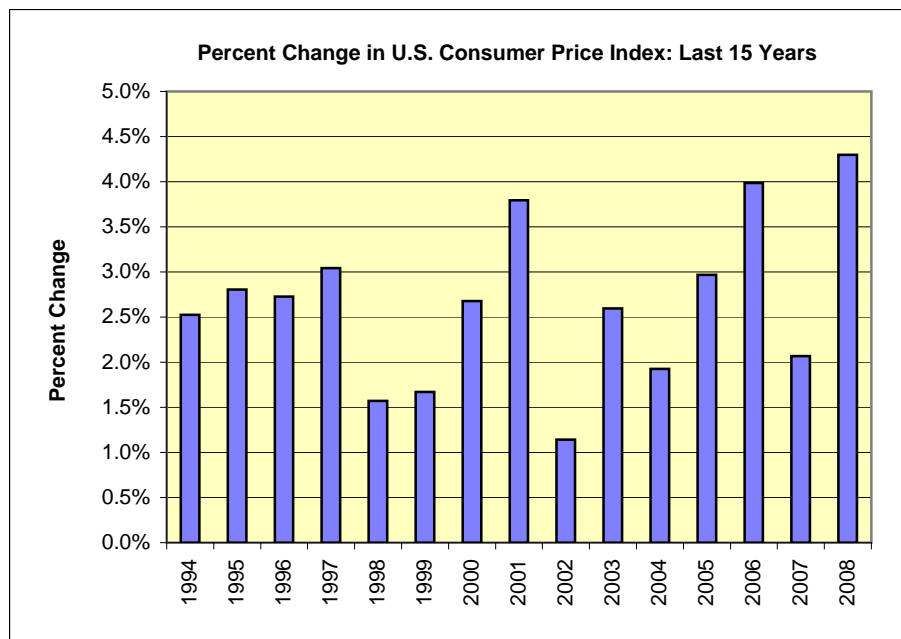
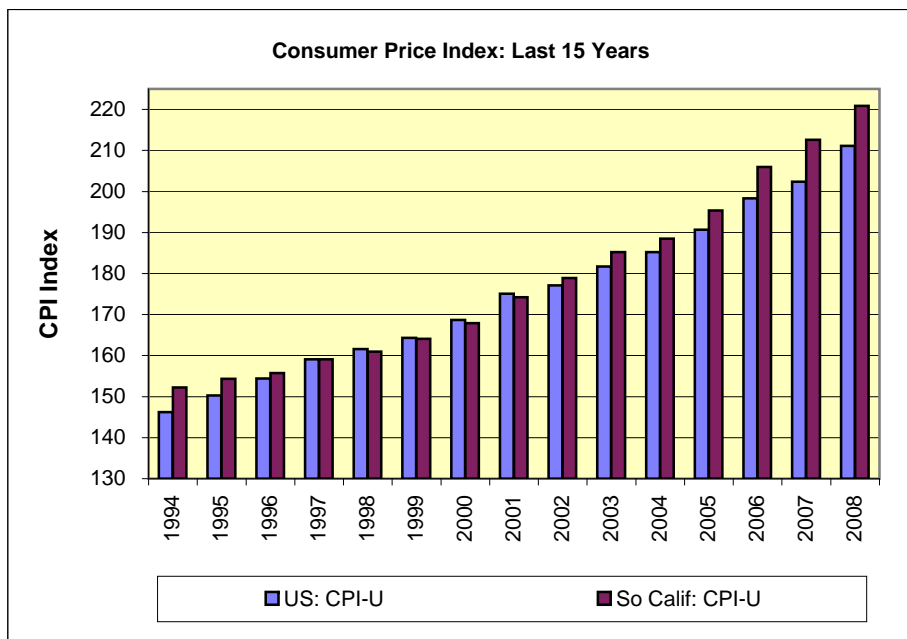
# Graphics: Population, Housing and Cost of Living



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, 2008	Actual	Percent of Total
<b>Major Sources</b>		
Sales Tax: General	13,581,700	25%
Sales Tax: Measure Y	5,996,600	10%
Property Tax	8,374,200	15%
Transient Occupancy Tax	5,054,700	9%
Utility Users Tax	4,177,700	7%
Vehicle License Fees/VLF Swap	3,470,400	6%
Franchise Fees	2,361,700	4%
Business Tax	1,866,400	3%
Gas Tax/TDA	874,400	2%
<b>Total Major Sources</b>	<b>\$45,757,800</b>	<b>81%</b>
Service Charges		
Development Review Fees	2,705,600	5%
Recreation Fees	1,207,500	2%
Other Service Charges	1,547,100	3%
Use of Money & Property	1,116,700	2%
Subventions & Grants	1,811,000	3%
Fines & Forfeitures	228,200	1%
Other Sources *	1,495,400	3%
<b>Total Sources</b>	<b>\$55,869,300</b>	<b>100%</b>

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

**Top 10 Revenues: Over 90% of Total**  
 When service charges and interest earnings are included, top ten revenues account for over 90% of total revenues.

### Major Sources: 15 Year Trends

Fiscal Year Ending	Amount	Percent Change
1993	18,718,800	
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%
2007	39,202,800	9.8%
2008 *	45,757,800	16.7%

\* Includes Measure Y for the first time in 2007-08

### Major Sources : 15 Year Trends

#### Average Annual Growth Rate

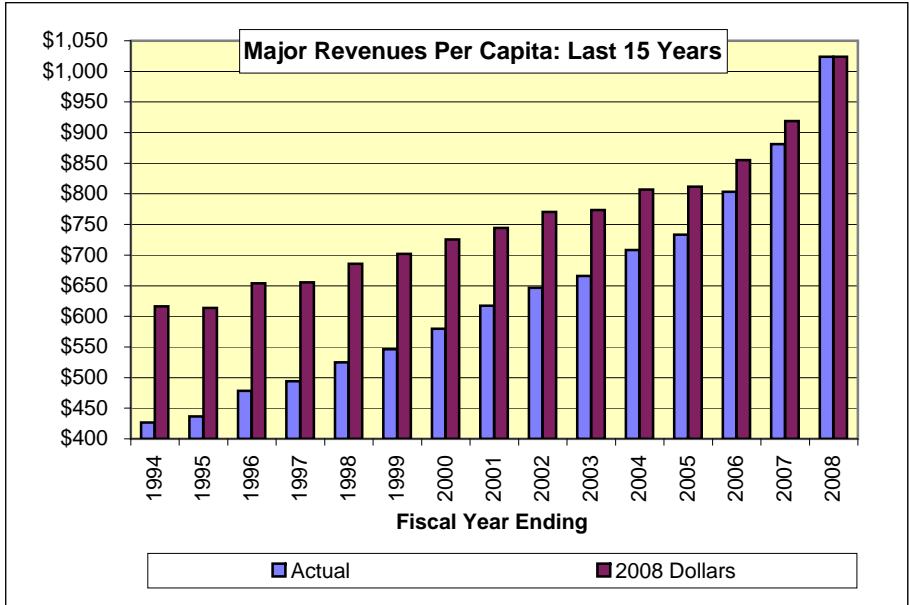
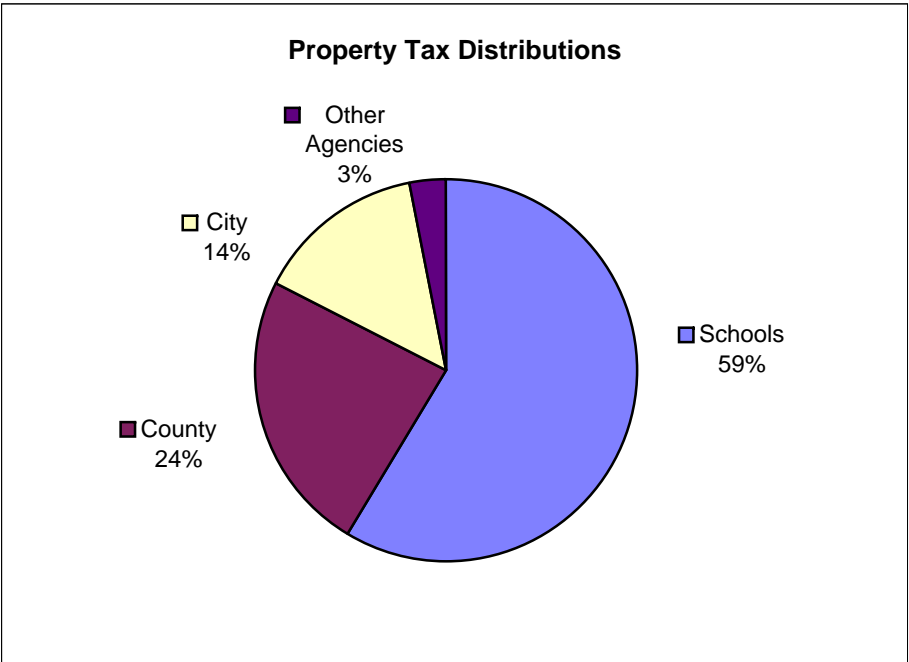
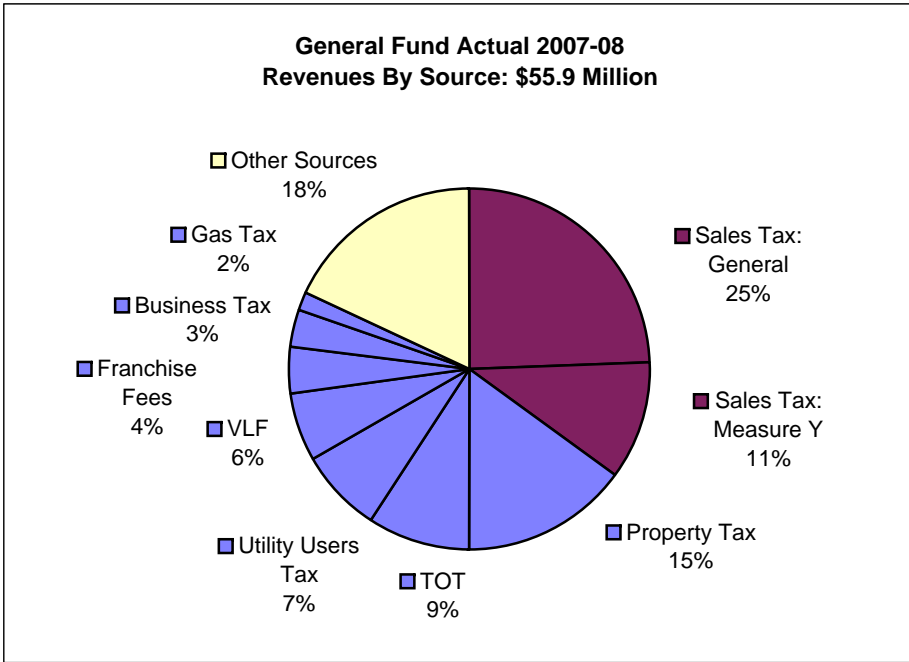
	Actual	Adjusted*
Last Year	16.7%	11.4%
Last 2 Years	13.3%	9.4%
Last 5 Years	9.2%	5.8%
Last 10 Years	7.6%	4.1%
Last 15 Years	6.2%	3.0%

\* 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: General & Measure Y
  - Property Tax
  - Transient Occupancy Tax
  - Utility Users Tax
  - Vehicle License Fees/VLF Swap
  - Franchise Fees
  - Business Tax
  - Gas Tax/TDA

## 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, 2008		
Public Safety	25,055,900	54%
Transportation	2,539,800	6%
Leisure, Cultural & Social Services	6,398,600	14%
Community Development	5,510,900	12%
General Government	6,305,700	14%
<b>TOTAL</b>	<b>\$45,810,900</b>	<b>100%</b>

### General Fund Operating Expenditures 15 Year Trends

Fiscal Year Ending	Amount	Percent Change
1994	19,170,000	
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%
2007	39,515,300	10.5%
2008	45,810,900	15.9%

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

### Average Annual Growth Rate

	Actual	Adjusted*
Last Year	15.9%	10.6%
Last 2 Years	13.2%	9.4%
Last 5 Years	8.6%	5.3%
Last 10 Years	8.3%	4.8%
Last 15 Years	6.5%	3.3%

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

### General Fund Expenditures and Uses By Type: Actual

Fiscal Year	Actual	Percent of Total
Ended June 30, 2008		
Operating Programs (See Note)	47,862,100	77%
Debt Service	2,078,000	3%
Capital Improvement Plan (CIP)	10,369,200	17%
Fleet Replacement Transfers	1,109,000	2%
Transfers to Golf, CDBG and DA Fund	503,100	1%
<b>TOTAL</b>	<b>\$61,921,400</b>	<b>100%</b>

Excludes encumbrances and carryovers totaling \$2,051,200 in 2007-08.

