
General Fund

Five Year Forecast: 2011-16

A Road Map to Financial Sustainability

October 2010



city of san luis obispo

General Fund Five Year Forecast: 2011-16

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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 four 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
4. Maintain fund balance at policy levels.

The forecast does this by projecting likely revenues and subtracting from them operating costs, debt service and the capital improvement plan (CIP). If positive, the balance remaining is available to rebuild the level of our reserves to guard against future financial uncertainties or fund new initiatives. If negative, the balance shows the likely “budget gap” that requires corrective action.

The Fiscal Sustainability Journey Continues

Consistent with the Interim General Fund Five Year Fiscal Forecast presented to the Council in May 2010, this forecast concludes that we are

facing a long-term structural budget gap between revenues and expenditures for the foreseeable future unless corrective action is taken. The current gap would be even worse without Measure Y revenues.

**GUIDING OUR
JOURNEY TO
SUSTAINABILITY**

Simply put, the primary reason for the budget gap is that revenue available to operate the City has dropped significantly, while expenses have continued to increase. The national and state economies have experienced their greatest downturns since the Great Depression. While the “Great Recession” has been officially declared over, there is much uncertainty about when the recovery will begin. Unemployment remains high and economists are now predicting that the recovery will be long and slow.

While we are better positioned than many communities to deal with economic downturns, we are not immune to their effects. We have seen declines in most of our General Fund revenues, particularly in sales, property and transient occupancy taxes and development review fees.

As revenues have dropped over the last several years, costs have continued to increase, particularly in the area of staffing. Operating costs for the General Fund have grown an average of 6.3% per year for the last five years, including unanticipated staffing cost increases of \$2.3 million annually due to a binding arbitration decision in June 2008. Budget balancing actions totaling \$11.3 million were taken as part of the 2009-2011 Financial Plan and an additional \$3.0 million in “stop gap” measures were adopted in June 2010. Still, because of the lagging economic recovery, our position has worsened. And, we face further increases in staffing costs as CalPERS rates are expected to rise significantly beginning in 2013.

Based on our most recent assumptions regarding revenue and expenditure growth, and continuing current day-to-day service levels, we are looking at an “order of magnitude” budget gap of about \$2.2 million in 2011-12, growing to \$3.0 million the following year. On average, the budget gap will be \$2.6 million annually over the next five years. Our projections include the steep increase in CalPERS retirement costs that are expected in 2013-14. They also assume the continuation of Measure Y revenues.

Although we have aggressively prepared for the economic issues facing us, the Great Recession has been longer and deeper than expected. This means that without even deeper service cuts

<p>Does this forecast project a “budget deficit”?</p> <hr/> <p>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 <i>today</i> to close projected <i>future</i> 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</p>
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and/or implementation of aggressive cost containment measures, the strong financial position the City has achieved will not be sustained. In other words the City may 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 without a focused reassessment of our priorities and a balanced approach to cost containment.

As we continue this journey some have questioned the City's approach to financial management that has led us to this way station. It seems appropriate to address those questions about the past before looking forward. Beyond the self-assessment by the Council and community that is accomplished at least three times each fiscal year, the City's financial management practices have regularly been subjected to annual audits by an independent firm that has a fiduciary obligation to report mismanagement. Moreover the City's financial management practices have recently been independently assessed by Standard & Poor's (S&P), a national rating agency, in anticipation of selling bonds to investors. The last time the City wanted to sell bonds S&P upgraded the City's bond rating (from AA- to AA) in consideration of among other assets "...very strong unreserved fund balance" and "Strong management practices under Standard & Poors Financial Management Assessment (FMA) methodology." While the journey has taken us places we never anticipated, there are independent voices that validate the path taken to get us to this point along the way.

Why is our forecast worse than what we expected 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 continuing downturn being felt in virtually all areas of the economy, our revenues have not recovered as we expected. Whereas we expected a rebound beginning in 2010, we ended 2009-10 with revenues about 6% lower than the previous year. Our forecast now projects that we will not lose any additional ground and will experience a very modest upturn in our key revenues beginning in 2010-11, with slow recovery from that point. And, while we project improvements in our revenue position in the out years, gaps still persist because of the reduced base we begin with as a result of the continuing

downturn. Meanwhile, costs have been growing faster than revenues, which causes the core budget gap.

The Good News

Based on the actions taken so far by the Council, we have maintained our 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 or other unexpected events not assumed in this forecast.

Since our undesignated reserves have been used over the last two years, we need to be very cautious in adding unanticipated costs. We continue to operate in a time of economic uncertainty, and we need to maintain flexibility to respond to future circumstances.

The Very Good News

The passage of Measure Y in 2006 has allowed the City to improve the community even as financial pressures have increased. Residents and businesses have benefitted from Measure Y funded projects and the revenues have prevented deeper cuts from occurring in services that are important to the community. About \$5.6 million in Measure Y funding was spent in 2008-09 for neighborhood paving, traffic congestion relief, and creek and flood protection. These funds were also used to enhance public safety, remodel the Senior Center at Mitchell Park, increase neighborhood code enforcement, and make a number of improvements to our downtown. It is expected that about \$5.4 million will be available in 2010-11 which again will be used to support high priority services. A full discussion of the uses of Measure Y funds is included at the end of the forecast.

Very Tough Policy Decisions Ahead

Based on the results of this forecast, we will again be facing very difficult budget decisions as part of the 2011-13 Financial Plan. After several years of diminishing revenues and higher costs, it is clear that we must develop a longer-term strategy for dealing with our new economic reality. The

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success of our journey will depend upon engaging employees, the Council, and the community in addressing the fiscal challenges that face us. This process has already begun as City advisory bodies have started discussing

The budget process will be about prioritizing services, trade-offs, and containing costs.

budget goals and priorities during their regular meetings. Additionally the City Manager's Financial Sustainability Task Force (an ad hoc advisory team of community leaders and employees) are hard at work to surface a wide range of potential

options for cost containment or revenue enhancement. They will present their report to the City Manager in December and will hopefully be amenable to providing input to the Council as part of the development of the new Financial Plan. Internally, our employees have started to review and prioritize services with a goal of identifying potential efficiencies and eliminating duplicate or non-value added activities. All of this input will be considered in crafting the long-term fiscal strategy that will be presented to Council in the 2011-13 Financial Plan. Ultimately, there are two fundamental questions that need to be answered: First, what efficiencies and cost containment measures can be achieved? Second we must then answer the question: Of the services we provide today, which will we be able to deliver over the next two years and into the foreseeable future?

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. 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

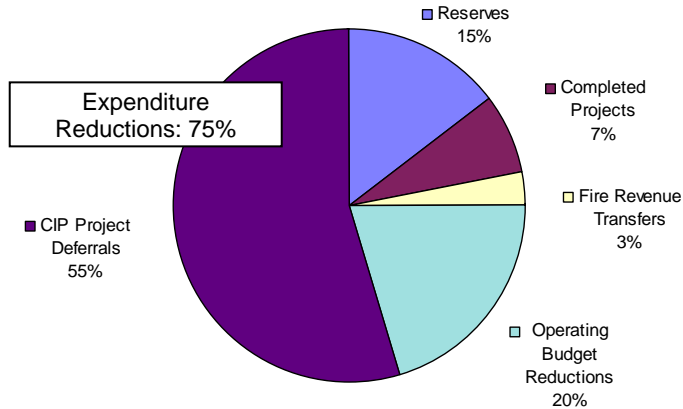
Since our journey to financial sustainability has been on-going, it will be helpful to review where we have been and the steps we have taken in response to the constant changes in our financial condition.

Budget Actions in the 2007-09 Financial Plan

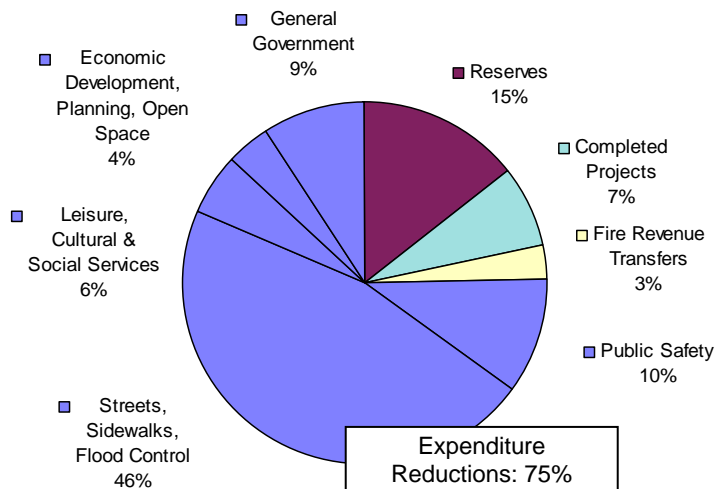
In November 2006 the citizens passed Measure Y, which enacted a general purpose ½-cent sales tax that generates more than \$5 million annually. Measure Y allowed the City to fund a number of new initiatives in the 2007-09 Financial Plan which were important to the quality of life in the City. These initiatives included 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, due to the larger than anticipated cost of the binding arbitration decision related to labor negotiations with the Police Officers Association, the Council took a number of budget rebalancing actions to close a \$4.8 million gap in September 2008. As reflected in the chart below, 75% of the short-term budget rebalancing actions relied on expenditure reductions (20% operating and 55% capital).

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\$4.8 Million Short-Term Budget Rebalancing Actions 2007-09 Financial Plan



When viewed on a functional basis, the following chart 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.

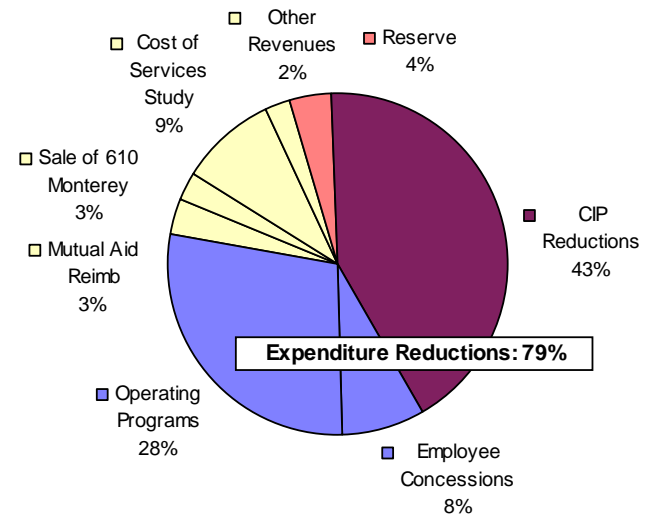


These actions were intended to be short-term steps in rebalancing the 2008-09 budget in the wake of the binding arbitration decision.

Budget-Balancing in the 2009-11 Financial Plan.

As we began preparing the 2009-11 Financial Plan in 2008, the signs of a severe national economic decline were becoming ever clearer. We were experiencing continued declines in our top General Fund revenues, which combined with the unanticipated staffing cost increases from the binding arbitration decision as well as contractual obligations that increased our staffing costs to produce a budget gap of about \$11.3 million. The budget-balancing actions in the 2009-11 Financial Plan to close this gap were as follows:

2009-11 Budget Balancing Strategy: \$11.3 Million Gap



As reflected above, while reserves and added revenues played an important role, about 80% of the budget-balancing strategy again relied upon expenditure reductions. The chart below shows the General Fund operating budget reductions that were implemented as part of the 2009-11 Financial Plan.

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General Fund Operating Reductions, 2009-11

Department	Annual Savings*	
	Amount	%
Council, Administration, City Attorney, City Clerk	393,300	11%
Human Resources	104,600	9%
Finance & Information Technology	308,800	8%
Community Development	172,250	6%
Parks & Recreation	273,150	7%
Public Works	739,250	6%
Police	876,050	6%
Fire	315,400	3%
Total General Fund	\$3,182,800	6%

* Annual Average for 2009-11

As reflected in the chart, the deepest reductions were in the support departments, ranging from 11% to 8%; with smaller reductions in “front-line” departments like Public Works, Police and Fire. These reductions included 17.2 regular positions and 6.4 temporary full time equivalent (FTE) positions in the General Fund. In addition, there were 3.0 FTE regular position reductions and 0.2 temporary FTE reductions in the enterprise and agency funds, resulting in one employee layoff. This also included salary deferrals by employees totaling nearly \$1 million.

Following the \$3.2 million in operating reductions implemented with the first year of the 2009-11 Financial Plan, the Mid-Year Budget Review prepared in February 2010 projected that sales tax, development review fees and mutual aid revenues would come in at levels below budget for 2009-10 and that \$1.5 million in reductions (“stop gap measures”) would be needed in order to end the 2009-11 Financial Plan with reserves at minimum policy levels.

In order to develop proposed reductions, Departments prepared over 140 operating reduction options totaling \$1.5 million over the remainder of the Financial Plan. Additionally, a plan to reduce the Capital Improvement Plan budget was crafted. In the meantime, a further \$1.5 million in needed reductions was projected and the Financial Plan Supplement ultimately implemented \$3 million in operating and capital cuts.

Operating Budget Reductions. As summarized below, the Financial Plan Supplement implemented \$979,500 in operating cuts:

Department	Annual Savings	
	Amount	%
Council, Administration, City Attorney	73,300	2%
Finance & IT	121,200	3%
Human Resources	32,300	3%
Community Development	106,200	4%
Public Works	308,000	3%
Parks & Recreation	95,900	3%
Police	162,100	1%
Fire	80,500	1%
Total General Fund	\$979,500	2%

Capital Program Reductions. The Financial Plan Supplement also reduced CIP projects by \$1,977,900. As a result of a favorable bidding climate caused by the recession, several CIP projects were completed under budget, making \$747,800 available to offset the current funding gap without impacting planned capital projects. In addition, \$500,000 budgeted for the Gateway (Upper Monterey) Paving project was available because the project was approved for “stimulus” grant funding. Another large source of CIP funding for the “stop gap” measures came from the CIP Reserve. This reserve funding was set aside in prior years when the bidding climate was red-hot and a contingency was needed to ensure that unanticipated costs could be covered to allow underfunded projects to move forward. Fortunately, the favorable bidding climate created by the economic slowdown allowed us to use these funds as part of our budget balancing solutions.

