General Fund

Five Year Forecast: 2005-10

Tough Fiscal Past, Tough Fiscal Future

December 2004

City of San Luis Obispo

TABLE OF CONTENTS

INTRODUCTION

Overview

city of san luis obispo

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 continue current services, maintain our existing infrastructure and facilities, and preserve our fiscal health.

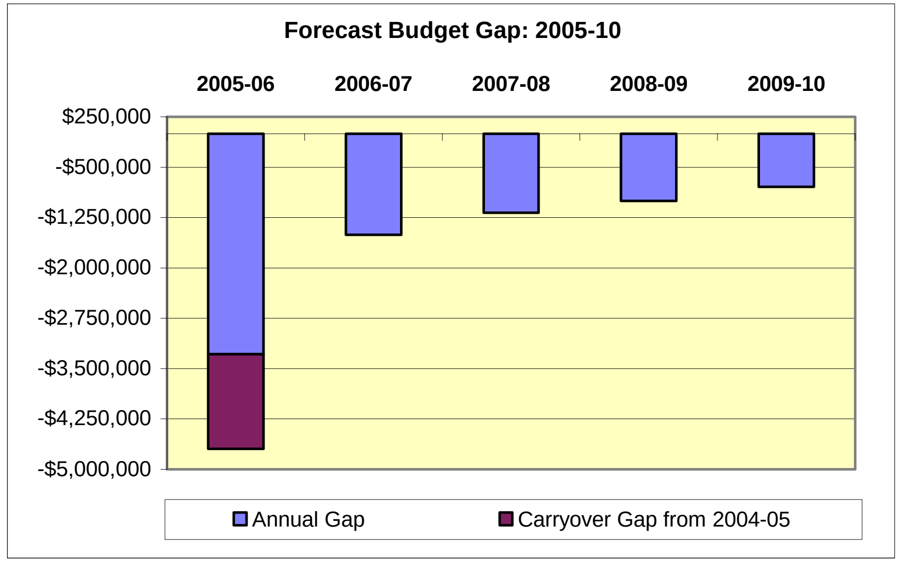
The forecast does this by projecting likely revenues and subtracting from them operating costs, debt service and maintenance of *existing* assets (equipment, facilities and infrastructure). If positive, the balance remaining is available to fund "new initiatives;" if negative, it shows the likely "budget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

Toughest Fiscal Past, Tough Fiscal Future

Consistent with the *General Fiscal Outlook* presented to the Council on November 18, 2004, the forecast concludes that we continue to face a very tough fiscal situation.

On one hand, the forecast shows that we have a come a long way from the General Fund budget gap of $7 million that confronted us two years ago. On the other hand, we are facing a significant "budget gap" in just preserving existing service levels and continuing with the severely limited funding for infrastructure and facility maintenance approved in the 2003-05 Financial Plan. This becomes even more challenging if we want to adequately maintain the facilities and infrastructure already in place—let alone fund new initiatives.

Based on continuing to fund the Capital Improvement Plan (CIP) at the same annual level as in 2003-05 (which reflected a significant reduction from 2001-03), and continuing current day-to-day services, we are facing an "order of magnitude" budget gap of about $2.4 million annually in the first two years (2005-07), and $700,000 annually in the three "out years" (2007-10). This is *excluding* the one-tine shortfall in 2004-05 that will carryover into 2005-06, as ending reserves for 2004-05 are projected to be $1.4 million lower than minimum policy levels (16% of operating expenditures rather than 20%).



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

FORECAST PURPOSE

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

It doesn't make expenditure decisions; it doesn't make revenue decisions. Its sole purpose is to provide an "order of magnitude" feel for our ability to continue current services, maintain our existing assets and fund new initiatives.

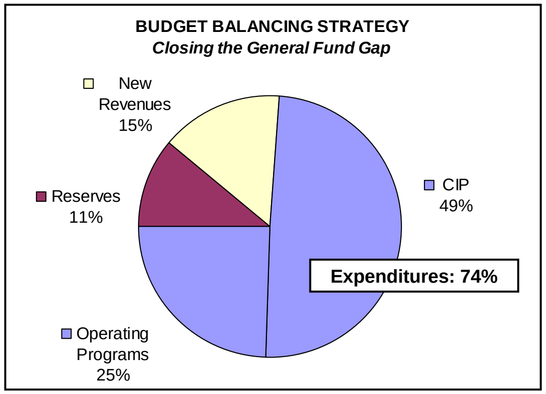
Can we afford new initiatives? This is a basic question of priorities, not of our financial capacity.

Ultimately, this forecast cannot answer the question: "can we afford new initiatives?" This is a basic question of priorities, not of our financial capacity. However, funding major initiatives within existing resources will require significant reductions—beyond those that will already be needed—in existing services or asset maintenance 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.

Nonetheless, this forecast helps identify the key factors affecting our fiscal outlook. Moreover, while the forecast doesn't make budget decisions, it gives us an early "heads-up" in assessing how difficult making these priority decisions will be. Lastly, it underscores the need for significant new revenue sources if we want to preserve our current service levels and adequately maintaining the assets we already have – let alone fund any new initiatives.

GENERAL FISCAL OUTLOOK

Tough Fiscal Past. The fiscal situation facing the City two years ago in 2003-05 was the toughest in over ten years, since the "one-two punch" of the recession and State budget takeaways of the mid-1990's.



We were facing a General Fund budget gap of $7 million—about 20% of our General Fund revenues—which we successfully closed through a combination of expenditure reductions in operations and capital improvements, new revenues and use of reserves.

Because of added State takeaways totaling $1.5 million, we had to revisit the General Fund budget in 2004-05. To accommodate this, we made further expenditure cuts (most notably in our paving program); reinstated the hiring and training chill; and for the first time since we adopted our minimum reserve policy fifteen years ago of 20% of operating expenditures, we have gone below this level to 16%. While this is significant in signaling the tough fiscal times facing us, it is also consistent with the strategy adopted as part of the 2003-05 Financial Plan: to maintain reserves at policy levels as our first line of defense against even more State budget grabs.

One Bright Spot: Passage of Proposition 1A. The recent passage of Proposition 1A on November 2, 2004 significantly improves our fiscal situation by shielding us from more State budget raids, and thus provides us with greater certainty and stability on this front than we've experienced in many years. However, it is important to stress that it only helps prevent *added* State budget cuts to cities *in the future:* it doesn't return *any* past takeaways, which currently cost the City over $3 million each and every year (and total over $22 million over the past sixteen years).

It is also important to note that Proposition 1A does not create an impervious firewall from more State raids: they are still possible, but they are much harder to do. The Ground Rules: If two-thirds of the legislature declares a fiscal emergency, then funds can be taken away from local government, but only as a loan that must be repaid within three years; the amount cannot be more than $1.3 billion; it cannot occur more than twice in a ten-year period; and no new takeaways can be made if a past takeaway has not been repaid. This is a high hurdle to overcome, certainly, but not an impossible one.

In exchange for this reasonable assurance (but not guarantee) of "no mas, no mas" in the future, local governments agreed to give the State $1.3 billion per year for two years (in 2004-05 and 2005-06), for a total of $2.6 billion. The City's share of this is about $680,000 per year, or $1.36 million over two years. After this, we should return to our prior situation, which, as noted above, is continuing to lose $3 million per year to the State.

In short, while passage of Proposition 1A was essential for our future fiscal health and stability, it does not improve our current fiscal situation: it simply deters the State from making it worse.

Tough Fiscal Future: Our 2005-07 Fiscal Story. Even with the important passage of Proposition 1A, we continue to face significant fiscal challenges. As detailed below, there are three key drivers:

1. Uncertain outlook in our key revenues, including sales tax and transient occupancy taxes.

2. Operating cost pressures, most notably new maintenance costs for the Damon-Garcia Sports Fields, retirement costs and new (but previously projected) debt service costs for three important capital improvement plan (CIP) projects launched in 2003-05: 919 Palm Street offices, radio system upgrade and public safety dispatch center improvements.

3. Need to adequately maintain our existing facilities and infrastructure like streets, sidewalks, storm drains and parks.

While the amount of the gap is significantly lower than the one facing us two years ago, there are aspects of the current situation that are even tougher:

Fewer Budget Balancing Options Remain. In closing the $7 million budget gap two years ago, we:

1. Reduced operating expenditures (and related services) by $1.7 million.

2. Implemented $1.1 million in new revenues (primarily user fees).

3. Significantly reduced our capital improvements (by about $3.5 million from target levels).

4. Used $800,000 in reserves.

In short, we have already used these budget-balancers and they are now part of our current base: we can't "count them twice." Coming on top of these, this means that any further service reductions will be much more difficult to implement, especially in light of the fact that police and fire protection accounts for over 50% of General Fund operating costs; and new revenues options under Proposition 218 are few and far between (and if they were likely budget-balancers, we would probably have used them already).

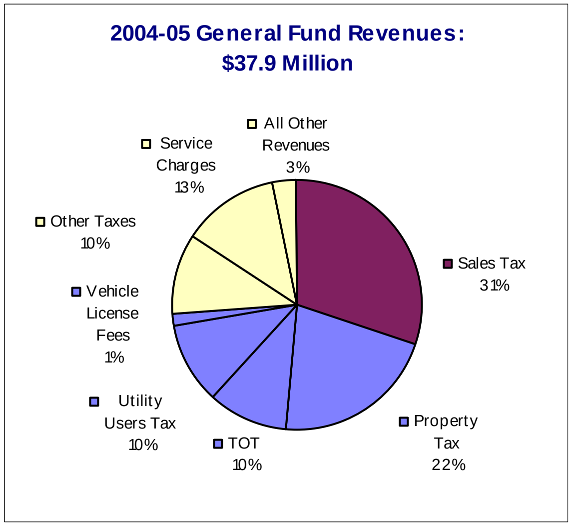
Lower Reserves. As noted above, we went below our policy level in 2004-05 for the first time since we adopted our minimum reserve policy fifteen years ago. While this was consistent with our adopted strategy of using reserves as our first line of defense against even more State budget grabs, it means we will go into the 2005-07 Financial Plan process with a lower level of reserves than we did two years ago: we began 2003-05 with General Fund reserves that were 30% of operating expenditures, compared with our current projection of 16% at the end of 2004-05.

Combined, these forces translate into what is likely to be another very tough budget season.

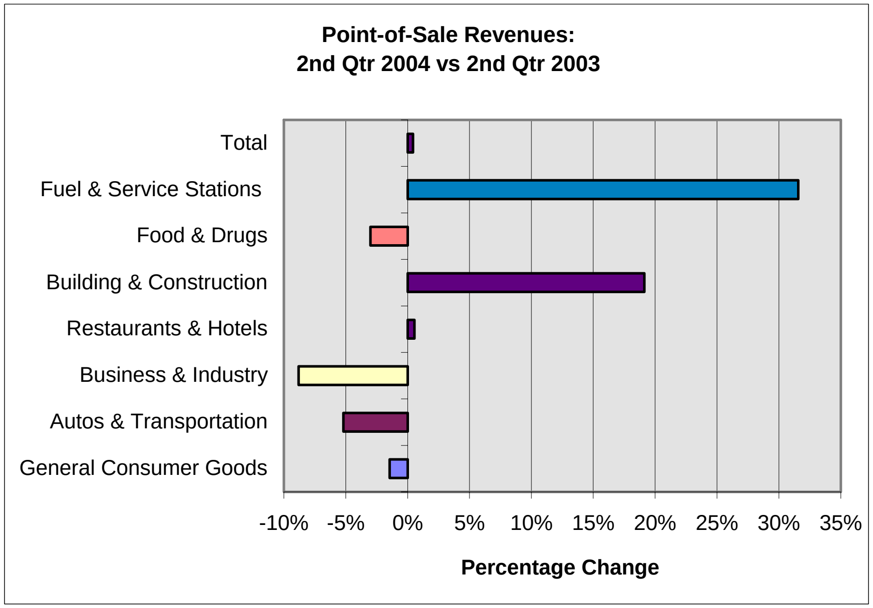
KEY BUDGET DRIVERS AFFECTING OUR FISCAL OUTLOOK

❶ Uncertain Revenue Outlook

As shown in the sidebar chart, sales tax, property tax and transient occupancy tax (TOT) are the City's top three General Fund revenues, accounting for about two-thirds of all funding sources. While property tax revenues continue to perform well, sales tax and TOT revenues are major concerns.



Sales Tax. The most recent quarters for which we have underlying sales tax data reflect mixed signals: both quarters show gains in gas station and building supply sales (largely driven by Home Depot); however, general consumer goods and auto sales—our two largest sales tax producers—show gains in the first quarter of 2004 and decreases in the second quarter.



As shown above, the strong increases in service stations and building supplies in the second quarter of 2004 was not able to overcome the downturns in autos and general consumer goods: overall for the quarter, sales were basically flat (up by 0.4%) compared with the same quarter in 2003.

Given current trends, and the higher-than-expected base from 2003-04, we are projecting flat sales tax revenues in 2004-05; and modest "base" increases of 2.5% annually thereafter.

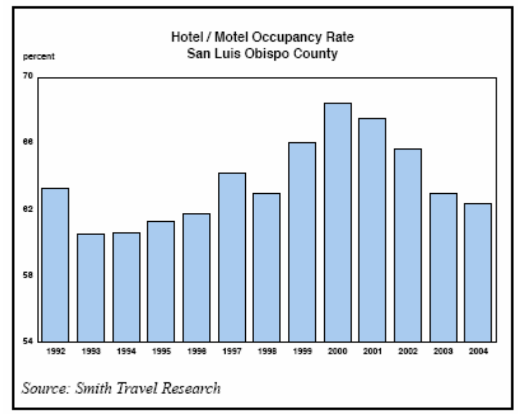
However, there are very real opportunities on the horizon in terms of new retail outlets that may come on-line within the next five years, which have the potential to generate significant new, "net" revenues for the City. Based on past fiscal studies, the following summarizes estimated annual "net" revenues from each of these along with the fiscal year that they are likely to come on-line:

Costco (2005-06)	$500,000
Court Street/Copeland (2005-06)	$200,000
Airport Area Annexation (2006-07)	$450,000
San Luis Marketplace (2007-08)	$580,000

The revenue estimates above are "net" of projected transfer affects and service costs. In the case of the San Luis Marketplace, the estimate above is also "net" of the tax reimbursement agreement to help fund construction of the Prado Road interchange.

Overall, the forecast projects that about $1.7 million in new "net" sales tax revenues will come on-line over the next five years.

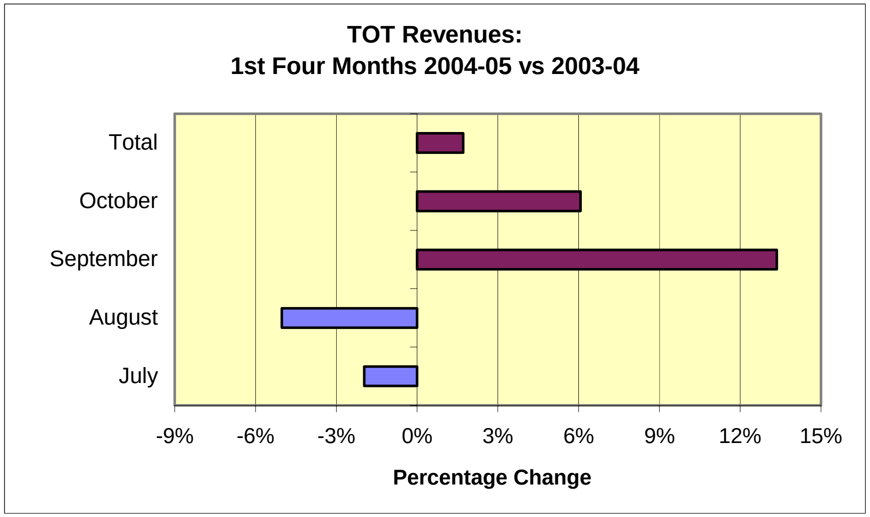
TOT Revenues. The past three years have seen very tepid results in TOT revenues. It *declined* by 3% in 2001-02, and only grew by 1% (on 2002-03 and 2% in 2003-04. These trends are consistent with results County-wide, which show declining hotel occupancies from their peak in 2000, decreasing steadily thereafter in the wake of the "dot.com" meltdown and "9/11."



As shown below, results for the first four months of 2004-05 are mixed at best, with TOT revenues continue their roller coaster ride. Increases of 13% in September and 6% in October barely offset decreases in July and August, which are our most important months. While we continue to project 3% growth for 2004-05, achieving this will require continued, significant gains in the remaining "low season" months to offset the declines of 2% in July and 5% in August.

Based in current trends, we are projecting modest base increases of 3% annually in 2005-06; 4% in 2006-07; and 5% in 2007-10. Additionally, we are projecting the following increases in the "base:"

Marriott Courtyard (2006-07)	$225,000
Hampton Inn (2007-08):	$150,000
San Luis Marketplace (2007-08):	$177,000



Overall, the forecast projects that about $550,000 in new "net" TOT revenues will come on-line over the next five years.

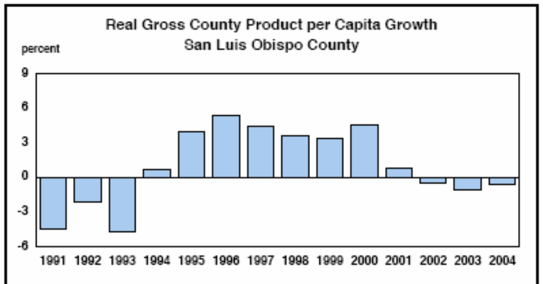
Summary: Increases in the Base Revenues. The forecast assumes significant increases in the sales and TOT base over the next five years, summarized as follows:

	Sales Tax	TOT	Total
2005-06	700,000		700,000
2006-07	450,000	225,000	675,000
2007-08	580,000	327,000	907,000
Total "Base" Additions	**$1,730,000**	**$552,000**	**$2,282,000**

As reflected above, these are significant assumptions, totaling $2.3 million by "Year 3" in the forecast. If they do not come on-line, then the projected "gap" becomes much larger.

Other Revenues. Assumptions for other key revenues are provided on page 12 of the forecast.

Economic Summary. The City's revenues do not occur in a vacuum: they are reflective of national, state and regional trends. The recent forecast for San Luis Obispo County by the UCSB Economic Forecast Project (UCSB) underscores the economic challenges facing the region and the City. For example, as shown in the sidebar chart, in real terms the "Gross County Product" per capita has declined each year for the last three years.