### General Fund CIP Expenditures: 15 Year Trends

#### Excluding Debt Financed Projects and Fleet Replacements

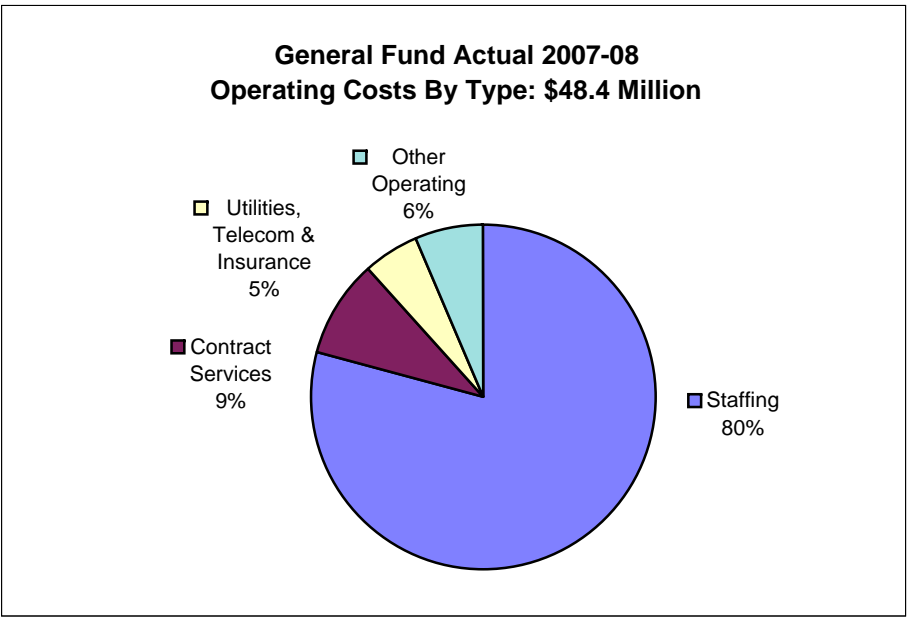
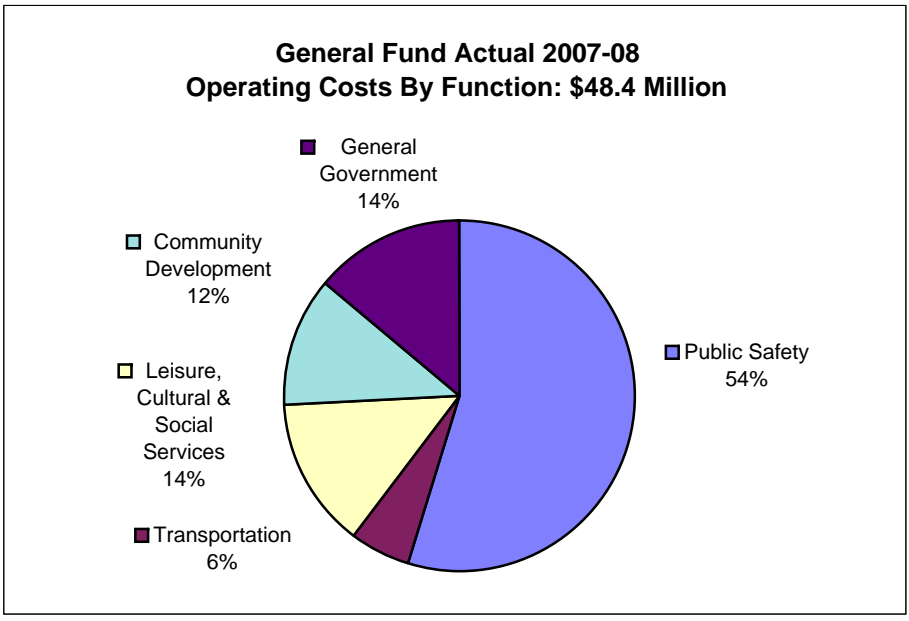
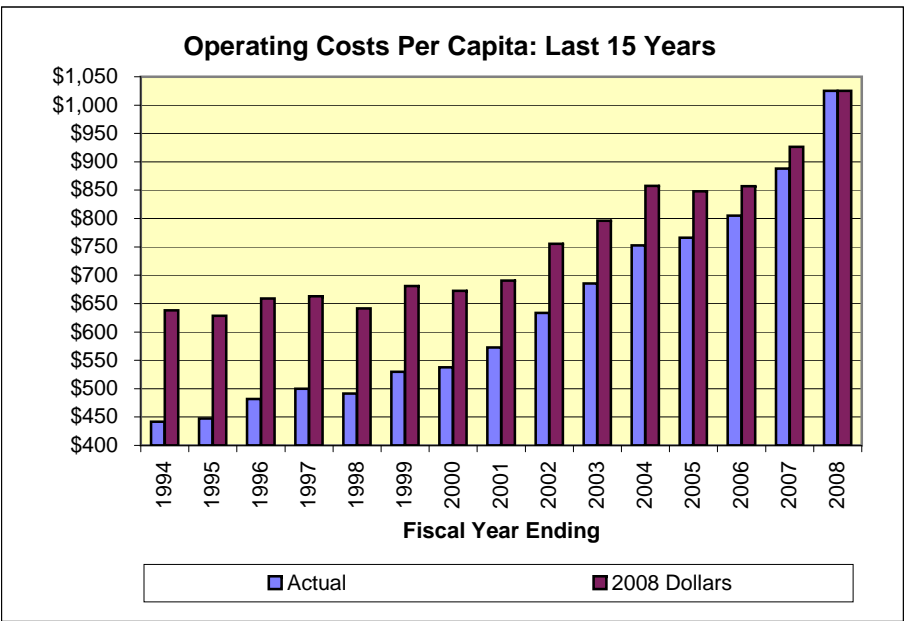
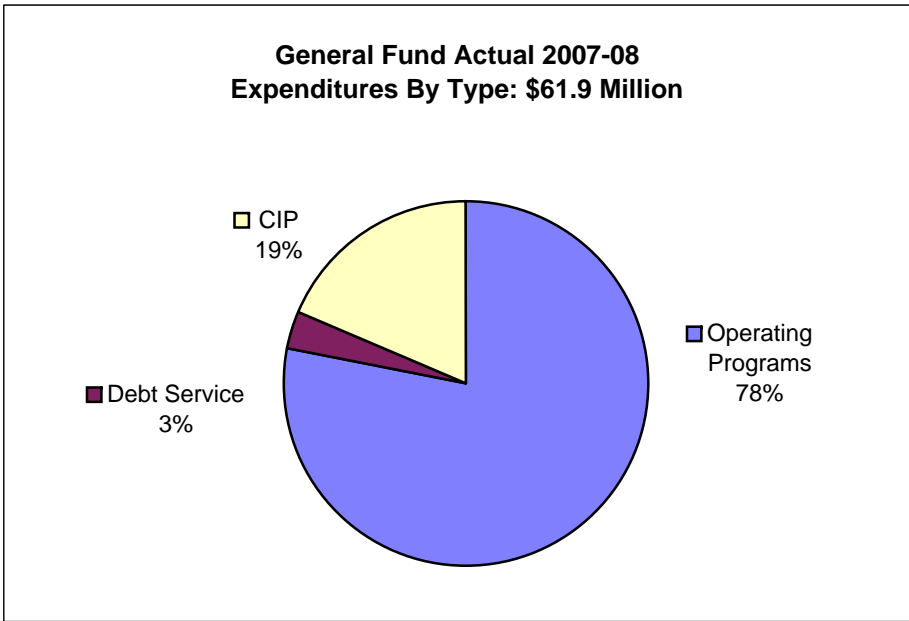
Fiscal Year Ending	Actual	Adjusted *
1994	4,166,300	6,015,800
1995	2,354,900	3,307,500
1996	737,400	1,008,200
1997	2,928,700	3,885,900
1998	3,581,300	4,678,300
1999	4,734,300	6,082,800
2000	5,521,400	6,909,100
2001	6,131,200	7,391,800
2002	5,547,900	6,613,000
2003	2,846,500	3,307,100
2004	3,427,700	3,907,100
2005	1,807,100	2,000,400
2006	2,354,100	2,506,100
2007	3,457,700	3,606,300
2008	10,369,200	10,369,200

### Average Annual General Fund CIP Expenditures

	Actual	Adjusted*
Last Year	10,369,200	10,369,200
Last 2 Years	6,913,500	6,987,800
Last 5 Years	4,283,200	4,477,800
Last 10 Years	4,619,700	5,269,300
Last 15 Years	3,997,700	4,772,600

\* Adjusted for changes in cost of living (CPI) from 2008

# Graphics: General Fund Expenditures



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

### Debt Financed General Fund CIP Projects: Last 15 Years

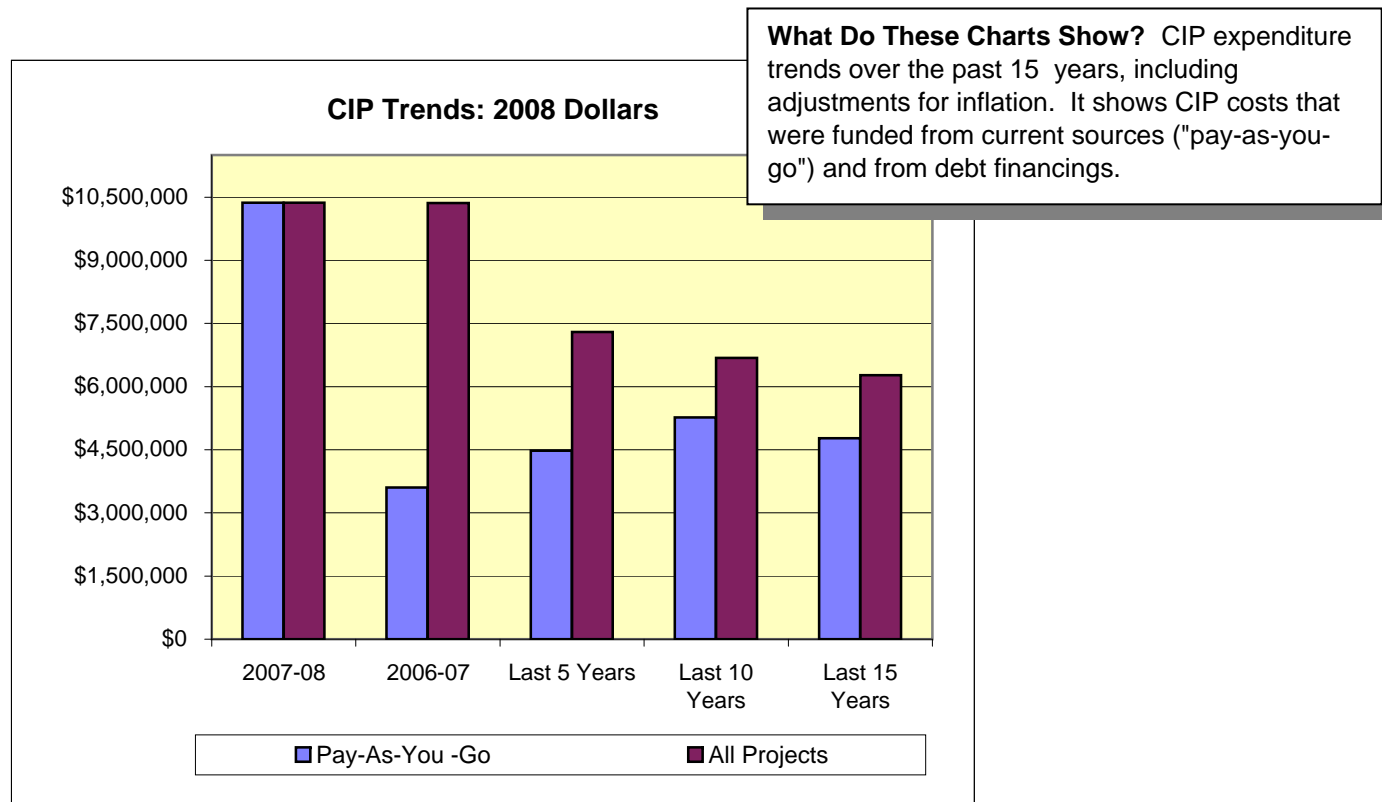
<i>Net Proceeds</i>	Actual	Adjusted*
1996 Lease Revenue Bonds	6,400,000	8,360,400
1999 Lease Revenue Bonds	6,100,000	7,354,100
2006 Lease Revenue Bonds	6,755,100	6,755,100
<b>Annual Averages</b>		
2 Year Annual Average		
5 Year Annual Average	1,351,000	2,821,800
10 Year Annual Average	1,925,500	1,410,900
15 Year Annual Average	1,283,700	1,498,000

### Average General Fund CIP Expenditures: Last 15 Years

<b>Excluding Debt Financed Projects</b>	Actual	Adjusted*
Last 2 Years	6,913,500	6,987,800
Last 5 Years	4,283,200	4,477,800
Last 10 Years	4,619,700	5,269,300
Last 15 Years	3,997,700	4,772,600
<b>Including Debt Financed Projects</b>	Actual	Adjusted*
Last 2 Years	6,913,500	6,987,800
Last 5 Years	5,634,200	7,299,600
Last 10 Years	6,545,200	6,680,200
Last 15 Years	5,281,400	6,270,600

*Excluding Equipment Replacements*

\* Adjusted for changes in cost of living (CPI) from 2008



## 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
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%
2007	2,083,500	49,649,600	4.2%
2008	2,078,000	54,152,000	3.8%

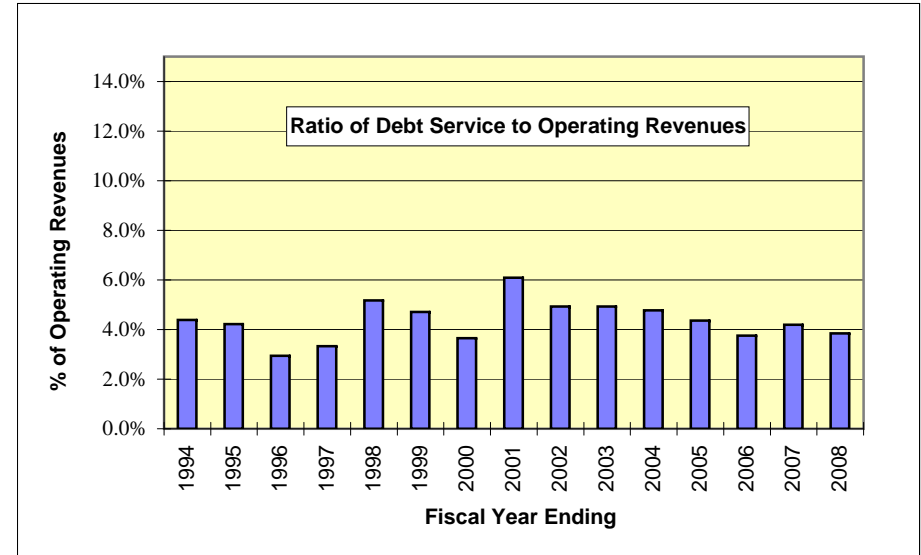
Note: Operating revenues exclude transfers in from Gas Tax, TDA and other funds.

