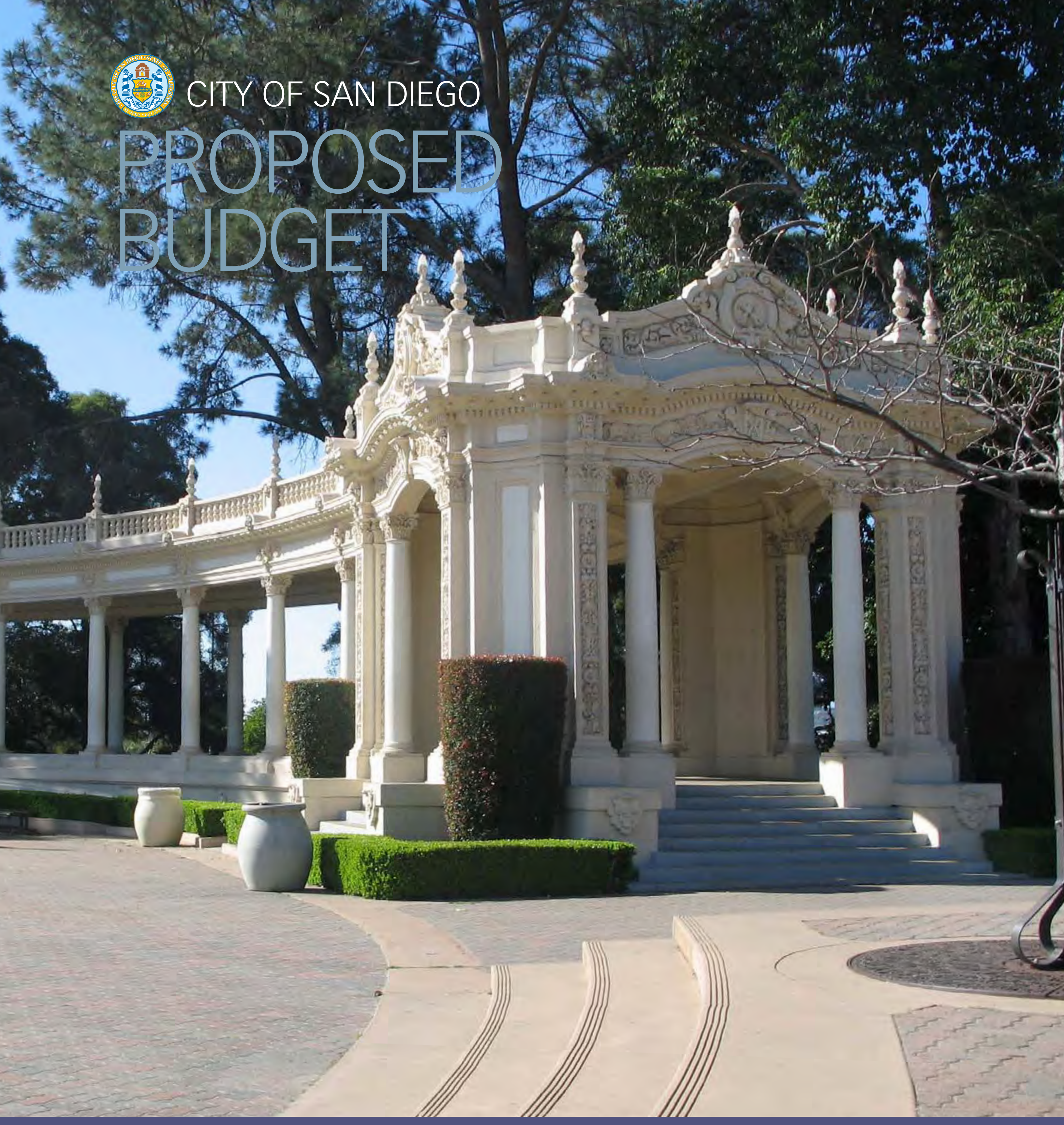


CITY OF SAN DIEGO

PROPOSED BUDGET

FY: 2016

General Fund Revenues

General Fund Revenues

The Fiscal Year 2016 General Fund revenue budget is $1.27 billion, which represents an increase of $86.1 million or 7.2 percent from the Fiscal Year 2015 Adopted Budget. The General Fund Revenues section provides a detailed description of the revenue categories listed to the right on this page, including background information describing growth trends, economic factors, and methods of allocation affecting each revenue source. This information provides insight into the formulation of the Fiscal Year 2016 Proposed Budget for the General Fund revenues which pay for essential City services including police, fire, refuse collection, library services, and park and recreation programs. Volume II details the budgeted revenues that are generated by departments. Each revenue source generated by individual General Fund departments also falls under one of the revenue categories listed to the right on this page and is discussed in this section of the budget document.

Table 1: Fiscal Year 2016 General Fund Revenue Change illustrates the components of the projected $86.1 million or 7.2 percent increase in General Fund revenues from the Fiscal Year 2015 Adopted Budget.

Table 1: Fiscal Year 2016 General Fund Revenue Change

	Percent Change from FY 2015 Adopted Budget	Change (in millions)
Major Revenues	7.8%	$ 67.3
Other Revenue Sources	5.8%	18.7
Total	**7.2%**	**$ 86.1**

Table 2: Fiscal Year 2016 General Fund Revenues displays each of the revenue categories in the General Fund and includes Fiscal Year 2014 actual amounts, as well the Fiscal Year 2015 Adopted Budget. The four major General Fund revenue sources: property tax, sales tax, transient occupancy tax (TOT), and franchise fees account for 73.3 percent of the City's General Fund revenue in the Fiscal Year 2016 Proposed Budget and are projected to increase by $67.3 million from the Fiscal Year 2015 Adopted Budget. More than 50.0 percent of the increase in the four major General Fund Revenues sources is being directed toward funding street and neighborhood infrastructure repairs throughout San Diego communities.

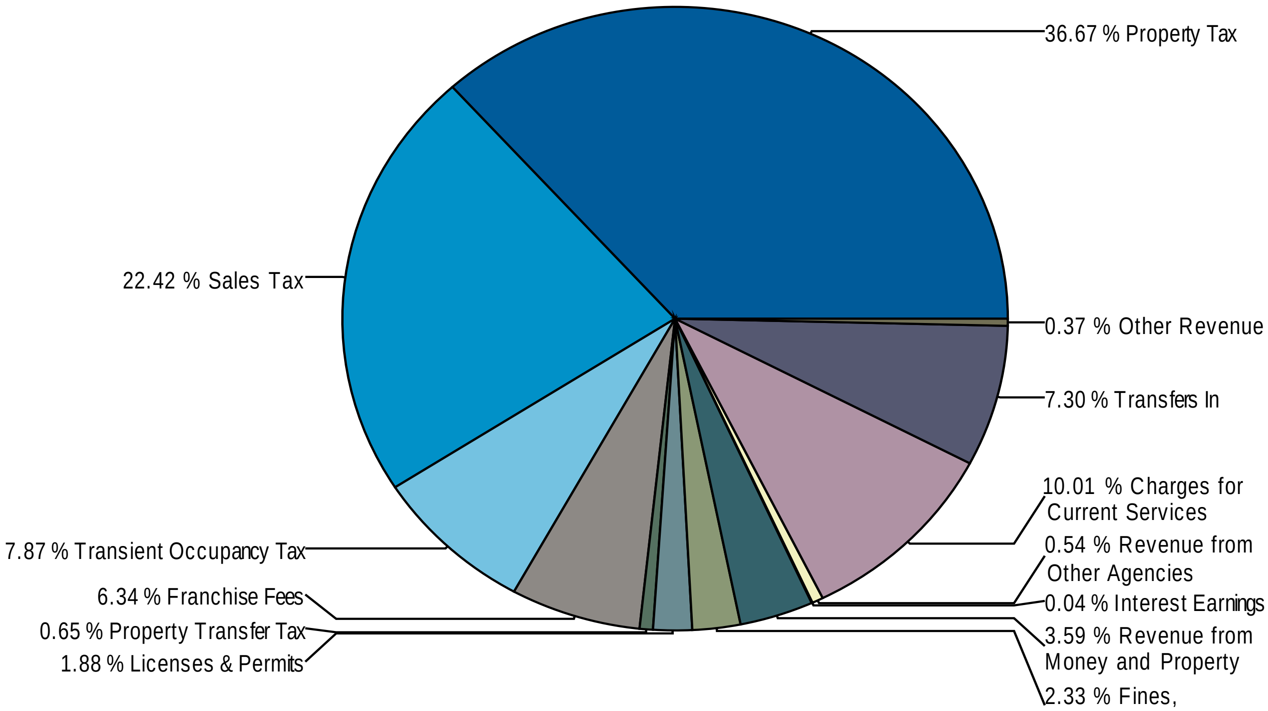
General Fund Revenues

Table 2: Fiscal Year 2016 General Fund Revenues - $1.27 Billion (in millions)

Revenue Category	FY 2014 Actual	FY 2015 Adopted Budget	FY 2016 Proposed Budget	FY 2015 - FY 2016 Change	Percent Change	% of Total General Fund Revenue
Property Tax	$ 460.6	$ 445.4	$ 467.4	$ 22.0	4.9%	36.7%
Sales Tax	245.9	257.1	285.8	28.7	11.1%	22.4%
Transient Occupancy Tax	89.7	92.3	100.3	7.9	8.6%	7.9%
Franchise Fees	72.0	72.0	80.8	8.7	12.1%	6.3%
Property Transfer Tax	8.3	9.2	8.2	(1.0)	(10.4)%	0.6%
Safety Sales Tax	0.0	0.0	0.0	0.0	NA	0.0%
Motor Vehicle License Fees	0.6	0.0	0.0	0.0	NA	0.0%
Licenses & Permits	35.0	24.5	24.0	(0.5)	(1.8)%	1.9%
Fines, Forfeitures, and Penalties	30.3	28.9	29.7	0.8	2.6%	2.3%
Revenue from Money and Property	48.6	45.9	45.7	(0.2)	(0.4)%	3.6%
Interest Earnings	0.3	1.4	0.5	(1.0)	(67.3)%	0.0%
Revenue from Other Agencies	7.8	9.5	6.9	(2.6)	(27.6)%	0.5%
Charges for Current Services	164.7	120.7	127.6	6.9	5.7%	10.0%
Transfers In	104.7	77.1	93.1	15.9	20.7%	7.3%
Other Revenue	7.8	4.4	4.7	0.3	6.4%	0.4%
Total	**$ 1,276.4**	**$ 1,188.6**	**$ 1,274.6**	**$ 86.1**	**7.2%**	**100.0%**

The major General Fund revenue projections included in the Fiscal Year 2016 Proposed Budget are based on Fiscal Year 2015 year-end projections and economic data through February 2015, the most recent information available at the time the Fiscal Year 2016 Proposed Budget was developed. Changes in the local, State, and national economies can impact each of the four major General Fund revenue sources, and the possible effects on the City's finances in Fiscal Year 2016 are outlined below. Other General Fund revenue sources are influenced by these same economic conditions, as well as various other non-economic events, such as a fee change, the restructuring of an existing department, or the implementation of a new policy.