Source: UCSB Economic Forecast Project

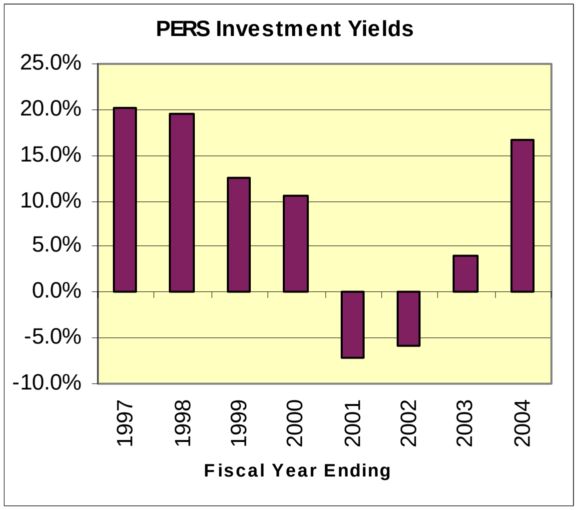
While UCSB does not forecast continued declines for the next five years, it expects only a modest recovery. In short, while it is possible that the City might experience robust growth from our current base in lifting us out of our current fiscal difficulties, this isn't likely. The fact is that without some significant "bumps" in our sales and TOT base—such as those assumed in the forecast—we are going to face significantly constrained revenues for the foreseeable future.

❷ Operating Cost Pressures

Damon-Garcia Sports Fields. As highlighted in the 2003-05 Financial Plan, maintaining and managing these fields will cost about $250,000 per year. 2005-06 will be our first full year with these added costs.

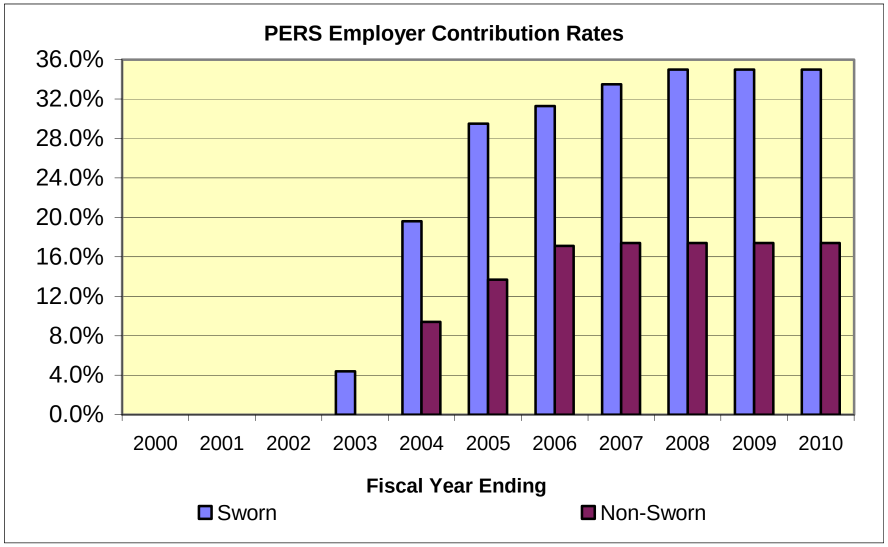
Retirement Costs. Like the sports fields, this is not a new cost concern on our radar. However, it has certainly not gone away. As the Council is aware, our retirement contributions to the California Public Employees Retirement System (PERS) have soared in the last several years. While there are several reasons for this, which we have previously detailed for the Council, the most significant one has been PERS investment returns.

As shown below, these have vacillated widely over the past eight years, ranging from gains of 20% in 1996-97, to losses of 7% in 2000-01, to gains of 16% in 2003-04. These compare with PERS actuarial estimated annual returns of 8.25%



While PERS uses a "smoothing" method that averages returns over a three-year period in setting rates, the high volatility in interest yields has resulted in high volatility in the City's employer contribution rates. For example, as recently as 2001-02, the City's "normal" employer contribution rate (the amount actuarially required to exactly match current contributions with future liabilities) was 14% of salary for sworn public safety employees and 7% for all other employees.

However, because of "excess assets" generated by investment gains in the mid-1990's, the City's required contribution rates were actually 0% for both groups. In short, as shown below, the City's required employer contribution rates have vacillated wide over the past ten years.



What causes this big swing? There are two factors. First, investment losses wiped-out the excess assets (and in fact cause unfunded liabilities); as such, there are no longer any credits against the "normal" rate. Second, rates now have to increase above the "normal" level to begin amortizing the unfunded liabilities.

As reflected in the chart above, we recently received our rates from PERS for 2005-06 (and projected rates for 2006-07), which reflect continued increases in contribution rates, albeit at a much lower rate of increase than the past two years. The forecast assumes that rates will stabilize at the 2006-07 level.

Can it get better? If PERS most recent yield trends continue, then at some point we can expect that contribution rates will steadily decline to more closely resemble "normal" contribution rates. However, because of PERS "smoothing" methodology, this will take several years. Moreover, under previously negotiated agreements, our sworn fire staff's retirement benefits will increase from "3% at Age 55" to "3% at Age 50" in January 2006. At that time, we can expect another increase in contribution rates of about 3%. In short, for the next two years, PERS improved investment yields will more likely result in stabilization of rates rather than a significant decline.

New Debt Service Costs. There are three key CIP projects in the 2003-05 Financial Plan that are funded by debt financings: 919 Palm Street offices, radio system upgrade and public safety dispatch center improvements. As planned, there will no debt service costs for these projects in 2004-05. However, there will be at some point in 2005-07.

Moreover, while the costs will be spread over several years at (fortunately) historically low interest rates, current cost estimates for all three of these projects are higher than the existing budgets for them. We are in the process of finalizing these cost estimates and developing mitigation strategies, and plan to present the results of this analysis to the Council in January 2005. However, this is likely to result in higher debt service costs than those identified in the 2003-05 Financial Plan. At this point, assuming we can lease 955 Morro at market rates after Public Works relocates to 919 Palm Street, net debt service costs for these three projects combined are projected at $900,000 annually, summarized a follows:

919 Palm Offices: $384,700 beginning in 2005-06
Dispatch Center Improvements: $165,800 beginning in 2006-07
Radio System Improvements: $372,200 beginning in 2006-07

❸ Infrastructure and Facilities Maintenance

As discussed below, the estimated cost of adequately maintaining, repairing or replacing existing General Fund facilities, infrastructure and equipment we already have in place is about $6.4 million annually. This excludes any enhancements or “betterments.” To place this in context:

1. In the prior two years (2001-03), our total General Fund “pay-as-you-go” CIP appropriations—including “betterments”—averaged about $4.7 million.

2. The average annual General Fund CIP in the 2003-05 Financial Plan is about $3.1 million.

3. For 2004-05, total General Fund CIP appropriations are $2.3 million.

This significant reduction in capital improvements—most notably pavement maintenance, which we have cut by $1.3 million annually since 2003—directly reflects the increasing fiscal difficulties facing the City, and the tough decisions we have had to make in preserving critical day-to-day services like police and fire protection. However, there will be significant adverse consequences in the condition of our existing facilities and infrastructure if we continue to fund CIP improvements at current levels.

BASIC FORECAST FRAMEWORK

Background

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

Summary of Forecast Assumptions

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

State Budget Actions. The forecast assumes that the second (and final) year of added State budget cuts will take place in 2005-06 in the amount of $680,200, and that the State will repay the 2003-04 “VLF Gap Loan” in 2006-07 in the amount of $756,500. The forecast assumes no booking fee reimbursements ($105,400 annually) after 2004-05.

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

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

Economic Outlook: Continued But Weak Growth. While they are not projected to grow at the rates we have experienced in the past five years, the revenue forecast assumes continued growth in our major revenue sources, which are directly tied to the performance of our local economy. This is consistent with most "long-term" economic forecasts at the state and national level that show lower rates of growth.

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

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

Development Impact Fees. Assuming a 1% community growth rate, transportation impact fees generate about $500,000 annually. Like grant revenues, these will certainly help us in funding transportation improvements. However, these revenues are restricted solely to funding improvements related to new development.

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

Operating Program Expenditures. In general, operating costs are projected to rise by population and inflation, about 4% annually, with the following exceptions:

1. We have performed a detailed analysis of retirement costs based on projected employer contribution rates.

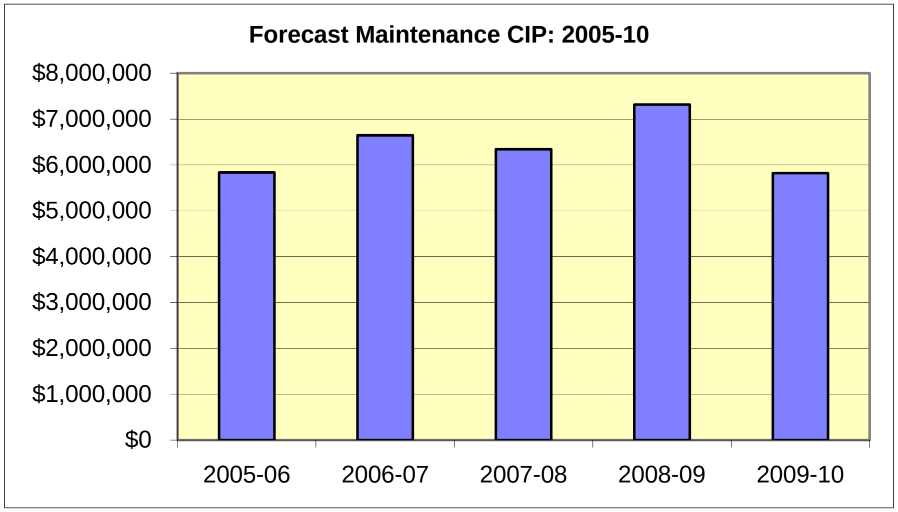
2. Mardi Gras cost are projected to steadily decline from the 2004-05 budget level of $374,000 as follows:

2005-06:	$325,000
2006-07:	$300,000
2007-08:	$275,000
2008-09:	$250,000
2009-10:	$225,000

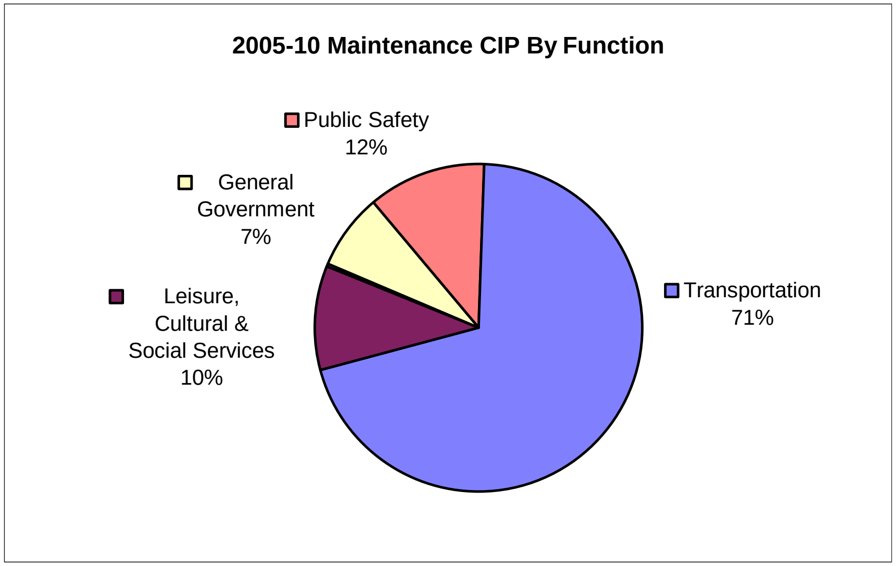
3. As noted above, Damon-Garcia sports field maintenance and operations will cost $250,000 annually beginning in 2005-06.

Capital Improvement Plan "Maintenance" Expenditures. As noted above, the forecast CIP assumes continuing funding levels at the average annual level approved in the 2003-05 Financial Plan – about $3.1 million annually.

However, to place this in perspective, we have prepared a five-year, "Maintenance-Only" CIP based on adequately maintaining, repairing or replacing existing infrastructure, facilities and equipment already in place. As summarized below, the "Maintenance-Only" CIP averages about $6.4 million annually:



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



The detail for the "Maintenance-Only" CIP is provided on page 18.

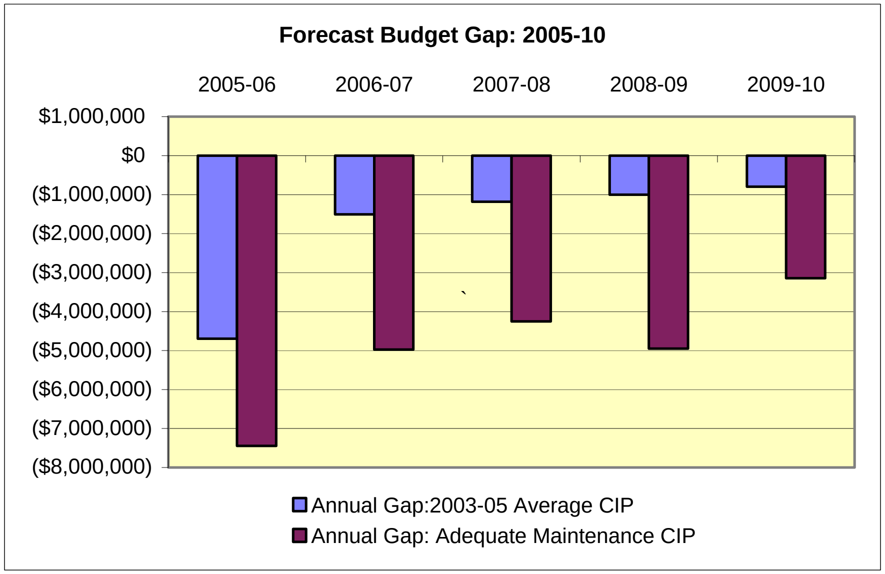
What's not in the "Forecast CIP." It is important to stress the "maintenance-only" nature of the forecast CIP, which means it *does not* assume new acquisitions and improvements like those in the sidebar.

This doesn't mean that accomplishing these CIP goals isn't important; only that doing so will require new resources if we want to continue current service levels and maintain our existing facilities and infrastructure. And any significant new resources will require voter approval.

"New" Projects *Not* in the Forecast

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

Funding the "Maintenance-Only CIP." The following chart shows the impact of adequately maintaining the General Fund assets already in place compared with the forecast assumption of constraining CIP expenditures to 2003-05 funding levels.



As reflected above, the budget gap widens significantly with this assumption: even in the "out years" of 2007-10, it grows to about $4 million per year.

Debt Service Expenditures. As noted above, the forecast includes current debt service obligations (about $1.7 million annually) as well as new debt service for the planned City offices at 919 Palm Street, dispatch center improvements and radio system upgrade.

What's Most Likely to Change?

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

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

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

Development Review Fees. These are subject to changes in the construction market over which the City has no control. Based on results through the first quarter, we are projecting these to stay at the same level for 2004-05 as they were in 2003-04. This is about $800,000 less than projected in the 2004-05 Financial Plan Supplement.

Operating Cost Increases. As noted above, the forecast is not the budget. The assumption of annual increases of 4%, using the adopted 2004-05 as the base, is just that an assumption. It is not a detailed assessment of operating cost needs and priorities: this occurs as part of the budget process, not the forecast.

Mid-Year Budget Review. The operating and CIP cost base for 2005-10 the current 2004-05 budget. However, this is subject to revision at the mid-year budget review based on any unexpected new costs.

REVENUE OPTIONS

As noted above, any significant additions to our revenue base will require voter approval. Barring a "fiscal emergency," the next opportunity for placing a general-purpose revenue measure on the ballot is November 2006. However, as reflected in the formal feasibility assessment we prepared in November 2003, conducting a successful revenue measure is a very difficult and uncertain process. And its success is largely beyond the

City's control: it depends on the emergence of a committed, community-based group that will aggressively campaign for its passage. Even with voter approval, there are a limited number of revenue options available to the City. An overview of these is provided on page 14.

SUMMARY

Unless the economy performs significantly better than projected or new revenues are implemented, this forecast shows that we have a gap of about $2.4 million in 2005-07—*excluding* the carryover shortfall from reserve policy levels in 2004-05 of $1.4 million; and about $700,000 annually the lat three years of the forecast. This is based on several critical assumptions:

1. Modest growth in our current sales tax and TOT base along with significant new outlets.

2. Limiting operating cost increases to population and inflation, while maintaining current service levels.

3. Meeting funding commitments for the Damon-Garcia sports fields and three key CIP projects launched in 2003-05: 919 Palm offices, dispatch center improvements and radio system upgrade.

4. Continuing a significantly constrained CIP that does not meet current infrastructure maintenance needs – let alone fund enhancements.

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In short, the forecast shows that without an improved revenue outlook, it will not be possible to continue current "core" service levels and fund the already reduced program for maintaining our existing facilities and infrastructure (let alone funding them at an adequate level or building new ones). On the other hand, the option of changing our current priorities and reallocating resources to accommodate new ones always exists. However, unless new revenues emerge (beyond those already factored into the forecast), this would mean even greater cuts in core operations and maintenance that those that will already be needed.

Stated simply, our struggle over the next several months is not likely to be about "which new community goals should we accomplish with our added revenues?" But rather, how do we maintain core service levels, infrastructure and our fiscal health?

Bad News, but Not "New" News. The fact that we continue to face major fiscal problems should not come as a surprise to any one. Even with our major budget-balancing efforts two years ago, and the important passage of Proposition 1A in November 2004, we have remained steadfast in our message that while we have made a lot of progress on this front, there are still tough times ahead. In short, while the forecast better quantifies these challenges, it is consistent with the trends we have straightforwardly reported on an ongoing basis, and with the *General Fiscal Outlook* presented in November 2004.

The Good News. While the budget-balancing difficulties facing us are significant, we go into this process with a much better foundation than most cities in California:

- We are in good fiscal shape.
- We have good information.
- We have strong financial systems and procedures in place.
- We have an excellent organization and capable staff.
- We have excellent Council leadership.
- 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 challenges ahead of us.

DEMOGRAPHIC TRENDS

1. **Population and Housing.** Grows by 1% annually throughout the forecast period.

2. **Inflation.** Grows by 3% annually throughout the forecast period.

EXPENDITURES

1. **Operating Expenditures.** Using the adopted 2004-05 budget as the base, grows by population and inflation (4% annually), with the following exceptions:

   a. Retirement costs are projected to increase based on a detailed analysis of projected employer contribution rates.

   b. Mardi Gras cost are projected to steadily decline from the 2004-05 budget level of $374,000 as follows:

      2005-06: $325,000
      2006-07: $300,000
      2007-08: $275,000
      2008-09: $250,000
      2009-10: $225,000

   c. Damon-Garcia sports field maintenance and operations will cost $250,000 beginning in 2005-06.