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.

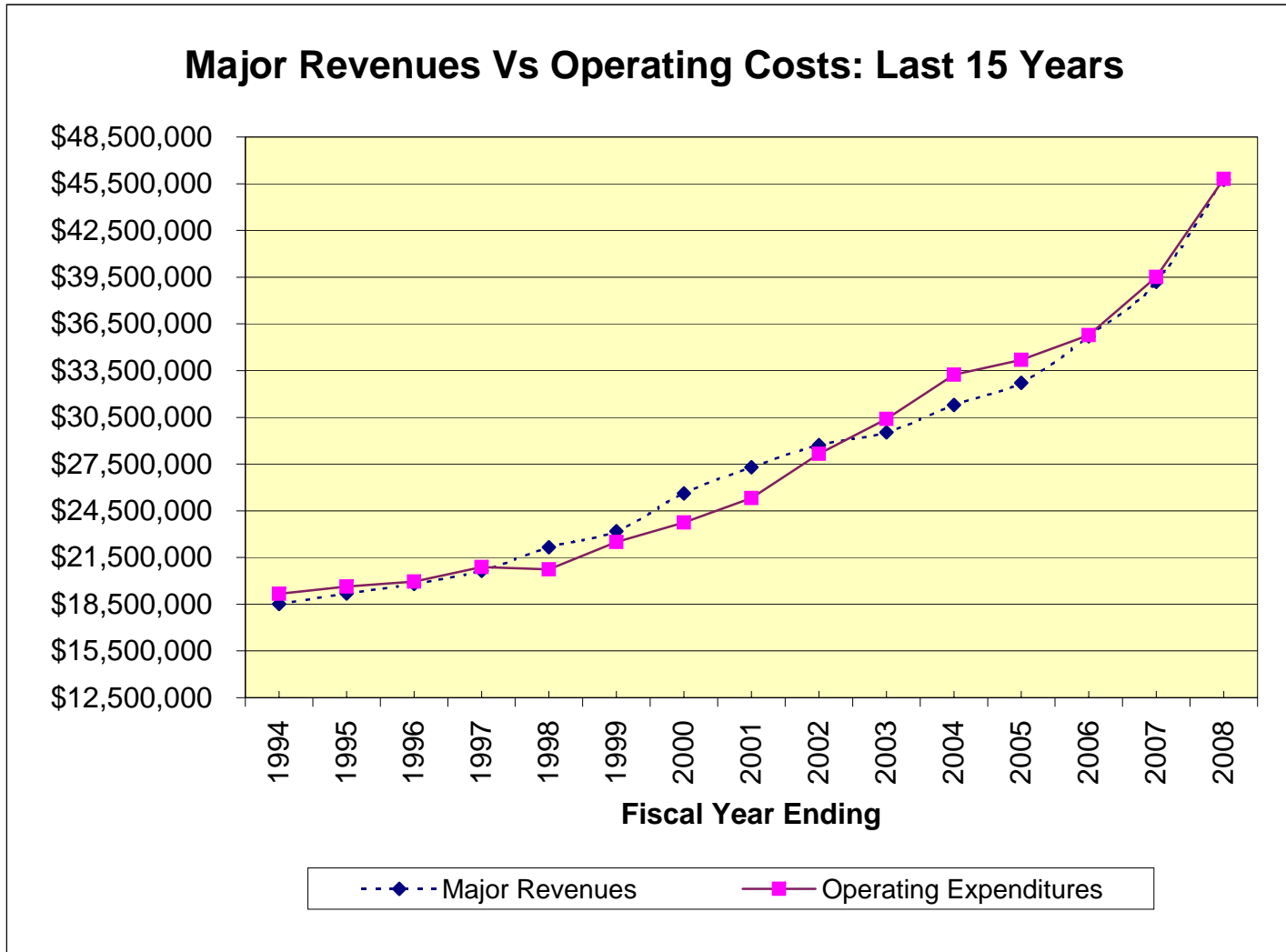
### Ratio of General Fund Debt Service Costs to Operating Revenues Last 15 Years



#### 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.





## Historical Trends: Major Revenue Sources

### Sales Tax\*\*

Fiscal Year Ending	Amount	Percent Change
1993	6,212,400	
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%
2007	13,993,800	10.4%
2008	13,581,700	-2.9%

### Property Tax\*\*

Fiscal Year Ending	Amount	Percent Change
1993	4,016,100	
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%
2007	8,255,000	9.8%
2008	8,374,200	1.4%

### Transient Occupancy Tax (TOT)\*\*

Fiscal Year Ending	Amount	Percent Change
1993	2,276,700	
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%
2007	4,786,000	5.4%
2008	5,054,700	5.6%

### Utility Users Tax

Fiscal Year Ending	Amount	Percent Change
1993	2,563,700	
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%
2007	4,096,100	3.8%
2008	4,177,700	2.0%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	-2.9%	-7.4%
Last 2 Years	3.7%	0.4%
Last 5 Years	6.1%	2.9%
Last 10 Years	6.2%	6.2%
Last 15 Years	5.5%	2.3%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	1.4%	-3.2%
Last 2 Years	5.6%	2.2%
Last 5 Years	8.5%	5.3%
Last 10 Years	7.8%	7.8%
Last 15 Years	5.2%	2.0%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	5.6%	0.8%
Last 2 Years	5.5%	2.1%
Last 5 Years	5.7%	2.5%
Last 10 Years	5.4%	5.4%
Last 15 Years	5.5%	2.4%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	2.0%	-2.7%
Last 2 Years	2.9%	-0.4%
Last 5 Years	2.7%	-0.4%
Last 10 Years	3.5%	3.5%
Last 15 Years	3.4%	0.3%

\* 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
1993	1,551,600	
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%
2007	3,358,200	35.1%
2008	3,470,400	3.3%

### Business Tax

Fiscal Year	Amount	Percent Change
1993	714,400	
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%
2007	1,706,700	8.2%
2008	1,866,400	9.4%

### Franchise Fees

Fiscal Year	Amount	Percent Change
1993	700,300	
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%
2007	2,153,700	2.5%
2008	2,361,700	9.7%

### Gas Tax

Fiscal Year	Amount	Percent Change
1993	683,600	
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%
2007	853,300	-0.2%
2008	874,400	2.5%

### Annual Growth Rate \*\*

	Actual	Adjusted*
Last Year	3.3%	-1.4%
Last 2 Years	19.2%	15.4%
Last 5 Years	7.5%	4.3%
Last 10 Years	7.5%	7.5%
Last 15 Years	6.1%	3.0%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	9.4%	4.4%
Last 2 Years	8.8%	5.3%
Last 5 Years	5.5%	2.4%
Last 10 Years	5.8%	5.8%
Last 15 Years	6.7%	3.5%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	9.7%	4.6%
Last 2 Years	6.1%	2.7%
Last 5 Years	12.8%	9.4%
Last 10 Years	11.0%	11.0%
Last 15 Years	9.0%	5.8%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	2.5%	-2.2%
Last 2 Years	1.1%	-2.1%
Last 5 Years	0.3%	-2.7%
Last 10 Years	-0.1%	-0.1%
Last 15 Years	1.8%	-1.3%

\* 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

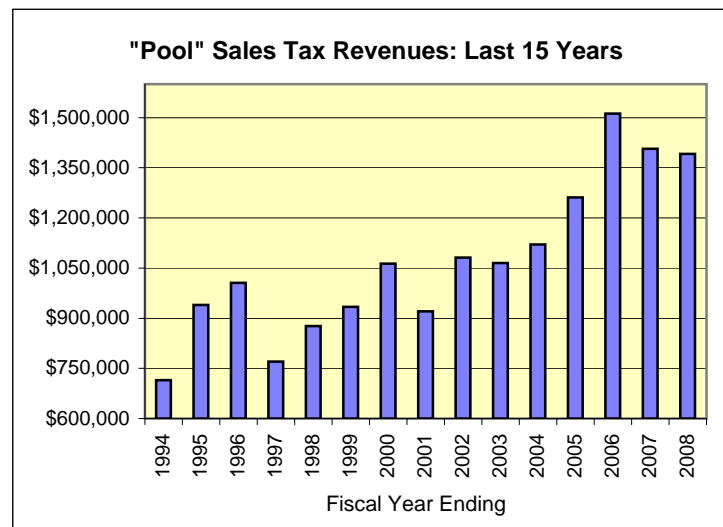
While sales taxes are usually generated on a "situs" basis (city or county unincorporated area where the sale takes place), there are a variety of retail transactions that are allocated on a "pool" basis because the State Board of Equalization believes that it would be too difficult to do otherwise. 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	
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
2006-07	1,406,428
2007-08	1,391,693
<b>15 Year Avg</b>	<b>\$ 1,070,800</b>



### 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
1991	516,279	
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%
2005	1,140,163	8.5%
2006	1,228,079	7.7%

### Assessed Value (in millions)

Fiscal Year Ending	Amount	Percent Change
1993	2,242	
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%
2007	5,327	11.4%
2008	5,716	7.3%

### Taxable "Hotel Room" Sales

Fiscal Year Ending	Amount	Percent Change
1993	24,191,700	
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%
2007	47,860,000	5.4%
2008	50,547,000	5.6%

**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	7.7%	2.8%
Last 2 Years	8.1%	3.2%
Last 5 Years	6.5%	1.7%
Last 10 Years	7.6%	2.7%
Last 15 Years	6.0%	1.2%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	7.3%	2.4%
Last 2 Years	9.4%	4.4%
Last 5 Years	9.2%	4.2%
Last 10 Years	8.2%	3.2%
Last 15 Years	6.5%	1.6%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	5.6%	0.8%
Last 2 Years	5.5%	0.7%
Last 5 Years	5.7%	0.9%
Last 10 Years	5.4%	0.6%
Last 15 Years	5.1%	0.3%

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

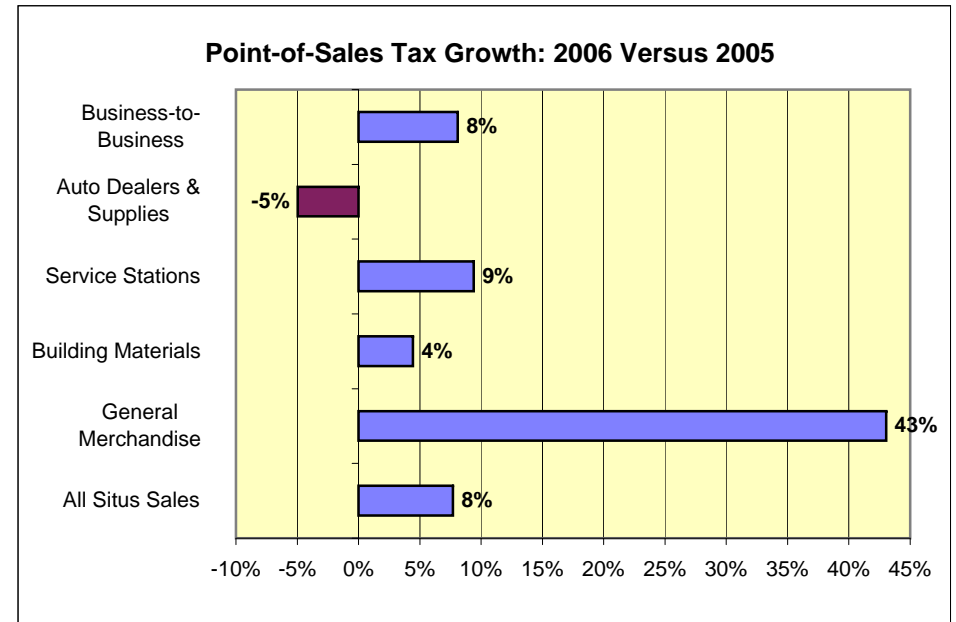
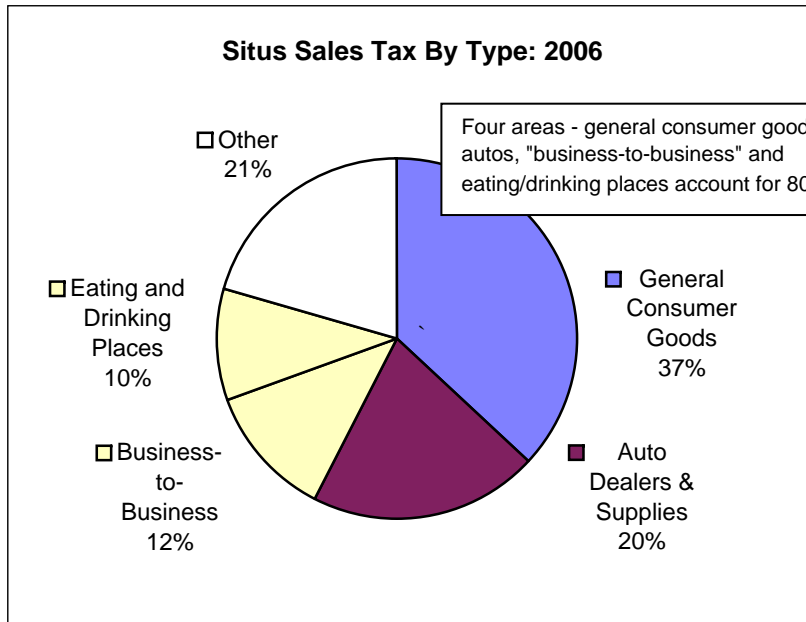
## Sales Tax Revenues: Diverse