Figure 1: Fiscal Year 2016 General Fund Revenues - $1.27 Billion



San Diego's Economic Environment[1]

Development of the Fiscal Year 2016 Proposed Budget continues to incorporate a positive economic outlook based on the continuing trend of increases in median home prices, consumer spending, tourism and business travel, and decreases in unemployment following the recession. The City first experienced improvement within these areas in Fiscal Years 2011 and 2012, and the trend has continued throughout Fiscal Year 2015. Although local economic indicators modestly improved throughout Fiscal Year 2015, the rate of improvement in several local indicators has slowed when compared with the past two fiscal years. This trend of moderate improvement in local economic indicators is anticipated to continue during Fiscal Year 2016. This overall expectation and projection for the City's revenues is consistent with information received from the City's sales tax consultant, the San Diego Tourism Authority, and the UCLA Anderson Forecast.

The Fiscal Year 2016 Proposed Budget includes projected increases in the four General Fund major revenues - property tax, sales tax, TOT, and franchise fees - based on the continuing improvement in local economic indicators. The Fiscal Year 2016 proposed property tax budget assumes that the City will experience 4.25 percent growth in the assessed valuation based on improvement in the local real estate market. Similarly, the projected growth of 4.0 percent in sales tax is due to continued stable growth in consumer spending experienced in almost all industry groups through the first half of Fiscal Year 2015, which is anticipated to continue into Fiscal Year 2016. A notable decrease in gas prices was experienced across the nation during the first half of Fiscal Year 2015 due to expanded

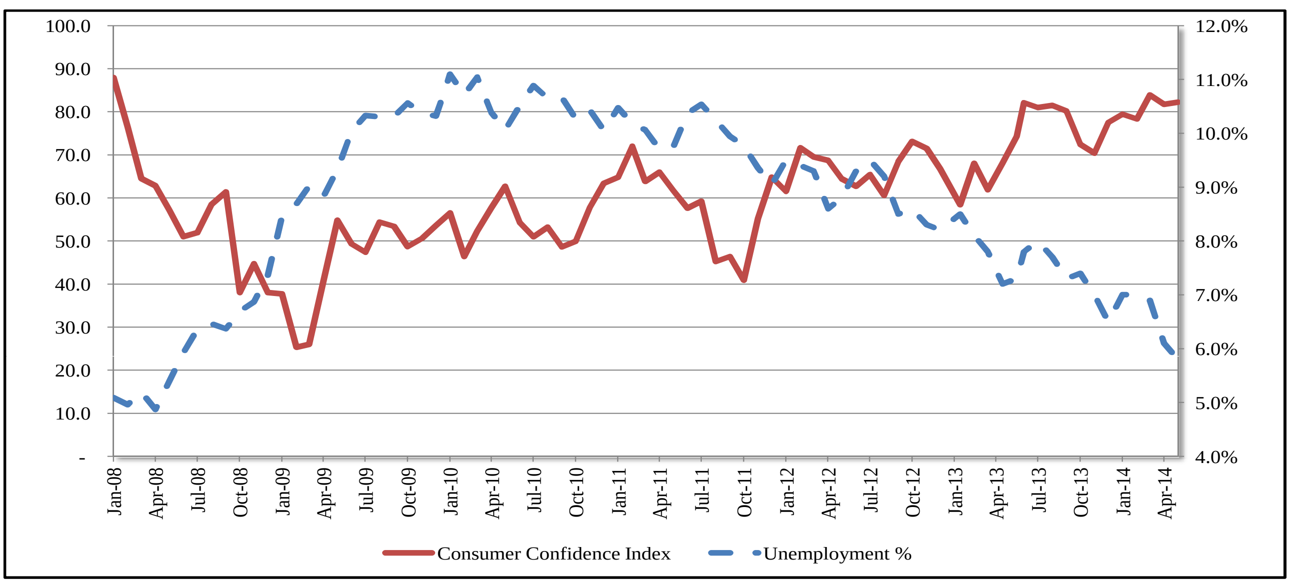
[1] The following sources were used in this section: National Bureau of Economic Research, California Employment Development Department, United States Bureau of Labor Statistics, California State Board of Equalization, University of San Diego Index of Leading Economic Indicators, DataQuick Information Systems, San Diego County Assessor / Recorder / Clerk's Office, San Diego Association of Governments, United States Bureau of Labor Statistics, S&P Dow Jones Indices LLC, Moody's Investor Services.

General Fund Revenues

North American oil productions and gains in fuel efficiency. The direct revenue impact to the City due to lower fuel prices is being closely monitored in the second half of Fiscal Year 2015 once more actual data is received since the drop in fuel prices. In addition to projected increases in property and sales tax, the Fiscal Year 2016 proposed TOT budget is projected to increase by 5.5 percent based on anticipated growth in local tourism and business travel. In January 2014, the San Diego Tourism Authority (SDTA) resumed marketing San Diego as a preferred vacation and meeting destination, as well as expanded its advertising campaigns, contributing to the growth in local tourism and business travel, which has had a positive impact on the City's TOT receipts. Lastly, franchise fees are projected to increase in the Fiscal Year 2016 Proposed Budget primarily due to a projected 2.0 percent increase in San Diego Gas & Electric (SDG&E) franchise fee payments to the City while cable franchise fee payments are projected to be flat. The four General Fund major revenues, including other General Fund revenues, are discussed in further detail in the sections following.

Main economic drivers of General Fund revenues include consumer discretionary spending and housing market indicators, such as home sales and prices. Consumer discretionary spending is greatly influenced by levels of unemployment and consumer confidence. At the onset of the economic recession in December 2007, the City's unemployment level was 4.8 percent, and increased rapidly to 10.9 percent in January 2010. Following the end of the recession, the unemployment rate for the City of San Diego has continued to improve steadily, decreasing to 5.1 percent as of February 2015, the lowest rate in approximately seven years. Consumer confidence has increased 86.5 percent from index level low of 51.7 in March 2009 to 96.4 as of February 2015.

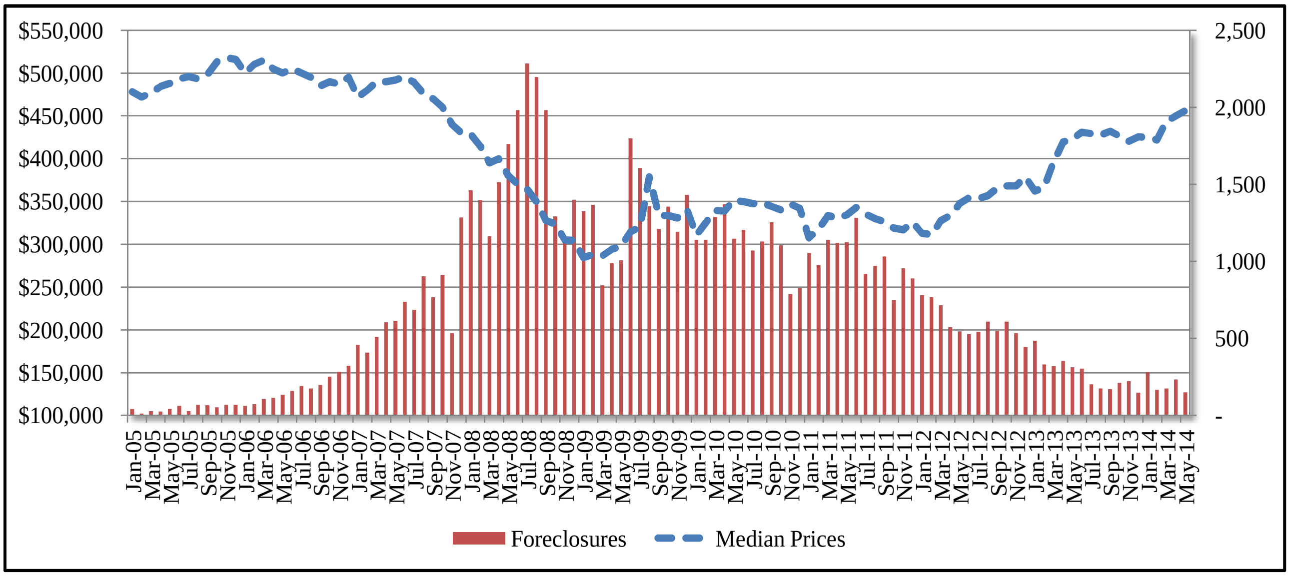
Figure 2: San Diego Consumer Confidence and Unemployment



Source: California Employment Development Department, USD Index of Leading Economic Indicators

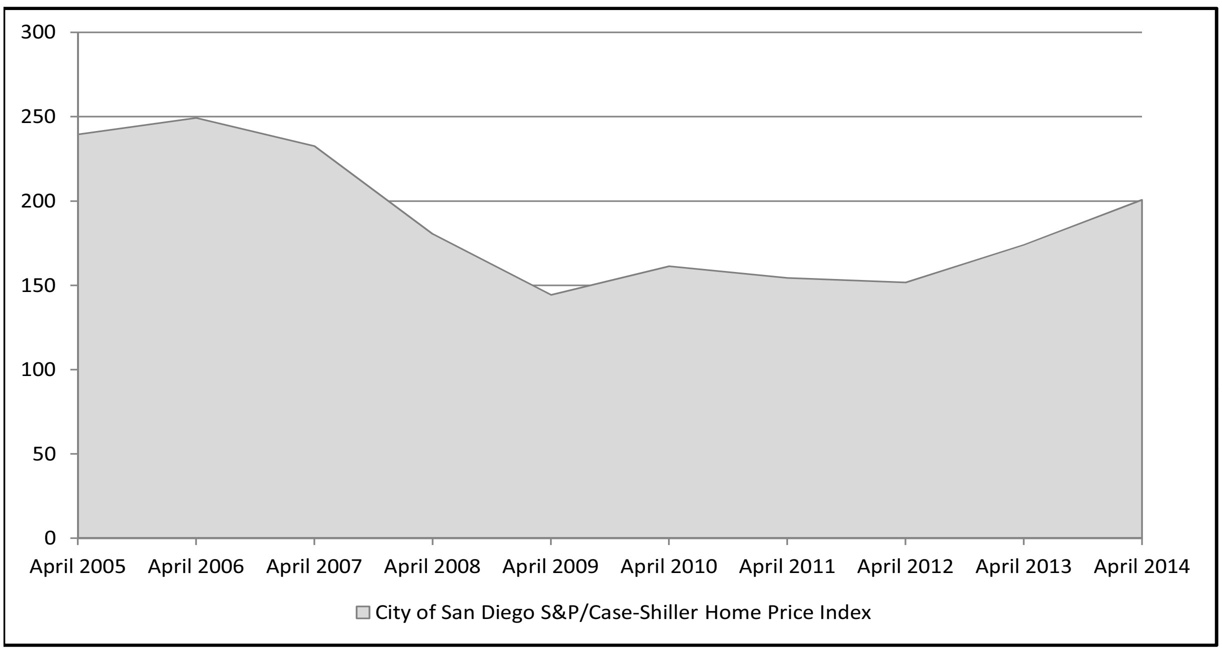
While still below the pre-recession peak, countywide median home prices have increased from low levels in Fiscal Year 2009, and after stabilizing for several months have increased 7.2 percent from March 2014 to February 2015. The San Diego median home price as of December 2006 was $495,000, which decreased to a low of $284,435 in January 2009, and has subsequently increased to $452,231 as of February 2015. In addition, the S&P/Case-Shiller Home Price Index also remains below the market peak of 250.34 in November 2005. The home price index is currently 203.14 as of December 2014, a 4.8 percent increase over the December 2013 index of 193.87.