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Reductions to the Capital Improvement Program are summarized in the following table:

Capital Project	Savings
Bishop/Augusta Creek Bank	28,000
Gateway Paving	500,000
CMP Storm Drains	260,000
CIP Reserve	442,100
Completed Projects	747,800
Total CIP Reductions	\$ 1,977,900

Interim General Fund Five-Year Fiscal Forecast

In order to provide an early, “reconnaissance” level assessment of the budget challenges currently facing the City, we prepared an Interim Fiscal Forecast in May 2010 which used the mid-year budget review presented to Council in February 2010 as a baseline. Based on this analysis, it was estimated that the City would be facing a core structural gap of about \$3 million annually, growing to about \$5 million annually in 2013-15 as a result of increases in PERS contribution rates. The analysis assumed an increase in operating expenditures of 2% per year going forward.

Fiscal Health Contingency Plan Activated Twice Since 2008

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*. The Plan was then lifted upon adoption of the 2009-11 Financial Plan. Because of the significant downturns in revenues in 2009-10 as identified in the Interim Forecast, the triggers for taking short term budget actions were again pulled and the following short-term actions were in place until the adoption of the Financial Plan Supplement in June 2010:

1. Hiring freeze. A hiring “chill” was put in place in June 2009, and this was converted to a freeze. The goal of the hiring freeze was not just to produce short-term savings, but also to “bank” vacant positions so as to preserve future options going forward and avoid

regular staff lay-offs. The hiring freeze was lifted to a “chill” with the adoption of the 2010-11 budget.

2. Travel and training chill. This required City Manager approval of all Travel authorizations.
3. Plan to address budgetary shortfalls. The “stop gap” measures approved in June were part of this step as were the reductions included in the 2009-11 Financial Plan Supplement. Longer term solutions will be developed as part of the 2011-13 Financial Plan process.
4. Use of reserves. The City’s financial policies require that General Fund reserves be maintained at 20% of operations. Additional non-designated reserves were drawn down to allow continued operations while long term responses were developed.

Our Current Position on the Journey

The City has been on its fiscal sustainability journey for a long time and has taken continual steps to reduce expenditures along the way to align revenues, expenditures, goals and priorities as our financial condition evolved. This Five Year Fiscal Forecast for 2011-16 is based on all of the previous actions and the latest information on our revenue and expenditure outlook. It includes the unaudited results of the fiscal year ending June 30, 2010 as well as updated assumptions about revenue and inflationary trends as described below. As we begin our two year Financial Plan process, we will be constantly monitoring and refining our assumptions based on the latest information from our ever-changing economic environment.

Additionally, we are actively pursuing other avenues to guide the City to a financially sustainable future. These include the following:

- Assessing efficiency and effectiveness measures that are opportunities to avoid operating expenses. One such endeavor has just begun in the form of the organizational assessment in the Public Works Department;
- Negotiating cost containment measures with the City’s bargaining units and unrepresented employees (defined as maintaining or restraining organizational costs within specified budget or financial targets); and
- Soliciting ideas from the community, stakeholders and employees via Advisory Bodies, the Financial Sustainability Task Force, a survey in the Utility bills, a new public input method using electronic survey tools

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and our traditional budget process including the Community Forum scheduled for January 2011.

KEY BUDGET DRIVERS AFFECTING OUR FISCAL OUTLOOK

① Reset of Revenue Base

The United States has just experienced the deepest and longest recession since the Great Depression. The housing sector slump was followed by a crisis in the financial markets, high levels of unemployment and a sharp decline in consumer spending. During this time, several of our top revenues have declined or at best stayed flat. Sales tax (including Measure Y), property tax and transient occupancy tax (TOT) account for about two-thirds of all funding sources in the General Fund. Although they appear to have recovered from the precipitous drop of the past several years, we believe that growth will be very moderate at best, and that in some cases the revenue base has been “reset” at a lower level.

Sales Tax. Sales Tax receipts plunged from a high of almost \$14 million in 2006-07 to a low of slightly more than \$11 million in 2009-10, for a decrease of 21%. Fortunately, it appears that this revenue source has turned the corner.

Gross receipts for the first quarter 2010 (sales in January – March 2010) were up 4.2% from the same quarter 2009. Actual sales, after adjusting for reporting corrections, were up 1.4% over first quarter 2009. Preliminary data on receipts for the second quarter 2010 (not adjusted for reporting errors) indicates that total collections are up almost 3%. Sales were level or up slightly in the General Consumer Goods, Autos and Transportation, and Business and Industry business categories, with a larger increase in Fuel and Service Stations. Slight declines were experienced in the Restaurants and Hotels, Building and Construction, and Food and Drugs categories. We believe that this trend of very moderate recovery will continue through this fiscal year. Various factors have contributed to this uptick in sales, including pent up demand, stimulus rebates for certain energy-related purchases, and manufacturer incentives for car purchases. “Anchoring” sales, on the other hand, are factors such as unemployment, eroded home equity, tight credit, and the “new frugality” which seems to

be taking hold among consumers. It is generally felt that sales tax revenues have reached the bottom and begun a very slow recovery to a new lower sustainable base. Furthermore, the effect of the high level of unemployment which has been a drag on sales tax has now been factored into the comparisons since we have experienced more than a year of unemployment rates in the 10% range.

Based on these factors, we are projecting that sales tax revenues in 2010-11 will be about 1% below the original budget of \$11.3 million. Over the next five years we are projecting that our base sales tax will increase by the compounded rate of population and inflation. For the next two year Financial Plan the rate of increase anticipated is 0.8%, increasing slowly to 2.8% in 2015-16.

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”				
	2011-12	2012-13	2013-14	2014-15	2015-16
Airport Area Annexation: 1A	60,000	60,000	60,000		
Airport Area Annexation: 1B					60,000
Target Chinatown	262,500	87,500			197,200
Total	322,500	147,500	60,000	0	257,200

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

- 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. 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). Two years of Airport Area 1A have already been received. The City’s ½-cent rate from Measure Y begins upon annexation.
- Target Store.** Based on the current development timeframe and revenue estimates prepared with the assistance of our sales tax advisor.

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3. **Chinatown.** Based on prior analyses of “net” sales tax revenues, we project \$197,200 beginning in 2015-16.

By the fifth year of the forecast, these new outlets account for about \$800,000 in new annual revenues.

TOT Revenues. Revenues from transient occupancy tax ended 2009-10 down 4% from the prior year and down 11% from the high of \$5 million in 2007-08. However, the receipts from this revenue source began to show a marked uptick in June 2010. June receipts were 7.4% higher than June 2009, with July up 6.6% and August up 5.7% over same month the prior year. We believe that TOT, like sales tax, has bottomed out and started a recovery to a new base.

TOT revenue is seasonal, with higher receipts in June, July and August and smaller receipts in the winter months. In preparing projections for TOT for 2010-11 we used the percentage factors for each month and estimated what the entire year would look like with that pattern. Since this forecast is being prepared earlier in the year than usual, we only have two months worth of receipts for this year. We are monitoring TOT returns closely and will adjust the forecast as more information becomes available.

Based on the current trends, and using the 2% average growth factor for TOT that has occurred over the last five years, we are projecting 2% growth for 2011-12 and 2012-13. We then show modest increases of 3% to 4% for the rest of the forecast period.

Additionally, we are projecting the following increases in the “base,” after accounting for transfers from current businesses:

Hampton Inn: 2014-15	\$109,500
Chinatown: 2015-16	\$485,000
Garden Street Terraces: 2015-16	\$250,000

We have revised the dates for receiving TOT from these hotel properties to reflect the latest information on development plans. In general, the dates have been moved out in the Financial Plan because of the current economic climate.

Property Taxes. Property tax revenues in 2009-10 were \$8.6 million, down 2.4% from the prior year. Although the budget for 2010-11 includes \$9.3 million in property tax, we are currently estimating that we will receive \$8.6 million, virtually the same as the prior year. One factor in the lower property tax revenue is the negative annual growth, or CPI, which occurred for the 2010-11 roll. Since the approval of Proposition 13, secured property tax increases have been limited to 2% annual growth or the change in the CPI, whichever is lower. In all but five cases prior to this year, the annual CPI built into assessed value growth was 2%. In the other five cases, the actual CPI was less than 2% but above 0%. For the first time, the 2010-11 property tax adjustment will reflect a negative CPI factor of -0.24%.

The 2010 Annual Report from the San Luis Obispo County Assessor states that the County as a whole experienced a negative assessment growth for the second year in a row. The Assessor reviewed over 44,000 properties county-wide for a decline in value, with about 75% of them having their assessed value reduced. While we are not experiencing the depth of property value declines and foreclosures as other areas of the County, we have had some reassessments downward which are reflected in the revenue we will receive this year. After consulting with the Assessor’s office about the outlook for 2011-12, we are projecting that we will see an increase of 2% to reflect the underlying CPI adjustment since residential values have stabilized. (About 68% of our total property tax revenue comes from residential property.) This is followed by gradual increases of 3% to 5% in the out years to reflect a return to historical trends.

On the positive side, we anticipate that the property tax in lieu of VLF will be about \$100,000 higher in 2010-11 than budgeted and will follow the projections for Property Tax discussed above.

② Financial Results of 2009-10

Because we are bringing this Fiscal Forecast earlier than in previous years, we do not yet have the audited Comprehensive Annual Financial Report, which will be presented to the Council in December. However, based on unaudited numbers, the financial results for 2009-10 are on target with the goals of our mid-year review. We have ended the year with the 20%

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reserve intact, and an excess reserve of about \$900,000 even though revenues in some cases were lower than originally projected. It is projected that this excess reserve will be partially depleted during 2010-11.

③ Operating Costs

The added costs associated with the 2008 binding arbitration decision as well as any other cost increases associated with contractual obligations are now part of our “regular” cost base, as are the various cost reduction measures taken over the last several years. The “Stop Gap Measures” for 2010-11 have been implemented and taken into consideration in developing this forecast. We have not anticipated any significant additional operating costs other than the increase to the PERS retirement rates which have been included in the Financial Plan. Although the Interim Fiscal Forecast included an assumption of 2% increases each year for operations, the current forecast assumes no increases for 2011-12 beyond those required by contract and modest increases to reflect population and inflation thereafter. This assumption is based on the very low inflation environment currently in place and the downward pressures on salaries from the very loose labor market.

With a stabilized base, the key cost driver at this point is staffing cost increases, which account for 80% of operating expenditures. These will be largely determined by the “meet and confer” contracts we enter into in the coming year. For purposes of the forecast, we have assumed that operating costs will remain the same for 2011-12 and increase with a very minimal inflation assumption to 2% in the fifth year. These assumptions are based on several factors:

1. Given the fiscal challenges ahead of us and based on policy direction from the Council, our goal for labor agreements should be cost containment (maintain or restrain organizational costs within a specified budget or financial target).
2. Given the economic climate, we have seen stable prices or declines in some areas for non-staffing costs. We have already experienced this in very competitive construction contract bid awards.

3. City staff has been working hard to identify areas where efficiencies can be made through improved work processes, use of technology, etc. and this effort will help moderate costs to some extent.

Accordingly, the forecast assumes no overall operating cost increase from the 2010-11 base in 2011-12, growing by the assumptions for population and inflation thereafter.

④ Infrastructure and Facilities Maintenance

As discussed in the 2009-11 fiscal forecast, the estimated cost of adequately maintaining, repairing or replacing existing General Fund facilities, infrastructure and equipment is about \$8.8 million annually. This excludes any enhancements or “betterments.” To place this in context, the average General Fund CIP expenditures for the last 15 years have been about \$4 million annually, and the average for the last two years is a similar amount. The budget for the General Fund CIP was reduced to \$2.4 million for 2010-11.

For purposes of this Fiscal Forecast, we have assumed \$3.2 million in 2011-12, which is the average of the 2009-10 actual and the 2010-11 budget. It is then adjusted annually by the compound population and inflation factor. These estimates include funds from Measure Y targeted for capital improvements.

One of the Council’s Major City Goals for 2009-11 was to sustain an effective level of existing core infrastructure maintenance. This goal will continue to be important to the City’s fiscal well-being, since failure to maintain critical infrastructure often results in higher costs down the road. Council will have tough policy decisions ahead in preparing a balanced budget for 2011-13, given our CIP needs on one hand, and the projected budget gap on the other,

It is important to stress the “maintenance-only” nature of the forecast CIP, which means it does not assume new acquisitions and improvements. 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.

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5 Debt Service Costs

Two key CIP projects were largely funded by debt financings last year: the radio system upgrade and public safety communications center improvements. The new fire truck was also recently purchased through issuance of debt. The debt service costs associated with these financings have been included in the forecast beginning in 2009-10, net of the cost for outstanding debt issues that will mature in 2009-14.

BASIC FORECAST FRAMEWORK

Background

The approach we have taken in preparing this forecast builds on the City's well-established methodology for developing fiscal projections. The forecast incorporates our most recent information into the 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 as the financial plan development progresses. This ability will be important as we react to various changes that may occur over the next several months.

Summary of Forecast Assumptions

A detailed discussion of the assumptions used in the forecast has been included earlier in this forecast and summarized in the next section of this document. In addition, certain other factors are included in our forecast as follows:

1. **State Budget Actions.** The forecast assumes no adverse budget impacts from State actions. As this forecast is being completed, it appears that the State has adopted a budget that has no direct takeaways of local revenues other than a continuation of the suspension of reimbursement for local government mandates that is already in place. On the other hand, it also appears that the State budget plan contains a number of "accounting gimmicks" that only kick the problem down the road into the next year. A policy briefing released by the State Legislative Analyst's Office (LAO) found that

only about 38% of the total \$18 billion budget problem solutions are related to expenditure reduction. The remaining actions include assumptions of new federal funding, higher baseline state revenues, and one-time loans, transfers, and funding shifts.