2. **CIP Expenditures.** Based on the average annual CIP for 2003-05 (about $3.1 million annually). This is significantly less than the “Maintenance-Only CIP,” which projects annual cost of about $6.4 million annually to adequately maintain replace existing facilities, equipment and infrastructure.

Debt Service. The forecast includes current debt service obligations (about $1.7 million annually) as well as new debt service for the planned City offices at 919 Palm Street ($384,700 beginning in 2005-06), dispatch center improvements ($165,800 beginning in 2006-07) and radio system upgrade ($372,200 beginning in 2006-07).

STATE BUDGET ACTIONS

1. $680,200 takeaway each year in 2004-05 and 2005-06.

2. Repayment of 2003-04 “VLF Gap Loan” in 2006-07 of $756,500.

3. No booking fee reimbursements after 2004-05 ($105,400 loss annually).

KEY REVENUES

Sources used in developing revenue projections for the forecast include long and short-term trends in key City revenues; forecast data for California as developed by the UCLA forecasting project; forecast data for San Luis Obispo County as developed by the UCSB forecasting project (of which the City is a sponsor); economic trends as reported in the national media; economic and fiscal information developed by the State Legislative Analyst and the State Department of Finance; and materials prepared by the League of California Cities and State Controller's Office.

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

1. **Sales Tax.** Grows by an underlying growth rate of 2.5% plus additional “net” revenues from the following new outlets:

Costco (2005-06)	$500,000
Court Street/Copeland (2005-06)	$200,000
Airport Area Annexation (2006-07)	$450,000
San Luis Marketplace (2007-08)	$580,000

2. **Property Tax.** Grows by 7.5% in 2004-05 based on the confirmed tax levy by the County and expected supplemental assessments, and by 7.0% annually thereafter.

3. **Transient Occupancy Tax.** Grows by an underlying rate of 3% in 2004-05 and 2005-06; 4% in 2006-07; and 5% in 2007-10, plus:

Marriott Courtyard (2006-07)	$225,000
Hampton Inn (2007-08:	$150,000
San Luis Marketplace (2007-08)	$177,000

4. **Utility Users Tax.** Grows by population and inflation (4%) throughout the forecast period.

5. **Vehicle License Fees.** Grows by 5% throughout the forecast period.

6. **Business Tax**. Grows by 4.0% throughout the forecast period. While past trends are much stronger than this, we believe that this is largely due to a major restructuring of the business tax ordinance in the 1991-92, and the implementation over the past several years of pro-active verification and enforcement programs. These gains are now part of the base, and as such, we are not likely to experience similar growth rates in the future.

7. **Franchise Fees**. Grows by population and inflation (4%) throughout the forecast period.

8. **Gas Tax Subventions.** Grows by 1% throughout the forecast period based on projected population growth.

9. **Development Review Fees**. Based on 2003-04 revenues, grows by inflation (3%) annually.

10. **Recreation Fees**. Grows by population and inflation (4%) throughout the forecast period.

11. **Other Fees.** Grows by population and inflation (4%) throughout the forecast period.

12. **Investments.** Interest earnings were $700,800 in 2001-02 and $766,000 in 2002-03. However, due to historically low yields (less than 2%) and lower investable balances, interest earnings in 2003-04 (before making required accounting adjustments to "mark them to market") were $220,000. The forecast assumes this lower level of earnings of for the next five years.

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

Special Revenue Assumptions

Margarita Park Fee Reimbursements. Under the facility financing plan for this area recently adopted by the Council, the area is responsible for financing the park improvements needed to serve it. By building the Damon-Garcia sports fields in advance of development in this area, the City is due significant reimbursements as set forth in the adopted plan, totaling about $5.1 million. The forecast conservatively estimates annual reimbursements of $650,000 beginning in 2006-07.

Airport Area Specific Plan Reimbursements. Of the $717,000 cost to prepare the Specific Plan for this area, the General Fund advanced $323,800, to be reimbursed by new development. With adoption of the Specific Plan scheduled for Spring/Summer 2005, funds for reimbursement should be available during 2005-06. This will be a one-time revenue.

FUND BALANCE

The forecast assumes that fund balance will be maintained at minimum policy levels of 20% of operating expenditures. This results in carrying over a $1.4 million gap from 2004-05 into 2005-06, as the projected General Fund reserve at the end of 2004-05 is 16%.

The following summarizes City revenue options organized by those requiring voter approval and those that the Council could approve.

REQUIRES VOTER APPROVAL

Two-Thirds Voter Approval

Property Tax Increase as Part of General Obligation Bond Issue. Adopted over 20 years ago, Proposition 13 does not allow an increase in general purpose property taxes above the "1% of market value" limit under any circumstances. However, subsequent amendments to this constitutional limit allow increases in property taxes for voter-approved bonded indebtedness. While there are no limits to how much could be raised, the proceeds are restricted to specified capital improvements.

Parcel Taxes. With two-thirds voter approval, flat-rate "parcel taxes" are allowed as long as they are not based on property value.

Mello Roos Special Taxes: Operating or Capital. Mello Roos Districts are typically formed to provide services or capital improvements to new developments (when there is usually just one "voter"—the developer/land owner), but they can be formed on a citywide basis. Depending how they are structured when approved, Mello Roos special taxes can pay for operations and maintenance as well as capital improvements. Approval by two-thirds of those responsible for paying the special taxes, weighted by each property owner's tax obligation, is required.

Majority (General Purpose) or Two-Thirds (Special Purpose) Approval

The following revenue sources could be adopted by either two-thirds or majority voter approval depending on their purpose. Revenue measures where the proceeds may be used for "general purposes" only require majority voter approval. However, revenue measures where the proceeds are "earmarked" and designated for specific purposes require two-thirds majority voter approval. In both cases, depending on how the revenue measure is structured, the proceeds could be used for operations or capital improvements (including debt service payments on capital projects financed by bonds).

Local Option Sales Tax. Cities are now allowed to set an added "local option sales tax rate" of either ¼% or ½%. Several cities have already done so, including Truckee, Fort Bragg, Clovis, Davis and Santa Cruz. Based on current sales tax revenues, a ¼ cent "local option" rate would raise about $2.9 million annually, and a ½ cent rate would raise about $5.8 million.

Transient Occupancy Tax. Last changed in 1993, the current rate is 10%, which raises about $3.9 million annually. This is the City's third largest revenue source after sales and property taxes. Each "one percent" increase would raise about $400,000 annually.

Utility Users Tax. Most residents and businesses in California pay utility user taxes at rates ranging from 3.5% to 12.5%. The City adopted its utility users tax in 1972 at a rate of 5%, which has remained unchanged since then. It is levied on all utility users except for sewer and trash service. Most cities set their rate based on the sales tax rate in place at the time, which accounts for some of the variability in rates (and our rate of 5%). Generating about $3.8 million annually, this is the City's forth-largest General Fund revenue source. Each "one percent" increase would raise about $750,000 annually, or $1.7 million if it was set at the current sales tax rate. An option would be to leave the current rate in place, but extend it to sewer and trash. This would raise about $300,000 annually.

Property Transfer Tax. Statewide, there is a property transfer tax of $1.10 per $1,000 of value when property is sold (or $275 on a property worth $250,000). For sales in a city, the proceeds are evenly divided between the city and the county, for an effective city rate of $0.55 per $1,000 of value. (For sales in unincorporated areas, the county retains all of the tax). Charter cities like San Luis Obispo are allowed to set their own rate, but must give up their share of the $1.10 rate if they do so. Many cities in California have done this, and these locally assessed rates range from $1.10 to $10.00 per $1,000 of value. The most common rate is $4.40 per $1,000. At this level, our own property transfer tax (which currently generates about $250,000 annually) would raise about $2 million annually.

Business Tax. Anyone doing business in the City is required to pay a business tax set at 0.05% of gross receipts (or $50 per $100,000 of gross receipts). This currently generates about $1.5 million per year. Each 10% increase in the rate (such as $55 per $100,000 of gross receipts) would raise about $150,000 annually.

REQUIRES COUNCIL APPROVAL

The following revenue sources could be set or increased by the Council. All of them have been previously considered by past Councils.

Mello-Roos Districts for New Development. Many cities require that new development pay not only for the facilities needed to service them, but for day-to-day services as well. This could include park and landscape maintenance, street lighting, street sweeping, libraries and fire protection. While this sets up two classes of city residents—those who receive what may be perceived as general city services based on the general purpose tax revenues they pay, and those who must pay an additional premium for those same services—many cities have moved to this out of fiscal necessity. The revenue impact of this is difficult to assess, since it would depend on what services were subject to the special Mello Roos tax. Additionally, it would require a change in the City's fiscal policy, which states that general purpose revenues—not special taxes or fees—should pay for services delivered on a uniform, community-wide basis.

General Facility Impact Fees. The City currently assesses impact fees for water, sewer and transportation improvements needed to serve new development. Many cities have set fees for other facility improvements such as parks, cultural facilities, community centers, civic center improvements and public safety facilities.

Higher Planning Fee Cost Recovery. The planning service cost recovery goal for most services is 100%, based on recovering 25% of advanced planning costs. The city could consider recovering more than this.

Higher Paramedic Cost Recovery. We currently receive about $120,000 annually from our local ambulance service for paramedic services. However, many cities have put this service on an "enterprise fund" basis. There are a number of models for this, and revenue recovery can be quite high depending on how much of the total cost these cities decided to fund this way. For example, the direct annual cost of the fire emergency response program is $6.4 million. Including indirect costs (such as vehicles, equipment and facilities, departmental administration, dispatch and organizational support services like legal, insurance, accounting and human resources) increases the total cost to about $8.9 million. About 60% of all Fire emergency responses are medical related, so potentially up to $5.3 million in paramedic costs could be recovered.

Fire Engine Company Inspection Fees. The Fire department performs ongoing business inspections at no cost. Many cities charge for this service. Based on past studies, this type of fee could raise about $50,000 annually.

Discontinue Charging the General Fund for Water and Sewer Service. Many cities do not assess themselves for water and sewer service. Taking this approach would save the General Fund about $400,000 annually.

Summary: Council Approved Revenues

As noted above, the Council has taken a detailed look at all of these concepts in the past, and chosen not to implement them for a number of policy reasons. The above summary is only intended to layout the revenue options available to the Council without voter approval. It does not analyze their benefits or drawbacks, and several of them would be major undertakings with serious public policy considerations.

General Fund Five Year Forecast: 2005-10

	2003-04	2004-05		FORECAST				
	Actual	Budget	Revised	2005-06	2006-07	2007-08	2008-09	2009-10
REVENUES & OTHER SOURCES				***2005-07 Financial Plan***				
Taxes								
Sales Tax - General (Based on "effective" 1% tax rate)	11,294,300	11,468,200	11,294,300	12,276,700	13,033,600	13,939,400	14,287,900	14,645,100
Sales Tax - Proposition 172	256,500	244,600	256,500	262,900	269,500	276,200	283,100	290,200
Property Tax	6,069,600	6,333,900	6,524,800	6,981,500	7,470,200	7,993,100	8,552,600	9,151,300
VLF Property Tax Swap			1,942,200	2,078,200	2,903,900	3,107,200	3,324,700	3,557,400
Transient Occupancy Tax	3,922,200	3,956,000	4,039,900	4,161,100	4,552,500	5,107,100	5,362,500	5,630,600
Utility Users Tax	3,669,200	3,973,300	3,816,000	3,968,600	4,127,300	4,292,400	4,464,100	4,642,700
Franchise Fees	1,967,800	1,956,500	2,046,500	2,128,400	2,213,500	2,302,000	2,394,100	2,489,900
Business Tax	1,475,100	1,546,600	1,519,400	1,565,000	1,612,000	1,660,400	1,710,200	1,761,500
Real Property Transfer Tax	293,000	215,000	250,000	260,000	270,400	281,200	292,400	304,100
Subventions & Grants								
Vehicle License Fees (VLF)	2,013,300	2,156,200	217,700	228,600	240,000	252,000	264,600	277,800
Gas Tax (Transfer In)	874,100	885,200	882,100	890,900	899,800	908,800	917,900	927,100
Other Subventions & Grants	1,177,200	444,200	444,200	352,100	362,700	373,600	384,800	396,300
Service Charges								
Development Review Fees	2,120,900	2,900,200	2,120,900	2,184,500	2,250,000	2,317,500	2,387,000	2,458,600
Recreation Fees	1,112,800	1,122,300	1,122,300	1,167,200	1,213,900	1,262,500	1,313,000	1,365,500
Margarita Area Park Fee Reimbursements					650,000	650,000	650,000	650,000
Other Service Charges	982,100	847,100	847,100	1,024,000	1,065,000	1,107,600	1,151,900	1,198,000
Other Revenues								
Fines & Forfeitures	279,800	330,000	280,000	288,400	297,100	306,000	315,200	324,700
Interest Earnings and Rents	93,100	347,000	275,000	275,000	275,000	275,000	275,000	275,000
Other Revenues	176,500	75,000	75,000	398,800	831,500	75,000	75,000	75,000
Total Revenues	37,777,500	38,801,300	37,953,900	40,491,900	44,537,900	46,487,000	48,406,000	50,420,800
EXPENDITURES & OTHER USES								
Operating Programs	34,544,100	35,890,000	35,890,000	38,179,300	39,923,700	41,488,600	43,117,100	44,811,800
Debt Service	1,760,200	1,672,500	1,672,500	2,057,200	2,595,200	2,595,200	2,595,200	2,595,200
Capital Improvement Plan	3,861,400	2,303,500	2,303,500	3,082,500	3,175,000	3,270,300	3,368,400	3,469,500
Total Expenditures	40,165,700	39,866,000	39,866,000	43,319,000	45,693,900	47,354,100	49,080,700	50,876,500
Revenues Over (Under) Expenditures	(2,388,200)	(1,064,700)	(1,912,100)	**(2,827,100)**	**(1,156,000)**	**(867,100)**	**(674,700)**	**(455,700)**
Available for New Initiatives (Budget Gap)				**(4,693,900)**	**(1,504,800)**	**(1,180,100)**	**(1,000,400)**	**(794,700)**
FUND BALANCE, BEGINNING OF YEAR	10,069,400	7,073,500	7,681,200	5,769,100	7,635,900	7,984,700	8,297,700	8,623,400
FUND BALANCE, END OF YEAR								
Designated @ 20% of Operating Costs	6,908,800	7,178,000	7,178,000	7,635,900	7,984,700	8,297,700	8,623,400	8,962,400
Undesignated	772,400	(1,169,200)	(1,408,900)	-	-	-	-	-
Total Fund Balance, End of Year	7,681,200	6,008,800	5,769,100	7,635,900	7,984,700	8,297,700	8,623,400	8,962,400

- For 2003-04, operating expenditures include $1,126,500 in carryovers; 2004-05 expenditures have been adjusted accordingly.
- Operating program expenditures for all years include General Fund transfers to the Golf Fund. For 2004-05, they also include estimated expenditure savings and MOA costs.

Budget gap after funding current services, constrained CIP and minimum reserve policy.

General Fund Five Year Forecast: 2005-10

PROJECTION FACTORS	Historical Trends: Actual 2003-04	Last 5 Years	Last 10 Years	Last 15 Years	Estimated 2004-05	FORECAST PROJECTIONS: 2005-06	2006-07	2007-08	2008-09	2009-10
Annual Percentage Changes										
DEMOGRAPHICS										
Population	-0.3%	0.8%	0.2%	0.5%	0.5%	1.0%	1.0%	1.0%	1.0%	1.0%
Housing Units	0.3%	0.9%	0.7%	0.8%	0.5%	1.0%	1.0%	1.0%	1.0%	1.0%
Inflation	1.9%	2.4%	2.4%	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Compound Population & Inflation	1.6%	3.2%	2.6%	3.4%	3.5%	4.0%	4.0%	4.0%	4.0%	4.0%
KEY REVENUES										
Sales Tax (Situs Sales): Baseline	11.0%	7.0%	6.6%	4.4%		2.5%	2.5%	2.5%	2.5%	2.5%
Airport Area Annexation - Net							450,000			
Costco						500,000				
Copeland's			`			200,000				
San Luis Marketplace - Net								580,000		
Net Increase						8.7%	6.2%	6.9%	2.5%	2.5%
Property Tax (Assessed Value)	9.4%	8.2%	5.8%	6.4%	7.5%	7.0%	7.0%	7.0%	7.0%	7.0%
TOT: Baseline	2.1%	0.6%	2.2%	1.4%	3.0%	3.0%	4.0%	5.0%	5.0%	5.0%
Marriott Court Yard (Calle Joaquin area)							225,000			
San Luis Marketplace - Net								177,000		
Hamption Inn (Calle Joaquin area)								150,000		
Net Increase						3.0%	9.4%	12.2%	5.0%	5.0%
Utility Users Tax	0.1%	4.6%	3.2%	3.6%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Business Tax	3.2%	7.3%	7.2%	8.2%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Franchise Fees	45.1%	18.4%	11.4%	10.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Vehicle License Fees (VLF)	-23.2%	7.5%	5.4%	4.7%	Updated	5.0%	5.0%	5.0%	5.0%	5.0%
Gas Tax	1.3%	0.3%	1.1%	3.8%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Development Review Fees					Updated	*2004-05 Projection Plus Inflation*				
Recreation Fees					Updated	*2004-05 Projection Plus Compound Population and Inflation*				
EXPENDITURES										
Operating Programs					**35,890,000**	**38,179,300**	**39,923,700**	**41,488,600**	**43,117,100**	**44,811,800**
PERS Employer Contributions										
Sworn Employees					2,453,800	2,843,000	3,172,900	3,299,800	3,431,800	3,569,100
Non-Sworn Employees					1,402,500	1,820,300	1,927,200	2,004,300	2,084,500	2,167,900
All Other Operating Costs					32,033,700	33,315,000	34,647,600	36,033,500	37,474,800	38,973,800
Reduced Mardi Gras Costs						(49,000)	(74,000)	(99,000)	(124,000)	(149,000)
Damon-Garcia Fields Maintenance						250,000	250,000	250,000	250,000	250,000
Debt Service					**Budget**	**2,057,200**	**2,595,200**	**2,595,200**	**2,595,200**	**2,595,200**
Existing						1,672,500	1,672,500	1,672,500	1,672,500	1,672,500
919 Palm Offices Net of 955 Morro Rent						384,700	384,700	384,700	384,700	384,700
Dispatch Center Improvements							165,800	165,800	165,800	165,800
Radio System Upgrade							372,200	372,200	372,200	372,200
Capital Improvement Plan					**Budget**	3,082,500	3,175,000	3,270,300	3,368,400	3,469,500

PERS costs grow by projected increases in employer contribution rates; all other costs grow by population and CPI.