Figure 3: County of San Diego Monthly Median Home Price and Foreclosures



Source: DataQuick Information Systems, San Diego County Assessor/Recorder/Clerk's Office

Figure 4: City of San Diego S&P/Case-Shiller Home Price Index Graph



Source: S&P Dow Jones Indices LLC

Development of the Fiscal Year 2016 General Fund revenue budget incorporates a wide variety of economic data to forecast revenue amounts. The following are some of the economic indicators and assumptions that were used in the preparation of the Fiscal Year 2016 Proposed Budget. In most cases, the indicators used to prepare the Fiscal Year 2016 Proposed Budget were as of February 2015.

Updated indicators are presented below as available:

General Fund Revenues

- San Diego's unemployment rate was 5.1 percent as of February 2015, a decrease of 1.9 percent from the 7.0 percent unemployment rate as of February 2014 (State of California Employment Development Department).
- Home sales in San Diego for the twelve month period (March 2014 - February 2015) totaled 37,880, which is a decrease of 10.6 percent from the 42,389 home sales from the prior twelve month period (March 2013 - February 2014) (San Diego County Assessor/Recorder/Clerk's Office).
- The median countywide home price as of February 2015 was $452,231, which is an increase of 7.2 percent from the February 2014 median home price of $421,830 (DataQuick Information Systems).
- The S&P/Case-Shiller Home Price Index for the City of San Diego was 204.85 as of January 2015, a 5.1 percent increase over the January 2014 index of 194.94.
- Countywide foreclosures for the twelve month period (March 2014 - February 2015) totaled 1,908 which is a decline of 33.5 percent from the previous twelve month period (March 2013 - February 2014) total of 2,868. Notices of default, an indicator of potential future foreclosure levels, totaled 5,720 for the twelve month period (March 2014 - February 2015), a decline of 22.5 percent from the 7,383 experienced in the previous twelve month period (March 2013 - February 2014) (San Diego County Assessor/Recorder/Clerk's Office).
- The National Consumer Confidence Index as of March 2015 was 101.3, which is an increase of 20.7 percent from the March 2014 index of 83.9 (The Conference Board).
- The Index of Leading Economic Indicators for San Diego County as of February 2015 was 136.0, which is an increase of 6.3 percent from the February 2015 index level of 127.9 (University of San Diego, Index of Leading Economic Indicators).
- The City's median income is forecasted to grow 12.2 percent from approximately $50,000 to $56,100 from calendar year 2010 to 2020 (San Diego Association of Governments).
- The State of California Consumer Price Index (CPI) used for Fiscal Year 2016 assessed property valuation was 1.9 percent (California Department of Finance).

Property Tax

Background

Total City Budget
$495.1 million

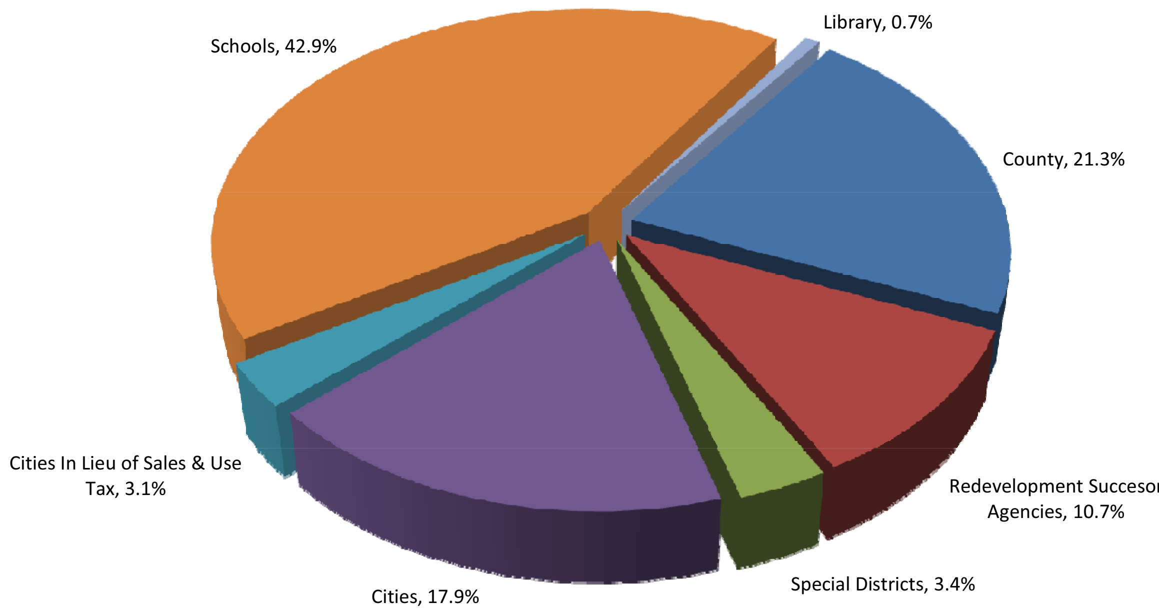
General Fund Budget
$467.4 million

Percent of General Fund
36.7 percent

Property tax revenue is the City's largest revenue source, representing 36.7 percent of the total General Fund revenue. Property tax revenue is collected by the San Diego County Tax Collector from a 1.0 percent levy on the assessed value of all real property. Proposition 13, passed by voters in 1979, specifies that a property's assessed value may increase at the rate of the California Consumer Price Index, but cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value.

The 1.0 percent property tax levy is collected and distributed to a number of agencies, including the County, the City, school districts, and special districts. For every $100 collected, the allocation to the cities in San Diego County total $18.00 (with an additional $3.00 going to cities for the sales tax "triple-flip" outlined in the sales tax section), which includes offsets for Motor Vehicle License Fees, according to the County of San Diego Assessor's Office. Additionally, per City Charter requirement, a special tax levy of $0.005 per $100 of assessed value is collected for funding the maintenance of zoological exhibits in Balboa Park.

Figure 5: Fiscal Year 2015 Countywide Property Tax Distribution



Source: County of San Diego Assessor's Office

Since the early 1990s, many factors have contributed to changes in the amount of revenue the City has received from property tax:

- In Fiscal Year 1993, the State of California faced a serious deficit and, in order to meet its obligations to fund school districts at specified levels under Proposition 98, the State enacted legislation that shifted partial financial responsibility for funding education to local governments. These revenue shifts were otherwise known as the Educational Revenue Augmentation Fund (ERAF) shifts.
- The State authorized counties to charge cities an administrative fee in order to collect and distribute property tax, further reducing the City's annual property tax receipts. For Fiscal Year 2016, the property tax administration fee for the City is estimated to be $4.2 million, an increase of $0.4 million over the FY 2015 Adopted Budget of $3.8 million.
- Beginning in Fiscal Year 2005, the Motor Vehicle License Fee (MVLF) rate was reduced from 2.0 percent to 0.65 percent resulting in less revenue received by the City, which was replaced dollar-for-dollar with property tax, resulting in a property tax revenue increase.
- As a result of Assembly Bill x1 26 (AB 26) enacted by the State Legislature in June 2011 and a decision issued by the California Supreme Court in December 2011, each redevelopment agency in California dissolved as of February 1, 2012 at which time a successor agency assumed responsibility for winding down its operations. In June 2012, the State Legislature enacted Assembly Bill 1484 (AB 1484), seeking to clarify and modify certain aspects of AB 26. As a result, the distribution of property tax revenues to the former San Diego

Redevelopment Agency has not occurred since Fiscal Year 2012. Funding for continuing obligations as approved by the State Department of Finance is distributed to the City as Successor Agency from the Redevelopment Property Tax Trust Fund (RPTTF). Residual funds remaining in the RPTTF after the successor agency's enforceable obligations are met are distributed to the local taxing entities per appropriate allocation formulas. The City's residual tax sharing amount is estimated to be $13.7 million in Fiscal Year 2016, an increase of $0.8 million from the FY 2015 Adopted Budget of $12.9 million.

- During Fiscal Year 2015, the San Diego County Auditor-Controller implemented a court decision in a lawsuit between Los Angeles Unified School District and the County of Los Angeles regarding the calculation of residual RPTTF distributions. As a result of the lawsuit, the ERAF will be included in the calculation of the property tax allocation base of the local school districts. The share of the school districts in statutory tax-sharing payments and residual balance distribution from the RPTTF will increase by multiple percentage points and the share of all other local taxing entities, including the City, will decrease collectively by a corresponding number of percentage points. The City's approximate share of the RPTTF residual balance has decreased from 21.2 percent to 18.0 percent.