The proposed State budget package also includes certain longer-term budget reforms which are of interest. The first of these is a proposed constitutional amendment to increase the state's budgetary reserves over time. The second is a measure to reduce pension benefits for newly hired state employees. These measures are both being proposed in an effort to stabilize state finances in the future.

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. Further, the continual failure of the State to address its underlying financial problems definitely adds a level of uncertainty as we continue on our fiscal sustainability journey.

2. **Grants.** The forecast does not reflect the receipt of any "competitive" grant revenues over the next five years. However, our experience tells us that we will undoubtedly be successful in obtaining grants, but these are for restricted purposes, and are usually for new facilities and infrastructure, not the "maintenance-only" projects assumed in the forecast.

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

3. **Development Impact Fees.** Depending upon growth that occurs in the community over the next five years, transportation impact fees will generate funds to 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. ***The Impact of State and Local Initiatives on Fees and Charges.*** A statewide initiative on the November ballot, Proposition 26, would recategorize a broad array of state and local regulatory and impact fees as taxes and require supermajority voter approval for their adoption. In general, any charge that “provides benefits or privileges to those not charged” would be considered a tax subject to Proposition 26. Although it excludes development impact fees imposed by cities and property related fees governed by Proposition 218 from the new definition of tax, it does potentially apply to a number of fees currently charged by local government, including franchise fees and fees to mitigate the social and environmental consequences of activities. It also may preclude senior and low-income discounts for various fees and charges. A recent League of California Cities analysis indicates that although many aspects of the measure are unclear, the result of Proposition 26 would be to limit the ability of state and local governments to place the costs of programs and services on the organizations responsible for the adverse impacts. Instead, the cost burden would shift to taxpayers unless voters approved the taxes by a two-thirds super-majority.

A second, local initiative measure entitled “The San Luis Obispo Right to Vote on Fees Act of 2010” is also in the works in the City. A petition to put this measure on the ballot was submitted in September 2010 and the signatures are currently being verified by the City Clerk. The summary of the measure prepared by the City Attorney states: “The initiative would preclude the City Council from imposing, expanding, or increasing any regulatory or user fee unless such fee is placed on the ballot and approved by a majority of the qualified electors of the City.” Even with voter approval, the initiative limits the proposed increases to Per Capita Family Income levels. The initiative exempts any fee already addressed under Proposition 218 or which is already subject to other voter approval requirements. The initiative also nullifies any fee increases retroactive to January 1, 2010 except as

approved by the voters. We have not yet prepared a complete analysis of the initiative, but the City Attorney is currently reviewing a list of all City fees and charges to identify those that could be impacted.

Impacts of the State and the City initiatives have not been included in our Fiscal Forecast as yet, but will be reviewed as part of our Financial Plan process for 2011-13.

What’s Most Likely to Change?

By necessity, this forecast is based on a number of assumptions at a particular point in time. This year we have prepared the forecast earlier than usual, and our estimates are likely to change as we have more information on revenue trends and other issues. 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 2011.

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. However, this revenue source is particularly vulnerable to the housing market problems still in place.

OVERVIEW

3. **TOT.** Since we only have two months of TOT returns so far, 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. We are currently estimating a very small 1% increase in these fees for 2011-12 over the estimated receipts for this year. Although the five year average for these revenues is substantially higher than the current base, we believe it is not prudent to project higher revenues in this area given the current uncertainty that still exists in the development climate.
5. **Operating Cost Increases.** As noted above, the forecast does not include any increases in operating costs for 2011-12. The forecast does not contain a detailed assessment of operating cost needs and priorities: this occurs as part of the budget process. Moreover, the forecast cannot determine the results of the meet and confer process currently underway. Any significant increases in personnel costs will add to the projected budget gap going forward. For example, each 1% in additional wages and benefits for General Fund employees adds about \$400,000 to the ongoing budget gap.
6. **Mid-Year Budget Review.** The operating cost base for 2011-12 is based on the current 2010-11 budget. However, this is subject to revision at the Mid-Year Budget Review based on any unexpected new costs or changes in major revenues.

SUMMARY

Again this year we are facing significant fiscal challenges. As we mentioned in the May 2010 Interim Forecast, this is the first time since the City began preparing forecasts many years ago that the results are worse in the out years than in the first two years. This is largely due to sharply increasing retirement costs and a new, lower base for our major revenues. However, we go into 2011-13 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 excellent Council leadership.
5. We have committed and engaged citizens
6. We have an excellent organization and capable staff.
7. 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 2011-12 and 2012-13; 0.35% in 2013-14; 0.50% in 2014-15; and by 0.75% for 2015-16.
2. **Inflation.** Grows by 0.50% in 2011-12 and 2012-13; 1% in 2013-14; 1.5% in 2014-15; and by 2% in 2015-16.

EXPENDITURES

1. **Operating Expenditures.** Using the adopted 2010-11 budget as the base and assuming no increases in operating expenditures beyond contractual obligations for the 2011-12 budget, modest growth by 1% in 2012-13; 1.5% in 2013-14; 2% in 2014-15; and by 2.5% in 2015-16.
2. **CIP Expenditures.** Based on the average annual CIP for 2009-11 (about \$3.2 million annually), increasing by compound inflation and population.
3. **Debt Service.** The forecast includes current debt service obligations as well as new debt service for the new public safety communications center and radio system improvements and fire truck. 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 2012-13 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 2011-12 except for a continued suspension of the reimbursement to local governments of state-mandated costs. However, even though 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; 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 performance of the local economy during the next year and how it will affect the City's General Fund revenues.

Top Dozen General Fund Revenues

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

1. **Sales Tax.** Grows by population and inflation throughout the forecast period, plus additional "net" revenues from the following new outlets:

	Year and Amount Added to the "Base"				
	2011-12	2012-13	2013-14	2014-15	2015-16
Airport Area Annexation: 1A	60,000	60,000	60,000		
Airport Area Annexation: 1B					60,000
Target Chinatown	262,500	87,500			197,200
Total	322,500	147,500	60,000		257,200

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

2. **Property Tax.** Grows by 2% in 2011-12; by 3% in 2012-13; by 4% in 2013-14; and by 5% annually thereafter.
3. **Transient Occupancy Tax.** Given current trends, modest growth of 2% in 2011-12 and 2012-13; 3% in 2013-14 and 2014-15; and 4% in 2015-16. Additionally, we are projecting the following increases in the "base," after accounting for transfers from current businesses:

SUMMARY OF MAJOR ASSUMPTIONS

Hampton Inn: 2014-15	\$109,500
Chinatown: 2015-16	\$485,000
Garden Street Terraces: 2015-16	\$250,000

4. **Utility Users Tax.** Based on trends for the last five years, grows by population and inflation throughout the forecast period.
5. **Property Tax in Lieu of Vehicle License Fees.** Grows by the same rate as property tax revenues throughout the forecast period.
6. **Business Tax.** Grows by 2.5% in 2011-12; by 3% in 2012-13; by 3.5% in 2013-14; and by 4% annually thereafter.
7. **Franchise Fees.** Grows by 0.8% in 2011-12 and 2012-13; and by 3.8% annually thereafter.
8. **Gas Tax Subventions.** Grows by 0.25% in 2011-12 and 2012-13; by 0.35% in 2013-14; by 0.50% in 2014-15; and by 0.75% in 2015-16.
9. **Development Review Fees.** Grows by 1% in 2011-12; 2% in 2012-13; 3% in 2013-14; and by 4% annually thereafter.
10. **Recreation Fees.** Grows 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.** Beginning in 2010-11, the State will replace Proposition 42 revenues with additional Gas Tax revenues pursuant to Revenue & Taxation Code Section 7360. The City should receive about \$463,300 annually from these transportation-restricted revenues.

2. **Mutual Aid Reimbursements.** The forecast assumes that we will receive about \$370,000 annually 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 unusually high in 2007-08 and 2008-09.

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: 2011-16

	2008-09 Actual	2009-10 Prelim Actual	2010-11 Budget	2010-11 Estimated	FORECAST				
					2011-12	2012-13	2013-14	2014-15	2015-16
					<i>2011-13 Financial Plan</i>				
FUND BALANCE, BEGINNING OF YEAR	14,829,100	13,991,900	9,372,600	10,394,000	9,906,800	9,707,200	9,984,600	10,334,700	10,598,800
REVENUES & OTHER SOURCES									
Taxes									
Sales Tax - General (Based on "effective" 1% tax rate)	12,070,700	11,056,500	11,327,100	11,222,300	11,634,600	11,875,200	12,101,500	12,343,500	12,946,300
Sales Tax - Measure Y (Based on 1/2% rate; lower base than "general")	5,641,400	5,274,900	5,293,900	5,354,000	5,546,800	5,635,000	5,713,900	5,828,200	6,090,000
Sales Tax - Proposition 172	308,400	257,000	258,900	258,900	265,900	271,400	276,600	282,100	295,900
Property Tax	8,788,400	8,656,700	9,323,100	8,629,000	8,801,600	9,065,600	9,428,200	9,899,600	10,394,600
Property Tax in lieu of VLF	3,504,700	3,565,100	3,454,700	3,553,700	3,624,800	3,733,500	3,882,800	4,076,900	4,280,700
Transient Occupancy Tax	4,679,500	4,501,800	4,295,800	4,546,800	4,637,700	4,730,500	4,872,400	5,128,100	6,068,200
Utility Users Tax	4,358,500	4,648,600	4,612,200	4,802,000	4,840,400	4,879,100	4,947,400	5,046,300	5,187,600
Franchise Fees	2,439,400	2,409,400	2,567,400	2,509,400	2,529,500	2,549,700	2,646,600	2,747,200	2,851,600
Business Tax	1,878,500	1,830,000	1,868,100	1,868,100	1,914,800	1,972,200	2,041,200	2,122,800	2,207,700
Real Property Transfer Tax	159,100	134,700	175,000	140,000	160,000	180,000	200,000	204,000	209,700
Subventions & Grants									
Vehicle License In-Lieu Fees (VLF)	166,500	135,000	132,000	132,000	133,100	134,200	136,100	138,800	142,700
Mutual Aid Reimbursements (net)	1,463,300	365,000	650,000	371,000	371,000	374,700	376,600	378,400	380,300
Gas Tax/TDA/Prop 172 Transfers In	1,175,200	1,189,400	1,308,800	1,308,800	1,319,300	1,329,900	1,348,500	1,375,500	1,414,000
Other Subventions & Grants	425,900	514,900	349,000	349,000	356,000	363,100	370,400	377,800	385,400
Service Charges									
Development Review Fees	1,752,600	1,794,100	1,765,400	1,765,400	1,783,100	1,818,800	1,873,400	1,948,300	2,026,200
Recreation Fees	1,293,400	1,270,500	1,323,400	1,299,700	1,310,100	1,320,600	1,339,100	1,365,900	1,404,100
Other Service Charges	1,535,900	1,705,700	1,578,000	1,578,000	1,590,600	1,603,300	1,625,700	1,658,200	1,704,600
Other Revenues									
Fines & Forfeitures	261,000	201,200	217,100	217,100	218,800	220,600	223,700	228,200	234,600
Interest Earnings and Rents	1,108,300	894,500	800,600	945,800	940,700	970,700	998,500	1,033,500	1,059,900
Other Revenues	734,900	150,400	778,000	778,000	75,000	75,000	75,000	75,000	75,000
Total Revenues	53,745,600	50,555,400	52,078,500	51,629,000	52,053,800	53,103,100	54,477,600	56,258,300	59,359,100
EXPENDITURES & OTHER USES									
Operating Programs	47,873,900	47,288,600	47,036,000	47,036,000	48,535,900	49,923,200	51,673,500	52,994,200	54,595,100
Debt Service	2,075,800	2,908,700	2,670,900	2,670,900	2,705,100	2,699,700	2,700,300	2,404,300	2,395,100
Capital Improvement Plan	4,633,100	3,956,000	2,409,300	2,409,300	3,208,100	3,233,800	3,279,100	3,344,700	3,438,400
Total Expenditures	54,582,800	54,153,300	52,116,200	52,116,200	54,449,100	55,856,700	57,652,900	58,743,200	60,428,600
Revenues Over (Under) Expenditures	(837,200)	(3,597,900)	(37,700)	(487,200)	(2,395,300)	(2,753,600)	(3,175,300)	(2,484,900)	(1,069,500)
FUND BALANCE, END OF YEAR	13,991,900	10,394,000	9,334,900	9,906,800	7,511,500	6,953,600	6,809,300	7,849,800	9,529,300
Reserve @ 20% of Operating Costs	9,574,800	9,457,700	9,407,200	9,407,200	9,707,200	9,984,600	10,334,700	10,598,800	10,919,000
Excess Reserve/Budget Gap	4,417,100	936,300	(72,300)	499,600	(2,195,700)	(3,031,000)	(3,525,400)	(2,749,000)	(1,389,700)