CIP costs grow by averrage 2003-05 CIP adjustied annually for inflatiion.

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

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

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

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

MAINTENANCE PROJECT SUMMARY

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

	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Projected Capital Maintenance Needs By Function						
Public Safety	439,000	543,300	1,022,900	1,337,800	347,900	3,690,900
Transportation	4,303,000	4,502,400	4,518,200	4,561,900	4,634,300	22,519,800
Leisure, Cultural & Social Services	652,900	568,800	563,200	858,600	584,400	3,227,900
Community Development	25,000	25,800	26,600	27,400	28,200	133,000
General Government	415,000	1,006,100	212,300	533,700	225,300	2,392,400
Total	**$5,834,900**	**$6,646,400**	**$6,343,200**	**$7,319,400**	**$5,820,100**	**$31,964,000**

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

	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Public Safety						
Police Protection						
Facility Maintenance Projects						
Exterior Siding/Painting: 1016 Walnut	25,000					25,000
Exterior Painting: 1042 Walnut			40,000			40,000
Interior Painting: 1042 Walnut			15,000			15,000
Tile Showers and ADA Men's Restroom		100,000				100,000
Furnishings Replacement			40,000			40,000
Technology and Equipment Replacement						-
Vesta/Meridian 911	15,000		45,000			60,000
Network Cabling	15,000					15,000
Security Cameras and Monitors	25,000					25,000
File Servers: Laserfiche and CAD/RMS	35,000	85,000				120,000
LiveScan Fingerprint System		40,000				40,000
VoicePrint Dispatch Phone Recorder			50,000			50,000
Public Safety System			150,000	1,000,000		1,150,000
Mobile Digital Computers			205,000			205,000
In-Car Video Cameras			150,000			150,000
PictureLink Photo Capture Station	15,000					15,000
Fleet Replacement Transfer	184,000	189,500	195,200	201,100	207,100	976,900
Total	**314,000**	**414,500**	**890,200**	**1,201,100**	**207,100**	**3,026,900**
Fire & Environmental Safety						
Fleet Replacement Transfer	125,000	128,800	132,700	136,700	140,800	664,000
Total	**125,000**	**128,800**	**132,700**	**136,700**	**140,800**	**664,000**
Total Public Safety	**439,000**	**543,300**	**1,022,900**	**1,337,800**	**347,900**	**3,690,900**

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

	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Transportation						
Streets - General						
General Maintenance Projects	20,000	20,600	21,200	21,800	22,500	106,100
Neighborhood Traffic Management	25,000	25,800	26,600	27,400	28,200	133,000
Street Name Sign Replacement	119,000	107,000				226,000
Sidewalk Maintenance	60,000	61,800	63,700	65,600	67,600	318,700
Bridge Maintenance	50,000	51,500	53,000	54,600	56,200	265,300
Downtown Street Pole Painting		150,000				150,000
Traffic Safety Management	35,000	35,000	35,000	35,000	35,000	175,000
Traffic Sign Replacement	15,000	15,000	15,000	15,000	15,000	75,000
Street Light Fused Disconnects	50,000	51,500	53,000	54,600	56,200	265,300
Streets - Pavement						
Reconstruction, Resurfacing and Resealing	2,373,000	2,444,200	2,517,500	2,593,000	2,670,800	12,598,500
Pedestrian and Bicycle Paths						
Downtown Pedestrian Improvements	35,000	36,100	37,200	38,300	39,400	186,000
Traffic Signals/Street Lights						
Controller/Other Replacements	25,000	25,800	26,600	27,400	28,200	133,000
Creek and Flood Protection						
WRF Silt Removal			20,000			20,000
Morrison Culvert Silt Removal	30,000			30,000		60,000
Prefumo Arm Silt Removal			106,900			106,900
Marsh Street Silt Removal			20,000			20,000
Tank Farm Bridge Silt Removal	31,000			31,000		62,000
Storm Sewer Replacements	1,300,000	1,339,000	1,379,200	1,420,600	1,463,200	6,902,000
Fleet Replacement Transfer	135,000	139,100	143,300	147,600	152,000	717,000
Total Transportation	**$4,303,000**	**$4,502,400**	**$4,518,200**	**$4,561,900**	**$4,634,300**	**$22,519,800**

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

	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Leisure, Cultural & Social Services						
Parks and Recreation						
Playground Equipment Replacements	15,500	130,000	52,000	394,500	38,100	630,100
Golf Course Maintenance	15,000	15,500	16,000	16,500	17,000	80,000
Golf Course Equipment	45,000	25,000	40,000	25,000	49,000	184,000
Laguna Lake Dredging	320,000	200,000	206,000	212,200	218,600	1,156,800
Tennis Court Resurfacing	25,000	25,800	26,600	27,400	28,200	133,000
Parks Asphalt Resurfacing/Sealing	45,000	46,400	47,800	49,200	50,700	239,100
Parks Turf Renovation	45,000		45,000		45,000	135,000
Tree Trimming	30,000	30,900	31,800	32,800	33,800	159,300
Trail Maintenance	42,400	43,700	45,000	46,400	47,800	225,300
Internet Registration/Reservation Software	20,000					20,000
Fleet Replacement Transfer	50,000	51,500	53,000	54,600	56,200	265,300
Total Leisure, Cultural & Social Services	**$652,900**	**$568,800**	**$563,200**	**$858,600**	**$584,400**	**$3,227,900**

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

	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Community Development						
Fleet Replacement Transfer	10,000	10,300	10,600	10,900	11,200	53,000
Equipment Replacement	15,000	15,500	16,000	16,500	17,000	80,000
Total Community Development	**$25,000**	**$25,800**	**$26,600**	**$27,400**	**$28,200**	**$133,000**
General Government						
Information Technology						
Technology Maintenance Projects	100,000	103,000	106,100	109,300	112,600	531,000
Office Application Software Replacement				250,000		
Financial Management System Replacement	150,000	800,000				950,000
Geographic Information Services						
Aerial Photo Revisions	65,000			65,000		130,000
Other GIS Improvements	25,000	25,800	26,600	27,400	28,200	133,000
Buildings						
Building Maintenance Projects	75,000	77,300	79,600	82,000	84,500	398,400
Total General Government	**$415,000**	**$1,006,100**	**$212,300**	**$533,700**	**$225,300**	**$2,142,400**

Historical Trends: Overview

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

POPULATION, HOUSING AND COST OF LIVING

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

OVERVIEW OF GENERAL FUND REVENUE SOURCES

Where They Come From and How They're Doing

- Actual Revenues for the Fiscal Year Ended June 30, 2004
- 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, 2004
- 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, 2004
- CIP Expenditure Trends, Last 15 Years - Actual and Adjusted for Cost of Living
- Debt Service Expenditures, Last 15 Years

Why Look at Past Trends?
Understanding where we've been helps us understand where we're headed.

MAJOR GENERAL FUND REVENUE SOURCES

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

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

SUPPLEMENTAL INFORMATION FOR SALES, PROPERTY AND TRANSIENT OCCUPANCY TAXES

OPERATING PROGRAM EXPENDITURES

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

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

Historical Trends: Population, Housing and Cost of Living

Population

Fiscal Year Ending	Amount	Percent Change
1989	41,027	
1990	41,772	1.8%
1991	42,020	0.6%
1992	42,249	0.5%
1993	42,922	1.6%
1994	43,397	1.1%
1995	43,917	1.2%
1996	41,404	-5.7%
1997	41,807	1.0%
1998	42,201	0.9%
1999	42,446	0.6%
2000	44,174	4.1%
2001	44,218	0.1%
2002	44,426	0.5%
2003	44,359	-0.2%
2004	44,176	-0.4%

State of California,
January 1 of Each Year

Annual Growth Rate

Last 2 Years	-0.3%
Last 5 Years	0.8%
Last 10 Years	0.2%
Last 15 Years	0.5%

Consumer Price Index: U.S.

Fiscal Year Ending	Index Amount	Percent Change
1989	121.1	
1990	127.4	5.2%
1991	134.6	5.7%
1992	138.1	2.6%
1993	142.6	3.3%
1994	146.2	2.5%
1995	150.3	2.8%
1996	154.4	2.7%
1997	159.1	3.0%
1998	161.6	1.6%
1999	164.3	1.7%
2000	168.7	2.7%
2001	175.1	3.8%
2002	177.1	1.1%
2003	181.7	2.6%
2004	185.2	1.9%

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

Annual Growth Rate

Last 2 Years	2.3%
Last 5 Years	2.4%
Last 10 Years	2.4%
Last 15 Years	2.9%

Consumer Price Index: So. California

Fiscal Year Ending	Index Amount	Percent Change
1989	124.6	
1990	132.1	6.0%
1991	140.0	6.0%
1992	144.3	3.1%
1993	149.2	3.4%
1994	152.2	2.0%
1995	154.3	1.4%
1996	155.7	0.9%
1997	159.1	2.2%
1998	161.0	1.2%
1999	164.1	1.9%
2000	167.9	2.3%
2001	174.2	3.8%
2002	178.9	2.7%
2003	185.2	3.5%
2004	188.5	1.8%

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

Annual Growth Rate

Last 2 Years	2.7%
Last 5 Years	2.8%
Last 10 Years	2.2%
Last 15 Years	2.8%

Compound Growth

Fiscal Year Ending	Percent Change
1989	
1990	7.1%
1991	6.3%
1992	3.2%
1993	4.9%
1994	3.7%
1995	4.0%
1996	-3.2%
1997	4.0%
1998	2.5%
1999	2.3%
2000	6.9%
2001	3.9%
2002	1.6%
2003	2.4%
2004	1.5%

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

Annual Growth Rate

Last 2 Years	2.0%
Last 5 Years	3.3%
Last 10 Years	2.6%
Last 15 Years	3.4%

Housing Units

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

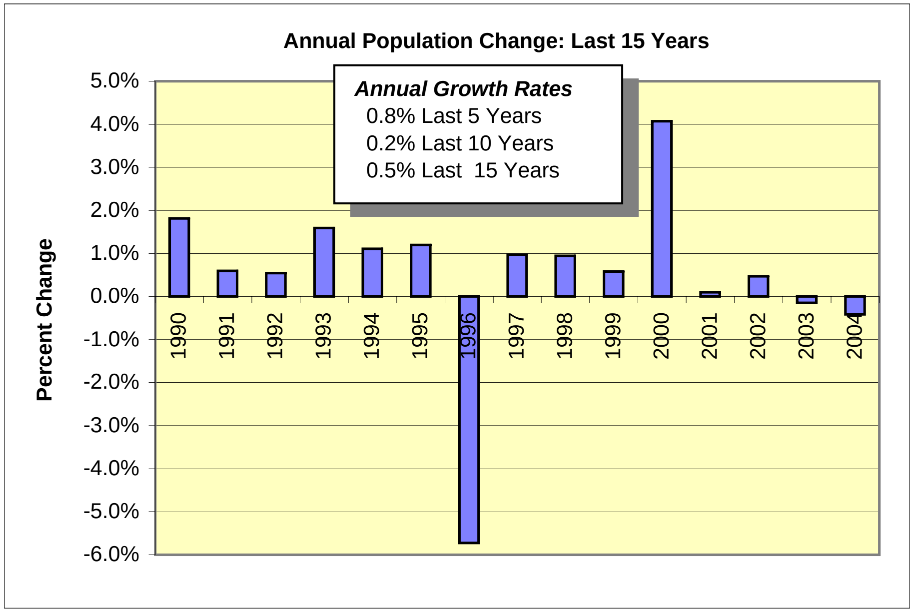
Fiscal Year Ending	Amount	Annual Change	Percent Change
1989	17,377	17,377	
1990	17,630	253	1.5%
1991	18,090	460	2.6%
1992	18,167	77	0.4%
1993	18,216	49	0.3%
1994	18,269	53	0.3%
1995	18,352	83	0.5%
1996	18,403	51	0.3%
1997	18,550	147	0.8%
1998	18,642	92	0.5%
1999	18,776	134	0.7%
2000	18,871	95	0.5%
2001	19,355	484	2.6%
2002	19,461	106	0.5%
2003	19,558	97	0.5%
2004	19,617	59	0.3%

Department of Community Development, January 1 of Each Year

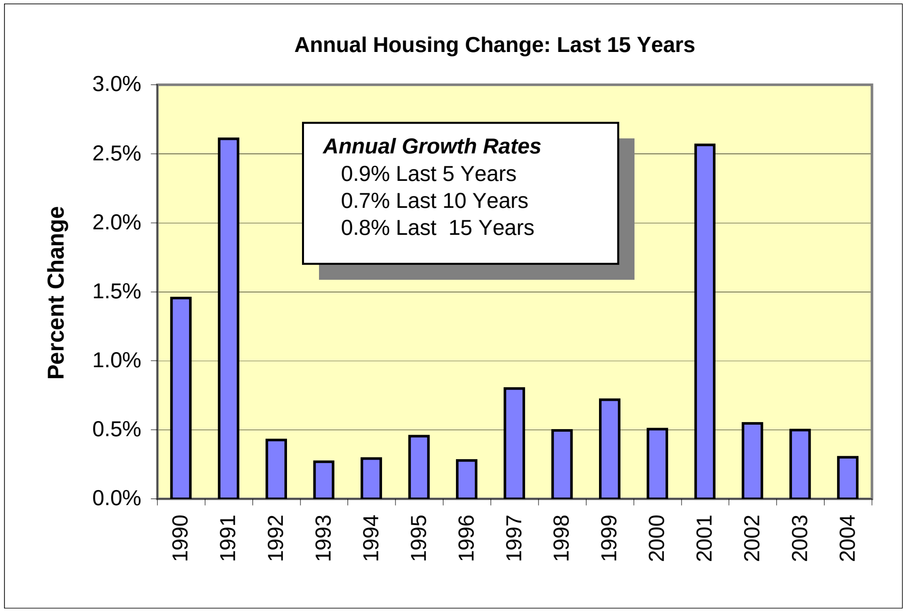
Annual Growth Rate

Last 2 Years	0.4%
Last 5 Years	0.9%
Last 10 Years	0.7%
Last 15 Years	0.8%

Graphics: Population, Housing and Cost of Living



1996 and 2000 most likely reflect reporting anomalies.



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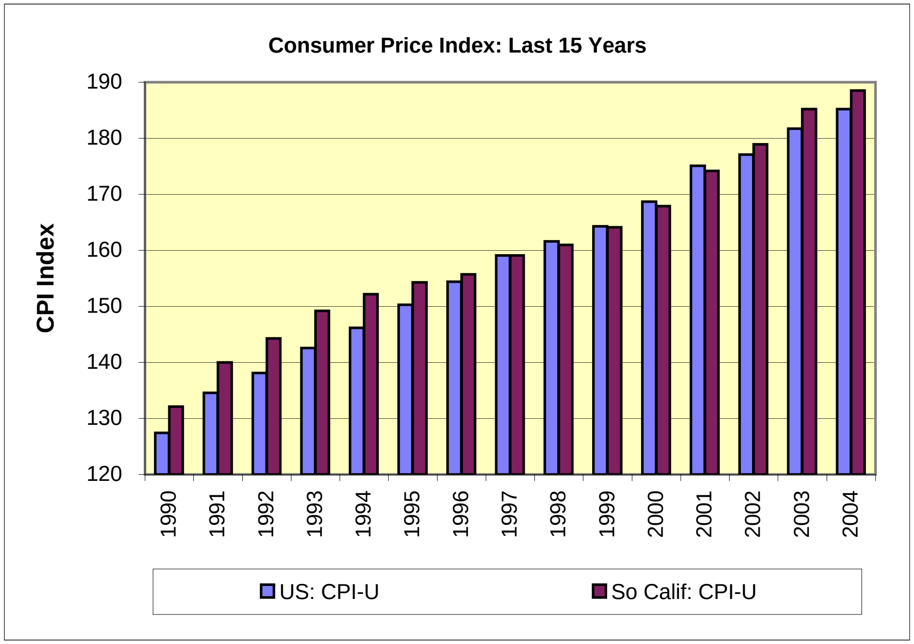
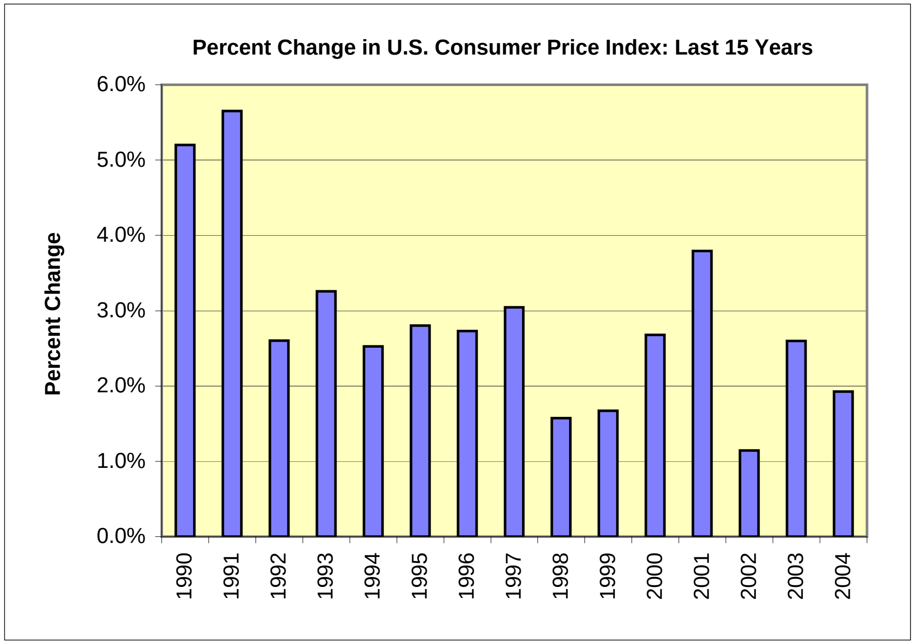




General Fund Revenues: Where They Come From and How They're Doing

General Fund Revenues and Other Source: Actual

Fiscal Year Ended June 30, 2004	Actual	Percent of Total
Major Sources		
Sales Tax	11,294,300	30%
Property Tax	6,069,600	16%
Transient Occupancy Tax	3,922,200	10%
Utility Users Tax	3,669,200	10%
Vehicle License Fees	2,013,300	5%
Business Tax	1,475,100	4%
Franchise Fees	1,967,800	5%
Gas Tax	874,100	2%
Total Major Sources	**$31,285,600**	**82%**
Service Charges		
Development Review Fees	2,120,900	6%
Recreation Fees	1,112,800	3%
Other Service Charges	982,100	3%
Use of Money & Property	93,100	0%
Other Subventions & Grants	1,146,200	3%
Fines & Forfeitures	279,800	1%
Other Sources	757,000	2%
Total Sources	**$37,777,500**	**100%**