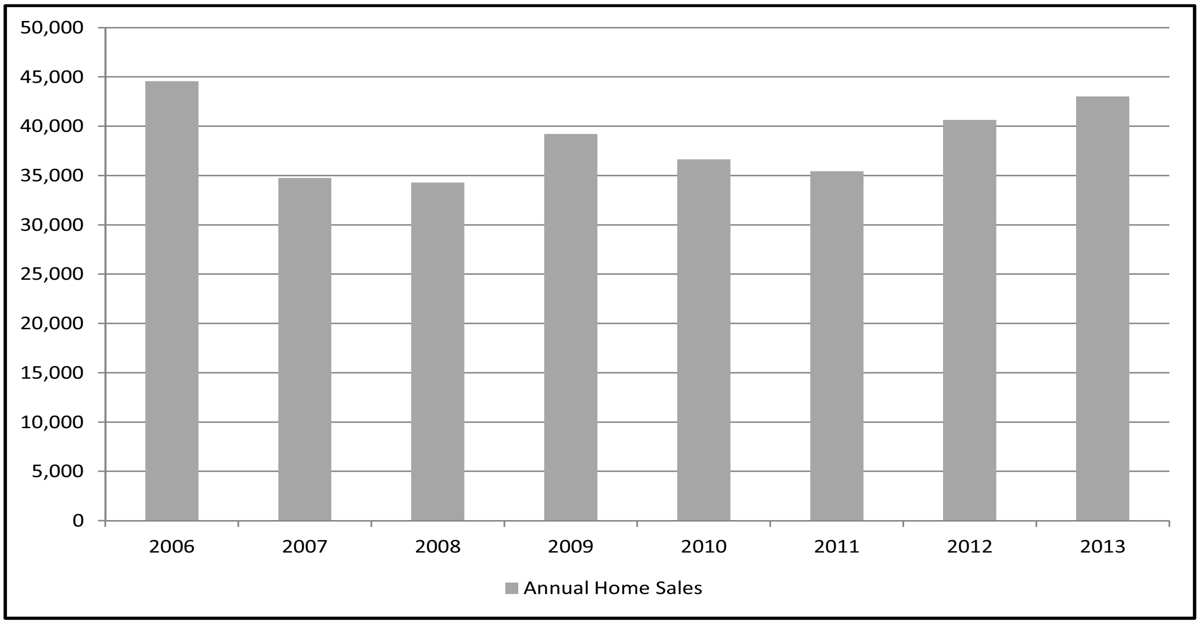
Economic Trends

While the local residential housing market continued to experience improvement in Fiscal Year 2015, the growth rate for the Fiscal Year 2016 Proposed Budget is based on the entire calendar year 2014 of market activity due to a lag between the time assessed valuation is set by the County Assessor's Office and property tax revenue is received by the City. Due to this delay, property tax revenue does not fully reflect recent market activity.

The economic recession that began late in calendar year 2007 had a significant negative impact on median home price, home sales, and foreclosures leading to a decline in property tax revenue. However, following the recession, all of these indicators have improved. Countywide foreclosures in calendar year 2014 totaled 2,036, a decline of 37.1 percent over the prior twelve month period total of 3,236. Notices of default totaled 5,855 over the same time period, a decline of 23.1 percent from the calendar year 2013 count of 7,614. Less foreclosure activity strengthens the local real estate market as there are less homes selling as a short sale, at auction, or as a bank owned property. Typically, short sales, auctions, or bank owned properties sell at a lower price, and as a result, bring down the market's median home price. With fewer foreclosures on the market, homes are able to sell at full market value, thus supporting the median home price, and strengthening the local real estate market. In recent years, San Diego County has seen a larger share of notices and default and foreclosures in the market. It was this inventory that generated the increase in home sales in calendar year 2012 and 2013.

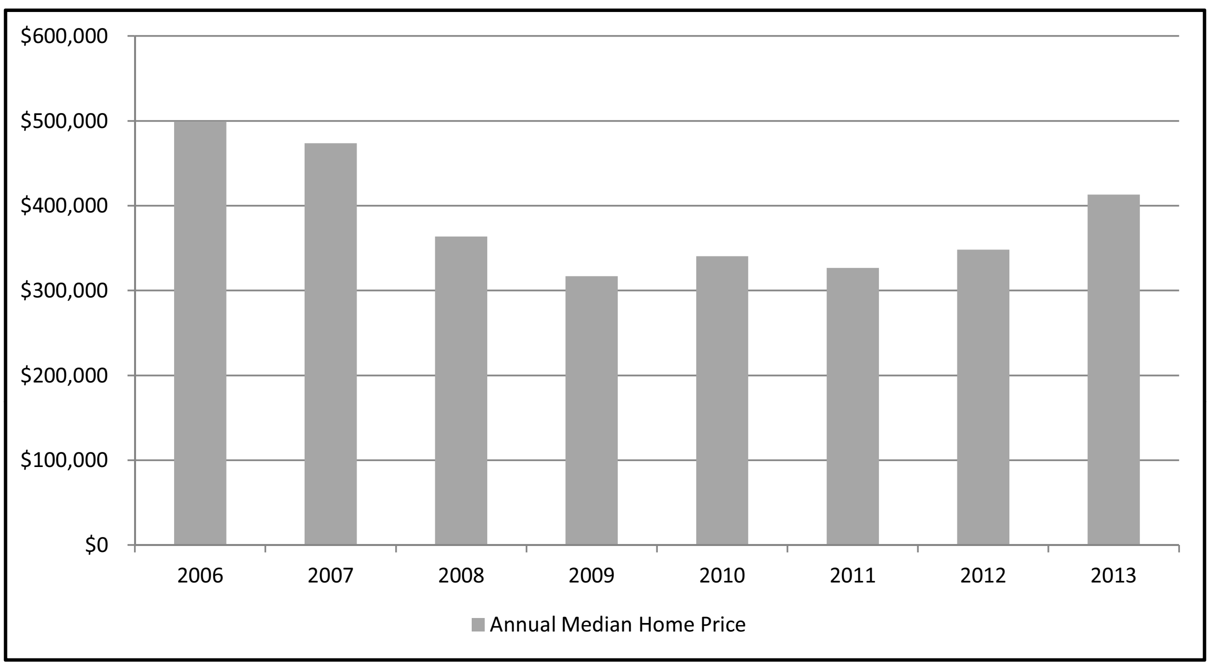
As a result of fewer foreclosures on the market, home sales in San Diego County decreased in calendar year 2014. The County recorded 37,961 sales, an 11.8 percent decrease over the calendar year 2013 home sales total of 43,031. However, the calendar year 2014 home sales were only 2.0 percent, or 783 home sales below the five year average home sales count of 38,822. Although total home sales decreased in calendar year 2014, the median home sales price increased. The median countywide home price for calendar year 2014 was $450,902, which is an increase of 9.1 percent from the calendar year 2013 median home price of $413,198. It is anticipated that the median home price in the City of San Diego will continue to improve during Fiscal Year 2016 as the number of foreclosed properties continues to decrease.

Figure 6: San Diego County Home Sales (calendar year)



Source: DataQuick Information Systems

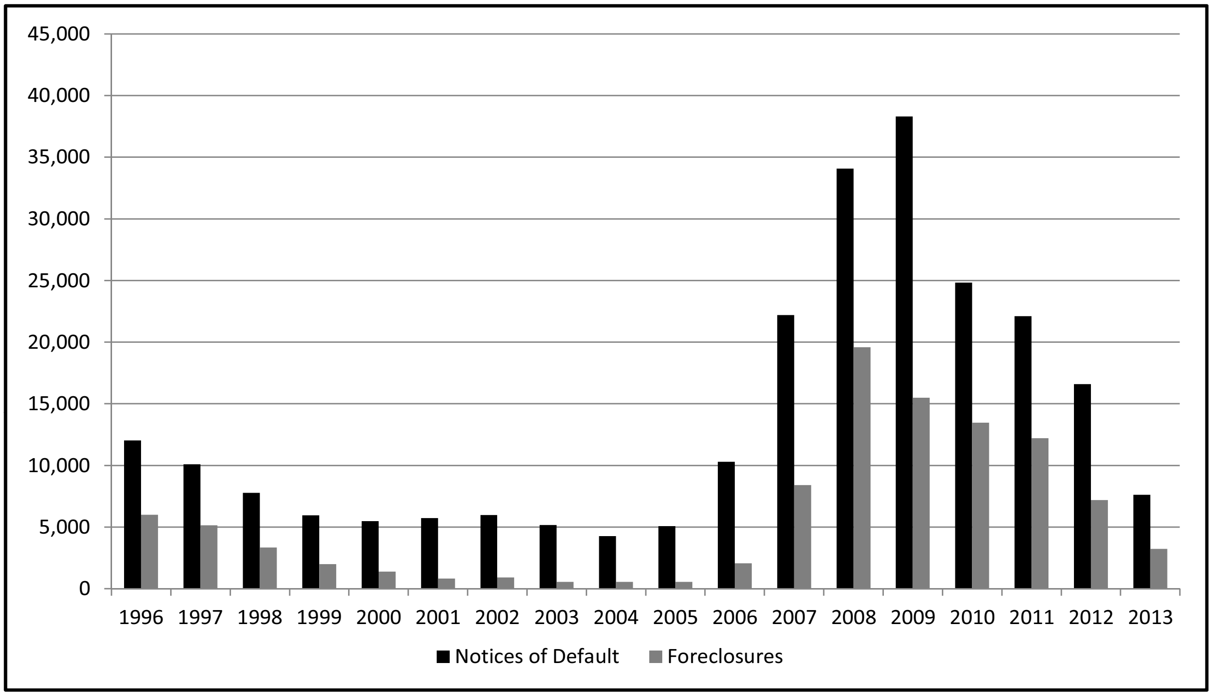
Figure 7: San Diego County Annual Median Home Price (calendar year)



Source: DataQuick Information Systems

General Fund Revenues

Figure 8: San Diego Home Foreclosures (calendar year)



Source: San Diego County Assessor/Recorder/County Clerk

The California Consumer Price Index (CCPI) plays an important part in the assessed valuation of properties that do not sell within a given year. As previously stated, a property's value may increase at the rate of the California Consumer Price Index, but cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value. The CCPI as of October 2014 was 247.481, a 1.9 percent increase over the October 2013 CCPI of 242.63. The increase in the October 2014 CCPI, along with the 9.1 percent increase in the median home price is anticipated to drive the growth in assessed valuation, leading to the projected increase in the Fiscal Year 2016 property tax budget.

In addition to the continued steady growth of the local residential real estate market, the local commercial real estate market is showing signs of improvement as well. According to CB Richard Ellis, in the 4th quarter of calendar year 2014, office sale transactions exceeded $550.0 million while calendar year 2014 total office sales surpassed $2.0 billion, making it the highest sales volume recorded since 2007. Notable commercial sales in the City include the First Allied Plaza Tower selling for $156.8 million and the Genesee Plaza for $72.0 million. The San Diego retail market also saw an increase in sales activity throughout 2014 year as well.

Modest improvements to the labor market have caused unemployment levels to improve; lowering rates to near historical averages and contributing to the growth in the local real estate market. San Diego's unemployment rate decreased to 5.2 percent as of December 2014, an improvement of 1.3 percent from the December 2013 unemployment rate of 6.5 percent. The December 2014 unemployment rate is also an improvement of 5.7 percent from the January 2010 high of 10.9 percent. The State of California's unemployment rate was 6.7 percent as of December 2014.