GENERAL FUND FIVE YEAR FISCAL FORECAST: 2011-16

PROJECTION FACTORS	Historical Trends				Estimated	FORECAST ASSUMPTIONS				
	Actual 2009-10	Last 5 Years	Last 10 Years	Last 15 Years	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Annual Percentage Changes										
DEMOGRAPHICS										
Population	0.3%	0.1%	0.2%	0.2%	0.25%	0.25%	0.25%	0.35%	0.50%	0.75%
Housing Units	0.3%	0.4%	0.8%	0.7%	0.25%	0.25%	0.50%	0.70%	0.70%	1.00%
Inflation	2.7%	2.6%	2.5%	2.5%		0.50%	0.50%	1.00%	1.50%	2.00%
Compound Population & Inflation	2.9%	2.8%	2.7%	2.7%	0.25%	0.80%	0.80%	1.40%	2.00%	2.80%
KEY REVENUES										
Sales Tax (Situs Sales): Baseline	-11.0%	-0.9%	2.0%	3.9%	1.50%	0.8%	0.8%	1.4%	2.0%	2.8%
Airport Area Annexation 1A: 1%						60,000	60,000	60,000		60,000
Airport Area Annexation 1B: 1%										
Airport Area Annexation 1A: 1/2-cent						150,000				
Airport Area Annexation 1B: 1/2-cent										150,000
Target (Net): 1%						262,500	87,500			
Target (Net): 1/2-cent						131,300	43,800			
Chinatown (Net): 1%										197,200
Chinatown (Net): 1/2-cent										98,600
Net Increase					1.50%	2.71%	2.07%	1.91%	2.00%	4.88%
Property Tax (Assessed Value)	-2.4%	5.4%	6.7%	5.8%	3.00%	2.00%	3.00%	4.00%	5.00%	5.00%
TOT: Baseline	-4.0%	2.2%	2.4%	4.2%	2.00%	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						7.96%	2.00%	3.00%	5.25%	18.33%
Utility Users Tax	6.7%	4.9%	4.3%	3.6%	3.30%	0.80%	0.80%	1.40%	2.00%	2.80%
Business Tax	-2.6%	3.9%	5.3%	5.9%	2.00%	2.50%	3.00%	3.50%	4.00%	4.00%
Franchise Fees	-1.2%	3.8%	8.9%	8.9%	4.15%	0.80%	0.80%	3.80%	3.80%	3.80%
VLF Swap	0.8%	11.7%	6.6%	6.7%	3.00%	2.00%	3.00%	4.00%	5.00%	5.00%
Gas Tax	-0.8%	-2.0%	-0.5%	0.1%	0.25%	0.25%	0.25%	0.35%	0.50%	0.75%
Development Review Fees					2%	1.0%	2.0%	3.0%	4.0%	4.0%
Recreation Fees						<i>2010-11 Projection Plus Compound Population and Inflation</i>				
EXPENDITURES										
Operating Programs	-4.2%	6.4%	7.0%	6.3%			1.00%	1.50%	2.00%	2.50%
Debt Service						2,705,100	2,699,700	2,700,300	2,404,300	2,395,100
Existing						1,729,600	1,732,600	1,732,600	1,437,600	1,437,600
Dispatch Center Improvements						366,600	363,500	364,700	361,300	361,600
Radio System Upgrade						479,000	476,700	474,100	474,600	468,400
Fire truck						129,900	126,900	128,900	130,800	127,500
Capital Improvement Plan						0.8%	0.8%	1.4%	2.0%	2.8%

CIP costs grow by two-year average of 2009-10 actual and 2010-11 CIP Budget adjusted annually for inflation.

HISTORICAL TRENDS

Overview

In preparing the five-year fiscal forecast, the following historical trends were reviewed for a 15-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, 2010 (unaudited)
- 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, 2010 (unaudited)
- 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, 2010 (unaudited)
- 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 (VLF) |
| ■ Sales Tax: Measure Y | ■ Property Tax in Lieu of VLF |
| ■ Property Tax | ■ Business Tax |
| ■ Transient Occupancy Tax | ■ Franchise Fees |
| ■ Utility Users Tax | ■ Gas Tax Subvention |

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?***

SUPPLEMENTAL INFORMATION FOR SALES TAX, PROPERTY TAX, PROPERTY TAX IN LIEU OF VLF AND DEVELOPMENT REVIEW FEES

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 |
| ■ Transportation | ■ General Government |
| | ■ Total Operating Program Expenditures |

Historical Trends: Population, Housing and Cost of Living

Population

Fiscal Year Ending	Amount	Percent Change
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%
2009	44,829	0.3%
2010	44,948	0.3%

State of California, January 1 of Each Year
1996 and 2000 most likely reflect reporting anomalies.

Consumer Price Index: U.S.

Fiscal Year Ending	Index Amount	Percent Change
1996	154.4	2.7%
1997	159.1	3.0%
1998	161.6	1.6%
1999	164.3	1.7%
2000	168.8	2.7%
2001	175.1	3.7%
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%
2009	211.1	0.0%
2010	216.7	2.7%

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

Consumer Price Index: So. California

Fiscal Year Ending	Index Amount	Percent Change
1996	155.7	0.9%
1997	159.1	2.2%
1998	161.0	1.2%
1999	164.2	2.0%
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%
2009	220.7	-0.1%
2010	224.6	1.8%

Los Angeles-Riverside-Orange
All Urban Consumers, January 1 of Each Year

Compound Growth

Fiscal Year Ending	Percent Change
1996	-3.2%
1997	4.0%
1998	2.5%
1999	2.3%
2000	6.9%
2001	3.8%
2002	1.6%
2003	2.4%
2004	1.5%
2005	4.0%
2006	3.6%
2007	2.2%
2008	4.8%
2009	0.3%
2010	2.9%

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

Annual Growth Rate - Population

Last 2 Years	0.3%
Last 5 Years	0.1%
Last 10 Years	0.2%
Last 15 Years	0.2%

Annual Growth Rate - CPI: U.S.

Last 2 Years	1.3%
Last 5 Years	2.6%
Last 10 Years	2.5%
Last 15 Years	2.5%

Annual Growth Rate - CPI: So. California

Last 2 Years	0.8%
Last 5 Years	2.8%
Last 10 Years	3.0%
Last 15 Years	2.5%

Annual Growth Rate - CPI: Compound

Last 2 Years	1.6%
Last 5 Years	2.8%
Last 10 Years	2.7%
Last 15 Years	2.7%

Housing Units

Fiscal Year Ending	Amount	Annual Change	Percent Change
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%
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%
2009	20,318	96	0.5%
2010	20,375	57	0.3%

State of California, January 1 of Each Year

Consumer Price Index: No. California

Fiscal Year Ending	Index Amount	Percent Change
1996	153.2	1.8%
1997	157.9	3.1%
1998	163.2	3.4%
1999	169.4	3.8%
2000	176.5	4.2%
2001	187.9	6.5%
2002	191.3	1.8%
2003	197.7	3.3%
2004	198.1	0.2%
2005	201.2	1.6%
2006	207.1	2.9%
2007	213.7	3.2%
2008	219.6	2.8%
2009	222.2	1.2%
2010	226.1	1.8%

San Francisco-Oakland-San Jose, All Urban Consumers, February 1 of Each Year

Annual Growth Rate - Housing Units

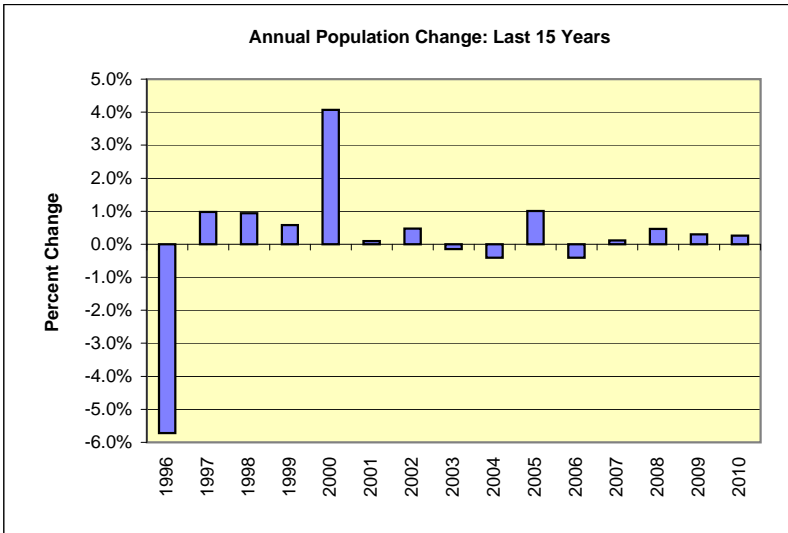
Last 2 Years	0.4%
Last 5 Years	0.4%
Last 10 Years	0.8%
Last 15 Years	0.7%

Annual Growth Rate - CPI: No. California

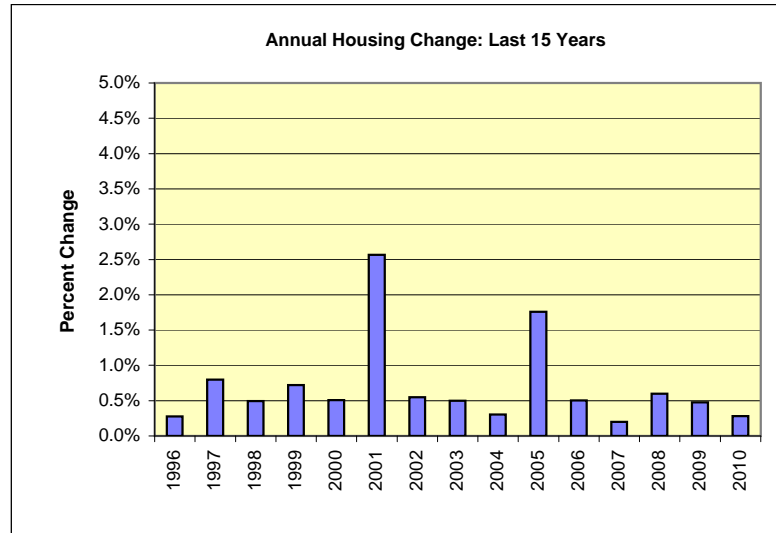
Last 2 Years	1.5%
Last 5 Years	2.4%
Last 10 Years	2.5%
Last 15 Years	2.8%

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

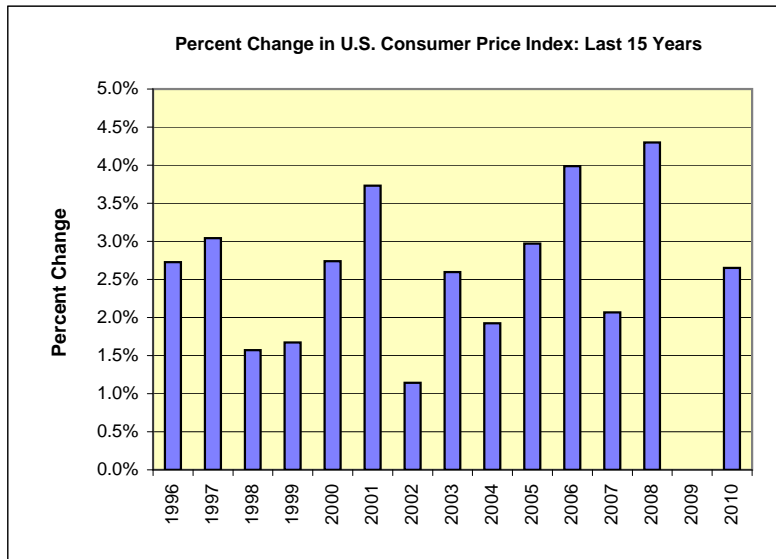
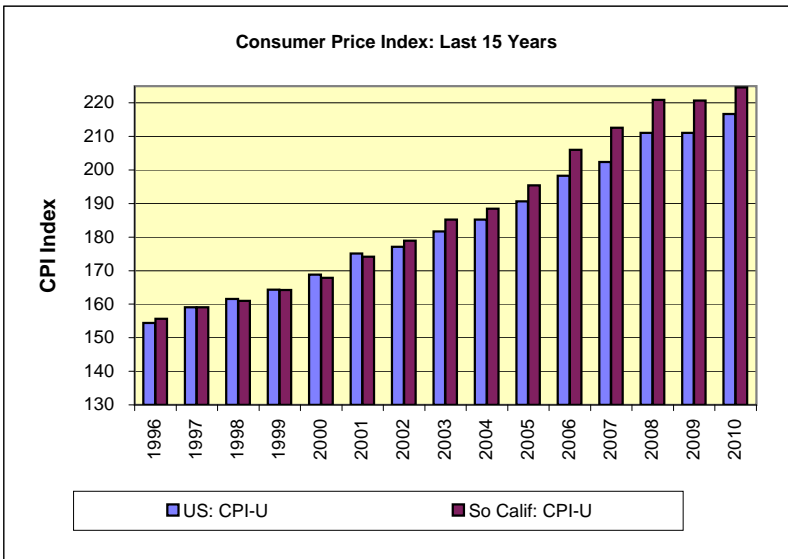
Graphics: Population, Housing and Cost of Living



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

The top nine revenues account for over 80% of total revenues.

General Fund Revenues and Other Sources: Actual

Fiscal Year Ended June 30, 2010	Actual	Percent of Total
Major Sources of Tax		
Sales Tax: General	10,983,200	21%
Sales Tax: Measure Y	5,252,500	10%
Property Tax	8,579,300	16%
Property Tax in Lieu of VLF	3,565,100	7%
Utility Users Tax	4,862,400	10%
Transient Occupancy Tax	4,501,800	9%
Franchise Fees	2,396,700	5%
Business Tax	1,830,100	4%
Gas Tax/TDA	818,000	2%
Total Major Sources	\$42,789,100	84%
Service Charges		
Development Review Fees	1,794,000	4%
Recreation Fees	1,270,500	3%
Other Service Charges	1,627,200	3%
Use of Money & Property	1,037,400	2%
Subventions & Grants	1,100,000	2%
Fines & Forfeitures	201,700	1%
VLF	135,000	0%
Other Sources *	645,700	1%
Total Sources	\$50,600,600	100%

* Includes transfers from other funds.