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				
	2002	2003	2004	2005	2006
Apparel Stores	28,353	30,810	33,265	42,488	49,051
General Merchandise Stores	89,437	89,161	89,933	111,339	171,001
Home Furnishings and Appliances	40,320	41,464	44,366	49,195	52,454
Other Retail Stores	143,054	162,394	171,361	179,825	181,231
<b>Total General Consumer Goods</b>	<b>301,164</b>	<b>323,829</b>	<b>338,925</b>	<b>382,847</b>	<b>453,737</b>
Food and Drug Stores	41,725	44,797	43,218	46,575	44,768
Eating and Drinking Places	97,084	101,327	105,322	113,866	122,292
Building Material and Farm Implements	55,756	82,841	109,562	119,603	124,900
Auto Dealers and Supplies	238,449	255,849	263,973	264,268	251,173
Service Stations	47,479	48,325	60,508	76,331	83,495
<b>Total Retail Stores</b>	<b>781,657</b>	<b>856,968</b>	<b>921,508</b>	<b>1,003,490</b>	<b>1,080,365</b>
<b>All Other Outlets (Mostly "Business to Business")</b>	<b>134,971</b>	<b>132,750</b>	<b>129,441</b>	<b>136,673</b>	<b>147,714</b>
<b>TOTAL</b>	<b>\$916,628</b>	<b>\$989,718</b>	<b>\$1,050,949</b>	<b>\$1,140,163</b>	<b>\$1,228,079</b>

2006	
% of Total	% Change
4%	15.4%
14%	53.6%
4%	6.6%
15%	0.8%
<b>37%</b>	<b>18.5%</b>
4%	-3.9%
10%	7.4%
10%	4.4%
20%	-5.0%
7%	9.4%
<b>88%</b>	<b>7.7%</b>
<b>12%</b>	<b>8.1%</b>
<b>100%</b>	<b>7.7%</b>



## Point-of-Sale Revenues: Most Recent Two Quarters

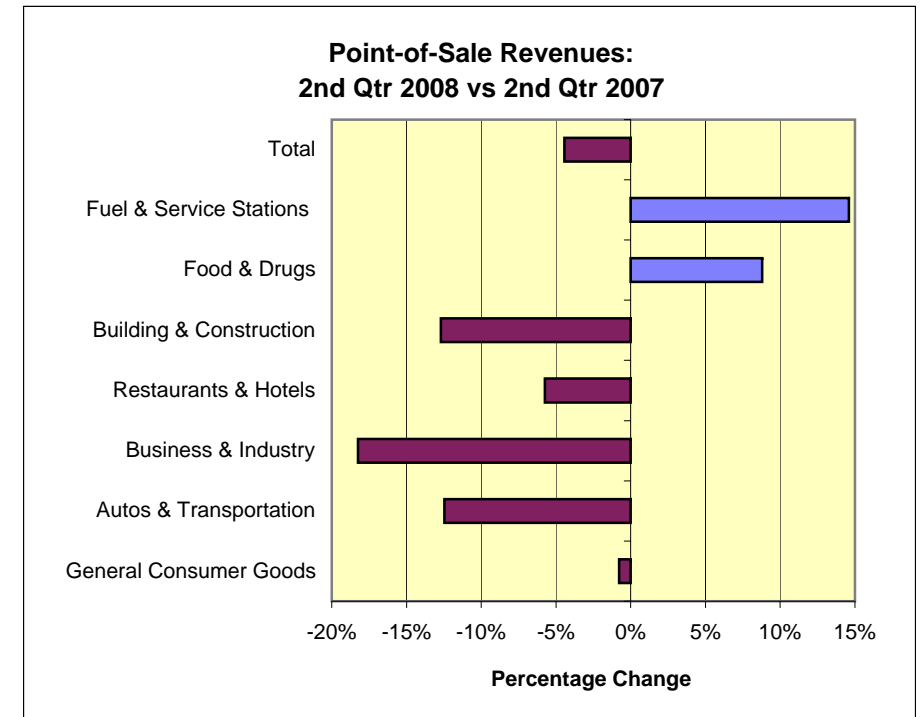
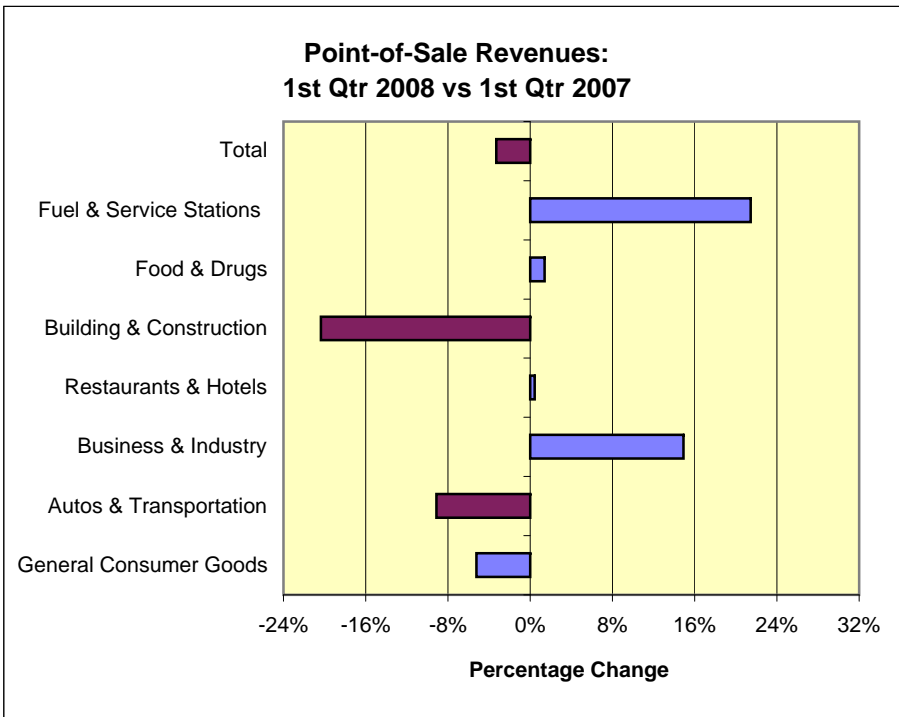
### First Quarter of 2008 Compared with 2007

Point-of-Sale Receipts	1st Qtr 08	1st Qtr 07	% Change
General Consumer Goods	939,368	991,350	-5.2%
Autos & Transportation	606,499	667,405	-9.1%
Business & Industry	226,204	196,862	14.9%
Restaurants & Hotels	313,033	311,701	0.4%
Building & Construction	247,873	311,287	-20.4%
Food & Drugs	169,616	167,257	1.4%
Fuel & Service Stations	274,869	226,330	21.4%
<b>Total</b>	<b>\$2,777,462</b>	<b>\$2,872,192</b>	<b>-3.3%</b>

### Second Quarter of 2008 Compared with 2007

Point-of-Sale Receipts	2nd Qtr 08	2nd Qtr 07	% Change
General Consumer Goods	992,017	999,772	-0.8%
Autos & Transportation	616,357	704,181	-12.5%
Business & Industry	178,086	217,850	-18.3%
Restaurants & Hotels	332,194	352,469	-5.8%
Building & Construction	256,763	294,115	-12.7%
Food & Drugs	194,159	178,460	8.8%
Fuel & Service Stations	334,998	292,331	14.6%
<b>Total</b>	<b>\$2,904,574</b>	<b>\$3,039,178</b>	<b>-4.4%</b>

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

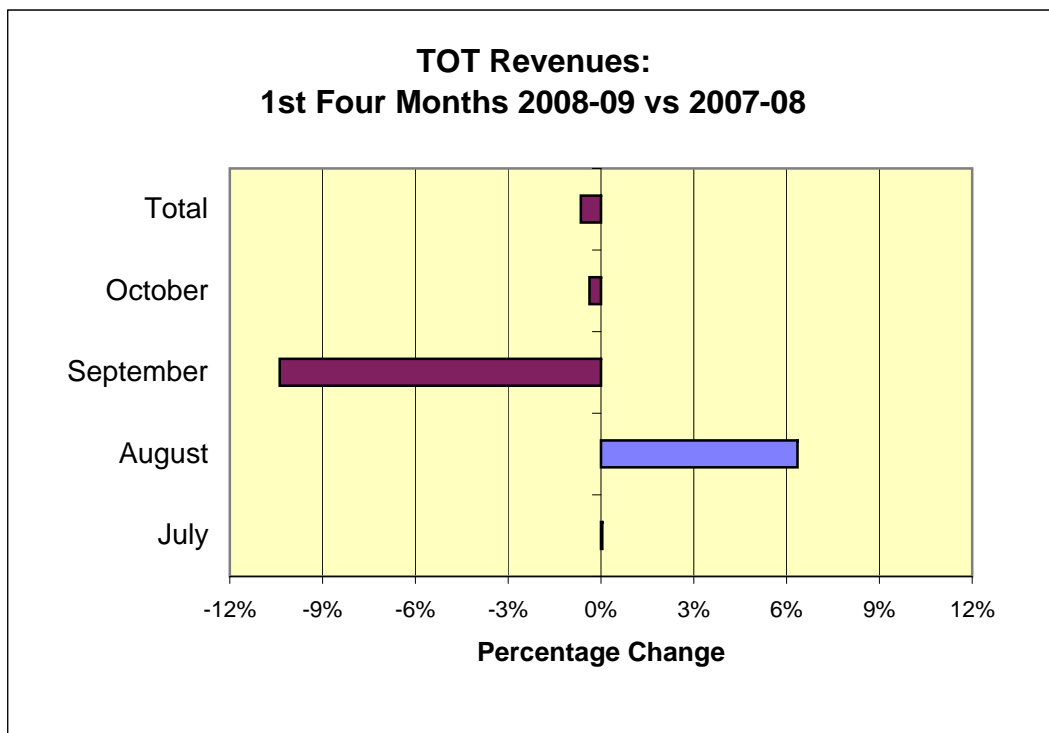


**What Do These Charts Show?** For the most recent quarters, point-of-sale revenues show decreases in automobile and business-to-business sales, with gains led by fuel sales, building materials (largely attributable to Home Depot) and general consumer goods (largely due to the opening of Costco and the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