Fiscal Year 2016 Proposed Budget

The Fiscal Year 2016 Proposed Budget for property tax is $467.4 million, which assumes 4.25 percent growth for the base property tax (Proposition 13) and "in-lieu of motor vehicle license fee" payment. The $467.4 million property tax budget consists of an estimated $328.4 million in base property tax (Proposition 13), $120.2 million "in-lieu of motor vehicle license fee" payment, $4.4 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA), and $14.4 million in anticipated residual property tax payments. As a result of the dissolution of the RDA, the tax sharing pass-through payments will be received as part of the Recognized Obligations Payment Schedule (ROPS) and therefore will be recognized as property tax revenue. The residual property tax payments are the City's proportionate share of funds remaining in the Redevelopment Property Tax Trust Fund (RPTTF) after ROPS requirements have been met.

The 4.25 percent growth rate projected for Property Tax in Fiscal Year 2016 is based on increases in the median home price, a positive 1.9 percent increase in California CPI in calendar year 2014, and fewer foreclosures. This positive growth rate is also attributed to an increase in Proposition 8 assessed valuation restorations and a projected decrease in property tax refunds related to an anticipated reduction in the number of property value reassessments during Fiscal Year 2016.

Table 3: Fiscal Year 2016 Proposed Property Tax Budget

		(in millions)
Base Property Tax	$	328.4
Property Tax "In-Lieu" of MVLF		120.2
Tax Sharing Distribution		4.4
Residual Tax Sharing		14.4
Total Property Tax	**$**	**467.4**

Sales Tax

Background

Total City Budget
$326.9 million

General Fund Budget
$285.8 million

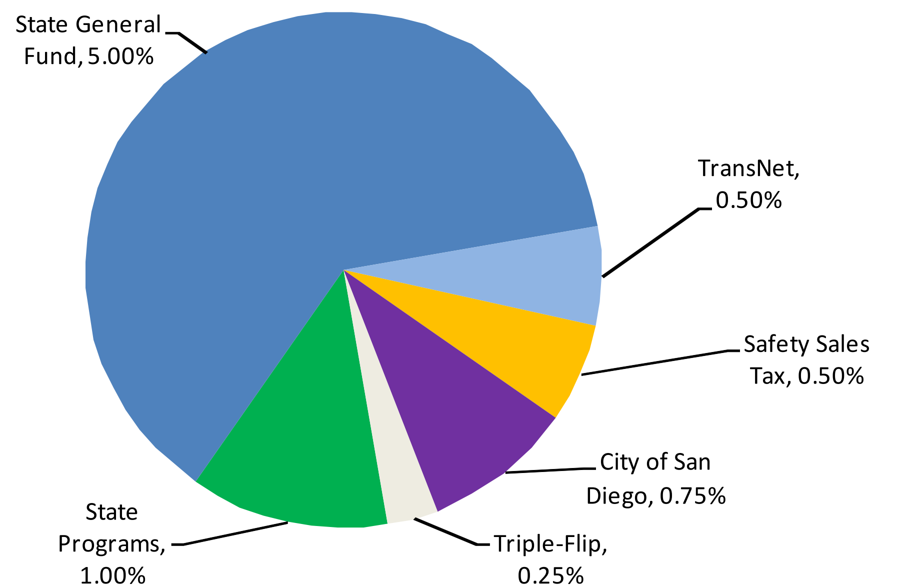
Percent of General Fund
22.4 percent

Sales tax is the City's second largest General Fund revenue source, representing 22.4 percent of the total General Fund revenue. Collected at the point of sale, sales tax receipts are remitted to the State Board of Equalization, which allocates tax revenue owed to the City in monthly payments. According to the Bradley-Burns Sales and Use Tax law, the City is to receive one cent of the total statewide sales tax levied on each dollar of taxable sales.

The total citywide sales tax rate in San Diego is 8.0 percent. Included in the 8.0 percent sales tax rate are three voter approved supplemental sales tax add-ons: TransNet Extension Ordinance and Expenditure Plan (TransNet); safety sales tax; and Proposition 30, Temporary Taxes to Fund Education. TransNet was implemented in 1987 to fund the San Diego Transportation Improvement Program for the maintenance, construction, and expansion of roads and bridges. The TransNet Extension Ordinance and Expenditure Plan, which went into effect April 2008, renewed the half-cent obligation for an additional 40-year term. Additionally, the total citywide sales tax rate includes a half-cent tax approved by California voters in 1993 for the purpose of funding local public safety expenditures. The revenue from this half-cent sales tax, known as the safety sales tax, is discussed in the following section. Finally, in November 2012, California voters approved Proposition 30, a quarter-cent increase in the State sales tax rate from which revenue collected is deposited in the

State's Education Protection Account to support school districts, county offices of education, charter schools, and community college districts.

Figure 9: City of San Diego Sales Tax Rate (8.0 percent)



Source: State Board of Equalization

Economic Trends

The City of San Diego recognized a steady increase in sales tax revenue throughout Fiscal Year 2014 and this continued through the second quarter of Fiscal Year 2015. **Table 4**: City of San Diego Calendar Year Sales Tax Revenue, displays revenue for quarters one through three of calendar year 2014 compared to quarters one through three of calendar year 2013. As shown below, moderate growth was experienced in general retail, food products, transportation, and construction sectors indicating overall positive growth in consumer spending. Above average growth was experienced in the business to business sector due to businesses investing in light equipment and purchases in the drugs and chemicals category.

Table 4: City of San Diego Calendar Year Sales Tax Revenue (in millions)

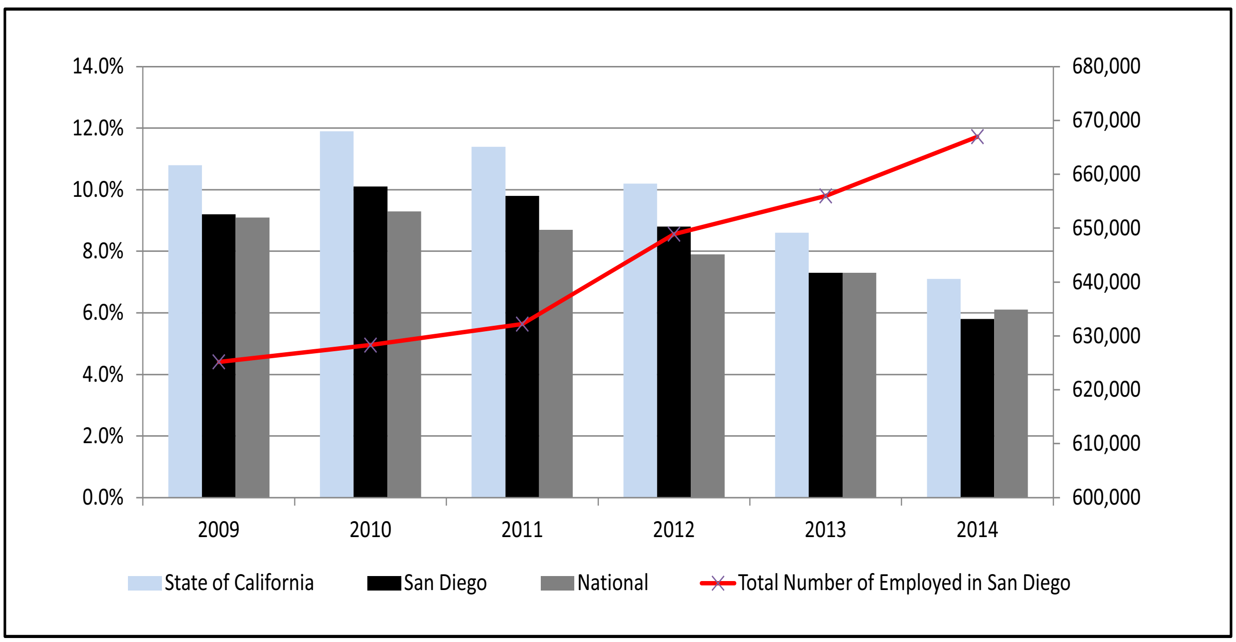
Economic Category	Calendar Year 2013	Calendar Year 2014	% Change
General Retail	$ 42.4	$ 43.4	2.4%
Food Products	$ 38.6	$ 40.2	4.4%
Transportation	$ 40.7	$ 42.8	5.2%
Business to Business	$ 24.6	$ 27.1	10.2%
Construction	$ 11.8	$ 12.4	5.0%

Source: HdL Companies

The decrease in fuel price which began in July 2015 was experienced across the nation primarily due to expanded North American oil production and gains in fuel efficiently. Sales tax data from HdL Companies, the City's sales tax consultant, reports that the impact of falling gas prices for nearly eight straight months on the City's revenue may be partially offset by purchases of taxable items in other economic categories, such as general consumer goods and vehicle sales. In addition, sales tax revenue from the countywide use tax pools has increased due to the continuing shift to online shopping. The City of San Diego retains nearly half of the use tax revenue generated in the countywide pools from online sales. Based on current trends, it is projected that consumer spending will continue to grow in Fiscal Year 2016 although the rate of growth is anticipated to be slightly lower than the last fiscal year.

According to the most recent forecast (February 2015) from the State Board of Equalization, statewide taxable sales were forecasted to have an average growth rate of 3.8 for Fiscal Year 2015 for the State of California. The UCLA Anderson Forecast projects average growth of 4.1 percent in taxable sales for California in Fiscal Year 2015. The National Retail Federation forecasts a 4.1 percent increase in retail sales for calendar year 2015, taking into account the effect of job growth, income growth, and stable home prices in the economy. Consistent with the State's and UCLA Anderson's forecasts of statewide taxable sales, the City is forecasting a moderate 4.0 percent growth rate for Fiscal Year 2016 based on continued growth of income and employment. In February 2015, the California Employment Development Department reported San Diego's unemployment rate at 5.1 percent and the State of California's unemployment rate at 6.8 percent, as shown in Figure 10: Unemployment Rates (February 2015). In addition to being better than the State's unemployment rate, the City of San Diego's unemployment rate is better than the national unemployment rate of 5.8 percent as of February 2015.

Figure 10: Unemployment Rates (February 2015)



Source: State of California, Employment Development Department

Fiscal Year 2016 Proposed Budget

The Fiscal Year 2016 Proposed sales tax budget of $285.8 million is based on the Fiscal Year 2015 year-end projection and assumes 4.0 percent growth for Fiscal Year 2016.