Major Sources: 15 Year Trends

Fiscal Year Ending	Amount	Percent Change
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	31,481,100	0.6%
2006	34,747,300	10.4%
2007	38,906,100	12.0%
2008*	45,562,500	17.1%
2009	44,158,000	-3.1%
2010	42,789,100	-3.1%

* Includes Measure Y for a full year in 2007-08

General Fund Revenue All: Actual

Fiscal Year Ending	Amount	Percent Change
1996	23,061,800	6.2%
1997	24,559,500	6.5%
1998	26,944,300	9.7%
1999	28,397,000	5.4%
2000	29,906,000	5.3%
2001	30,977,000	3.6%
2002	35,769,300	15.5%
2003	35,522,000	-0.7%
2004	37,777,500	6.3%
2005	37,953,900	0.5%
2006	44,376,900	16.9%
2007	45,165,700	1.8%
2008*	54,152,000	19.9%
2009	53,745,600	-0.8%
2010	50,600,600	-5.9%

* Includes Measure Y for a full year in 2007-08

Major Sources : 15 Year Trends

Average Annual Growth Rate

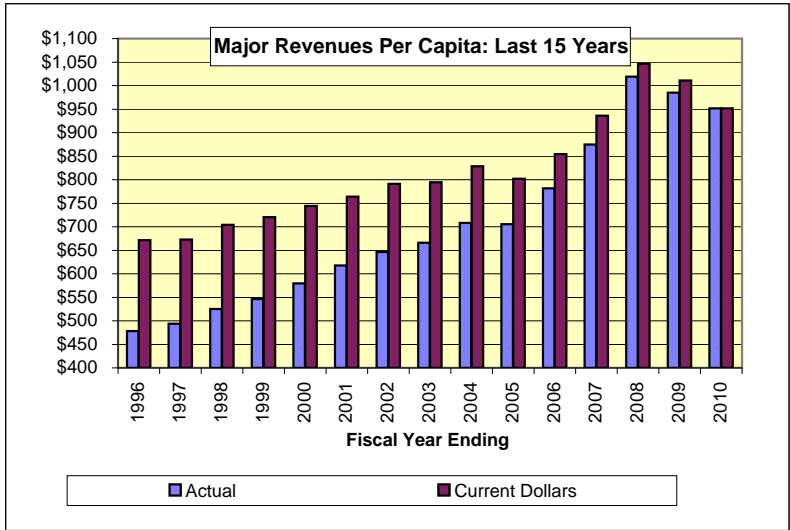
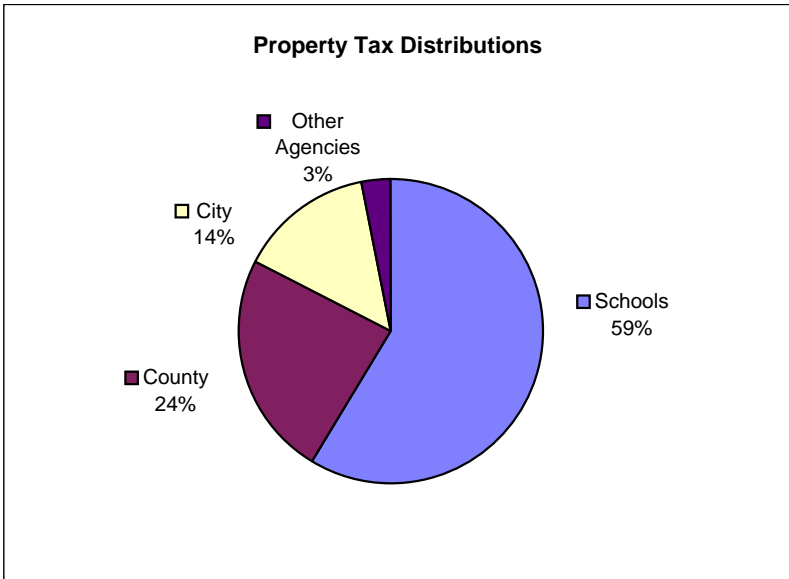
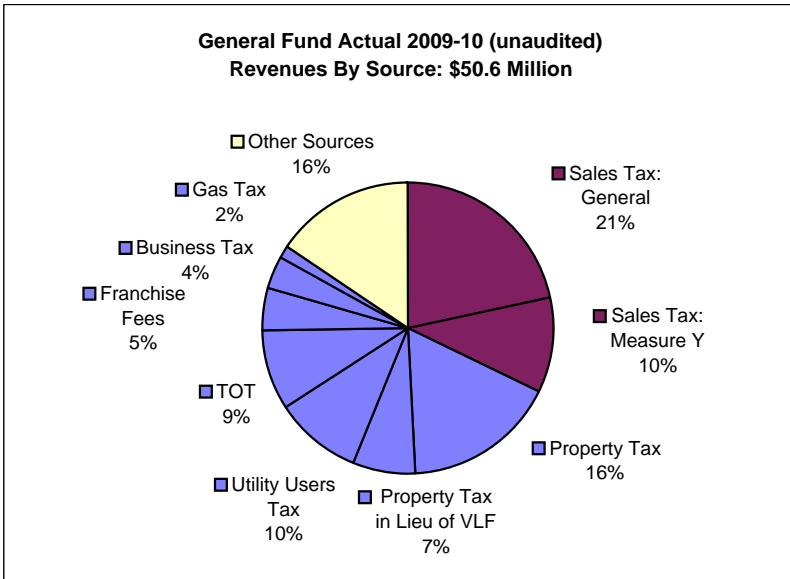
	Actual	Adjusted*
Last Year	-3.1%	-5.9%
Last 2 Years	-3.1%	-4.6%
Last 5 Years	6.7%	3.8%
Last 10 Years	5.4%	2.7%
Last 15 Years	5.6%	2.9%

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

What Do These Charts Show?

Where our major revenues come from and how they've performed over the past 15 years, including comparisons with increases in population and inflation. Since the peak in FY 2007-08, major sources of tax revenue have fallen by 6.1%, and total revenue has declined by 6.6%.

Graphics: General Fund Revenue



- Major Sources of Tax**
- Sales Tax: General
 - Sales Tax: Measure Y
 - Property Tax
 - Property Tax in Lieu of VLF
 - Utility Users Tax
 - Transient Occupancy Tax
 - 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, 2010 (unaudited)		
Public Safety	24,203,600	51%
Transportation	3,019,700	7%
Leisure, Cultural & Social Services	6,279,900	14%
Community Development	5,394,300	12%
General Government	7,253,600	16%
TOTAL	\$46,151,100	100%

General Fund Operating Expenditures

15 Year Trends

Fiscal Year	Amount	Percent Change
Ending		
1996	19,953,000	
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%
2009	48,192,900	5.2%
2010	46,151,100	-4.2%

** Includes Measure Y for a full year in 2007-08.

Average Annual Growth Rate**

	Actual	Adjusted*
Last Year	-4.2%	-7.0%
Last 2 Years	0.5%	-1.1%
Last 5 Years	6.4%	3.6%
Last 10 Years	7.0%	4.2%
Last 15 Years	6.3%	3.5%

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

** Includes Measure Y for a full year in 2007-08.

General Fund Expenditures and Uses By Type: Actual

Fiscal Year	Actual	Percent of Total
Ended June 30, 2010 (unaudited)		
Operating Programs*	46,151,100	87%
Debt Service	2,908,700	5%
Capital Improvement Plan (CIP)	3,876,900	7%
Fleet Replacement Transfers	79,100	0%
Transfers to Golf, CDBG and other funds	317,900	1%
TOTAL	\$53,333,700	100%

* Excludes encumbrances and carryovers

General Fund CIP Expenditures: 15 Year Trends

Excluding Debt Financed Projects and Fleet Replacements

Fiscal Year	Actual	Adjusted*
Ending		
1996	737,400	1,034,900
1997	2,928,700	3,989,000
1998	3,581,300	4,802,400
1999	4,734,300	6,244,200
2000	5,521,400	7,088,200
2001	6,131,200	7,587,800
2002	5,547,900	6,788,400
2003	2,846,500	3,394,800
2004	3,427,700	4,010,700
2005	1,807,100	2,053,500
2006	2,354,100	2,572,500
2007	3,457,700	3,702,000
2008**	10,390,500	10,666,100
2009	4,083,100	4,191,400
2010	3,876,900	3,876,900

* Adjusted for changes in cost of living (CPI) from 2010

** Reflects backlog of projects and availability of Measure Y funds.

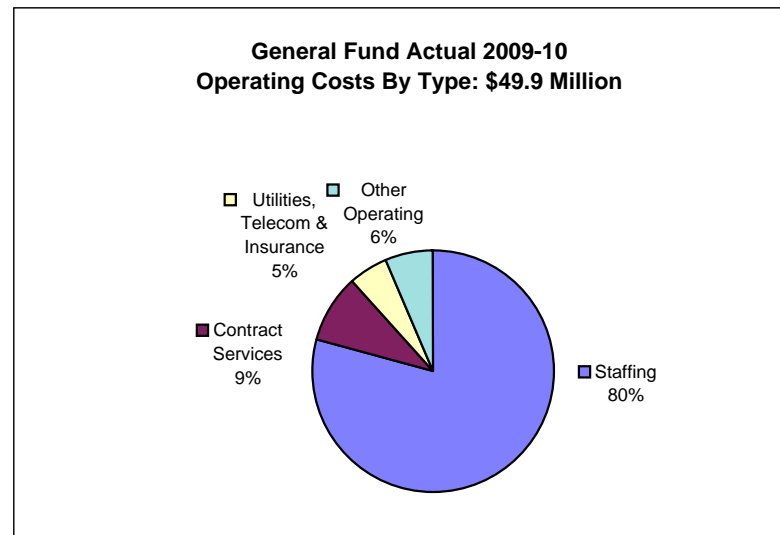
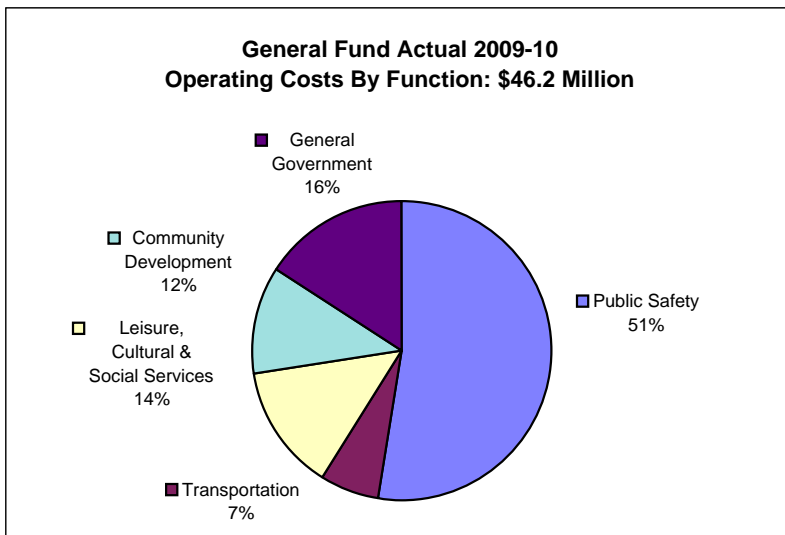
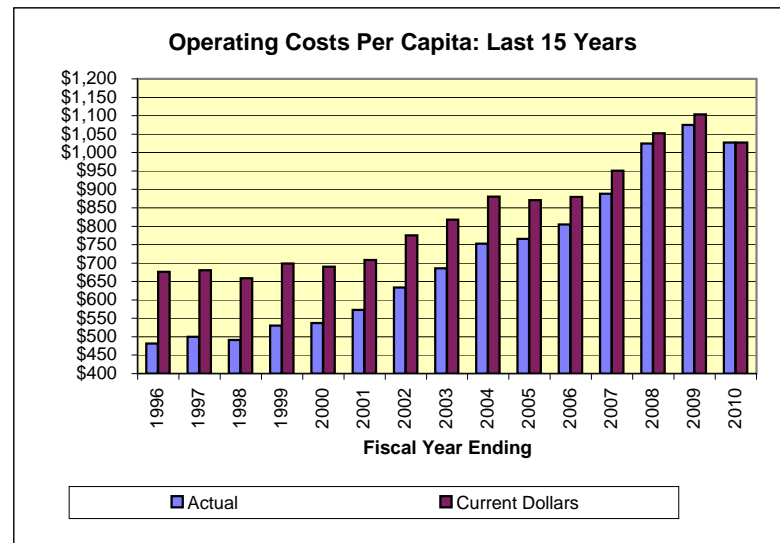
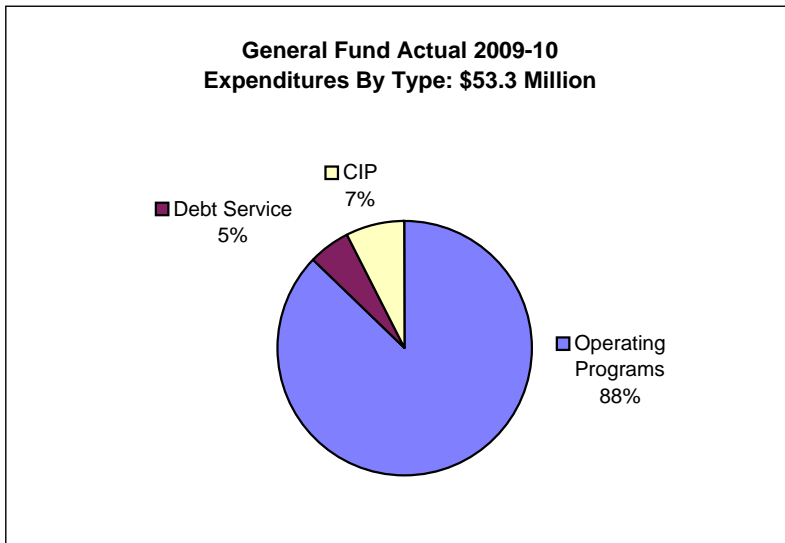
Average Annual General Fund CIP Expenditures**

	Actual	Adjusted*
Last Year	3,876,900	3,876,900
Last 2 Years	3,980,000	4,034,200
Last 5 Years	4,832,500	5,001,800
Last 10 Years	4,392,300	4,884,400
Last 15 Years	4,095,100	4,800,200