Top 10 Revenues: 95% of Total

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

Major Sources: 15 Year Trends

Fiscal Year Ending	Amount	Percent Change
1989	15,785,300	
1990	16,839,200	6.7%
1991	17,377,300	3.2%
1992	18,195,000	4.7%
1993	18,718,800	2.9%
1994	18,522,500	-1.0%
1995	19,182,700	3.6%
1996	19,811,100	3.3%
1997	20,648,300	4.2%
1998	22,154,400	7.3%
1999	23,185,000	4.7%
2000	25,609,500	10.5%
2001	27,298,600	6.6%
2002	28,722,000	5.2%
2003	29,541,700	2.9%
2004	31,285,600	5.9%

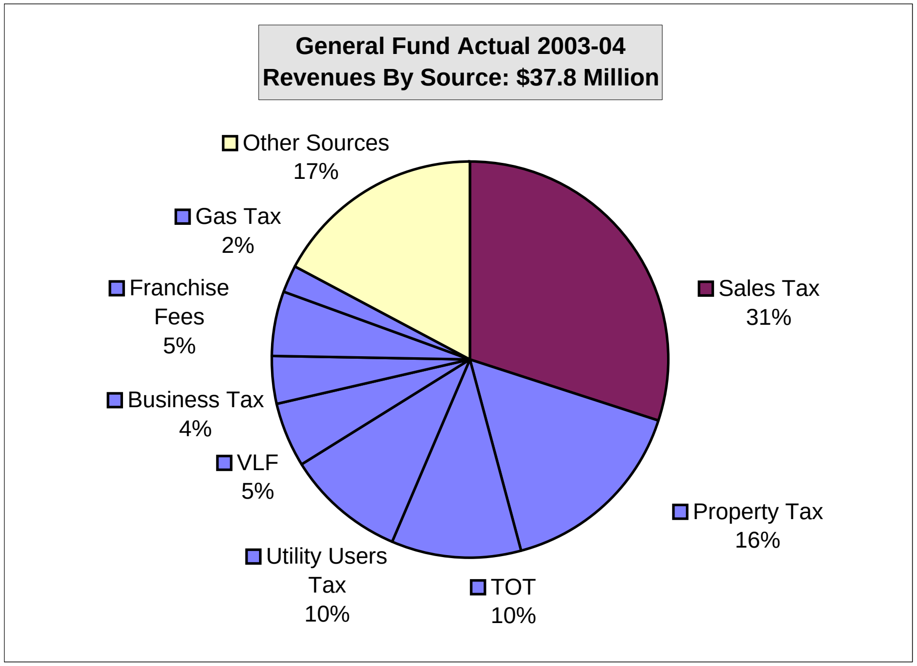
Major Sources : 15 Year Trends
Average Annual Growth Rate

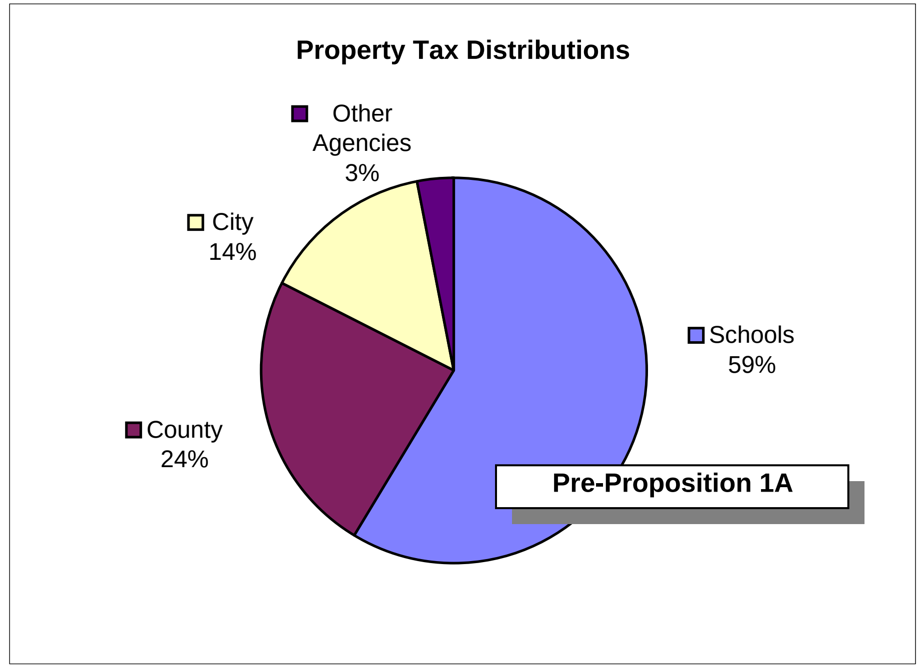
	Actual	Adjusted*
Last Year	5.9%	4.3%
Last 2 Years	4.4%	2.4%
Last 5 Years	6.2%	2.8%
Last 10 Years	5.4%	2.7%
Last 15 Years	4.7%	1.2%

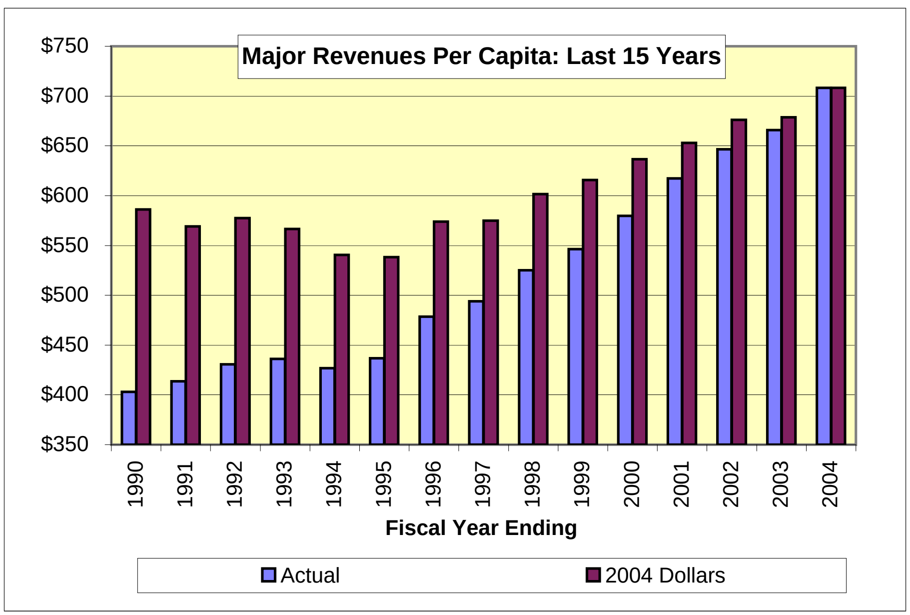
* *Adjusted for compound changes in population and cost of living (CPI) in order to reflect "true" growth in revenues.*

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

Graphics: General Fund Revenue







Major General Fund Revenues

Account for over 80% of General Fund Revenues

Sales Tax
Property Tax
Transient Occupancy Tax
Utility Users Tax
Vehicle License Fees
Business Tax
Franchise Fees
Gas Tax

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

General Fund Operating Expenditures: Actual

Fiscal Year Ended June 30, 2004	Actual	Percent of Total
Public Safety	17,254,000	52%
Transportation	1,854,200	6%
Leisure, Cultural & Social Services	4,896,400	15%
Community Development	4,420,600	13%
General Government	4,820,700	15%
TOTAL	**$33,245,900**	**100%**

General Fund Expenditures and Uses By Type: Actual

Fiscal Year Ended June 30, 2004	Actual	Percent of Total
Operating Programs (See Note)	33,245,900	85%
Debt Service	1,760,200	5%
Capital Improvement Plan (CIP)	3,427,700	9%
Equipment Replacement Transfers	433,700	1%
Transfers to Golf Fund	171,700	0%
TOTAL	**$39,039,200**	**100%**

Excludes encumbrances and carryovers totaling $1,126,500 in 2003-04.

General Fund Operating Expenditures
15 Year Trends

Fiscal Year Ending	Amount	Percent Change
1989	15,476,000	
1990	16,923,400	9.4%
1991	18,763,500	10.9%
1992	20,220,500	7.8%
1993	19,800,300	-2.1%
1994	19,170,000	-3.2%
1995	19,644,900	2.5%
1996	19,953,000	1.6%
1997	20,891,500	4.7%
1998	20,730,900	-0.8%
1999	22,497,000	8.5%
2000	23,747,500	5.6%
2001	25,324,200	6.6%
2002	28,158,700	11.2%
2003	30,404,800	8.0%
2004	33,245,900	9.3%

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

Average Annual Growth Rate

	Actual	Adjusted*
Last Year	9.3%	7.7%
Last 2 Years	8.7%	6.6%
Last 5 Years	8.1%	4.7%
Last 10 Years	5.7%	3.0%
Last 15 Years	5.3%	1.9%

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

General Fund CIP Expenditures: 15 Year Trends
Excluding Debt Financed Projects and Equipment Replacements

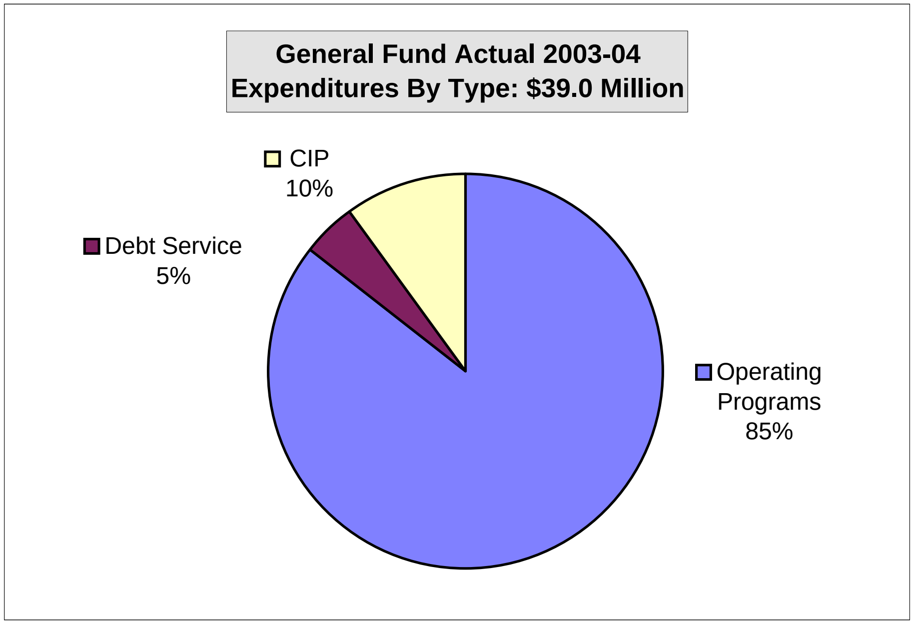
Fiscal Year Ending	Actual	Adjusted *
1989	1,446,800	2,212,600
1990	2,344,400	3,408,000
1991	2,496,700	3,435,300
1992	2,122,100	2,845,900
1993	182,300	236,800
1994	4,166,300	5,277,700
1995	2,354,900	2,901,700
1996	737,400	884,500
1997	2,928,700	3,409,100
1998	3,581,300	4,104,300
1999	4,734,300	5,336,500
2000	5,521,400	6,061,400
2001	6,131,200	6,484,900
2002	5,547,900	5,801,600
2003	2,846,500	2,901,300
2004	3,427,700	3,427,700

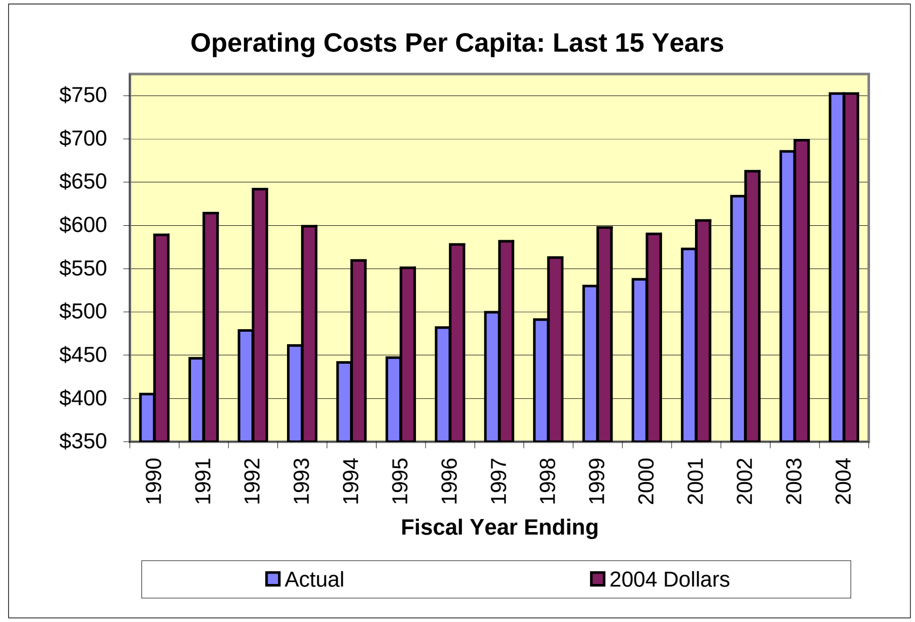
Average Annual General Fund CIP Expenditures

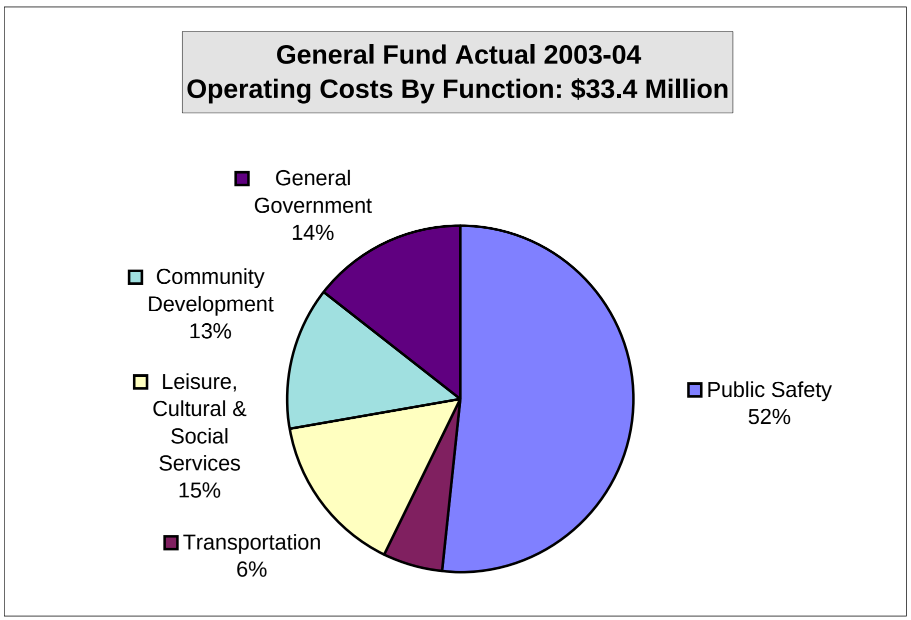
	Actual	Adjusted*
Last Year	3,427,700	3,427,700
Last 2 Years	3,137,100	3,164,500
Last 5 Years	4,694,900	4,935,400
Last 10 Years	3,781,100	4,131,300
Last 15 Years	3,274,900	3,767,800

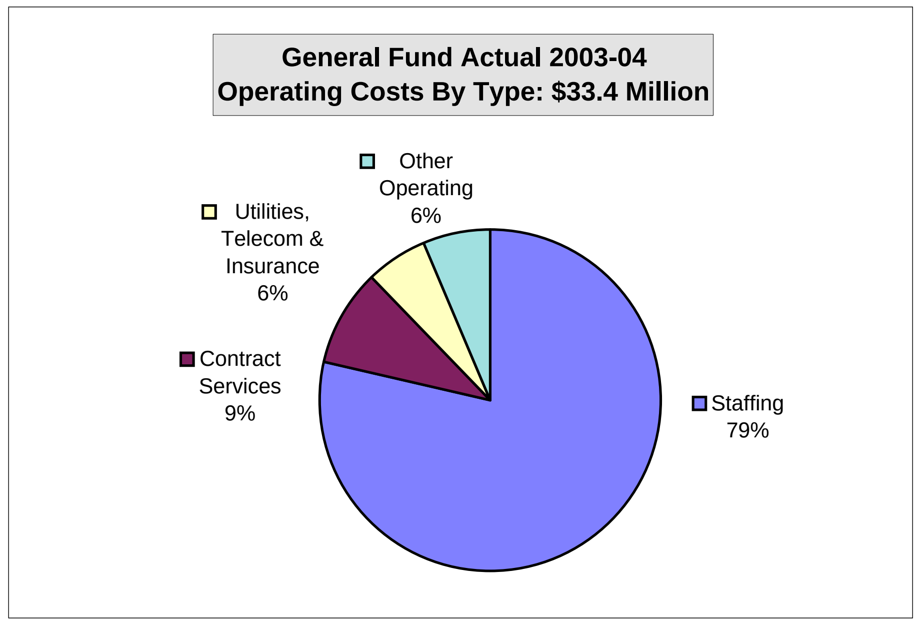
* *Adjusted for changes in cost of living (CPI) from 2004*