## TOT Revenues: First Four Months of 2008-09

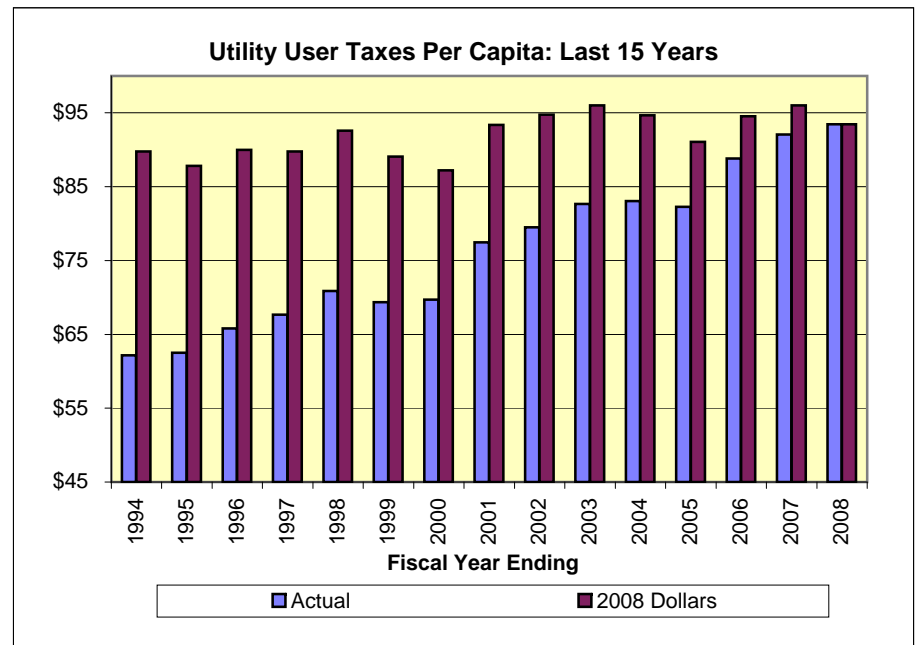
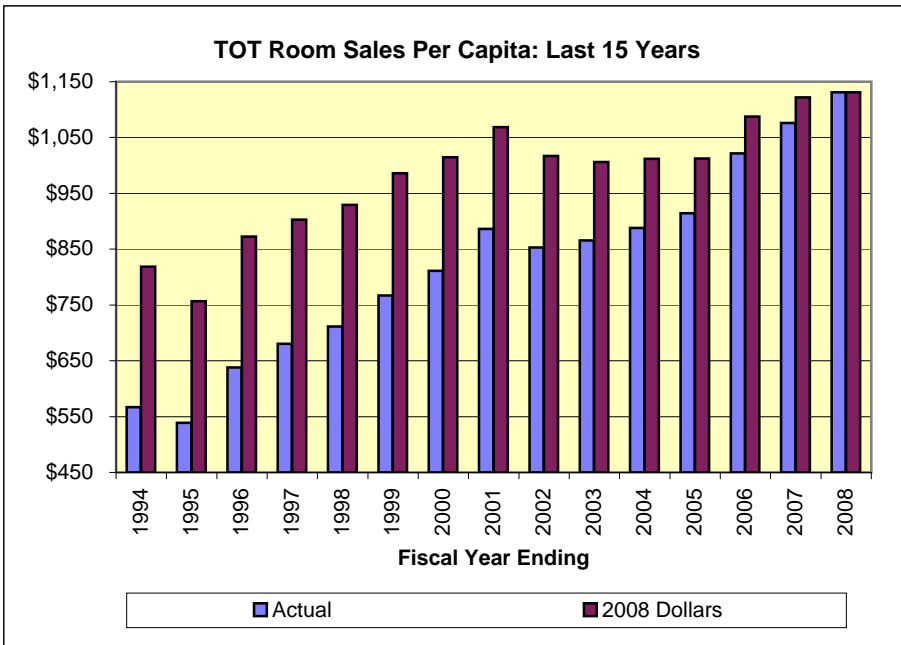
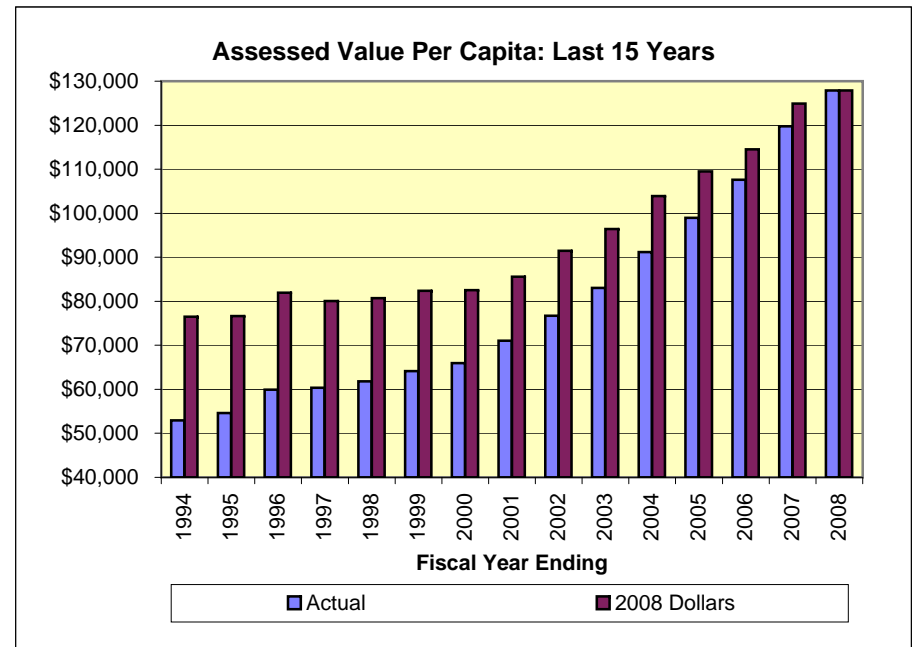
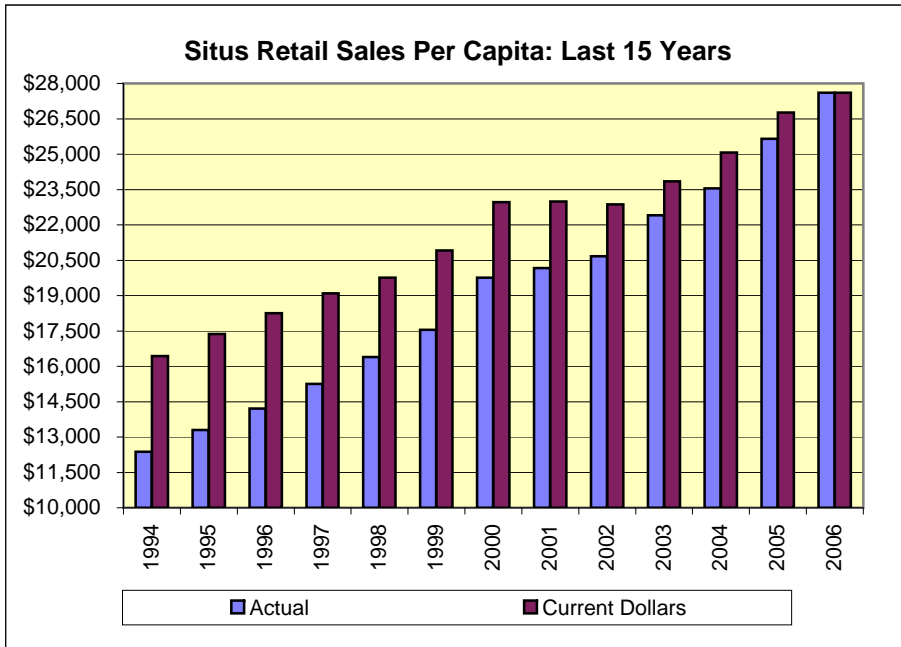
### 2008-09 Compared with 2007-08

Point-of-Sale Receipts	YTD: 2008	YTD: 2007	% Change
July	565,637	565,386	0.0%
August	609,451	573,057	6.4%
September	416,859	465,179	-10.4%
October	416,905	418,474	-0.4%
<b>Total</b>	<b>\$2,008,852</b>	<b>\$2,022,096</b>	<b>-0.7%</b>

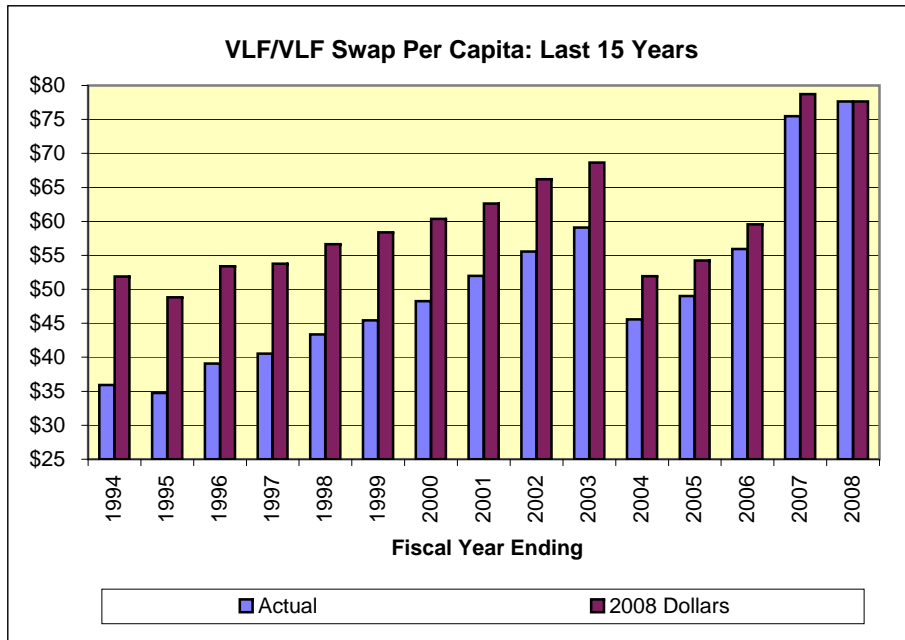




# Graphics: Top Five General Fund Revenues: Last 15 Years



## Graphics: Top Five General Fund Revenues: Last 15 Years



## Development Review Fees: Last Five Years

### Planning Fees

Fiscal Year Ending	Revenue
2004	669,600
2005	830,200
2006	816,600
2007	1,031,100
2008	809,300
<b>Five Year Average</b>	<b>\$831,400</b>

### Building

Fiscal Year Ending	Revenue
2004	1,048,300
2005	1,023,700
2006	1,298,700
2007	1,312,500
2008	1,434,800
<b>Five Year Average</b>	<b>\$1,223,600</b>

### Engineering

Fiscal Year Ending	Revenue
2004	272,200
2005	534,600
2006	516,300
2007	1,027,400
2008	301,200
<b>Five Year Average</b>	<b>\$530,300</b>

### Fire

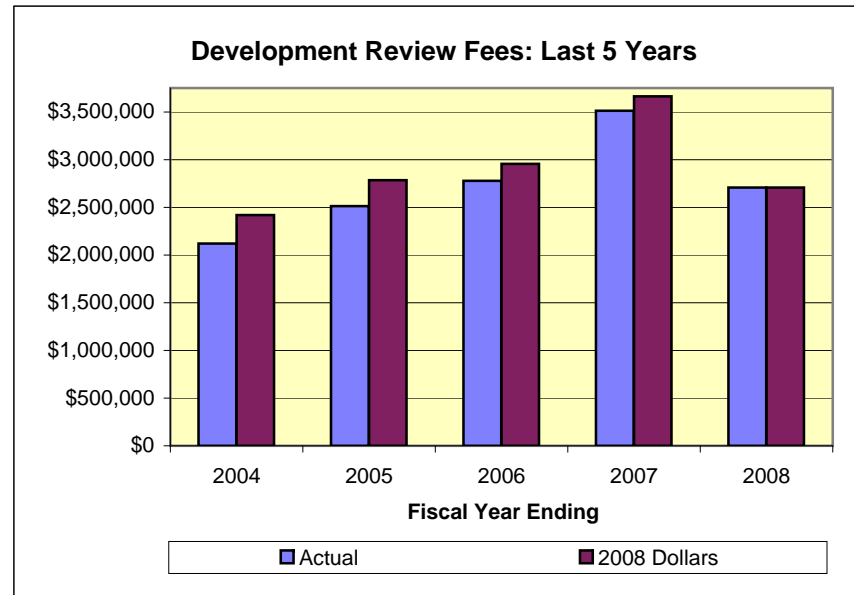
Fiscal Year Ending	Revenue
2004	130,800
2005	125,400
2006	145,800
2007	140,500
2008	160,300
<b>Five Year Average</b>	<b>\$140,600</b>

### Total

Fiscal Year Ending	Revenue
2004	2,120,900
2005	2,513,900
2006	2,777,400
2007	3,511,500
2008	2,705,600
<b>Five Year Average</b>	<b>\$2,725,900</b>

Adjusted*
2,417,500
2,782,800
2,956,700
3,662,400
2,705,600
<b>\$2,905,000</b>

\* Adjusted for changes in cost of living (CPI) from 2008



## Historical Trends: Operating Program Expenditures

### Public Safety: Police

Fiscal Year Ending	Amount	Percent Change
1993	5,615,000	
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%
2007	11,240,400	2.7%
2008	14,901,300	32.6%

### Public Safety: Fire

Fiscal Year Ending	Amount	Percent Change
1993	3,989,900	
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%
2007	9,419,200	13.5%
2008	10,154,600	7.8%

### Public Utilities/Disaster Response

Fiscal Year Ending	Amount	Percent Change
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
2007	0	na
2008	0	na

### Transportation \*\*

Fiscal Year Ending	Amount	Percent Change
1993	1,432,500	
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%
2007	2,173,500	10.5%
2008	2,539,800	16.9%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	32.6%	26.5%
Last 2 Years	17.6%	13.7%
Last 5 Years	11.5%	7.8%
Last 10 Years	9.6%	5.9%
Last 15 Years	5.3%	1.8%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	7.8%	2.9%
Last 2 Years	10.7%	6.9%
Last 5 Years	9.4%	5.7%
Last 10 Years	9.2%	5.5%
Last 15 Years	6.0%	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	16.9%	11.5%
Last 2 Years	13.7%	9.8%
Last 5 Years	5.1%	1.6%
Last 10 Years	6.4%	2.8%
Last 15 Years	2.8%	-0.7%

\* 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
1993	3,137,400	
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%
2007	5,705,000	8.0%
2008	6,398,600	12.2%

### Community Development

Fiscal Year Ending	Amount	Percent Change
1993	2,640,000	
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%
2007	4,897,800	13.7%
2008	5,510,900	12.5%

### General Government

Fiscal Year Ending	Amount	Percent Change
1993	2,917,700	
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%
2007	6,079,400	22.4%
2008	6,305,700	3.7%

### Total

Fiscal Year Ending	Amount	Percent Change
1993	19,800,300	
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%
2007	39,515,300	10.5%
2008	45,810,900	15.9%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	12.2%	7.0%
Last 2 Years	10.1%	6.4%
Last 5 Years	6.2%	2.6%
Last 10 Years	7.3%	3.7%
Last 15 Years	4.2%	0.7%

### Annual Growth Rate

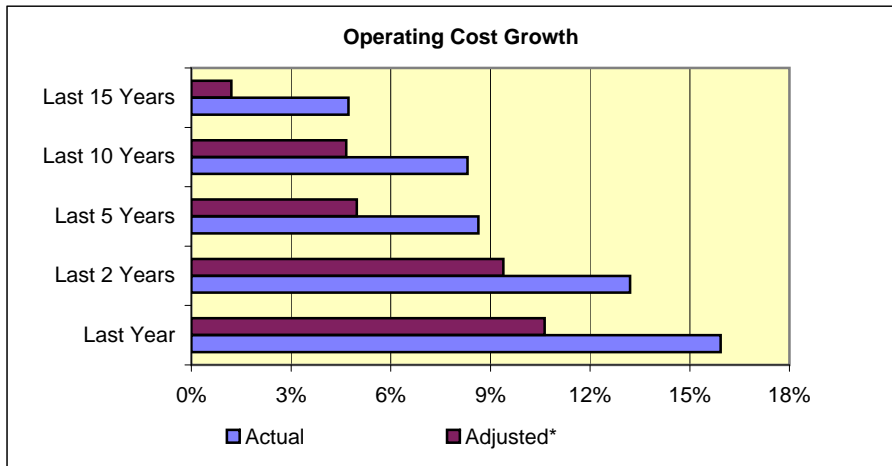
	Actual	Adjusted*
Last Year	12.5%	7.4%
Last 2 Years	13.1%	9.3%
Last 5 Years	7.3%	3.6%
Last 10 Years	7.4%	3.7%
Last 15 Years	4.1%	0.6%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	3.7%	-1.0%
Last 2 Years	13.1%	9.2%
Last 5 Years	7.8%	4.2%
Last 10 Years	7.9%	4.3%
Last 15 Years	4.2%	0.7%

### Annual Growth Rate

	Actual	Adjusted*
Last Year	15.9%	10.6%
Last 2 Years	13.2%	9.4%
Last 5 Years	8.6%	5.0%
Last 10 Years	8.3%	4.7%
Last 15 Years	4.7%	1.2%



\* 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.