* Adjusted for changes in cost of living (CPI) from 2010

** Includes Measure Y for a full year in 2007-08.

Graphics: General Fund Expenditures



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

Debt Financing for General Fund CIP Projects: Last 15 Years

<i>Net Proceeds of Bond Issues</i>	Actual	Adjusted*
1996 Lease Revenue Bonds	6,400,000	8,982,400
1999 Lease Revenue Bonds	6,100,000	8,045,500
2006 Lease Revenue Bonds	6,755,100	7,381,900
2009 Lease Revenue Bonds	9,771,200	10,030,400
Annual Averages		
2 Year Annual Average	4,885,600	5,015,200
5 Year Annual Average	3,305,300	3,482,500
10 Year Annual Average	2,262,600	2,545,800
15 Year Annual Average	1,935,100	2,296,000

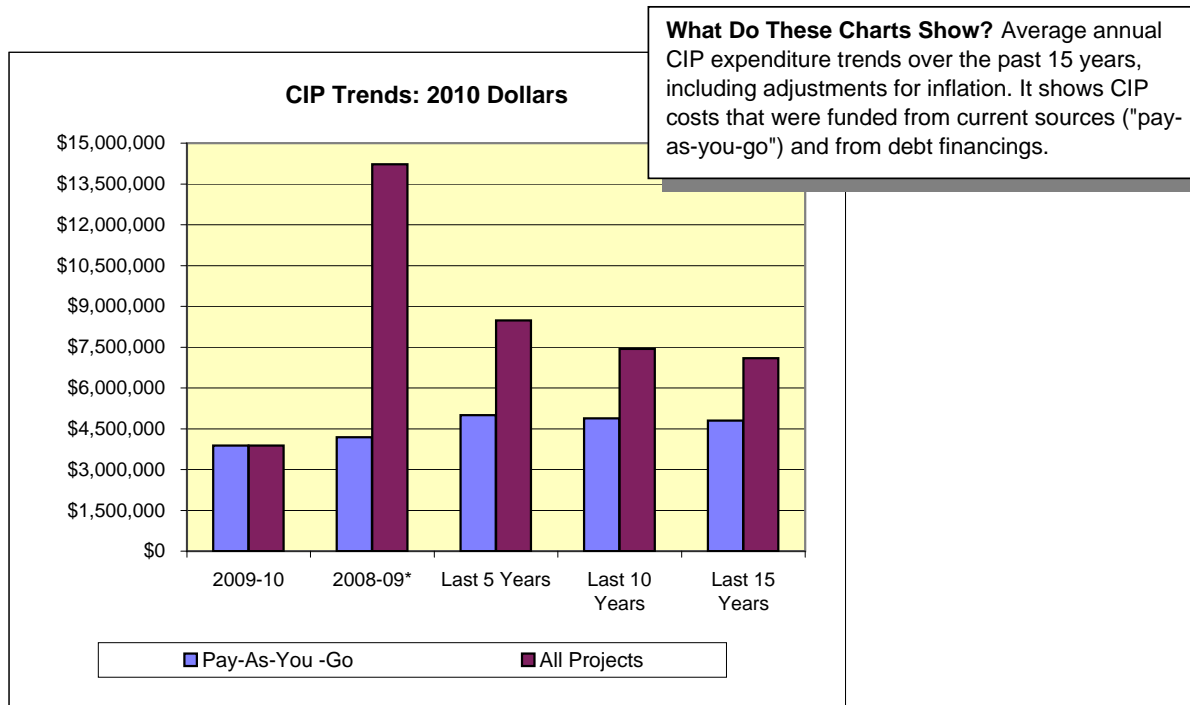
* Adjusted for changes in cost of living (CPI) from 2010

Average General Fund CIP Expenditures: Last 15 Years**

Excluding Debt Financed Projects	Actual	Adjusted*
Last 2 Years	3,980,000	4,034,200
Last 5 Years	4,832,500	5,001,800
Last 10 Years	4,392,300	4,884,400
Last 15 Years	4,095,100	4,800,200
Including Debt Financed Projects	Actual	Adjusted*
Last 2 Years	8,865,600	9,049,400
Last 5 Years	8,137,800	8,484,300
Last 10 Years	6,654,900	7,430,200
Last 15 Years	6,030,200	7,096,200

* Adjusted for changes in cost of living (CPI) from 2010

** Excluding equipment replacements



* Reflects funding for new Public Safety Communications Center

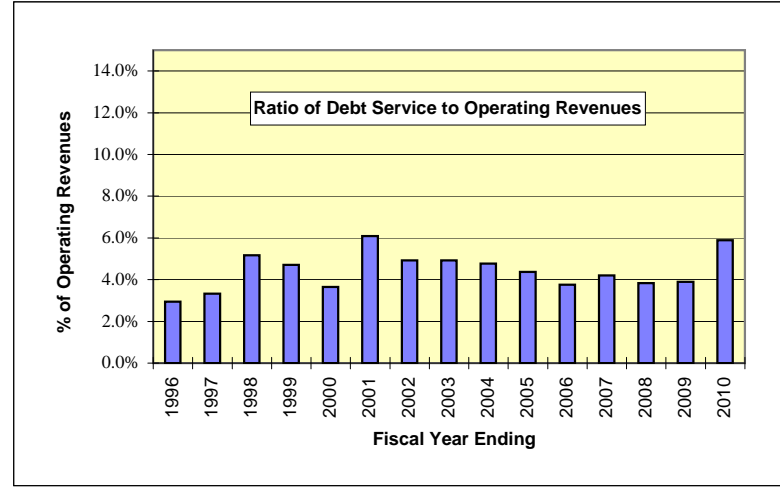
General Fund Expenditures: Where They Go and How They're Doing

General Fund Debt Service Obligations Last 15 Fiscal Years

Fiscal Year Ending	Amount	Operating Revenues*	Percent of Operating Revenues
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%
2009	2,075,800	53,354,700	3.9%
2010	2,908,700	49,405,200	5.9%

* Excludes transfers in from Gas Tax, TDA and other funds.

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



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.

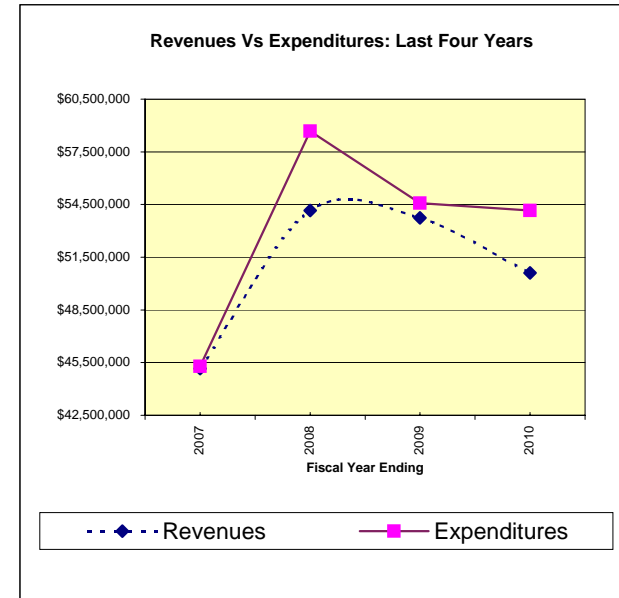
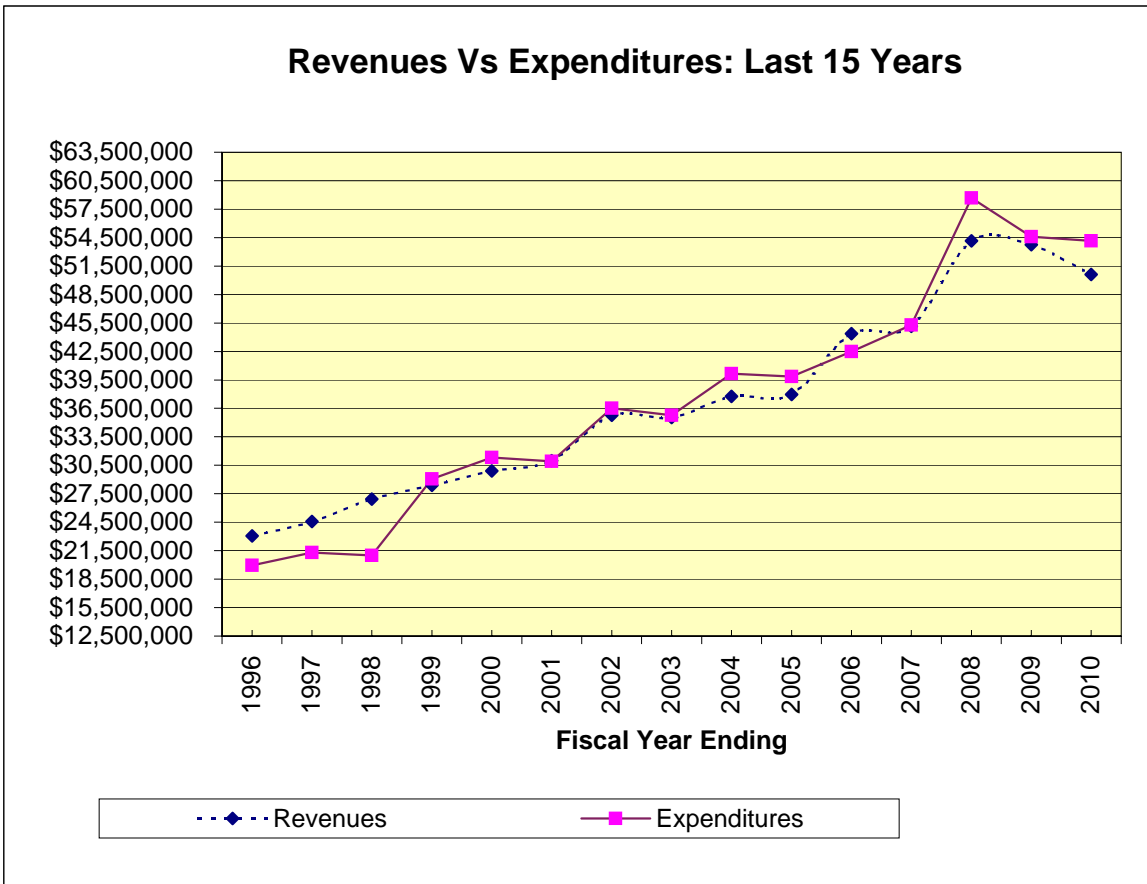
What Do These Charts Show?

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

Graphics: Revenues Compared with Expenditures: Last 15 Years

The graphs and information below compare General Fund total revenues and total expenditures over a 15-year period. When the revenue line is equal to the expenditures, the budget is balanced. If revenues are above the expenditure line, there is a budget "surplus." If the expenditures are higher than the revenues, there is a budget "gap." As can be seen, revenues and expenditures were fairly close in the earlier years, with some years developing a surplus and others having a slight gap. However, in the last four years a significant budget gap has been developed, with expenditures exceeding revenues in 2010 by almost \$4 million. Perhaps most concerning is the fact that the distance between revenues and expenditures is not reducing, but getting wider.

It should be noted that the sharp increase in both revenues and expenditures in 2008 is related to the passage of Measure Y, which provided almost \$6 million per year of additional revenues for important community goals. Measure Y revenues have declined since its first full year of implementation.



Historical Trends: Major Revenue Sources

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

Sales Tax excluding Measure Y**

Fiscal Year Ending	Amount	Percent Change
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%
2009	12,070,700	-11.1%
2010	10,983,200	-9.0%

Property Tax**

Fiscal Year Ending	Amount	Percent Change
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%
2009	8,788,400	4.9%
2010	8,579,300	-2.4%

Transient Occupancy Tax (TOT)

Fiscal Year Ending	Amount	Percent Change
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%
2009	4,679,500	-7.4%
2010	4,501,800	-3.8%

Utility Users Tax

Fiscal Year Ending	Amount	Percent Change
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%
2009	4,358,500	4.3%
2010	4,862,400	11.6%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-9.0%	-11.6%
Last 2 Years	-10.1%	-11.5%
Last 5 Years	-1.0%	-3.6%
Last 10 Years	2.0%	-0.7%
Last 15 Years	3.9%	1.2%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-2.4%	-5.2%
Last 2 Years	1.3%	-0.3%
Last 5 Years	5.4%	2.6%
Last 10 Years	6.7%	3.9%
Last 15 Years	5.8%	3.1%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-3.8%	-6.5%
Last 2 Years	-5.6%	-7.1%
Last 5 Years	2.2%	-0.5%
Last 10 Years	2.5%	-0.2%
Last 15 Years	4.2%	1.6%

Annual Growth Rate

	Actual	Adjusted*
Last Year	11.6%	8.4%
Last 2 Years	7.9%	6.2%
Last 5 Years	5.8%	3.0%
Last 10 Years	4.7%	2.0%
Last 15 Years	4.0%	1.3%

Sales Tax: Measure Y***

Fiscal Year Ending	Amount	Percent Change
2007	1,000,000	NA
2008	5,996,600	499.7%
2009	5,641,400	-5.9%
2010	5,252,500	-6.9%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-6.9%	-9.5%
Last 2 Years	-6.4%	-7.9%

* 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 revenue sources, see the supplemental analysis that follows this summary.