Graphics: General Fund Expenditures

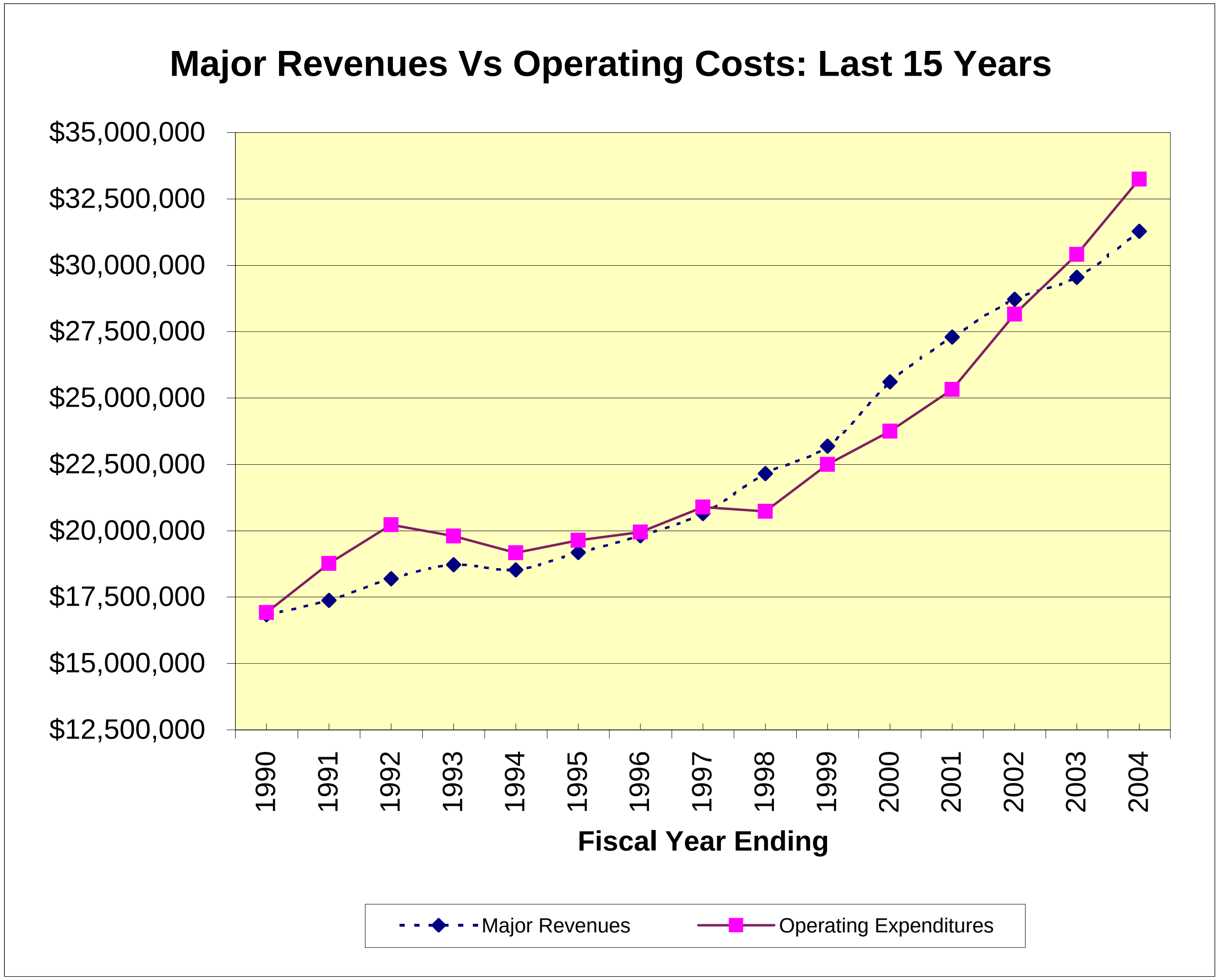








Graphics: Major Revenues Compared with Operating Expenditures: Last 15 Years



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

Debt Financed General Fund CIP Projects: Last 15 Years

Net Proceeds	Actual	Adjusted*
1990 Certificates of Participation	4,000,000	5,814,800
1996 Lease Revenue Bonds	6,400,000	7,676,700
1999 Lease Revenue Bonds	6,100,000	6,876,000
Annual Averages		
2 Year Annual Average	0	0
5 Year Annual Average	1,220,000	1,375,200
10 Year Annual Average	1,250,000	1,455,300
15 Year Annual Average	1,100,000	1,357,800

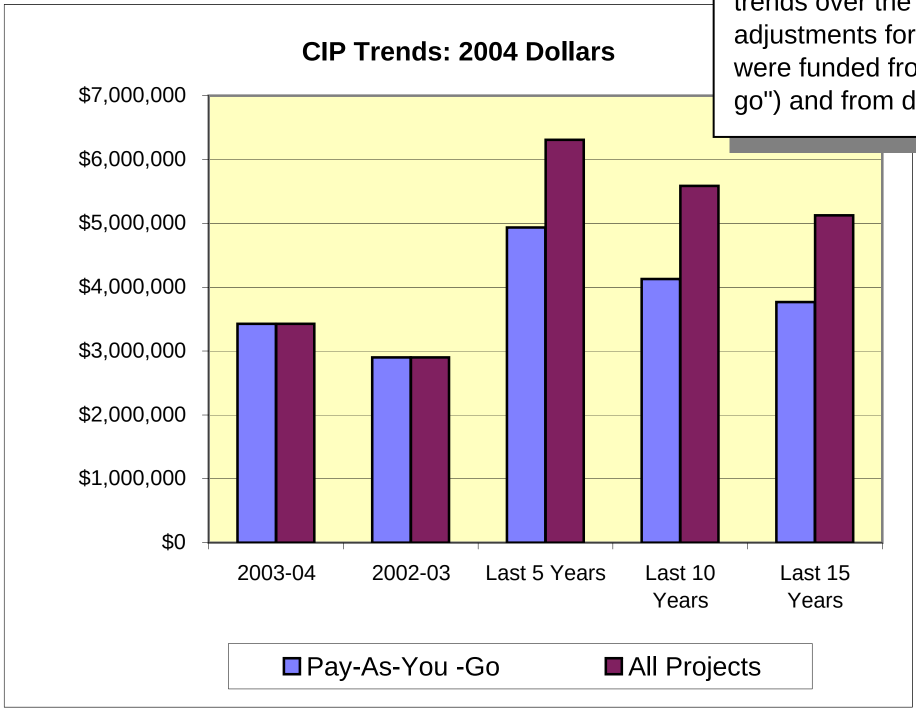
* *Adjusted for changes in cost of living (CPI) from 2004*

Average General Fund CIP Expenditures: Last 15 Years

Excluding Debt Financed Projects	**Actual**	**Adjusted***
Last 2 Years	3,137,100	3,164,500
Last 5 Years	4,694,900	4,935,400
Last 10 Years	3,781,100	4,131,300
Last 15 Years	3,274,900	3,767,800
Including Debt Financed Projects	**Actual**	**Adjusted***
Last 2 Years	3,137,100	3,164,500
Last 5 Years	5,914,900	6,310,600
Last 10 Years	5,031,100	5,586,600
Last 15 Years	4,374,900	5,125,600

Excluding Equipment Replacements

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

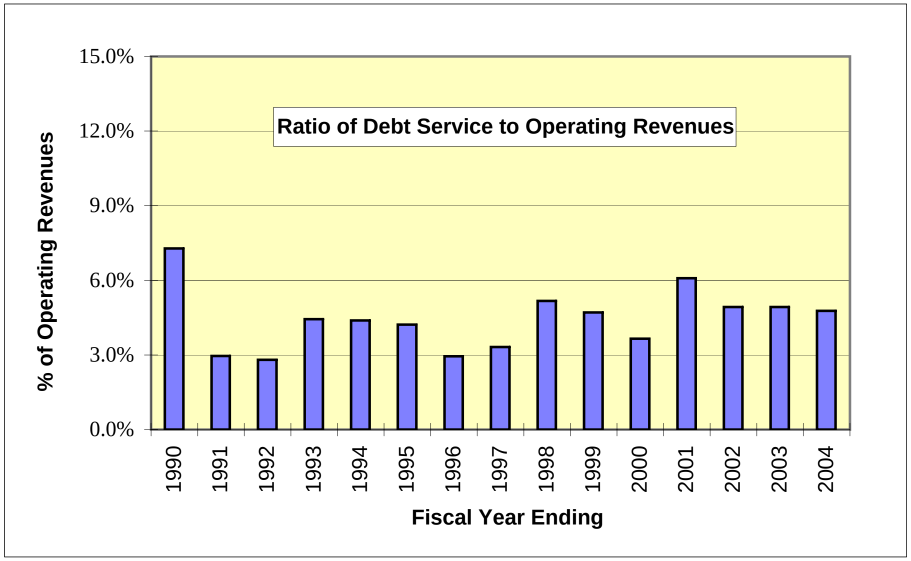


General Fund Expenditures: Where They Go and How They're Doing

General Fund Debt Service Obligations
Last 15 Fiscal Years

Fiscal Year Ending	Amount	Operating Revenues	Percent of Operating Revenues
1990	1,162,500	15,964,800	7.3%
1991	574,200	19,424,900	3.0%
1992	540,600	19,239,900	2.8%
1993	945,500	21,279,664	4.4%
1994	951,300	21,680,800	4.4%
1995	947,400	22,433,500	4.2%
1996	663,600	22,527,000	2.9%
1997	792,600	23,837,500	3.3%
1998	1,312,600	25,399,000	5.2%
1999	1,311,100	27,867,200	4.7%
2000	1,209,000	33,130,800	3.6%
2001	2,075,600	34,077,500	6.1%
2002	1,715,200	34,834,600	4.9%
2003	1,696,100	34,415,600	4.9%
2004	1,760,200	36,872,400	4.8%

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



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

Historical Trends: Major Revenue Sources

Sales Tax**

Fiscal Year Ending	Amount	Percent Change
1989	6,047,300	
1990	6,351,000	5.0%
1991	6,285,900	-1.0%
1992	5,850,900	-6.9%
1993	6,212,400	6.2%
1994	6,029,900	-2.9%
1995	6,422,400	6.5%
1996	6,589,500	2.6%
1997	6,869,000	4.2%
1998	7,521,100	9.5%
1999	8,099,000	7.7%
2000	9,283,400	14.6%
2001	9,516,400	2.5%
2002	10,099,200	6.1%
2003	10,179,300	0.8%
2004	11,294,300	11.0%

Property Tax**

Fiscal Year Ending	Amount	Percent Change
1989	3,363,700	
1990	3,714,800	10.4%
1991	4,128,900	11.1%
1992	4,314,800	4.5%
1993	4,016,100	-6.9%
1994	3,647,500	-9.2%
1995	3,714,700	1.8%
1996	3,821,900	2.9%
1997	3,873,500	1.4%
1998	3,966,300	2.4%
1999	4,169,300	5.1%
2000	4,501,300	8.0%
2001	4,799,800	6.6%
2002	5,219,000	8.7%
2003	5,584,200	7.0%
2004	6,069,600	8.7%

Transient Occupancy Tax (TOT)**

Fiscal Year Ending	Amount	Percent Change
1989	1,316,600	
1990	1,427,800	8.4%
1991	1,396,500	-2.2%
1992	1,940,400	38.9%
1993	2,276,700	17.3%
1994	2,337,100	2.7%
1995	2,462,000	5.3%
1996	2,641,500	7.3%
1997	2,845,300	7.7%
1998	3,002,900	5.5%
1999	3,256,800	8.5%
2000	3,582,700	10.0%
2001	3,920,200	9.4%
2002	3,790,300	-3.3%
2003	3,840,800	1.3%
2004	3,922,200	2.1%

Utility Users Tax

Fiscal Year Ending	Amount	Percent Change
1989	2,183,900	
1990	2,272,700	4.1%
1991	2,282,500	0.4%
1992	2,605,600	14.2%
1993	2,563,700	-1.6%
1994	2,698,100	5.2%
1995	2,745,600	1.8%
1996	2,725,400	-0.7%
1997	2,828,200	3.8%
1998	2,991,400	5.8%
1999	2,943,400	-1.6%
2000	3,079,100	4.6%
2001	3,425,200	11.2%
2002	3,532,300	3.1%
2003	3,666,200	3.8%
2004	3,669,200	0.1%

Annual Growth Rate (Sales Tax)

	Actual	Adjusted*
Last Year	11.0%	9.3%
Last 2 Years	5.9%	3.8%
Last 5 Years	7.0%	3.6%
Last 10 Years	6.6%	3.8%
Last 15 Years	4.4%	0.9%

Annual Growth Rate (Property Tax)

	Actual	Adjusted*
Last Year	8.7%	7.1%
Last 2 Years	7.8%	5.8%
Last 5 Years	7.8%	4.4%
Last 10 Years	5.3%	2.6%
Last 15 Years	4.2%	0.7%

Annual Growth Rate (TOT)

	Actual	Adjusted*
Last Year	2.1%	0.6%
Last 2 Years	1.7%	-0.2%
Last 5 Years	3.9%	0.6%
Last 10 Years	5.4%	2.7%
Last 15 Years	7.9%	4.4%

Annual Growth Rate (Utility Users Tax)

	Actual	Adjusted*
Last Year	0.1%	-1.4%
Last 2 Years	1.9%	0.0%
Last 5 Years	4.6%	1.3%
Last 10 Years	3.2%	0.6%
Last 15 Years	3.6%	0.2%

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

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

What Do These Charts Show?
The performance of each of our major revenue sources over the past 15 years, including comparisons with increases in population and inflation.

Historical Trends: Major Revenue Sources

Vehicle License Fees (VLF)

Fiscal Year Ending	Amount	Percent Change
1989	1,382,400	
1990	1,455,900	5.3%
1991	1,487,200	2.1%
1992	1,465,900	-1.4%
1993	1,551,600	5.8%
1994	1,559,700	0.5%
1995	1,526,600	-2.1%
1996	1,617,200	5.9%
1997	1,694,600	4.8%
1998	1,829,300	7.9%
1999	1,928,800	5.4%
2000	2,130,900	10.5%
2001	2,297,700	7.8%
2002	2,467,400	7.4%
2003	2,621,600	6.2%
2004	2,013,300	-23.2%

Annual Growth Rate **

	Actual	Adjusted*
Last Year	-23.2%	-24.3%
Last 2 Years	6.8%	4.7%
Last 5 Years	7.5%	4.1%
Last 10 Years	5.4%	2.8%
Last 15 Years	4.7%	1.3%

Business Tax

Fiscal Year Ending	Amount	Percent Change
1989	462,900	
1990	502,400	8.5%
1991	554,200	10.3%
1992	606,000	9.3%
1993	714,400	17.9%
1994	746,800	4.5%
1995	787,800	5.5%
1996	824,500	4.7%
1997	905,900	9.9%
1998	1,069,600	18.1%
1999	1,041,500	-2.6%
2000	1,107,800	6.4%
2001	1,275,200	15.1%
2002	1,355,900	6.3%
2003	1,429,900	5.5%
2004	1,475,100	3.2%

Annual Growth Rate

	Actual	Adjusted*
Last Year	3.2%	1.6%
Last 2 Years	4.3%	2.3%
Last 5 Years	7.3%	3.9%
Last 10 Years	7.2%	4.5%
Last 15 Years	8.2%	4.6%

Franchise Fees

Fiscal Year Ending	Amount	Percent Change
1989	510,300	
1990	548,900	7.6%
1991	569,200	3.7%
1992	663,500	16.6%
1993	700,300	5.5%
1994	714,200	2.0%
1995	728,600	2.0%
1996	831,900	14.2%
1997	841,000	1.1%
1998	889,900	5.8%
1999	883,900	-0.7%
2000	1,089,600	23.3%
2001	1,211,800	11.2%
2002	1,388,100	14.5%
2003	1,356,500	-2.3%
2004	1,967,800	45.1%

Annual Growth Rate

	Actual	Adjusted*
Last Year	45.1%	42.9%
Last 2 Years	21.4%	19.0%
Last 5 Years	18.4%	14.6%
Last 10 Years	11.4%	8.6%
Last 15 Years	10.0%	6.3%

Gas Tax

Fiscal Year Ending	Amount	Percent Change
1989	518,200	
1990	565,700	9.2%
1991	672,900	18.9%
1992	747,900	11.1%
1993	683,600	-8.6%
1994	789,200	15.4%
1995	795,000	0.7%
1996	759,200	-4.5%
1997	790,800	4.2%
1998	883,900	11.8%
1999	862,300	-2.4%
2000	834,700	-3.2%
2001	852,300	2.1%
2002	869,800	2.1%
2003	863,200	-0.8%
2004	874,100	1.3%

Annual Growth Rate

	Actual	Adjusted*
Last Year	1.3%	-0.2%
Last 2 Years	0.3%	-1.7%
Last 5 Years	0.3%	-2.9%
Last 10 Years	1.1%	-1.4%
Last 15 Years	3.8%	0.4%

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

** *Due to State takeaways, excludes 2003-04 in calculating annual changes.*

What Do These Charts Show?
The performance of each of our major revenue sources over the past 15 years, including comparisons with increases in population and inflation.

Supplemental Historical Trends: Sales, Property and Transient Occupancy Taxes

Sales Tax

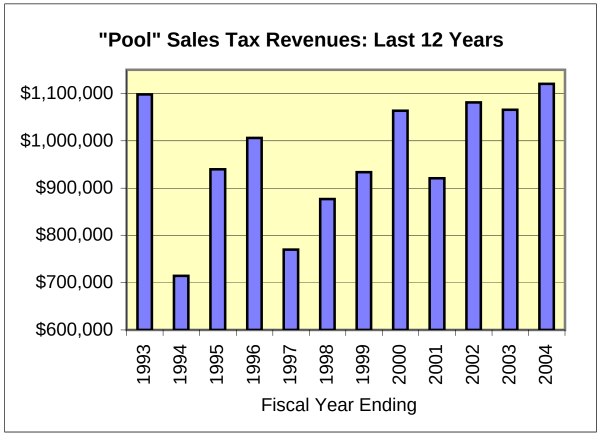
While sales taxes are usually generated on a "situs" basis (city or county unincorporated area where the sale takes place), there are a variety of retail transactions that are allocated on a "pool" basis because the State Board of Equalization believes that it would be too difficult to do otherwise. These are generally known as "use taxes." A significant portion of the City's sales tax revenues come from the "pool" - between 10% to 15%. Allocations from the pool are made in proportion to a city's or county's share of situs revenues; as such, we receive about 30% of County pool revenues. While used car sales between private parties is a large component of the pool for all cities in the State, we have a unique situation in San Luis Obispo due to the Diablo Canyon power plant: it is a large sales tax generator, and all of these revenues go into the County pool. These revenues are especially pronounced during reactor refueling, which occurs about every 14 to 16 months.