## GENERAL FISCAL OUTLOOK

*The following is the General Fiscal Outlook presented to the Council on November 20, 2009.*

### OVERVIEW

We will present a comprehensive analysis of our fiscal outlook when we present the results of our five-year General Fund fiscal forecast to the Council at the upcoming “Budget Foundation” workshop scheduled for December 16, 2008. However, in “setting the table” for this upcoming forecast, we have prepared this *General Fiscal Outlook*, which highlights six key factors that will shape our fiscal outlook over the next two years:

1. Where we’ve been: past fiscal challenges and budget balancing solutions
2. Interim financial results for 2007-08: our current financial condition
3. General economic trends and current trends for revenues
4. State budget situation
5. Key cost drivers
6. Infrastructure and facilities maintenance

### *The Very Short Story*

Just two years ago, we characterized the City’s fiscal outlook as the best in many years, largely due to the passage of Measure Y combined with an improved local economy, the absence of the threat of more State budget takeaways and stable labor costs.

Unfortunately, this is not the case today. While Measure Y revenues continue to be a bright spot – in fact, without them we would be facing a dire fiscal situation instead of “just” a very tough one – all of the other bright spots have darkened:

#### General Fiscal Outlook

***Another very tough budget season that would be much worse without Measure Y revenues***

1. **Adverse Economy.** Stated simply, the national and state economy is in shambles. And while we are better positioned than many communities to deal with this, we are not immune to these powerful economic forces. We have seen – and will continue to see – adverse trends in our top three General Fund revenues of sales, property and transient occupancy (TOT) taxes.
2. **Adverse State Fiscal Outlook.** We dodged a big bullet with the State budget process this year – we thought. After adopting its 2008-09 budget after the longest delay in the State’s history, the State is now facing an added \$11 billion deficit for the balance of this year – and \$28 billion over the next twenty months. It is cold comfort that at this point the Governor is not proposing any major cuts to cities, since it will take two-thirds legislative approval to balance the budget; and there is not a ready legislative constituency for the deep cuts and significant revenue increases proposed by the Governor in closing this gap. In short, while we may again escape any deep State budget cuts, this major threat will continue to hang over us for the foreseeable future.
3. **Adverse Binding Arbitration Decision.** Lastly, as discussed in detail in the special September 30, 2008 report to the Council, the June 2008 binding arbitration decision with the Police Officers Association (POA) cost the City an added \$4 million in 2007-09; and will cost an added \$2.3 million every year into the future. Along with revenue shortfalls, this resulted in \$4.8 million in budget “rebalancing” actions by the Council in September 2008. The most significant of these was to “freeze” implementation of the neighborhood patrol program and deletion of \$2.4 million in capital improvement plan (CIP) projects, including \$925,000 for paving.

This means we are facing a very tough fiscal outlook in 2009-11, which would be much worse without Measure Y revenues. Stated simply, without deep service cuts in other areas, we will not be able to sustain the service and infrastructure improvements that were initiated in the 2007-09 Financial Plan, let alone consider further service improvements. It also means that we need to retain strong reserves in responding to the many uncertainties ahead of us.

## GENERAL FISCAL OUTLOOK

We will better define how big the challenge facing us will be in the December 2008 forecast, but we know it will be bigger than a bread box. On the other hand, largely due to Measure Y revenues, balancing the budget in 2009-11 should not be as difficult as 2003-05 or 2005-07.

Lastly, we go into 2009-11 with a number of positives compared with many communities in California:

1. Good fiscal shape (but it wasn't easy)
2. Good information
3. Solid systems and procedures in place.
4. Excellent organization and capable staff
5. Excellent Council leadership
6. Great tradition of responsible stewardship

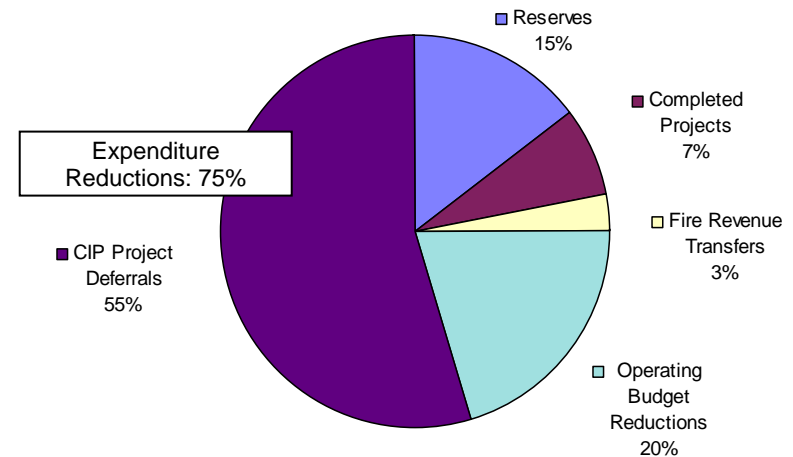
### ❶ WHERE WE'VE BEEN

#### *Binding Arbitration and September 30, 2008 Budget Rebalancing Actions*

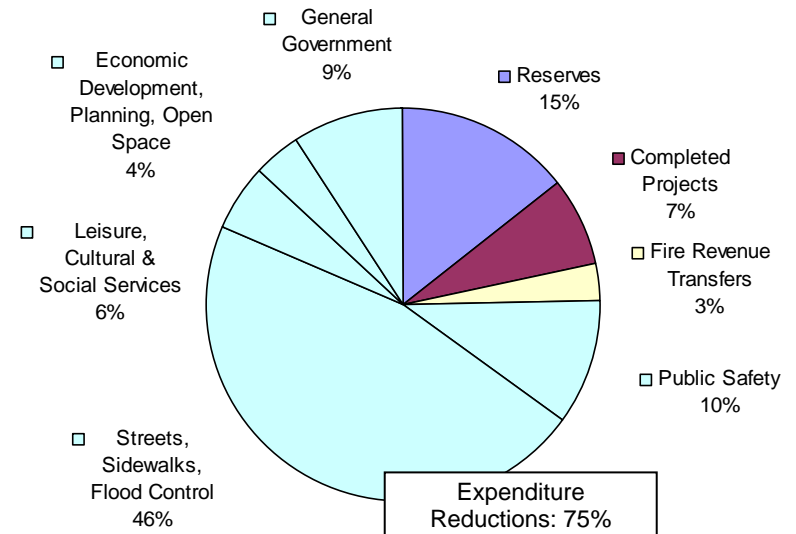
Two years ago, we were facing our best fiscal outlook in many years. Largely due to the passage of Measure Y in November 2006, which enacted a general purpose ½-cent sales tax that generates \$6 million annually, we were able to fund a number of new initiatives in the 2007-09 Financial Plan, including public safety service improvements, restoration of the neighborhood paving program, creek and flood protection improvements, traffic congestion relief, senior services, code enforcement and open space preservation.

However, largely due to the binding arbitration decision, on September 30, 2008 the Council took a number of budget rebalancing actions to close a \$4.8 million gap. As reflected in the chart below, 75% of the short-term budget rebalancing actions relied on expenditure reductions (20% operating and 55% capital).

#### \$4.8 Million Short-Term Budget Rebalancing Actions



When viewed on a functional basis, the chart below shows that all areas of the City's operations were affected by the expenditure reductions. It also shows that reduced funding for infrastructure maintenance like streets and flood protection took the lead role in closing the gap.



## GENERAL FISCAL OUTLOOK

**Short-Term Budget Actions.** As noted in the September 30 report, these actions were intended to be short-term steps in rebalancing the 2008-09 budget in the wake of the binding arbitration decision. Long-term budget-balancing will be an integral part of the 2009-11 Financial Plan process.

**Cost Impact of Binding Arbitration Decision.** The compensation results of the binding arbitration decision were fully discussed in the July 15 and September 30, 2008 reports to the Council. These reports are available for review in the Council office and on-line on the City's web site ([www.slocity.org](http://www.slocity.org)), and should be consulted for a full understanding of the City's history with binding arbitration, the arbitrator's decision and its cost impacts.

While there were a number of key compensation changes as part of that decision, including educational incentives and health insurance increases, the salary award was the largest cost driver. Over a four year period, the arbitrator awarded base salary increases of 30% for sworn employees over the four year term; and a 37% salary increase for all other members of the POA. These across-the-board increases represent pay increases that are about 67% higher than the City's offer of 20% for the same period. These salary increases exclude added educational education incentives, which can add up to 5.3% more pay beyond this. They also exclude annual step increases of 5% for those who are not at the top of the range.

**Cost Summary.** Including pay increases for members of the San Luis Obispo Police Staff Officers Association (SLOPSOA), which has a re-opener in its contract to address salary compaction issues caused by the binding arbitration decision, the total cost of the binding arbitration decision from January 2006 through the end of the current fiscal year (June 30, 2009) is \$5.8 million. Adjusting for available funding in the Memorandum of Agreement (MOA)/Other Compensation Adjustments account, this results in a net added cost of \$4 million for 2007-09.

As shown in the chart below, \$1.9 million of this cost was incurred retroactively from January 2006 through June 2008; and the balance of \$2.1 million will be incurred in 2008-09.

### Summary of Binding Arbitration Costs

Summary of Binding Arbitration Costs: January 2006 through June 30, 2009			
	2005-06 to 2007-08	2008-09	Total
POA	2,685,800	2,749,000	5,434,800
SLOPSOA	60,000	343,000	403,000
Total	2,745,800	3,092,000	5,837,800
MOA/Other Compensation Adjustments	(810,600)	(996,100)	(1,806,700)
<b>Net Cost</b>	<b>\$1,935,200</b>	<b>\$2,095,900</b>	<b>\$4,031,100</b>

As shown above, the estimated annual cost for 2008-09 is \$3.1 million. However, this only reflects six months of the January 2009 raise through June 30, 2009. Accordingly, accounting for the cost of the January 2009 raise for a full year, the ongoing annual cost of the arbitration decision is \$3.3 million, with a net ongoing cost of \$2.3 million after adjusting for available MOA funding.

**Fiscal Health Contingency Plan in Place.** In response to the adverse impacts of the binding arbitration decision, in June 2008 we immediately began implementing the actions set forth in the City's *Fiscal Health Contingency Plan*. Along with the actions taken by the Council in September 2008, this includes a hiring "chill."

The "chill" is not an absolute freeze in filling vacant positions. However, City Manager approval is required to fill all vacant regular positions. To do so, Department Heads must demonstrate that it is necessary in meeting public health, safety or other high-priority service needs that cannot be met on an interim basis through contract, overtime or temporary staffing. In implementing the "chill," the goal is not just short-term savings, but preserving future options in the longer term. This applies to regular positions in the enterprise and other funds as well as the General Fund. It does not apply to filling temporary positions, as this may be one of the strategies for short-term mitigations of the hiring chill.

"Banking" vacant positions has been a key strategy in avoiding lay-offs in the past when responding to tough fiscal times. While we made position reduction decisions in the past based solely on service priorities and minimizing community impacts (not on vacant positions, which are solely



## GENERAL FISCAL OUTLOOK

due to serendipity), we banked enough vacant positions during the “chill” to avoid regular staff lay-offs.

In positioning us for difficult challenges that lie ahead of us in preparing the 2009-11 Financial Plan, the hiring chill is likely to remain in effect until June 2009.

### ② INTERIM FINANCIAL RESULTS FOR 2007-08

#### Our Current Financial Condition

We broadly distributed interim financial results for 2007-08 for the General Fund in September 2008. As we noted at that time, we do not expect to issue audited financial statements until December 2008. (Council review of the audited results for 2007-08 is scheduled for the “Budget Foundation” workshop on December 16). However, we believe the interim report provides a reasonable basis for assessing the General Fund’s financial position at the beginning of the current fiscal year.