General Fund Revenues

End of The Triple-Flip

The Fiscal Year 2016 Proposed Budget for sales tax revenue includes the property tax reimbursement that the City receives as a result of voter approved Proposition 57, the California Economic Recovery Bond Act, also known as the triple-flip. The triple-flip mechanism is a shift of monies, as enacted by the State in Fiscal Year 2005, whereby local governments were required to shift one-quarter of one cent of the Bradley-Burns Sales and Use Tax to the State in exchange for an equivalent amount of property tax. The shifted sales tax revenue was used to pay debt service related to the economic recovery bond issuance of $15.0 billion which allowed the State to reduce the operating budget deficit.

The State's Economic Recovery Bonds are expected to be paid off in July 2016, thus bringing the triple-flip to an end. Once paid off, local governments will no longer receive the property tax reimbursement, but will instead regain the quarter-cent sales tax that was diverted to the State by the triple-flip. It is anticipated the City will revert back to the full one-cent Bradley Burns tax rate beginning January 1, 2016 and will begin receiving these allocated payments directly from the State Board of Equalization starting in March 2016 for the first quarter of calendar year 2016 taxable sales. Due to the City's accrual practices, receiving the full one-cent Bradley-Burns is anticipated to result in an increase of $12.3 million in sales tax revenue recognized in Fiscal Year 2016.

Table 5: Fiscal Year 2016 Proposed Sales Tax Budget

		(in millions)
Sales Tax Revenue		232.8
Triple Flip Property Tax Reimbursement		53.0
Total Sales Tax	$	**285.8**

According to the University of San Diego Index of Leading Economic Indicators, consumer confidence has grown from calendar year 2014 and into calendar year 2015 as unemployment rates continue to improve. Unemployment rates, consumer spending, other economic indicators will continue to be monitored and have been factored into the moderate 4.0 percent growth rate assumed in the Fiscal Year 2016 Proposed Budget.

Safety Sales Taxes

Background

Total City Budget
$9.1 million

General Fund Budget
$7.8 million

Percent of General Fund
0.6 percent

Safety sales tax revenue is derived from a half-cent sales tax resulting from the enactment of Proposition 172 in 1993. Safety sales tax revenues are used to support local public safety needs. The State Board of Equalization collects the one-half cent and the State Controller's Office allocates the monies to each county based on its proportionate share of statewide taxable sales. California Government Code Section 30051 requires each County Auditor to allocate the revenues in each County's Public Safety Augmentation Fund to the county and each city in that county based on proportionate share of net property tax loss due to the Educational Augmentation Revenue Funds (ERAF). The City of San Diego receives approximately 3.2 percent from the San Diego County's Public Safety Augmentation Fund on a monthly basis. Neighboring jurisdictions within the County of San Diego collectively receive approximately 2.5 percent, and the remaining 94.4 percent is retained by the County to support region-wide public safety services provided by the County Sheriff, the District Attorney, and Probation.

In an effort to increase transparency, the City created the Public Safety Services and Debt Service Fund in Fiscal Year 2012 as a special revenue fund with the purpose of tracking expenditures for public safety needs. Debt service for the Fire and Lifeguard Facilities Fund will be paid first from this fund and the remainder will be distributed equally between the Police and Fire-Rescue Departments.

Economic Trends

Safety sales tax receipts generally follow the same economic trends that determine sales tax receipts such as per capita income levels, employment rates, consumer savings, and discretionary spending. However, safety sales tax revenue also depends on the County's share of total statewide taxable sales and allocations to the City do not entirely depend on taxable sales within the City.

Fiscal Year 2016 Proposed Budget

Safety sales tax revenue is budgeted and collected in the special revenue fund, Public Safety Services and Debt Service. The Fiscal Year 2016 Proposed Budget for safety sales tax of $9.1 million is based on the Fiscal Year 2015 year-end projection and assumes a 4.0 percent growth rate for Fiscal Year 2016. In Fiscal Year 2016, approximately $1.4 million will be allocated to the Fire and Lifeguard Facilities Fund for debt service payments on facility improvements, while the remaining $7.8 million will be equally distributed between the Police and Fire-Rescue Departments' budgets to support public safety needs.

General Fund Transient Occupancy Tax (TOT)

Background

Transient occupancy tax (TOT) makes up 7.9 percent of the General Fund revenue budget and is levied at 10.5 cents per dollar of the daily room price of hotels, motels, and vacation rentals in which the transient's stay is less than one month. The use of TOT is guided by the City's Municipal Code which stipulates that of the 10.5 cents of collected TOT, 5.5 cents shall be applied toward general government purposes, 4.0 cents shall be applied toward promoting the City as a tourist destination, and the remaining 1.0 cent shall be allocated for any purposes approved by the City Council.

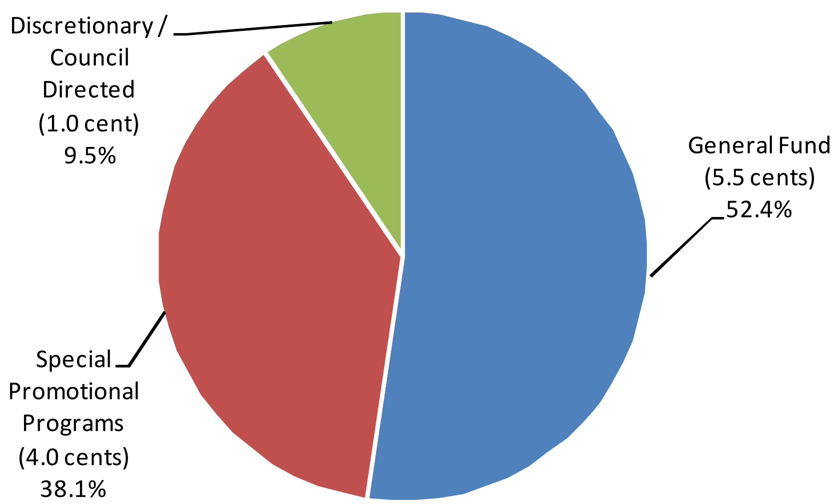
Total City Budget
$191.4 million

General Fund Budget
$100.3 million

Percent of General Fund
7.9 percent

General Fund Revenues

Figure 11: City of San Diego Transient Occupancy Tax Allocation



Economic Trends

Locally, tourism and overnight visitor growth in Fiscal Year 2015 has outperformed Fiscal Year 2014. Visitor trends are expected to continue growing through calendar years 2015 and 2016,although the growth is projected at a slightly slower pace, according to the December 2014 Quarterly Travel Forecast from the San Diego Tourism Authority (SDTA). In addition, San Diego tourism growth in the second half of Fiscal Year 2015 exceeded expectations indicating a stronger peak season which is projected to carry into the first quarter of Fiscal Year 2015. Reinstatement of Tourism Marketing District (TMD) funds to the SDTA for promoting San Diego occurred in January 2014.

Overall, visitor growth in the San Diego region during calendar years 2015 and 2016 is projected at 2.6 percent and 2.5 percent, respectively, with overnight visitor growth of 1.5 percent and 1.9 percent during the same periods. Growth in room demand is projected to be 3.2 percent and 1.9 percent for calendar years 2015 and 2016, respectively. Very little expansion in room supply occurred during the economic recession and, as a result, the average daily rate of hotel rooms is expected to continue to improve with positive growth in room demand and only a slight increase in the room supply. The average daily rate (ADR) is expected to reach $150.52 for calendar year 2015, a 5.6 percent increase over calendar year 2014, and $160.35 in calendar year 2016, an increase of 6.5 percent over calendar year 2015 projections. The overall hotel occupancy rate is anticipated to increase to 76.3 percent in calendar year 2015 from 74.7 percent in calendar year 2014. Total occupancy is projected to increase to 76.7 percent in calendar year 2016.

San Diego hotels total approximately 309 with nearly 43,379 hotel rooms of which 41,198 are part of the TMD. Approximately 1,258 new hotel rooms are expected to be added within the City limits by the end of calendar year 2016. This includes four and five star hotels with 541 rooms to be completed in 2015 and an additional 717 rooms to be completed in 2016.

Table 6 illustrates hotel performance in San Diego since calendar year 2012 and projections for calendar years 2015 and 2016.

Table 6: 2011 - 2015 San Diego County Tourism

San Diego County Visitor Industry					
	CY 2011	CY 2012	CY 2013	CY 2014[1]	CY 2015[1]
Visitors					
Total Visits (millions)	31.1	32.3	33.0	33.5	34.2
Overnight Visits (millions)	15.8	16.1	16.4	16.8	17.1
Hotel Sector					
Avg. Occupancy	68.7%	70.5%	71.5%	72.4%	73.6%
Avg. Daily Rate	$ 125.59	$131.22	$ 135.02	$140.36	$ 146.38
Rev PAR[2]	$ 86.27	$ 92.56	$ 96.50	$101.68	$ 107.69
Room Demand (growth)	3.7%	2.9%	2.2%	2.8%	2.3%

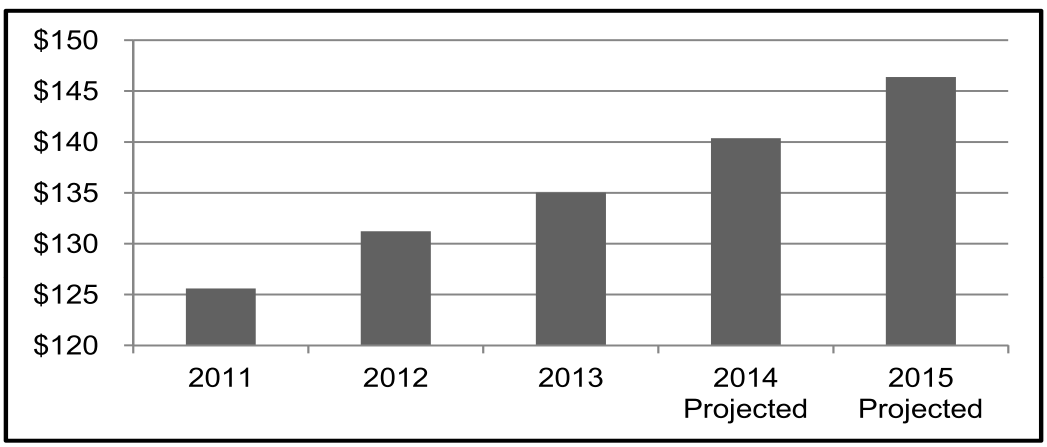
Source: San Diego Tourism Authority and Tourism Economics

[1] Forecast - Tourism Economics, December 2013

[2] Revenue Per Available Room (Average Occupancy multiplied by Average Daily Rate)