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

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

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

"Pool" Revenues	
1992-93	1,098,100
1993-94	714,500
1994-95	939,700
1995-96	1,005,900
1996-97	769,900
1997-98	876,600
1998-99	933,500
1999-00	1,063,500
2000-01	920,600
2001-02	1,080,900
2002-03	1,065,154
2003-04	1,120,174
12 Year Avg	**$965,711**



Property Tax

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

Transient Occupancy Tax (TOT)

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

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

Supplemental Historical Trends: Sales, Property and Transient Occupancy Taxes

Situs Retail Sales (in thousands)

Calendar Year	Amount	Percent Change
1987	481,979	
1988	511,261	6.1%
1989	533,554	4.4%
1990	541,450	1.5%
1991	516,279	-4.6%
1992	515,772	-0.1%
1993	516,852	0.2%
1994	543,789	5.2%
1995	550,603	1.3%
1996	593,809	7.8%
1997	643,816	8.4%
1998	695,615	8.0%
1999	775,276	11.5%
2000	873,912	12.7%
2001	896,127	2.5%
2002*	916,628	2.3%

Assessed Value (in millions)

Fiscal Year Ending	Amount	Percent Change
1989	1,609	
1990	1,792	11.4%
1991	2,001	11.7%
1992	2,165	8.2%
1993	2,242	3.6%
1994	2,299	2.5%
1995	2,397	4.3%
1996	2,482	3.5%
1997	2,523	1.7%
1998	2,608	3.4%
1999	2,721	4.3%
2000	2,914	7.1%
2001	3,140	7.8%
2002	3,409	8.6%
2003	3,682	8.0%
2004	4,028	9.4%

Taxable "Hotel Room" Sales

Fiscal Year Ending	Amount	Percent Change
1989	19,640,000	
1990	21,944,000	11.7%
1991	23,797,000	8.4%
1992	23,275,000	-2.2%
1993	24,191,700	3.9%
1994	24,598,900	1.7%
1995	23,667,400	-3.8%
1996	26,415,000	11.6%
1997	28,453,000	7.7%
1998	30,029,000	5.5%
1999	32,568,000	8.5%
2000	35,827,000	10.0%
2001	39,202,000	9.4%
2002	37,903,000	-3.3%
2003	38,408,000	1.3%
2004	39,222,000	2.1%

`

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

Annual Growth Rate

	Actual	Adjusted*
Last Year	2.3%	0.8%
Last 2 Years	2.4%	0.4%
Last 5 Years	7.4%	4.0%
Last 10 Years	6.0%	3.3%
Last 15 Years	4.5%	1.0%

Annual Growth Rate

	Actual	Adjusted*
Last Year	9.4%	7.8%
Last 2 Years	8.7%	6.6%
Last 5 Years	8.2%	4.7%
Last 10 Years	5.8%	3.1%
Last 15 Years	6.4%	2.8%

Annual Growth Rate

	Actual	Adjusted*
Last Year	2.1%	0.6%
Last 2 Years	1.7%	-0.2%
Last 5 Years	3.9%	0.6%
Last 10 Years	4.9%	2.2%
Last 15 Years	4.8%	1.4%

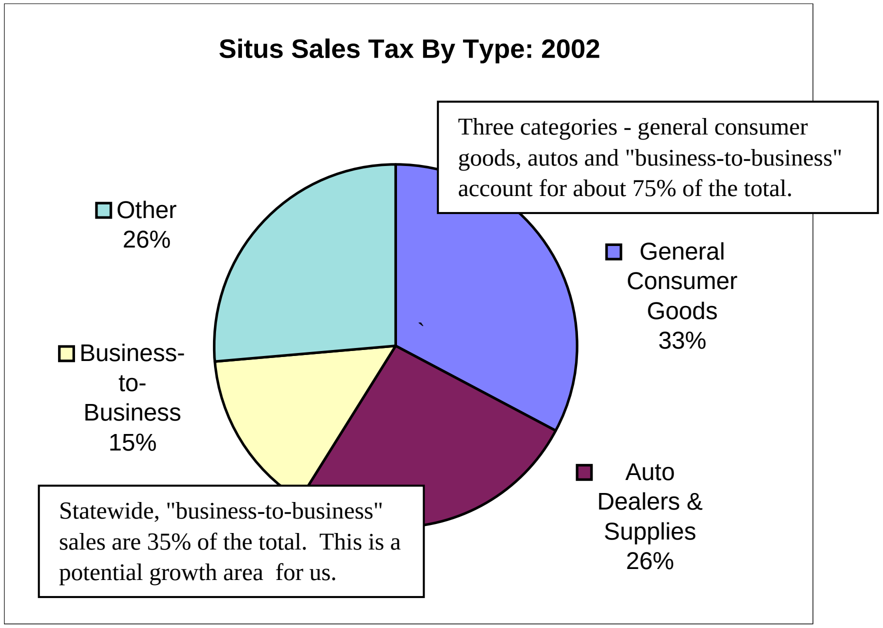
* *Most recent year that actual results are available from the State Board of Equalization.*

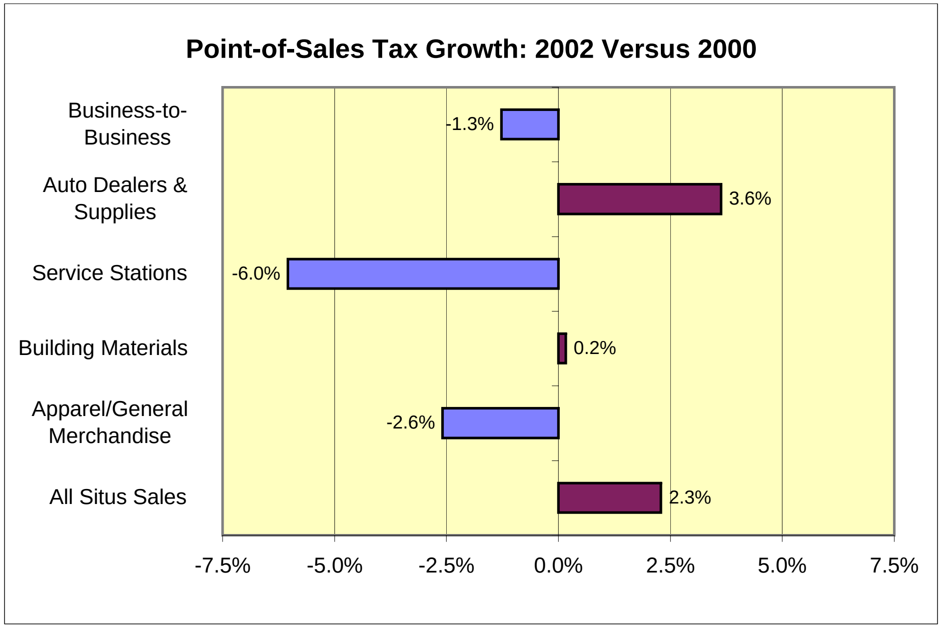
Sales Tax Revenues: Diverse

As reflected by the following, recent sales growth has been driven by automobile, building materials, service stations and "business-to-business" sales. Growth in general consumer goods such as apparel and general merchandise, which we traditionally think of as "retail sales," has been sluggish.

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

	Calendar Year					2002	
In Thousands	**1998**	**1998**	**2000**	**2001**	**2002**	**% of Total**	**% Change**
Apparel Stores	29,538	28,259	28,579	27,980	28,353	3%	1.3%
General Merchandise Stores	82,532	86,901	89,439	92,943	89,437	10%	-3.8%
Home Furnishings and Appliances	21,195	23,299	32,733	38,244	40,320	4%	5.4%
Other Retail Stores	109,050	132,768	134,628	128,757	143,054	16%	11.1%
Total General Consumer Goods	***242,315***	***271,227***	***285,379***	***287,924***	***301,164***	***33%***	***4.6%***
Food and Drug Stores	37,037	39,643	40,082	41,648	41,725	5%	0.2%
Eating and Drinking Places	75,312	81,985	86,949	93,548	97,084	11%	3.8%
Building Material and Farm Implements	36,467	44,549	58,643	55,664	55,756	6%	0.2%
Auto Dealers and Supplies	140,265	152,969	189,569	230,098	238,449	26%	3.6%
Service Stations	36,289	43,296	49,397	50,532	47,479	5%	-6.0%
Total Retail Stores	***567,685***	***633,669***	***710,019***	***759,414***	***781,657***	***85%***	***2.9%***
All Other Outlets (Mostly "Business to Business") 8	***127,930***	***141,607***	***163,893***	***136,713***	***134,971***	***15%***	***-1.3%***
TOTAL	**$695,615**	**$775,276**	**$873,912**	**$896,127**	**$916,628**	**100%**	**2.3%**





Point-of-Sale Revenues: Most Recent Two Quarters

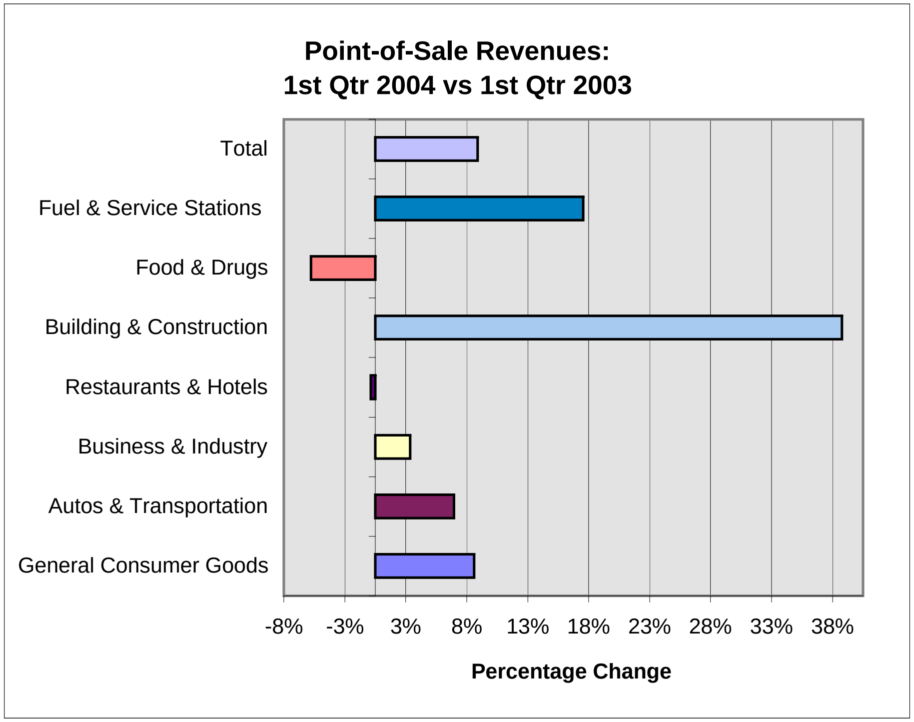
First Quarter of 2004 Compared with 2003

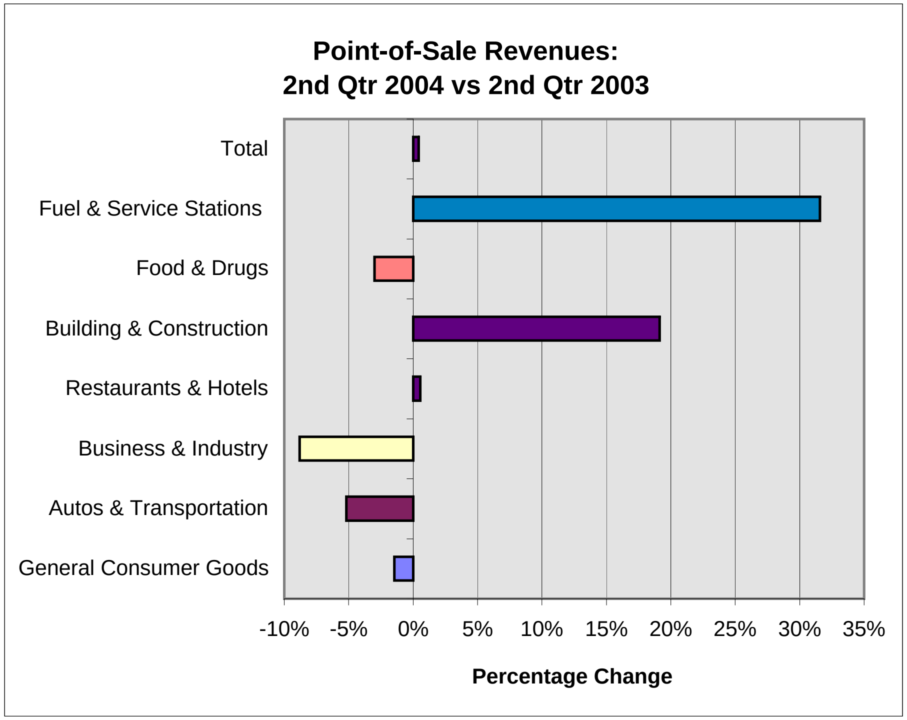
Point-of-Sale Receipts	1st Qtr 04	1st Qtr 03	% Change
General Consumer Goods	666,428	616,433	8.1%
Autos & Transportation	709,340	666,329	6.5%
Business & Industry	196,970	191,472	2.9%
Restaurants & Hotels	243,393	244,303	-0.4%
Building & Construction	260,753	188,588	38.3%
Food & Drugs	160,324	169,238	-5.3%
Fuel & Service Stations	178,124	152,162	17.1%
Total	**$2,415,332**	**$2,228,525**	**8.4%**

Second Quarter of 2004 Compared with 2003

Point-of-Sale Receipts	2nd Qtr 04	2nd Qtr 03	% Change
General Consumer Goods	667,874	677,783	-1.5%
Autos & Transportation	718,166	757,499	-5.2%
Business & Industry	172,828	189,523	-8.8%
Restaurants & Hotels	274,308	272,804	0.6%
Building & Construction	179,304	150,511	19.1%
Food & Drugs	173,743	179,125	-3.0%
Fuel & Service Stations	213,177	162,035	31.6%
Total	**$2,399,400**	**$2,389,280**	**0.4%**

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



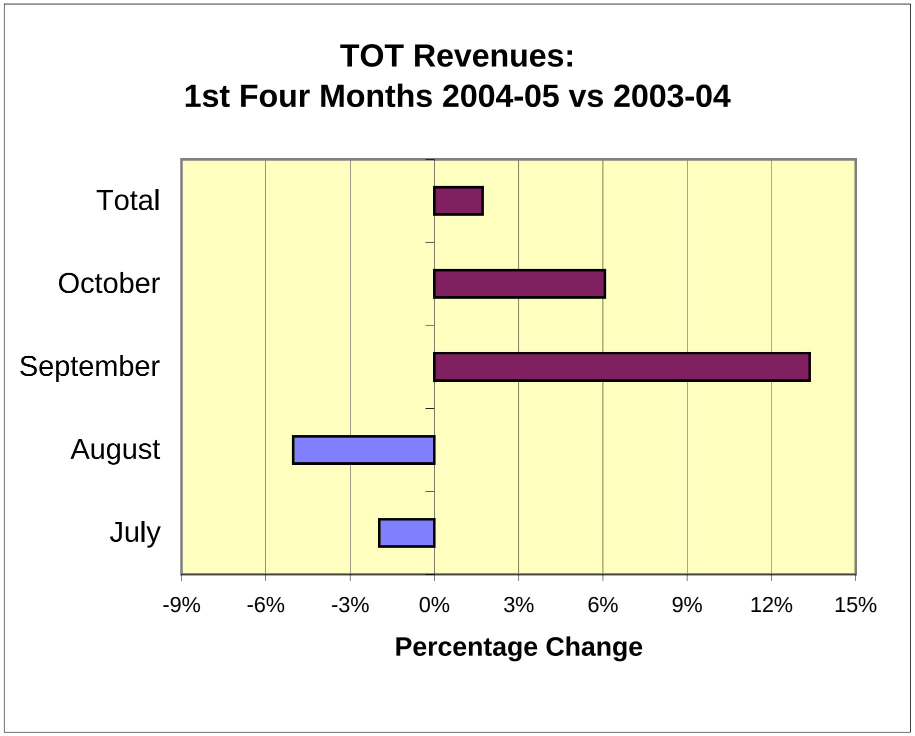


What Do These Charts Show? For the most recent quarters, point-of-sale revenues have varied widely, with gains led by fuel sales and Home Depot, and mixed results in general consumer goods and auto sales.