*** See summary of Measure Y uses since inception in "Measure Y FAQ's" following the summary.

Historical Trends: Major Revenue Sources

VLF**

Fiscal Year Ending	Amount	Percent Change
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	955,600	-52.5%
2006	266,900	-72.1%
2007	296,700	11.2%
2008	199,300	-32.8%
2009	166,500	-16.5%
2010	135,000	-18.9%

Business Tax

Fiscal Year Ending	Amount	Percent Change
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%
2009	1,878,500	0.6%
2010	1,830,100	-2.6%

Franchise Fees

Fiscal Year Ending	Amount	Percent Change
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%
2009	2,439,400	3.3%
2010	2,396,700	-1.8%

Gas Tax

Fiscal Year Ending	Amount	Percent Change
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	869,400	1.9%
2009	796,900	-8.3%
2010	790,200	-0.8%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-18.9%	-21.2%
Last 2 Years	-17.7%	-19.0%
Last 5 Years	-25.8%	-27.8%
Last 10 Years	-18.3%	-20.5%
Last 15 Years	-9.9%	-12.2%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-2.6%	-5.3%
Last 2 Years	-1.0%	-2.5%
Last 5 Years	3.9%	1.1%
Last 10 Years	5.3%	2.5%
Last 15 Years	5.9%	3.2%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-1.8%	-4.5%
Last 2 Years	0.8%	-0.8%
Last 5 Years	3.7%	0.9%
Last 10 Years	8.9%	6.0%
Last 15 Years	8.8%	6.0%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-0.8%	-3.7%
Last 2 Years	-4.6%	-6.1%
Last 5 Years	-2.0%	-4.6%
Last 10 Years	-0.5%	-3.1%
Last 15 Years	0.1%	-2.5%

Property Tax in Lieu of VLF**

Fiscal Year Ending	Amount	Percent Change
2006	1,530,800	NA
2007	3,061,500	100.0%
2008	3,280,100	7.1%
2009	3,504,700	6.8%
2010	3,565,100	1.7%

Annual Growth Rate

	Actual	Adjusted*
Last Year	1.7%	-1.2%
Last 2 Years	4.3%	2.6%
Last 5 Years	23.1%	19.8%

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

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

Supplemental Historical Information: Sales Tax, Property Tax, Property Tax in Lieu and Development Review Fees

As mentioned earlier, several of our major revenue sources have unique characteristics or have undergone changes during prior years that we must be aware of as we make our five year projections. These include Sales Tax and Property Tax, Property Tax In Lieu of Vehicle License Fees (VLF) and Development Review Fees.

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% and 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.

Sales Tax excluding Pool Revenues

Fiscal Year Ending	Amount	Percent Change
1996	5,664,721	2.9%
1997	6,123,001	8.1%
1998	6,670,162	8.9%
1999	7,181,100	7.7%
2000	7,931,259	10.4%
2001	8,684,124	9.5%
2002	8,977,858	3.4%
2003	9,395,665	4.7%
2004	10,268,463	9.3%
2005	10,751,879	4.7%
2006	11,876,204	10.5%
2007	12,442,687	4.8%
2008	12,214,902	-1.8%
2009	11,358,444	-7.0%
2010	10,376,018	-8.6%

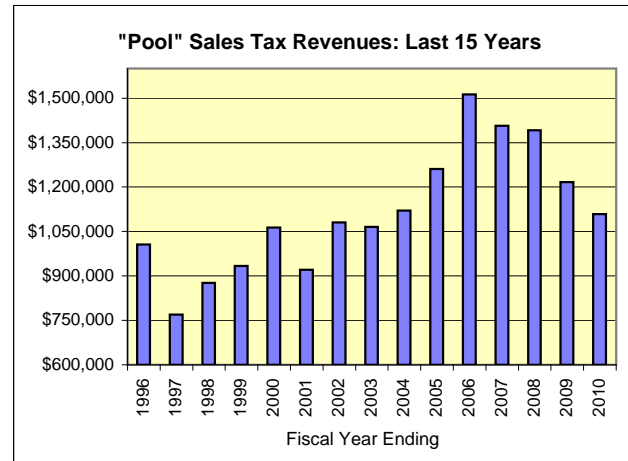
Annual Growth Rate

	Actual	Adjusted
Last Year	-8.6%	-11.2%
Last 2 Years	-7.8%	-9.3%
Last 5 Years	-0.5%	-3.1%
Last 10 Years	2.9%	0.2%
Last 15 Years	4.5%	1.8%

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 sales 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.

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 sales tax revenues excluding pool allocations. To put the significance of this in perspective, the adjacent chart summarizes City pool sales tax revenues for the past fifteen fiscal years.

"Pool" Revenues	
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
2008-09	1,216,656
2009-10	1,108,981
15 Year Avg	\$ 1,115,500



Property Tax

Property Tax has been the revenue most affected by voter initiatives and legislative actions over the years. With approval of Proposition 13 in 1978, Property Tax revenues were reduced by two-thirds and thereafter limited to 2% annual increases or changes to the Consumer Price Index, whichever is less. When properties change hands or are improved, the base for assessing the tax (the "assessed value") is increased or decreased to reflect the current market value.

Although the Property Tax is strictly a local revenue and is shared by cities, counties, school districts and special districts, it is collected and allocated in accordance with State law. In the early 1990s, the State legislature permanently shifted a larger portion of the Property Tax to schools. This shift was made to the State's Educational Revenue Augmentation Fund (ERAF) to backfill a portion of the State's obligation for school funding. This original "ERAF shift" resulted in an ongoing annual loss to the City of approximately \$2 million that could be used for property-related basic services.

In FY 2004-05 and FY 2005-06, the State shifted an additional \$1.5 million over the two years from the City's Property Tax to the ERAF as part of a solution to its ongoing budget crisis. This was a one-time shift which ended in FY 2006-07. Also included as part of the State Budget deal with local governments at that time was a permanent reduction in the VLF rate and an increase to our Property Tax base to make up for the reduced revenues as discussed below.

Property Tax in Lieu of VLF

Included in the State Budget deal with local governments in FY 2004-05 was a permanent redistribution of two of the City's revenue sources. Under this agreement, the Vehicle License Fee (VLF) rate for cities was permanently reduced from 2% to 0.65%. For FY 2004-05, the VLF that the City would have gotten at the 2% rate was calculated and this amount was added to our Property Tax base. In FY 2005-06, the City began to receive our portion of the VLF revenues at the now-permanent low rate. Meanwhile, our Property Tax base reflects the new, permanent base. This Property Tax base grows in the future according to current economic conditions. It should be noted that the VLF/Property Tax shift results in a cash flow and earnings loss to the City because Property Tax is paid twice a year while VLF was paid monthly. However, it should also be noted that the Property Tax has been growing at a faster pace than that experienced by the VLF.

Sales Tax Revenues: Diverse

The City's Sales Tax revenues come from several different business categories, each of which performs very differently in response to economic conditions. The chart below shows our Sales Tax revenues by major business category for the previous five years. It also shows the percent of total revenue generated by each category and the percent change in each category in FY 2009-10. As noted on the graph, our largest and most volatile business category is general consumer goods. The graph also shows the other six categories and the relative volatility of each. In making our Sales Tax projections, we take into consideration the historical performance of each of the categories and the various economic factors currently influencing them.

Sales Tax Revenues By Type: Last Five Fiscal Years

	Fiscal Year					2009-10		Rate of Change	
	2005-06	2006-07	2007-08	2008-09	2009-10	% of Total	% Change	Two Years	Five Years
Autos & Transportation	3,008,899	2,859,650	2,615,226	2,045,854	1,809,186	17%	-11.6%	-16.7%	-8.9%
Building & Construction	1,320,890	1,327,115	1,103,656	1,060,860	963,244	9%	-9.2%	-6.5%	-1.5%
Business & Industry	871,806	876,597	909,072	814,122	722,615	7%	-11.2%	-10.8%	-2.4%
Food and Drugs	715,078	738,576	735,216	735,168	718,596	7%	-2.3%	-1.1%	0.6%
Fuel & Service Stations	933,893	1,003,349	1,104,119	1,072,616	882,196	9%	-17.8%	-10.3%	1.2%
General Consumer Goods	3,775,152	4,336,884	4,400,803	4,319,227	4,018,735	39%	-7.0%	-4.4%	5.3%
Restaurants & Hotels	1,250,486	1,299,083	1,347,262	1,310,561	1,262,367	12%	-3.7%	-3.2%	1.6%
Transfers & Unidentified	0	1,432	(452)	36	(922)	NA	NA	NA	NA
TOTAL	11,876,204	12,442,686	12,214,902	11,358,444	10,376,017	100%	-8.6%	-7.8%	-0.5%

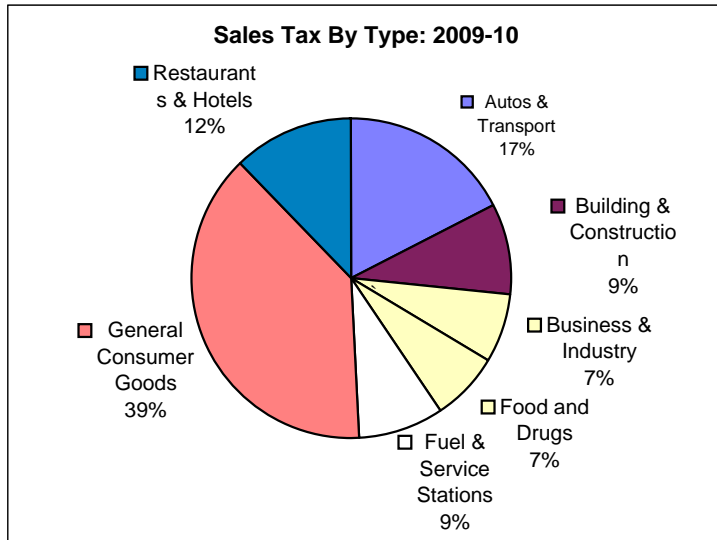
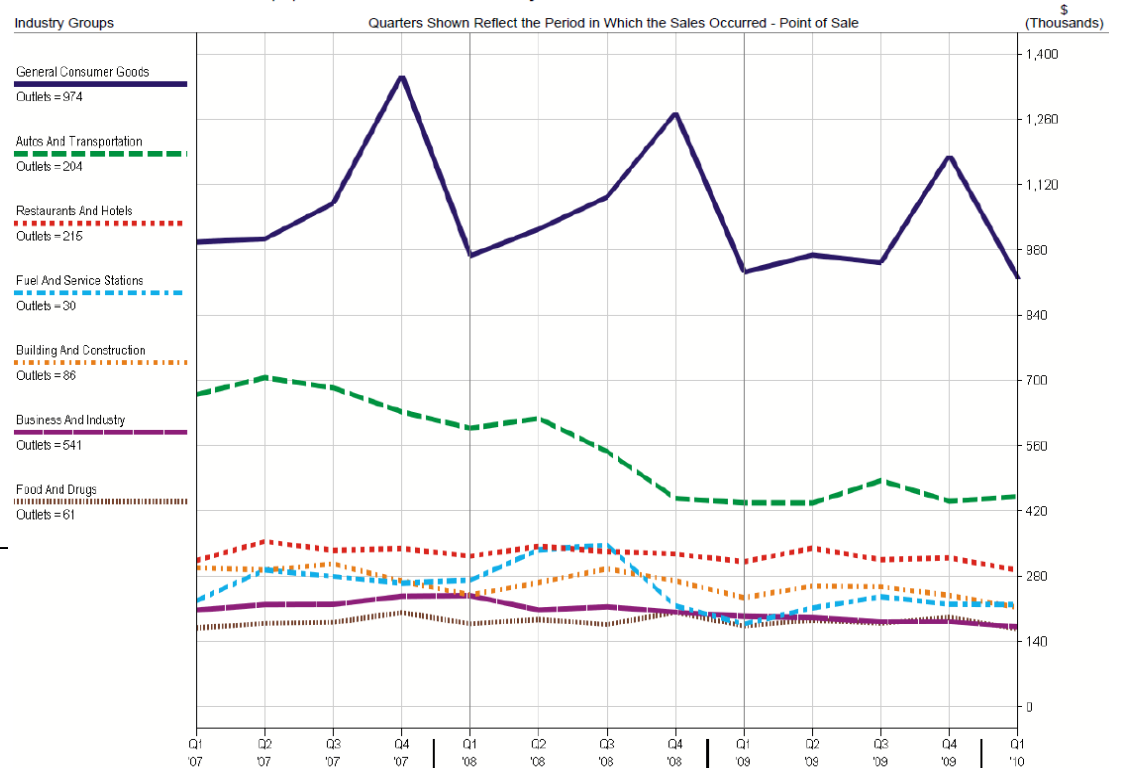


Chart Description: This chart compares sales tax for the Major Industry Groups. The prior 12 quarters are shown graphically for historical reference purposes. **Allocations have been adjusted to reflect economic data.**



Development Review Fees: Last Five Years

Our General Fund revenue source that has been particularly impacted by the recent economic downturn is Development Review Fees. Below are charts that show annual receipts by type of fee for the last five years.