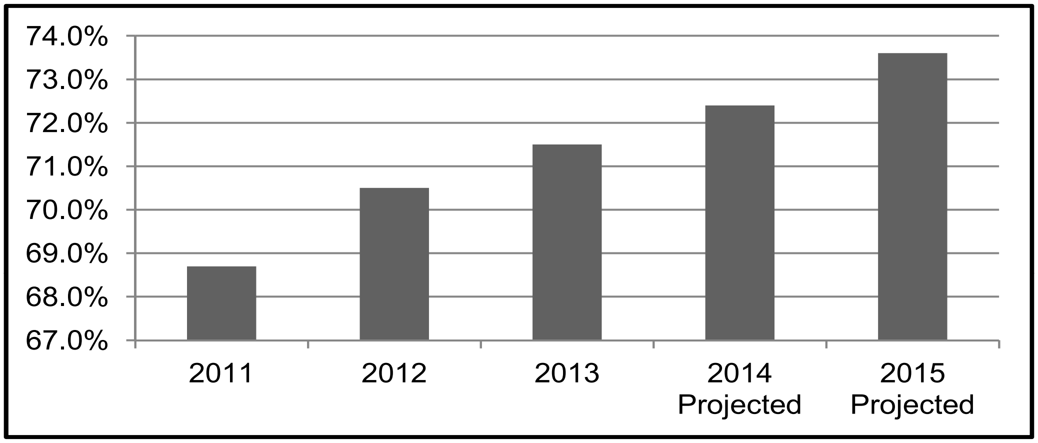
Figure 12 and **Figure 13** illustrate hotel Average Daily Rates and hotel Occupancy rates, respectively, in San Diego since calendar year 2012 and projections for calendar years 2015 and 2016.

Figure 12: San Diego Hotel Average Daily Rate (calendar year)



General Fund Revenues

Figure 13: San Diego Hotel Occupancy Rate (calendar year)



Fiscal Year 2016 Proposed Budget

The Fiscal Year 2016 total transient occupancy tax budget for the City of San Diego is $191.4 million, which incorporates a 5.5 percent growth rate over the Fiscal Year 2015 year-end projection. Of the $191.4 million, $100.3 million will be allocated to the General Fund. The remaining funds are allocated to Special Promotional Programs, which includes the one-cent Council discretionary TOT funding budgeted to be transferred to the General Fund and TOT allocated for reimbursement of General Fund tourism-related expenditures.

The TOT revenue estimate for Fiscal Year 2016 is based on the growth in receipts experienced over the past two calendar years and projections for continued increases in overnight visitors. As a result, growth in TOT receipts is expected to continue through the remainder of calendar year 2015 and into 2016.

Property Transfer Tax

Background

Property transfer tax makes up 0.6 percent of the General Fund revenue budget and is levied on the sale of real property. The County of San Diego collects $1.10 per $1,000 of the sale price when any real property is sold. The City is credited $0.55 per $1,000 against the County's charge, giving both the County and City each $0.55 per $1,000 of the sale price. The funds are collected by the County upon a sale of real property within City limits and transferred to the City on a monthly basis.

Total City Budget
$8.2 million

General Fund Budget
$8.2 million

Percent of General Fund
0.6 percent

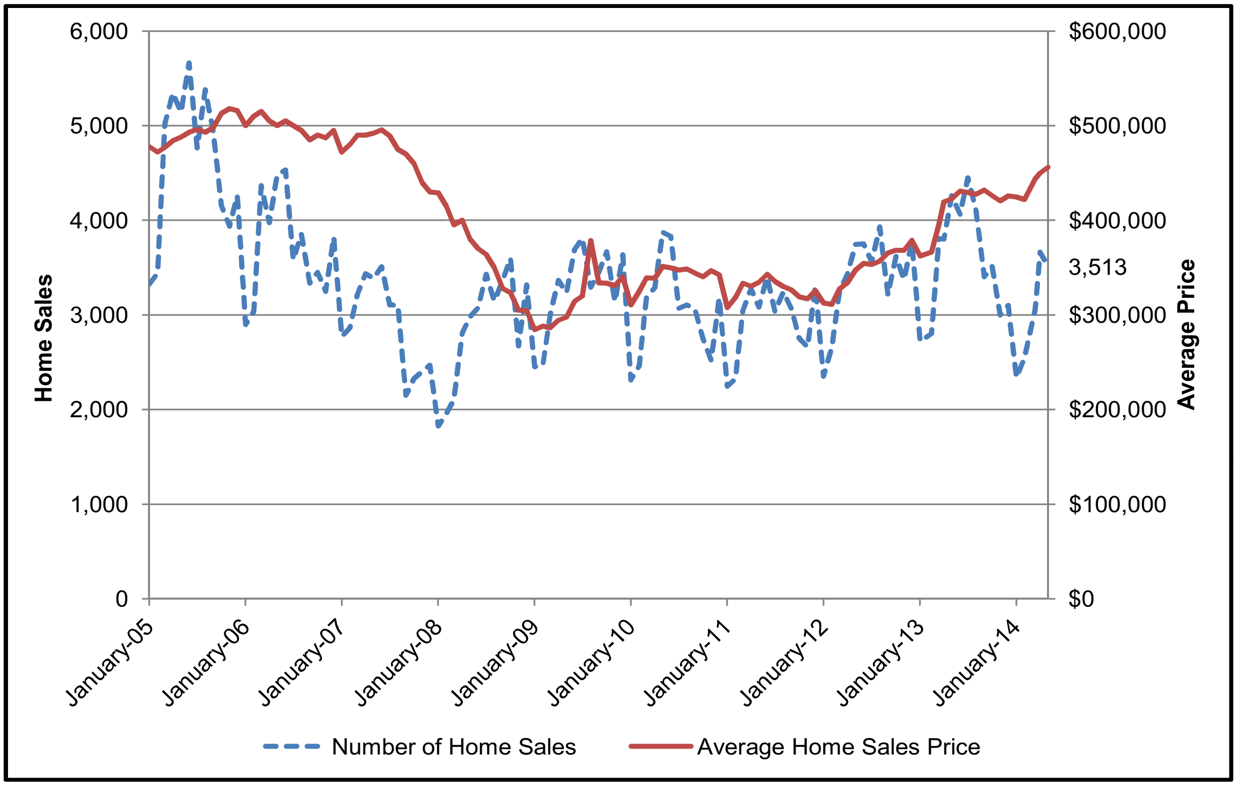
Economic Trends

The Fiscal Year 2016 Proposed Budget for property transfer tax reflects the market conditions and trends from the most recently available economic data. In the twelve month period ending February 2015, home sales in San Diego totaled 37,880 which is a decrease of 10.6 percent from the prior twelve month period total of 42,389. The median countywide home price for February 2015 was $452,231 which is an increase of 7.2 percent from the February 2014 home price of $421,830. Foreclosure activity has also decreased 13.9 percent in the twelve month period ending February 2015. The current volume of home sales and home prices greatly influence property transfer tax revenue, therefore, unlike property tax revenue, property transfer tax reflects current economic conditions without a lag time.

Fiscal Year 2016 Proposed Budget

The Fiscal Year 2016 proposed property transfer tax budget of $8.2 million is based on the Fiscal Year 2015 year-end projection and assumes 3.0 percent growth for Fiscal Year 2016. The positive growth rate is based on anticipated continued growth in median home prices projected to occur during Fiscal Year 2016.

Figure 14: San Diego County Home Sales



Source: DataQuick Information Systems

Franchise Fees

Background

Total City Budget
$189.6 million

General Fund Budget
$80.8 million

Percent of General Fund
6.3 percent

Franchise fee revenue makes up 6.3 percent of the General Fund revenue budget and results from agreements with private utility companies in exchange for use of the City's rights-of-way. Currently, San Diego Gas and Electric (SDG&E), Cox Communications, Time Warner Cable, and AT&T pay a franchise fee to the City. In addition, the City collects franchise fees from private refuse haulers that conduct business within the City limits. The revenue received from the agreements with SDG&E and cable companies is based on a percentage of gross sales while the revenue received from refuse haulers is based on tonnage.

SDG&E, the single largest generator of franchise fee revenue in the General Fund, remits 3.0 percent of the gross sales of gas and electricity within the City of San Diego, which is split between the General Fund (75.0 percent) and the Environmental Growth Fund (25.0 percent), according to the City Charter. In addition, the City receives a 3.53 percent surcharge on SDG&E's electricity sales for the undergrounding of electric utility lines as approved by the California Public Utilities Commission in December 2002 (this revenue is placed in a special revenue fund). The City also generates revenue by collecting 5.0 percent of gross revenues from Cox Communications, Time Warner Cable, and AT&T.

Refuse hauler franchise fees are imposed on private refuse haulers depending on tonnage per year. There are Class I haulers (less than or equal to 75,000 tons per year) or Class II haulers (more than 75,000 tons per year).

Fiscal Year 2016 Proposed Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2016 Proposed Budget for SDG&E franchise fee revenue of $64.6 million is based on the Fiscal Year 2015 year-end projection and assumes a 2.0 percent growth rate for Fiscal Year 2016. The projected growth rate of 2.0 percent is based on the average growth of actual receipts in previous years.

In accordance with the City Charter, 25.0 percent of revenue received from SDG&E, or $16.2 million, is to be deposited into the Environmental Growth Funds (EGF). One-third of the EGF is used to fund the maintenance of parks; the remaining two-thirds are designated for parkland maintenance and debt service payments for open space acquisitions. With no debt currently outstanding in the EGF, all funds will be utilized for maintenance in Fiscal Year 2016. The remaining revenue balance of approximately $48.5 million received from SDG&E franchise fees is allocated to the General Fund.

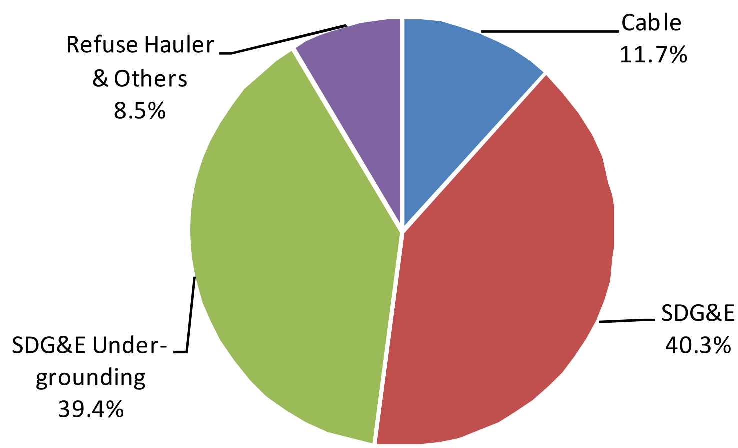
CABLE COMPANIES. The Fiscal Year 2016 Proposed Budget for cable franchise fee revenue of $18.7 million is based on the Fiscal Year 2015 year-end revenue projection and assumes a 0.0 percent growth rate for Fiscal Year 2016. The projected growth rate of 0.0 percent is based on the average growth of actual receipts in previous years.