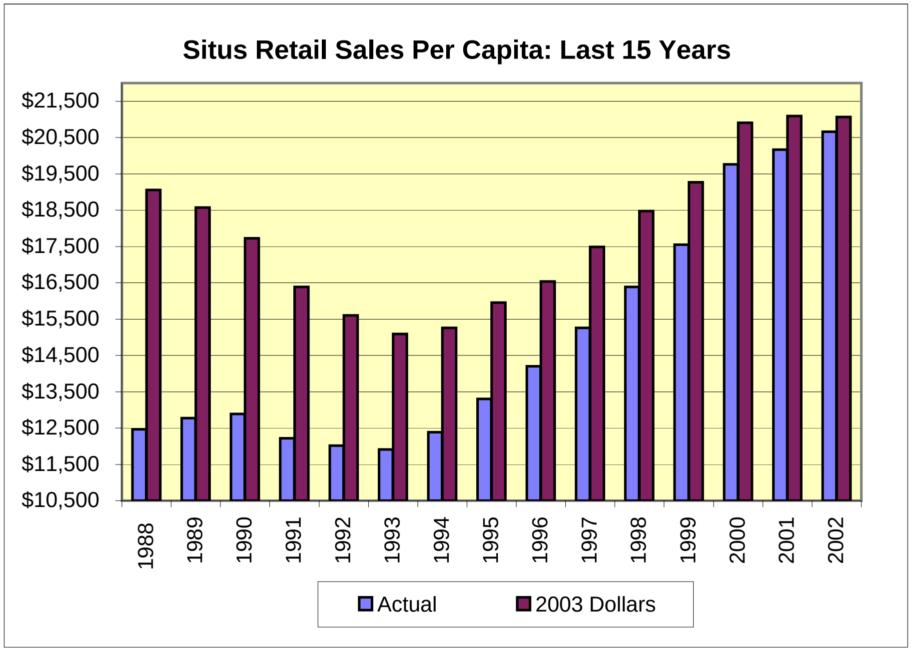
TOT Revenues: First Four Months of 2004-05

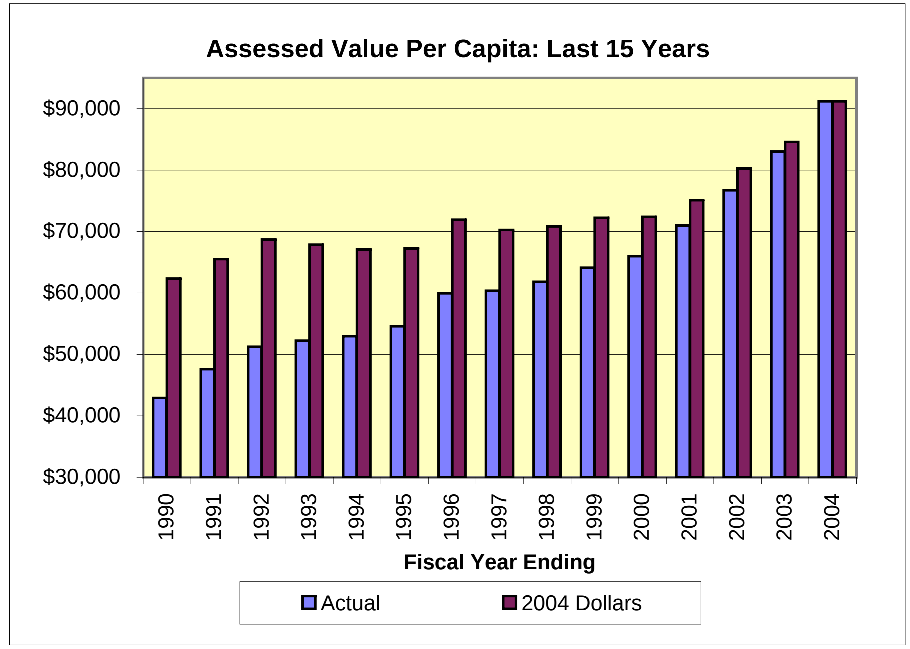
2004-05 Compared with 2003-04

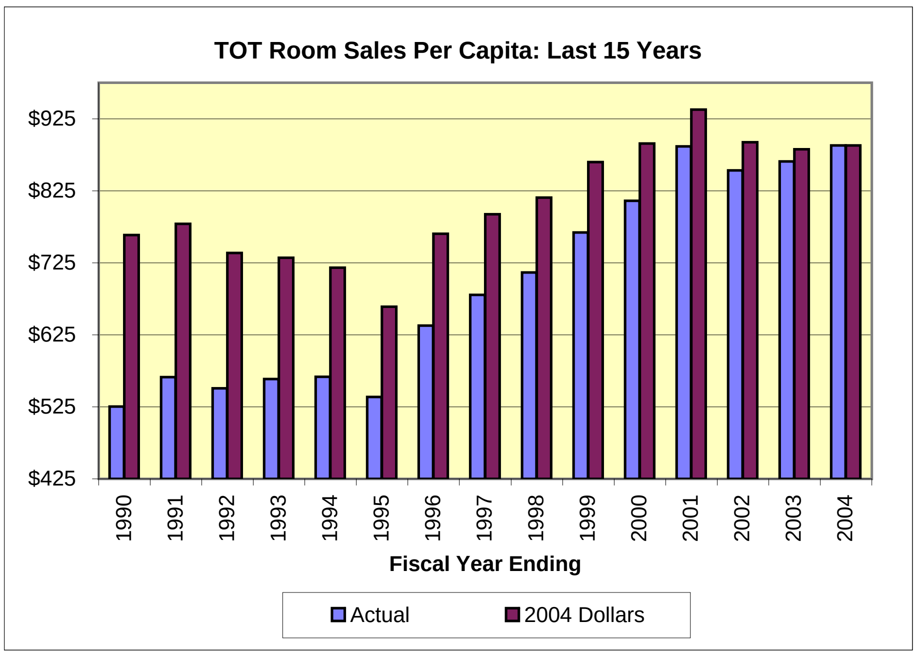
Point-of-Sale Receipts	YTD: 2004	YTD: 2003	% Change
July	442,945	451,822	-2.0%
August	461,982	486,415	-5.0%
September	346,999	306,109	13.4%
October	336,055	316,821	6.1%
Total	**$1,587,981**	**$1,561,167**	**1.7%**

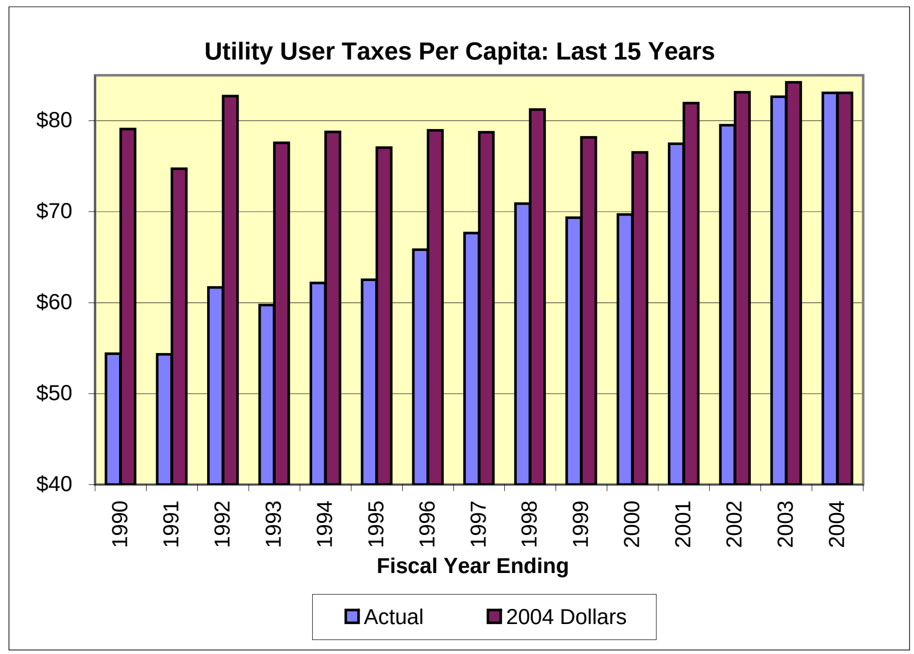


Graphics: Top Five General Fund Revenues: Last 15 Years

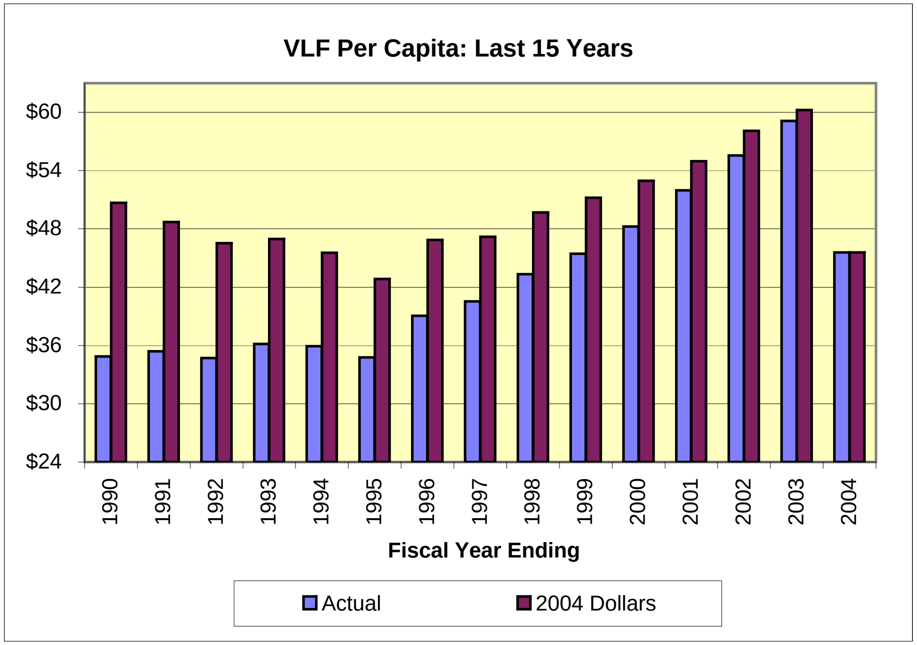








Graphics: Top Five General Fund Revenues: Last 15 Years



Development Review Fees: Last Five Years

Planning Fees

Fiscal Year Ending	Revenue
2000	329,400
2001	340,000
2002	456,800
2003	480,700
2004	669,600
Five Year Average	**$455,300**

Building

Fiscal Year Ending	Revenue
2000	919,400
2001	1,032,800
2002	1,512,000
2003	1,410,900
2004	1,048,300
Five Year Average	**$1,184,700**

Engineering

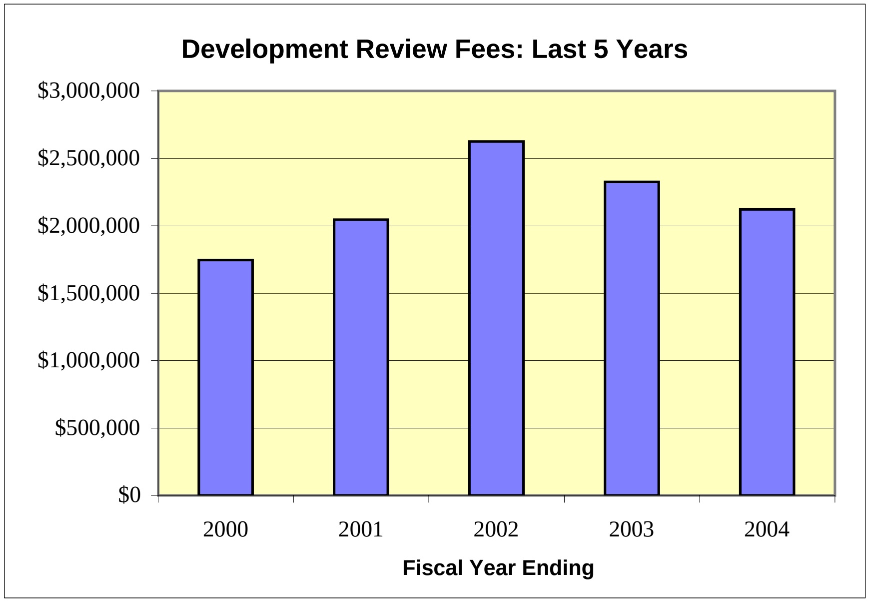
Fiscal Year Ending	Revenue
2000	374,400
2001	533,300
2002	393,100
2003	255,300
2004	272,200
Five Year Average	**$365,700**

Fire

Fiscal Year Ending	Revenue
2000	122,100
2001	138,700
2002	263,500
2003	178,400
2004	130,800
Five Year Average	**$166,700**

Total

Fiscal Year Ending	Revenue
2000	1,745,300
2001	2,044,800
2002	2,625,400
2003	2,325,300
2004	2,120,900
Five Year Average	**$2,172,300**



Historical Trends: Operating Program Expenditures

Public Safety: Police

Fiscal Year Ending	Amount	Percent Change
1989	3,972,800	
1990	4,438,100	11.7%
1991	4,776,000	7.6%
1992	5,456,600	14.3%
1993	5,615,000	2.9%
1994	5,686,500	1.3%
1995	5,863,100	3.1%
1996	5,937,700	1.3%
1997	6,114,700	3.0%
1998	6,086,900	-0.5%
1999	6,417,400	5.4%
2000	6,901,900	7.5%
2001	7,340,700	6.4%
2002	7,990,700	8.9%
2003	8,822,800	10.4%
2004	9,758,100	10.6%

Annual Growth Rate

	Actual	Adjusted*
Last Year	10.6%	9.0%
Last 2 Years	10.5%	8.4%
Last 5 Years	8.8%	5.3%
Last 10 Years	5.6%	2.9%
Last 15 Years	6.3%	2.8%

Public Safety: Fire

Fiscal Year Ending	Amount	Percent Change
1989	3,139,200	
1990	3,584,100	14.2%
1991	3,849,500	7.4%
1992	3,885,500	0.9%
1993	3,989,900	2.7%
1994	4,106,100	2.9%
1995	4,061,000	-1.1%
1996	4,336,100	6.8%
1997	4,431,800	2.2%
1998	4,302,300	-2.9%
1999	4,729,000	9.9%
2000	4,581,900	-3.1%
2001	4,841,200	5.7%
2002	5,906,500	22.0%
2003	6,505,200	10.1%
2004	7,495,900	15.2%

Annual Growth Rate

	Actual	Adjusted*
Last Year	15.2%	13.5%
Last 2 Years	12.7%	10.5%
Last 5 Years	10.0%	6.5%
Last 10 Years	6.5%	3.8%
Last 15 Years	6.2%	2.7%

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

Public Utilities/Disaster Response

Fiscal Year Ending	Amount	Percent Change
1989	0	*na*
1990	0	*na*
1991	15,600	*na*
1992	58,000	*na*
1993	67,800	*na*
1994	105,300	*na*
1995	366,600	*na*
1996	0	*na*
1997	0	*na*
1998	0	*na*
1999	0	*na*
2000	0	*na*
2001	0	*na*
2002	0	*na*
2003	0	*na*
2004	0	*na*

Annual Growth Rate

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

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

Transportation **

Fiscal Year Ending	Amount	Percent Change
1989	1,188,200	
1990	1,203,400	1.3%
1991	1,414,800	17.6%
1992	1,401,000	-1.0%
1993	1,432,500	2.2%
1994	1,369,200	-4.4%
1995	1,386,900	1.3%
1996	1,462,900	5.5%
1997	1,565,300	7.0%
1998	1,401,200	-10.5%
1999	1,497,700	6.9%
2000	1,501,100	0.2%
2001	1,659,700	10.6%
2002	1,954,100	17.7%
2003	2,015,900	3.2%
2004	1,854,200	-8.0%

Annual Growth Rate

	Actual	Adjusted*
Last Year	-8.0%	-9.4%
Last 2 Years	-2.4%	-4.3%
Last 5 Years	4.7%	1.4%
Last 10 Years	3.4%	0.8%
Last 15 Years	3.3%	-0.1%

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

What Do These Charts Show?
The performance of each of operating cost areas over the past 15 years, including comparisons with increases in population and inflation.

Historical Trends: Operating Program Expenditures

Leisure, Cultural & Social Services

Fiscal Year Ending	Amount	Percent Change
1989	2,616,800	
1990	2,758,900	5.4%
1991	3,291,200	19.3%
1992	3,328,000	1.1%
1993	3,137,400	-5.7%
1994	2,936,700	-6.4%
1995	2,848,800	-3.0%
1996	3,099,800	8.8%
1997	3,223,700	4.0%
1998	3,177,500	-1.4%
1999	3,308,200	4.1%
2000	3,822,100	15.5%
2001	4,113,300	7.6%
2002	4,540,000	10.4%
2003	4,753,800	4.7%
2004	4,896,400	3.0%

Community Development

Fiscal Year Ending	Amount	Percent Change
1989	1,956,000	
1990	2,206,600	12.8%
1991	2,441,300	10.6%
1992	2,879,900	18.0%
1993	2,640,000	-8.3%
1994	2,452,000	-7.1%
1995	2,355,400	-3.9%
1996	2,323,300	-1.4%
1997	2,522,500	8.6%
1998	2,762,800	9.5%
1999	3,162,600	14.5%
2000	3,102,100	-1.9%
2001	3,501,200	12.9%
2002	3,852,000	10.0%
2003	3,925,000	1.9%
2004	4,420,600	12.6%

General Government

Fiscal Year Ending	Amount	Percent Change
1989	2,603,000	
1990	2,732,300	5.0%
1991	2,975,100	8.9%
1992	3,211,500	7.9%
1993	2,917,700	5.7%
1994	2,514,200	-13.8%
1995	2,763,100	9.9%
1996	2,793,200	1.1%
1997	3,033,500	5.7%
1998	3,000,200	-1.1%
1999	3,382,100	12.7%
2000	3,838,400	13.5%
2001	3,868,100	0.8%
2002	3,915,400	1.2%
2003	4,382,100	11.9%
2004	4,820,700	10.0%

Total

Fiscal Year Ending	Amount	Percent Change
1989	15,476,000	
1990	16,923,400	9.4%
1991	18,763,500	10.9%
1992	20,220,500	7.8%
1993	19,800,300	-2.1%
1994	19,170,000	-3.2%
1995	19,644,900	2.5%
1996	19,953,000	1.6%
1997	20,891,500	4.7%
1998	20,730,900	-0.8%
1999	22,497,000	8.5%
2000	23,747,500	5.6%
2001	25,324,200	6.6%
2002	28,158,700	11.2%
2003	30,404,800	8.0%
2004	33,245,900	9.3%

Annual Growth Rate (Leisure, Cultural & Social Services)

	Actual	Adjusted*
Last Year	3.0%	1.5%
Last 2 Years	3.9%	1.8%
Last 5 Years	8.2%	4.8%
Last 10 Years	5.4%	2.7%
Last 15 Years	4.5%	1.1%

Annual Growth Rate (Community Development)

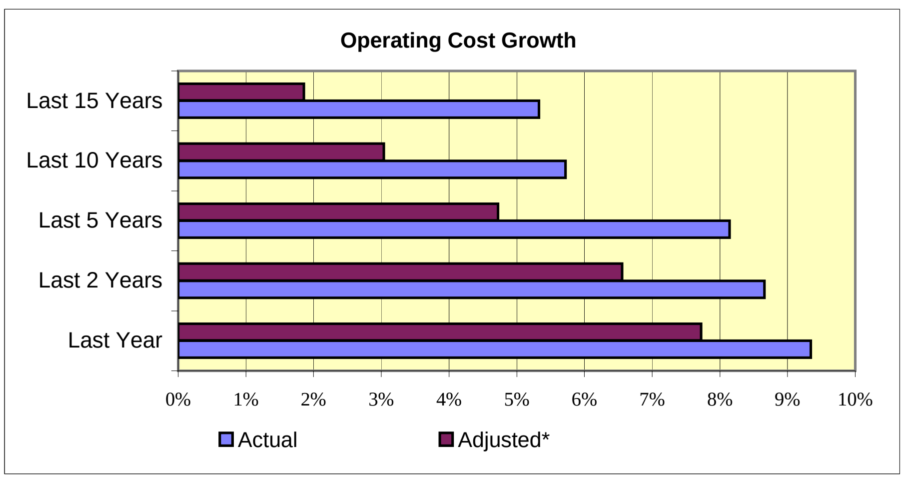
	Actual	Adjusted*
Last Year	12.6%	11.0%
Last 2 Years	7.3%	5.2%
Last 5 Years	7.1%	3.7%
Last 10 Years	6.3%	3.6%
Last 15 Years	5.9%	2.4%

Annual Growth Rate (General Government)

	Actual	Adjusted*
Last Year	10.0%	8.4%
Last 2 Years	11.0%	8.8%
Last 5 Years	7.5%	4.1%
Last 10 Years	6.6%	3.9%
Last 15 Years	5.3%	1.8%

Annual Growth Rate (Total)

	Actual	Adjusted*
Last Year	9.3%	7.7%
Last 2 Years	8.7%	6.6%
Last 5 Years	8.1%	4.7%
Last 10 Years	5.7%	3.0%
Last 15 Years	5.3%	1.9%



* *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 operating costs have never grown by less than compound increases in population and inflation.