General Fund Balance	Budget	Actual	Variance	%
Revenues	53,968,200	54,152,000	183,800	0%
Expenditures	48,344,100	47,862,000	482,100	1%
Other Sources (Uses)	(12,560,400)	(12,342,100)	218,300	2%
Fund Balance, 7-01-07	18,830,000	18,830,000	-	
Fund Balance, 6-30-08	11,893,700	12,777,900	884,200	

#### Ending Fund Balance

The results of the interim report were discussed in-depth at the September 30, 2008 special Council meeting. The most current data is consistent with the results presented at that meeting. We will end 2007-08 with available fund balance of \$12.7 million. After adjusting for 2007-08 added binding arbitration costs, this is better than formal budget estimates by about \$800,000. This in turn is about the amount of reserves that were used in rebalancing the budget for 2008-09. As shown in the sidebar summary, most of this favorable variance is due to expenditure savings.

*What does this mean?* In short, we will end in the same fiscal place as projected in the September 30, 2008 report to the Council.

#### Top Ten Revenues

Top Ten Revenues	Budget	Actual	Variance	%
Sales Tax				
General	13,725,000	13,581,700	(143,300)	-1%
Measure Y	5,900,000	5,996,600	96,600	2%
Property Tax	8,832,900	8,374,200	(458,700)	-5%
TOT	5,121,000	5,054,700	(66,300)	-1%
Utility Users Tax	4,187,700	4,177,700	(10,000)	0%
VLF Swap	3,294,200	3,280,100	(14,100)	0%
Franchise Fees	2,288,100	2,361,700	73,600	3%
Business Tax	1,865,000	1,866,400	1,400	0%
Dev Review Fees	2,715,800	2,705,500	(10,300)	0%
Recreation Fees	1,108,600	1,207,400	98,800	9%
Interest Earnings	925,000	948,100	23,100	2%
<b>Total</b>	<b>49,963,300</b>	<b>49,554,100</b>	<b>(409,200)</b>	<b>-1%</b>

Our top ten revenues account for over 90% of total General Fund revenues. By focusing on these, we can get an excellent understanding of our revenue position. Overall, these top ten revenues were less than projected by \$409,000, largely due to lower property tax revenues than estimated. As discussed below, favorable variances of \$584,000 in mutual aid revenues account for the difference between the “top ten” revenues and the overall revenue results. The following highlights key results for the year and implications for the future.

1. **Sales Tax.** General sales tax receipts in 2007-08 were \$412,000 lower than the prior year and \$143,300 lower than our estimated downturn. This was due to a decline in sales in nearly every major business category, an experience that is common across the nation. The slowing economy has resulted in fewer sales of new motor vehicles, lumber and building materials, home furnishings and purchases at department stores. The losses were partially offset by higher fuel prices, which boosted revenues from service stations. As

## GENERAL FISCAL OUTLOOK

gas prices come down, we will not see this offset in the future. In short, this downward trend is going to continue into 2009-11.

On the other hand, revenues from our local ½-cent sales tax (Measure Y) accounted for just over \$6 million in revenues, performing slightly better than expected. This underscores Measure Y's importance for the City's ability to deliver services to the community, especially in light of adverse results in other key revenues.

2. **Property Tax.** The \$458,000 shortfall in property tax revenues is largely due to a decrease in supplemental tax roll revenues. Property taxes are based on assessed valuation in January of the prior year. However certain events during the year such as property sales and construction in progress can trigger supplemental taxes. As reflected in the chart below, supplemental assessments in 2007-08 were down by \$381,000 (49%) from 2006-07.

This accounts for over 80% of the decrease. The County Assessor can also make downward valuation adjustments based on market conditions. Each of these factors played a role in our supplemental assessments being lower than anticipated.

Supplemental Current Secured Property Taxes			
Fiscal Year	Receipts	Incr (Decr) from Prior Year	
		Amount	%
2007-08	397,968	(381,671)	-49%
2006-07	779,639	28,896	4%
2005-06	750,743	346,265	86%
2004-05	404,478	100,480	33%
2003-04	303,998	22,406	8%
2002-03	281,592		

The good news from this analysis is that while the growth in property taxes is down compared with prior years, we do not seem to be experiencing the drop in property values that many other communities are experiencing. On the other hand, we can expect to see this lower level of supplemental assessments as the “new normal” for the foreseeable future.

3. **Transient Occupancy Tax (TOT).** Results for the year did not meet our projections after a weak fourth quarter. This weaker “base” will result in lower revenue projections for future years. Additionally, recent results show declines in this key revenue source.
4. **Weak Performance from Our Top Three Revenues.** The City's top three General Fund revenue sources – sales tax, property tax and TOT – account for over 60% of total General Fund revenues. The 2007-08 shortfall from estimated revenues from these top three revenues is about \$600,000 – and this lower base will carry over into 2009-11.

**The Moral of the Story: Maintaining sustainable operations is very difficult when your top revenues are not performing well.**

5. **Development Review Fees.** While development review fees were right on target for 2007-08, these are driven by the timing of private sector permit applications, which are difficult to project. Fees for several large projects were received during 2007-08, and as such, revenue we received this year may simply mean lower revenues next year. Moreover, based on current trends in the construction market, we may see significantly lower development review activity in the future, which would result in significantly lower development review fees.
6. **Recreation Fees.** Revenues from the recently completed therapy pool exceeded estimates, which largely accounts for the variance in recreation fees.
7. **Interest Earnings.** Revenues from interest earnings in 2007-08 were on target with our estimates. However, we will see declines from this level in 2008-09 due to lower interest rates as well as lower investable balances.
8. **Mutual Aid Revenues.** As noted above, this “one-time” revenue was above estimates by \$584,000. These revenues result when Fire personnel respond to significant events (usually wildland fires) for which the City receives reimbursement from Federal or State sources. This amount reflects reimbursements for indirect and other costs that were greater than our direct cost of responding to the event. This was an unusually high year for this one-time revenue source. For this

## GENERAL FISCAL OUTLOOK

reason, the Council approved using this one-time revenue for a strategic one-time purpose by transferring these funds to the Fleet Replacement Fund to partially offset the \$1.03 million estimated cost of a 100-foot ladder truck scheduled for replacement in 2009-10.

### Expenditures

On the other hand after adjusting for projected expenditure savings, encumbrances and carryovers, expenditures were less than estimated by \$482,100. This reflects well on department stewardship practices; and was a key factor in offsetting revenue declines. (It should be noted that departments achieved these savings in addition to \$1.5 million we budgeted for.)

As shown in the chart below, all expenditures were well within budget. However, most of these savings are one-time in nature and will not be ongoing. In most cases, the savings we saw in 2007-08 have already been reflected in reduced budgets in 2008-09; or were due to one-time circumstances that are not likely to recur.

Expenditures By Type	Budget	Actual	Variance	%
Staffing	41,301,600	39,539,000	1,762,600	4%
Contract Services	5,494,400	4,550,100	944,300	17%
Telecomm & Utilities	1,647,300	1,539,700	107,600	7%
Insurance	1,077,800	1,054,900	22,900	2%
Other Operating Costs	3,935,300	3,040,000	895,300	23%
Minor Capital	270,200	162,500	107,700	40%
Total by Type	53,726,600	49,886,200	3,840,400	7%
Reimbursed Expenses	(4,058,500)	(4,075,300)	16,800	0%
Total Expenditures	49,668,100	45,810,900	3,857,200	
Estimated Savings	(1,473,200)		(1,473,200)	
Encumbrances/Prepaid Expenses		808,000	(808,000)	
Carryovers/MOA Adjustments	149,200	1,243,100	(1,093,900)	
<b>Total</b>	<b>48,344,100</b>	<b>47,862,000</b>	<b>482,100</b>	<b>1%</b>

### Other Sources (Uses)

Two factors account for the positive variance of \$218,000: operating transfers in from the Gas Tax, TDA and Proposition 42 Funds were slightly

better than projected, resulting in a variance of \$147,600; and the Golf Fund required a lower subsidy than estimated of \$62,000.

### Summary

Based on the most recent information pending completion of the audit, final results for 2007-08 are on target with our September 2008 estimate. The strong reserve position of 27% of operating expenditures compared with our policy minimum of 20% will hold us in good stead in light of the uncertainties facing us. And in fact, we have already drawn on this reserve to about the 20% level as one of the budget rebalancing actions on September 30, 2008.

## ③ CURRENT ECONOMIC AND RELATED REVENUE TRENDS

### Current Economic Trends

#### National and State Economy

Stated simply, the national and state economies are on a downward spiral that is not likely to improve until 2010 at the soonest. And San Luis Obispo's economy is directly tied to these.

Locally, the recent UCSB Forecast for the County concludes that:

*"The result of these factors is that we believe San Luis Obispo County is in a recession that will be more challenging than the one in the early part of this decade, but not as challenging as the one in the 1990s. A weak recovery will probably commence in 2010. It will probably be some time before the County achieves even the 2.5 percent or so economic growth rates that have been the best of this decade to date."*

*"The recession is likely to be extended because of new regulation and continued tight credit markets. However, we will avoid a depression. California is worse off. San Luis Obispo County is not as bad off as California."*

## GENERAL FISCAL OUTLOOK

*The most likely outlook in their opinion?* A long, slow descent with a long bottom and slower recovery.

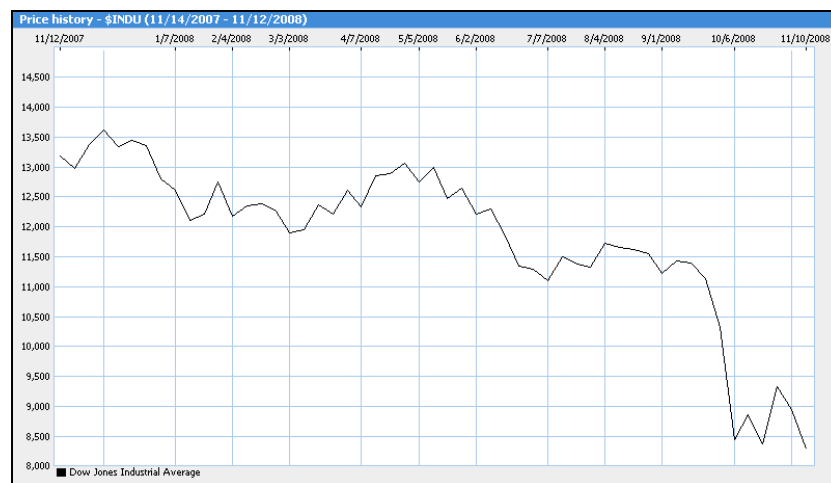


*“We examine possible recovery scenarios and reject both a rapid recovery and an extended decline. We expect a decline followed by a period of little or no growth. The eventual recovery will likely be weaker than most.”*

Some quick observations by others on the challenges facing the national, state and local economies:

- “We are really going to have to rebuild this system from the ground up,” former Fed Chairman Paul Volcker said. **“I don't think we can escape damage to the real economy. I think we almost inevitably face a considerable recession.”**
- **“Given the financial damage to date,”** Alan Greenspan told Congress. “I cannot see how we can avoid a significant rise in layoffs and unemployment.”
- **Gross Domestic Product (GDP) officially contracted in the third quarter**, reported the Commerce Department. The economy shrank 0.3%. That is the biggest quarterly decline in seven years, when the United States entered a post-tech bust recession.
- **In the third quarter of 2008, consumers reduced their spending by the greatest margin in 17 years.** Consumer purchases now make up over 70% of economic activity in the United States. Recent GDP data shows that the Commerce Department’s measure of consumer spending fell by an annual rate of negative 3.1%. This is the biggest pullback since 1980.

- **America's Research Group predicts holiday sales will decrease at least 4 percent, the first decline since it started forecasting in 1979,** as consumers grapple with sinking home and stock values. Their projections have been correct in 16 of the past 17 years.
- **The volume of “mass layoffs” in the U.S. has reached a seven-year high.** According to a Labor Department report, the number of firings involving at least 50 workers increased more than fivefold from August to September. There were 2,269 such events in September, up 497 from August.
- **Foreclosures grew by 71% in the third quarter compared with the same time in 2007.** About 766,000 homes received at least one foreclosure notice during the period, according to RealtyTrac; and 250,000 properties were repossessed.
- The Conference Board’s gauge of confidence sunk to 38 in October, from a score of 61 in September. **This is the lowest score since the report’s inception in 1967.**
- **And of course, the stock market has plunged over the last year: in fact, in just the last six months, the Dow Jones Industrial Average has lost 35% of its value.**



## GENERAL FISCAL OUTLOOK

In short, except for declining gas prices (and even that is a mixed blessing in terms of resource conservation and climate change), the economic news is all bad – and it's likely to remain so for a large portion of 2009-11.