Planning Fees

Fiscal Year Ending	Revenue
2006	816,600
2007	1,031,100
2008	809,300
2009	591,900
2010	429,600
Five Year Average	\$735,700

Building

Fiscal Year Ending	Revenue
2006	1,298,700
2007	1,312,500
2008	1,434,800
2009	777,700
2010	829,000
Five Year Average	\$1,130,500

Engineering

Fiscal Year Ending	Revenue
2006	516,300
2007	1,027,400
2008	301,200
2009	320,200
2010	431,700
Five Year Average	\$519,400

Fire

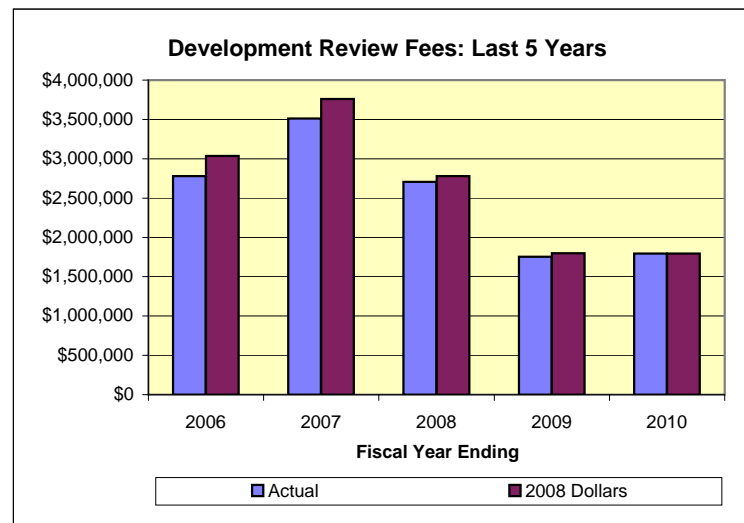
Fiscal Year Ending	Revenue
2006	145,800
2007	140,500
2008	160,300
2009	62,800
2010	103,700
Five Year Average	\$122,600

Total

Fiscal Year Ending	Revenue
2006	2,777,400
2007	3,511,500
2008	2,705,600
2009	1,752,600
2010	1,794,000
Five Year Average	\$2,508,200

Adjusted*
3,035,100
3,759,600
2,777,400
1,799,100
1,794,000
\$2,633,000

* Adjusted for changes in cost of living (CPI) from 2010



Historical Trends: Operating Program Expenditures

Public Safety: Police

Fiscal Year	Amount	Percent Change
1996	5,937,700	
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%
2009	15,194,200	2.0%
2010	14,525,300	-4.4%

* Reflects result of binding arbitration

Public Safety: Fire

Fiscal Year	Amount*	Percent Change
1996	4,336,100	
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%
2009	10,808,200	6.4%
2010	9,678,300	-10.5%

* Includes Mutual Aid expenses which vary widely from year to year

Transportation ***

Fiscal Year	Amount	Percent Change
1996	1,462,900	
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%
2009	3,224,200	26.9%
2010	3,019,700	-6.3%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-4.4%	-7.1%
Last 2 Years	-1.2%	-2.8%
Last 5 Years	8.2%	5.3%
Last 10 Years	8.1%	5.2%
Last 15 Years	6.9%	4.1%

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

Annual Growth Rate

	Actual	Adjusted*
Last Year	-10.5%	-13.0%
Last 2 Years	-2.0%	-3.6%
Last 5 Years	5.0%	2.2%
Last 10 Years	8.1%	5.2%
Last 15 Years	6.2%	3.5%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-6.3%	-9.0%
Last 2 Years	10.3%	8.6%
Last 5 Years	9.1%	6.1%
Last 10 Years	7.8%	4.9%
Last 15 Years	5.8%	3.1%

*** 1989-90 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
1996	3,099,800	
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%
2009	6,598,900	3.1%
2010	6,279,900	-4.8%

Community Development

Fiscal Year Ending	Amount	Percent Change
1996	2,323,300	
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%
2009	5,576,200	1.2%
2010	5,394,300	-3.3%

General Government

Fiscal Year Ending	Amount	Percent Change
1996	2,793,200	
1997	3,033,500	8.6%
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%
2009	6,791,200	7.7%
2010	7,253,600	6.8%

Total

Fiscal Year Ending	Amount	Percent Change
1996	19,953,000	
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%
2009	48,192,900	5.2%
2010	46,151,100	-4.2%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-4.8%	-7.5%
Last 2 Years	-0.9%	-2.4%
Last 5 Years	4.2%	1.4%
Last 10 Years	5.2%	2.4%
Last 15 Years	5.3%	2.6%

Annual Growth Rate

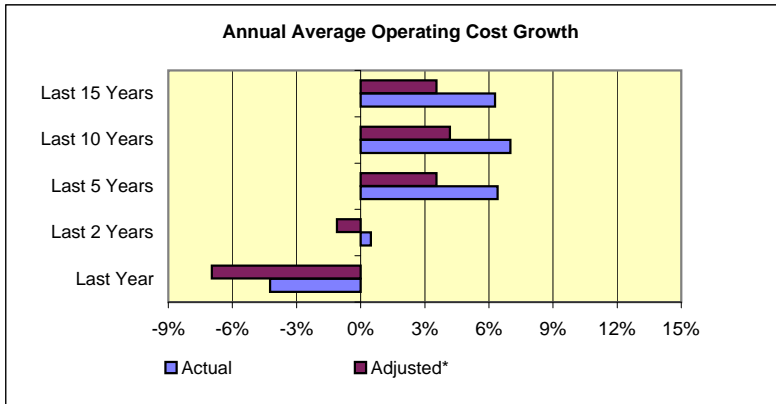
	Actual	Adjusted*
Last Year	-3.3%	-6.0%
Last 2 Years	-1.0%	-2.6%
Last 5 Years	4.6%	1.8%
Last 10 Years	5.9%	3.1%
Last 15 Years	6.4%	3.7%

Annual Growth Rate

	Actual	Adjusted*
Last Year	6.8%	3.8%
Last 2 Years	7.3%	5.6%
Last 5 Years	8.7%	5.8%
Last 10 Years	6.8%	3.9%
Last 15 Years	7.2%	4.5%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-4.2%	-7.0%
Last 2 Years	0.5%	-1.1%
Last 5 Years	6.4%	3.6%
Last 10 Years	7.0%	4.2%
Last 15 Years	6.3%	3.5%



* 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 during the last two years operating costs have never grown by less than compound increases in population and inflation.

MEASURE Y FAQ'S

What are “Measure Y” revenues? In November 2006, City voters approved Measure Y, which established a general purpose, ½-cent City sales tax to assist in funding essential community services like street paving, traffic congestion relief, public safety, flood protection, senior citizen services and facilities, neighborhood code enforcement and open space preservation.

Measure Y revenues have been a key success factor in the City’s ability to maintain infrastructure and essential services for our community. Specifically, with these added resources, we have been able to make excellent progress in a number of high priority areas like paving, traffic congestion relief, creek and flood protection as well as open space preservation. At the same time, given the worst economic downturn since the Great Depression, we have avoided deeper cuts in other key City services that would have otherwise been required without Measure Y revenues.

How are Measure Y uses determined? Measure Y revenues are General Fund revenues: they are not earmarked for specific purposes. As set forth in the ordinance adopted by the voters in 2006, the uses of Measure Y revenues are determined through the City’s two-year goal-setting and budget process. During this process, the highest priority goals for the community are identified and resources are allocated to achieve them.

What priorities emerged before and during the Measure Y campaign? While voters have entrusted the Council with the responsibility for determining uses of Measure Y revenues based on changing economic circumstances and community needs, key priorities that emerged before and during the campaign included: repairing and maintaining City streets, parks and storm drains; continuing programs that relieve traffic congestion; improving public safety services; protecting senior services and programs; and preserving open space.

Are there accountability provisions? Along with integration into the City’s goal-setting and budget process, other accountability provisions include renewal after eight years and annual independent audits, community reports and citizen oversight meetings.

How much General Fund revenue does Measure Y generate? The following chart below shows actual

Measure Y revenues received from 2006-07 through 2008-09; and estimated revenues for 2009-11.

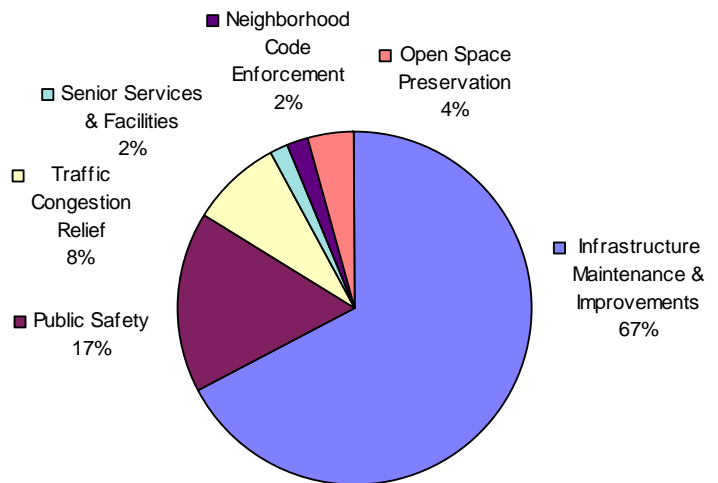
Measure Y Revenues	
Fiscal Year	Revenue
2006-07	1,000,000
2007-08	5,996,600
2008-09	5,641,400
2009-10*	5,359,300
2010-11*	5,466,500
Total	\$23,463,800

* Estimated

From the effective date on April 1, 2007 (which is why there is one quarter of revenue in 2006-07), Measure Y revenues will generate about \$23.5 million in General Fund revenues by the end of the 2009-11 Financial Plan. Due to the deep recession, Measure Y revenues are projected to drop from the first full year of implementation (2007-08) by over \$600,000 to the current year (2009-10), with a modest 2% increase projected for 2010-11.

How have Measure Y revenues been used? The reverse side of this hand-out provides a detailed listing of the programs and projects that Measure Y revenues have funded since 2007. As summarized below, two-thirds of this funding has gone towards infrastructure maintenance and improvements like streets paving, sidewalk repair and flood protection.

Measure Y Uses: 2007-2011



About 35% of the funding has gone towards operating programs, like police and fire protection, neighborhood code enforcement, storm drain cleaning and improved traffic signal operations; and 65% for construction and acquisition projects that preserve existing infrastructure or improve facilities.

MEASURE Y USES

The sidebar chart details Measure Y uses (actual through 2008-09 and budgeted for 2009-11). The following highlights major accomplishments funded from Measure Y revenues.

Public Safety

- Hired full-time Fire Marshal and training officer
- Replaced critical "front-line" fire truck/engine
- Avoided deeper cuts in police patrol, traffic enforcement and fire/medical emergency response services

Infrastructure Maintenance & Improvements

- Paved neighborhood and arterial streets
- Implemented proactive storm drain cleaning and repair to protect creeks and improve flood protection

Traffic Congestion Relief

- Initiated Los Osos Valley Road interchange design
- Improved traffic signal operations
- Enhanced traffic flow at intersections throughout the City

Senior Services & Facilities

- Completed comprehensive senior center remodel

Neighborhood Code Enforcement

- Hired full-time code enforcement officer
- Expanded Student Neighborhood Assistance Program (SNAP)

Open Space Preservation

- Expanded greenbelt, including, Brughelli Ranch easement (390 acres); Stenner Ranch easement and Stenner Creek and Bowden properties (1,038 acres) and Froom Ranch (310 acres, to be completed by July 2010)
- Opened Johnson Ranch to public use

	Total: 2007 to 2011		
	Operating	Capital	Total
Public Safety			
Police Protection: Traffic Safety & Patrol	2,234,100	119,100	2,353,200
Fire Prevention & Training	1,482,400	-	1,482,400
Fire Engine/Truck Replacement: Debt Service	-	97,000	97,000
Total Public Safety	3,716,500	216,100	3,932,600
Infrastructure Maintenance & Improvements			
Neighborhood Paving & Deferred Street Maintenance			
Paving Crew Productivity	295,600	173,600	469,200
Sidewalk Repair	-	40,000	40,000
Sidewalk ADA Access Improvements	-	235,000	235,000
Street Reconstruction & Resurfacing	-	7,046,500	7,046,500
Street Fleet Replacements: Paver and Roller	-	365,800	365,800
Creek & Flood Protection			
Storm Water Management Plan Implementation	2,086,300	456,600	2,542,900
Andrews Creek Bypass	-	455,000	455,000
Storm Drain Replacements	-	1,657,400	1,657,400
Creek Silt Removal	-	325,000	325,000
Minor Storm Drain Facilities	-	50,000	50,000
Storm Sewer and Culvert Repairs	-	325,000	325,000
Bishop/Augusta Creek Bank Stabilization	-	38,000	38,000
Downtown Improvements			
Warden Bridge Resurfacing	-	45,000	45,000
Street Light Painting	-	100,000	100,000
Urban Forest Management Plan	-	50,000	50,000
Sidewalk Repairs & Installation	24,900	309,700	334,600
Sidewalk Scrubbing	80,000	-	80,000
Pedestrian Lighting	-	126,000	126,000
Mission Plaza Stair Replacement	-	102,200	102,200
Downtown Urban Forest Maintenance	-	50,000	50,000
Comprehensive Signing Program	-	115,000	115,000
Other Infrastructure Maintenance			
Meadow Park Roof Replacement	-	45,000	45,000
Parks Maintenance	334,000	78,100	412,100
Project Management & Inspection	586,900	-	586,900
Other Infrastructure Maintenance Projects	-	204,000	204,000
Total Infrastructure Maintenance	3,407,700	12,392,900	15,800,600
Traffic Congestion Relief			
Traffic Signal Operations	278,700	73,000	351,700
Bicycle Safety	30,000	-	30,000
Traffic Safety Report Implementation	-	50,000	50,000
Neighborhood Traffic Management	-	40,000	40,000
Sidewalk Repair	-	40,000	40,000
Buena Vista/Garfield Intersection Improvements	-	35,000	35,000
Los Osos Valley Road Interchange Environmental Review & Design	-	701,900	701,900
Johnson & Buchon Intersection Improvements	-	100,000	100,000
City-to-Sea Bike Trail Bridges	-	220,000	220,000
Tassajara/Foothill Intersection Improvements	-	125,000	125,000
Street Light Replacements - Broad Street	-	60,000	60,000
Other Traffic Congestion Relief Projects	206,200	-	206,200
Total Traffic Congestion Relief	514,900	1,444,900	1,959,800
Senior Services & Facilities			
Senior Center Window Replacement	10,000	-	10,000
Senior Center Remodel	-	368,400	368,400
Total Senior Services & Facilities	10,000	368,400	378,400
Neighborhood Code Enforcement			
Enhanced Building & Zoning Code Enforcement	402,800	13,100	415,900
"SNAP" Enhancement	68,700	-	68,700
Total Neighborhood Code Enforcement	471,500	13,100	484,600
Open Space Preservation	87,400	862,500	949,900
TOTAL	\$8,208,000	\$15,297,900	\$23,505,900