### *Impact on City Revenues*

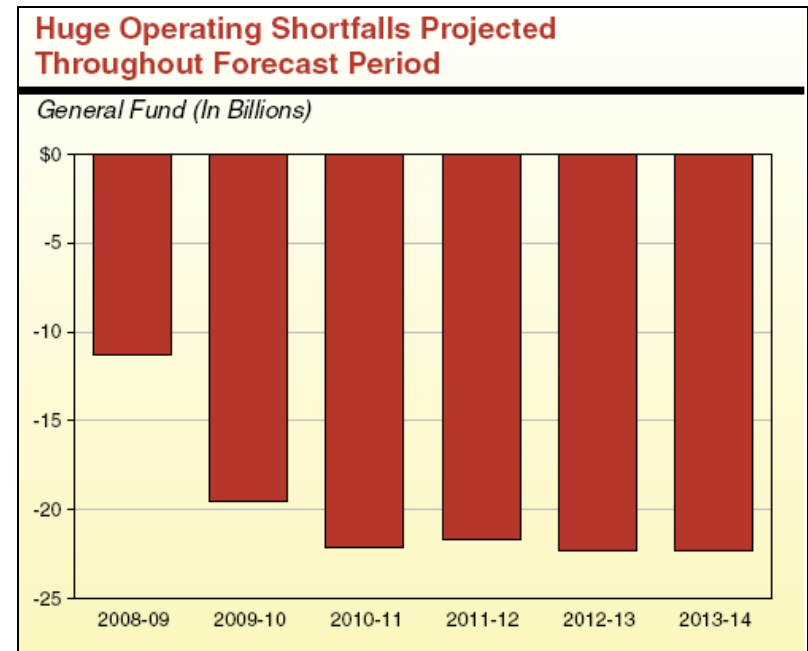
The recent performance of two of our top General Fund revenues reflects the bad news:

1. **Sales Tax.** The last sales tax newsletter showed a 4% drop in sales tax revenues (following a 3% drop the previous quarter). And that was for the second quarter of 2008 – before things got really bad.
2. **TOT.** As noted in the September TOT Report, September revenues were down by 10% compared with last year; and down by 1% overall for the first quarter. Since July, August and September are among our most important months, this first quarter result will be hard to overcome as the year progresses.

In summary, as discussed above under interim results for 2007-08, we go into 2009-11 with a lower base for key revenues than we estimated; and the trends since then are not encouraging.

### ④ STATE BUDGET SITUATION

While the State has huge governance problems in managing its finances, the fact is that the factors discussed above have had a huge impact on the State's budget that transcends its usual inability to manage itself. Given current circumstances, even the Governor now agrees that the State has a revenue problem, not just an expenditure one. On top of the budget fixes just made by the State a month ago, the Legislative Analyst's Office (LAO) projects annual gaps of over \$20 billion annually unless corrective action is taken (see bar chart).



The Governor has proposed a series of very tough revenue and expenditure solutions over the next 20 months, which are supported by the LAO, including:

1. Increasing the State sales tax rate by 1.5%: \$10.1 billion. This would bring the rate in Los Angeles County to over 10%.
2. Expanding the sales tax to selected services: \$1.6 billion.
3. Imposing an oil extraction tax: \$1.7 billion.
4. Cutting local school support by \$3.2 billion, social services by \$2.7 billion and health services by \$1 billion. These are on top of the cuts already imposed for 2008-09.

## GENERAL FISCAL OUTLOOK

### Governor's Special Session Proposals<sup>a</sup>

(In Millions)

	2008-09	2009-10
<b>Revenue Increases</b>		
Increase sales tax by 1.5 cents for three years <sup>b</sup>	\$3,540	\$6,643
Expand sales tax to some services	357	1,156
Impose oil severance tax	530	1,202
Raise alcohol tax by a nickel a drink	293	585
Subtotals, Revenue Increases	(\$4,720)	(\$9,586)
<b>Expenditure Savings</b>		
Reduce Proposition 98 spending	\$2,500	\$729
Reduce higher education spending (unallocated)	132	132
Reduce regional center rates by 3 percent	34	60
Restrict Medi-Cal eligibility and benefits	142	715
Reduce SSI/SSP grants	391	1,176
Eliminate California Food Assistance Program	—	30
Reduce CalWORKs grants and implement reforms	274	847
Reduce IHSS state wage participation and target services	118	357
Implement parole reform and other corrections savings	78	678
Eliminate funding for public safety grant programs	250	501
Eliminate state funding to transit agencies	230	306
Furlough state workers and reduce other costs	320	556
Eliminate funding for the Williamson Act	35	35
Subtotals, Expenditure Savings	(\$4,504)	(\$6,120)
<b>Total Solutions</b>	<b>\$9,224</b>	<b>\$15,706</b>

<sup>a</sup> Scoring reflects administration's estimates.

<sup>b</sup> Sales tax revenues are the net benefit to the General Fund, after accounting for higher spending required under Proposition 42.

At this point, the Governor is not proposing any significant reductions to cities. However, it's very early innings yet; and the Governor's proposals are not likely to gather a lot of support.

And even if the State's budget solution does not have a large direct impact on the City, deep cuts to schools, health and human services, corrections and higher education will have significant impacts on our community.

### KEY COST DRIVERS

Based on past experience, there are five key cost areas we need to pay special attention to:

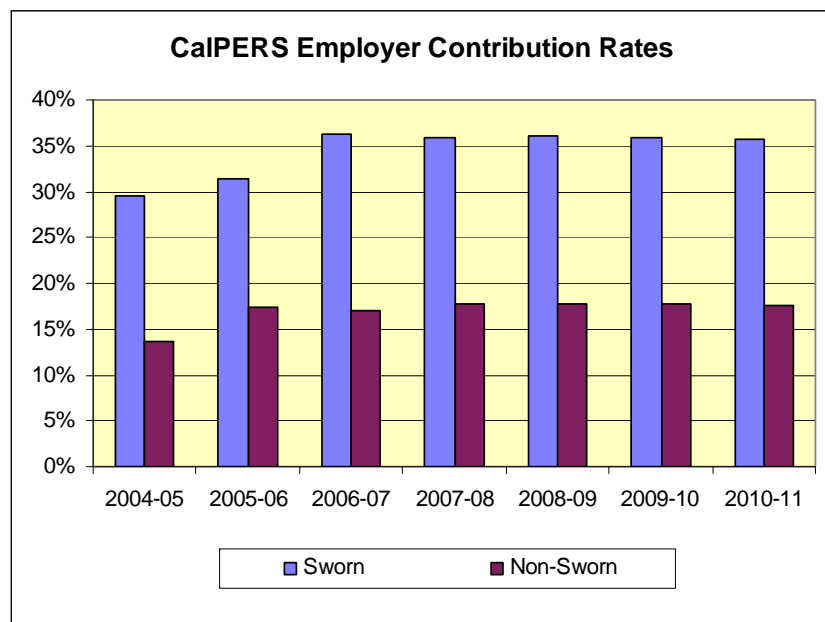
1. **Workers Compensation, General Liability and Property Insurance.** At \$2.7 million annually, these account for about 6% of the General Fund budget. In the not so distant past, these costs were rising at very high rates. The good news is that while there have been cost swings between workers compensation and general liability coverage, total insurance costs have been very stable since we joined the California Joint Powers Insurance Authority (CJPIA). At this time, this does not appear to be a major cost driver in 2009-11, with one caveat: insurance companies set rates based on many other factors than actuarial loss history. One of these is the return on their investments; and this has not been a banner year for major insurers like AIG. On the other hand, the CJPIA is largely self-insured, so this may not be a major factor for us.
2. **Energy and Fuel.** With declining oil prices, this is not likely to be a major cost driver in 2009-11.
3. **Construction Costs.** This may be the only silver lining to the storm clouds facing us: based on our recent bidding experience, we are likely to get a "bigger bang for our construction project buck" in the current economic environment. Along with this general trend, falling petrochemical costs should reduce paving costs.
4. **Retirement: Projected Rate Stabilization Is Happening.** As detailed below, our projected stabilization of rates 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.

**CalPERS Costs in Context.** For 2008-09, our estimated CalPERS cost for employer contributions is \$6.6 million. To place this in perspective, this represents 6.8% of our total City budget for 2008-09 of \$96.6 million. So, while it's certainly a significant cost, it is not an undue portion of total City costs. This 6% share has remained stable

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over the past five 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 2009-10 and projections for 2010-11, which reinforce our “stable” outlook. This is reflected below in the chart, which shows the seven-year stability in rates for both sworn and non-sworn employees.

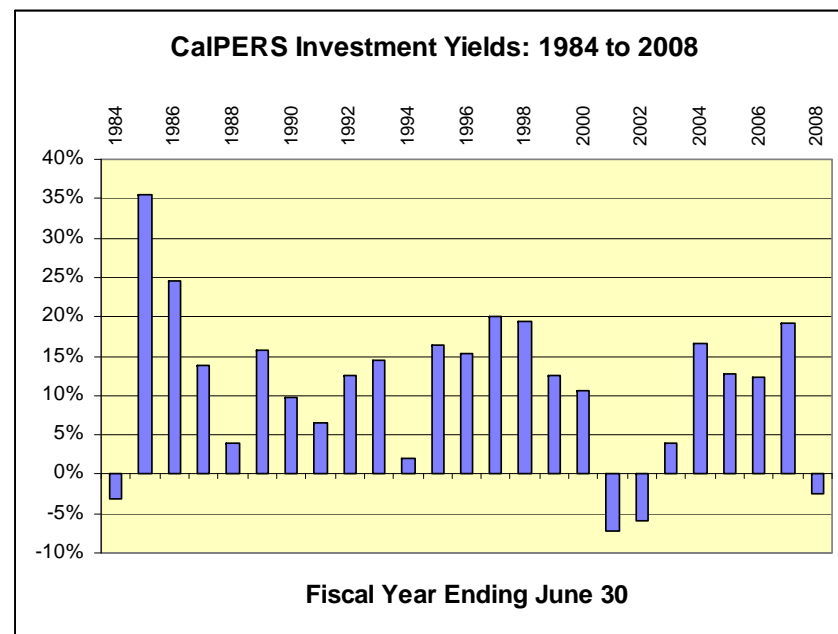


**Improved Liability Funding Levels.** On the good news front, while rates have remained stable, the level of unfunded liabilities has improved. An 80% ratio is considered a reasonable funding level. As of the most recent actuarial analysis, the City’s plans are now at 99.0% for safety employees and 90.2% for non-safety employees.

**What About Future Rate Increases, Given Current Investment Market Conditions?** Following several years of double-digit gains, CalPERS has recently experienced – like most investors – a decline in the value of its investment portfolio. However, because of CalPERS

15-year “smoothing” methodology, we do not expect to see any significant changes in employer contribution rates in the foreseeable future. Stated simply, because of this long-term approach to rate-setting, we did not see significant changes downward when CalPERS had double-digit gains after 2001; and likewise, there should not be any significant immediate impacts even if CalPERS experiences similar losses like it did following the “dot.com” meltdown and 9/11.

For context, CalPERS rates are based on an actuarial assumption of a 7.75% return on investments. As the chart below shows, while there have been years where yields have fallen below this target over the last 25 years, long-term yields have averaged over 9%.



On the other hand, while rates are likely to remain stable, our retirement costs will go up as salary costs increase. For example, we recently saw a significant increase in CalPERS costs for POA employees. However, this is solely due to the salary increases awarded by the arbitrator of 33% to 42% (including educational incentives and

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depending on sworn/non-sworn status). As noted above, the underlying actuarial basis for rate setting has been – and is projected to be – stable. In short, POA retirement costs went up significantly, because the salaries upon which the rates are applied went up significantly; but the rates themselves have been stable and are likely to remain so.

This leads to the point below: the importance of containing labor costs while remaining competitive in attracting and retaining quality employees.

5. **Labor Costs.** These will be largely determined by the “meet and confer” contracts we enter into in the coming year. The key question facing us is: will salary agreements look like the:

- POA binding arbitration decision, where salary costs (including educational incentives) rose about 9% per year over the last four years, based on the arbitrators decision to pay salaries at the 85% percentile of comparable cities (versus the City’s policy of focusing on the median – 50% percentile – for all other positions)?
- Agreements with all other units, where salary costs rose about 4.5% per year over the last four years?
- Or more like the 2% salary increase recommended for managers for 2009?

Since staffing costs represent about 80% of General Fund operating costs, the answers to these questions will have a profound impact on our fiscal outlook.

## 6 INFRASTRUCTURE AND FACILITIES MAINTENANCE

The forecast we prepared two years ago estimated that adequately maintaining, repairing or replacing existing General Fund facilities, infrastructure and equipment we already have in place would cost about \$8.3 million annually. This excludes any enhancements or “betterments.”

While the CIP approved in the 2007-09 Financial Plan included some “new” projects, it was funded at about this level. To place this in context, the General Fund CIP appropriation in 2006-07 – the year prior to the 2007-09 Financial Plan – was \$2.1 million: about 25% of the level approved in 2007-09. This very lean CIP reflected the significant reductions in infrastructure maintenance the City had made in balancing the budget in the five years prior to 2007-09. This included reducing our street paving program by 67%; and the tough decisions the Council had to make in preserving critical day-to-day services like police and fire protection. The passage of Measure Y was a major factor in this turnaround.

On one hand, it is likely that our ability to fund needed infrastructure, facility and equipment improvements will be better in 2009-11 than it was in the five years before the passage of Measure Y. On the other hand, without significant cuts in other areas, it is unlikely that the level of CIP funding initially funded in the 2007-09 Financial Plan can be sustained. This simply underscores the tough decisions ahead of the Council in preparing a balanced budget for 2009-11.

## SUMMARY

The purpose of this “general fiscal outlook” is to highlight the key factors that are likely to affect us financially over the next two years. We will be better able to place these in a more “empirical” context, along with other key factors, after we have finalized the five-year General Fund forecast, which we plan to present to the Council on December 16, 2008. However, based on this initial “high-level” look, our fiscal situation as we enter the 2009-11 Financial Plan will be much tougher than it was two years ago,

However, even with this tougher fiscal environment, we are in much better position than many other cities in California to weather this storm; and we are very fortunate to have Measure Y revenues. But regardless of our specific fiscal circumstances, the fundamental policy questions posed by the budget process remain ahead of us in both good times and bad: 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?