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2016 Proposed Budget for refuse hauler franchise fee revenue from private refuse haulers is $9.6 million and is based on the Fiscal Year 2015 year-end revenue projection. The City also anticipates to receive $2.4 million in franchise fees from the EDCO and Sycamore Landfill facilities in Fiscal Year 2016, which is a decrease of $0.6 million from the Fiscal Year 2015 Adopted Budget due to the transfer of this revenue from the General Fund to the Recycling Enterprise Fund. Additionally, $1.3 million in revenue related to the Police Department vehicle tow program and $0.4 million from other franchise fee sources is anticipated to in Fiscal Year 2016.

UNDERGROUNDING UTILITY FEE.[1] The Fiscal Year 2016 Proposed Budget for SDG&E undergrounding utility fee revenue of $63.2 million is based on the current Fiscal Year 2015 year-end revenue projection and assumes a 2.0 percent growth rate for Fiscal Year 2016. This revenue is budgeted in the Underground Surcharge Fund.

[1] On March 9, 2015, the City received a claim seeking the refund of all franchise fee surcharges related to the undergrounding utility program. The claimant alleges the franchise fee surcharges are not franchise fees, but rather are taxes illegally imposed in violation of the California Constitution and the City Charter. The claim does not involve the franchise fees received as revenue in the General Fund or Environmental Growth Fund.

Figure 15: Franchise Fee Revenue Breakdown



Licenses and Permits

Background

The Licenses and Permits category includes revenue for the purpose of recovering costs associated with regulating an activity and other revenues such as business certificate fees, rental unit certificate fees, parking meter collections, alarm permit fees, and special event permits.

Total City Budget
$74.8 million

General Fund Budget
$24.0 million

Percent of General Fund
1.9 percent

Fiscal Year 2016 Proposed Budget

The Fiscal Year 2016 Proposed Budget for licenses and permits is $24.0 million or 1.9 percent of the General Fund revenue budget. The Fiscal Year 2016 Proposed Budget is also $0.5 million or 1.8 percent less than the Fiscal Year 2015 Adopted Budget. The primary reason for the variance in revenue is due to a $0.6 million re-categorization of the Park and Recreation Department's Developed Regional Park grounds user fees to the Charges for Services category. The decrease is offset by an $0.1 million increase in Business Tax Program revenue as a result of increased compliance.

Fines, Forfeitures, and Penalties

Background

The fines, forfeitures, and penalties category includes revenue generated from the violation of laws or regulations, such as California Vehicle Code violations, City parking and ordinance violations, negligent impounds, collection referrals, and litigation awards.

Total City Budget
$30.7 million

General Fund Budget
$29.7 million

Percent of General Fund
2.3 percent

Fiscal Year 2016 Proposed Budget

The Fiscal Year 2016 Proposed Budget for fines, forfeitures, and penalties revenue is $29.7 million or 2.3 percent of the General Fund revenue budget. The Fiscal Year 2016 Proposed budget is also $0.8 million or 2.6 percent greater than the Fiscal Year 2015 Adopted Budget.

General Fund Revenues

The increase in the Fiscal Year 2016 Proposed Budget for fines, forfeitures, and penalties is primarily due to a projected $0.5 million increase in collection referral fee revenue as a result of these fees being collected by the Department of Motor Vehicles at the time of the offenders drivers license renewal. Additionally, a $0.2 million increase in parking citation revenue is projected as a result of increased enforcement of hospitality zone parking meters in the Gaslamp Quarter.

Revenue from Money and Property

Rents and Concessions

Total City Budget
$69.0 million

General Fund Budget
$45.7 million

Percent of General Fund
3.6 percent

The rents and concessions category includes revenue generated from Mission Bay Park, Balboa Park, and Torrey Pines Golf Course. The largest component of this category is revenue from Mission Bay Park rents and concessions, the majority of which is generated from leases with Sea World, the Marina Village, and the hotels and marinas within Mission Bay Park. Another significant contributing component in the rents and concessions category is revenue from leases for City Pueblo lands.

The threshold amount of Mission Bay rents and concession revenues that is to be placed into the General Fund for use in any municipal purpose without restriction was reduced from $23.0 million and set at $20.0 million by the City Charter beginning in Fiscal Year 2015. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Park Improvements Fund and the Mission Bay Improvements Fund. The San Diego Regional Park Improvements Fund is to receive 25.0 percent of revenues in excess of the threshold amount or $2.5 million, whichever is greater, with 75.0 percent or the remaining amount allocated to the Mission Bay Improvements Fund.

Fiscal Year 2016 Proposed Budget

The Fiscal Year 2016 Proposed Budget for rents and concessions revenue is $45.7 million or 3.6 percent of the General Fund revenue budget. This represents a $0.2 million or 0.4 percent decrease from the Fiscal Year 2015 Adopted Budget. The decrease in revenue is primarily attributable to a $1.3 million reduction in lease revenue generated from rents and concessions in Mission Bay Park.

Mission Bay Park rents and concessions are projected to generate $28.7 million in Fiscal Year 2016, as compared to the Fiscal Year 2015 Adopted Budget of $30.0 million, which is a decrease of $1.3 million. The decrease in Mission Bay Lease revenue is primarily due to the marine life captivity controversy affecting Sea World attendance. In Fiscal Year 2016, pursuant to the City Charter, the Mission Bay Park rents and concessions above the threshold of $20.0 million will be budgeted in the San Diego Regional Park Improvements Fund and Mission Bay Improvements Fund in the amounts of $2.5 million and $6.2 million, respectively.

Interest Earnings

Background

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

Interest Earnings

Interest rates have remained historically low since the financial crisis of 2008. The federal funds rate has remained at a target of 0.00 to 0.25 percent during the entire period even as economic activity has strengthened. At the March 18, 2015 Federal Open Market Committee (FOMC) meeting, the Committee removed prior statement language referencing specific time-based thresholds in favor of setting monetary policy at each meeting based on the latest economic data. This change will inherently make predicting future monetary policy from the FOMC less predictable and increase market volatility in the near term."

It is expected that the FOMC will begin normalizing interest rates during 2015, but the timing remains uncertain. Given the moderate inflation levels, the pace of future rate increases is likely to remain slow over the next year.

Interest Earnings Outlook

When the FOMC embarks upon a rate normalization cycle, interest earnings for Fiscal Year 2016 and beyond should begin a slow and steady rise. It should be noted that interest rates are market driven and subject to a number of uncontrollable or unpredictable factors, resulting in outcomes different from this outlook.

Revenue from Federal & Other Agencies

Background

Revenue from federal and other agencies includes federal grants and reimbursements for City services such as court crime lab revenue, urban search and rescue, service level agreements, and unbudgeted cost reimbursements.

Total City Budget
$41.1 million

General Fund Budget
$6.9 million

Percent of General Fund
0.5 percent

Fiscal Year 2016 Proposed Budget

The Fiscal Year 2016 Proposed Budget for revenue from federal and other agencies is $6.9 million or 0.5 percent of the General Fund revenue budget. This represents an approximate $2.6 million or 27.6 percent decrease from the Fiscal Year 2015 Adopted Budget. The decrease from the Fiscal Year 2015 Adopted Budget is primarily attributable to a $2.1 million redistribution of Citizens for Public Safety (COPS) grant revenue within the San Diego Police Department to a special revenue fund and a decrease of $0.5 million within the Economic Development Department due to the dissolution of the Enterprise Zone Program by the State.

General Fund Revenues

Charges for Current Services

Background

Total City Budget
$1,257.4 million

General Fund Budget
$127.6 million

Percent of General Fund
10.0 percent

Charges for current services revenue is generated by payments for services provided to the public and other City funds. The City's General Fund pays for basic City services such as public safety, parks, and libraries. In addition, the City allocates the costs associated with central service departments, such as the City Auditor, City Comptroller, City Attorney, City Clerk, and Financial Management to all City departments by means of a rate based on the General Government Services Billing (GGSB) standard. The amounts allocated to non-general fund departments are billed and received into the General Fund as revenue to offset the cost of the services provided by these central service departments.

Fiscal Year 2016 Proposed Budget

The Fiscal Year 2016 Proposed Budget for charges for current services revenue is $127.6 million or 10.0 percent of the General Fund revenue budget. This represents a net increase of $6.9 million or 5.7 percent from the Fiscal Year 2015 Adopted Budget primarily due to a projected increase of $4.6 million in the Transportation and Storm Water Department related to reimbursements of work anticipated to be completed on Capital Improvement Program (CIP) projects and an increase of $1.4 million in the San Diego Police Department related to Task Force revenue.

Other Financial Sources & Uses

Background

Total City Budget
$201.9 million

General Fund Budget
$93.1 million

Percent of General Fund
7.3 percent

The Other Financial Sources & Uses revenue category includes revenues received by the General Fund from other non-general funds such as the transient occupancy tax (TOT) 1.0 cent transfer, safety sales tax transfer, and gas tax revenue.

Fiscal Year 2016 Proposed Budget

The Fiscal Year 2016 Proposed Budget for other financial sources & uses revenue is $93.1 million or 7.3 percent of the General Fund revenue budget. This represents an approximate $15.9 million or 20.7 percent increase from the Fiscal Year 2015 Adopted Budget. Other financial sources & uses revenue category is mainly generated from the transfers from other funds. The increase in transfers from other funds is primarily due to a $7.1 million increase in the San Diego Police Department as a result of the transfer of fund balance from the Police Decentralization Fund and the financing of the Computer Aided Dispatch (CAD) system replacement project. An increase of $1.4 million in TransNet revenue and $2.9 million in Gas Tax revenue is also anticipated to be transferred into the Transportation and Storm Water Department. Additionally, there is an increase of $2.9 million in the Park and Recreation Department as a result of an increased transfers from the Environmental Growth Fund and the TOT 1.0 Cent reimbursement of safety and maintenance of tourism related facilities. Lastly, there is an $1.0 million increase in the transfer of parking revenue to the General Fund from the Concourse and Parking Garages Operating Fund as a result of the City's acquisition of Civic Center Plaza.

Other Revenue

Total City Budget **$21.0 million**
General Fund Budget **$4.7 million**
Percent of General Fund **0.4 percent**

Fiscal Year 2016 Proposed Budget

The Fiscal Year 2016 Proposed Budget for other revenue is $4.7 million or 0.4 percent of the General Fund revenue budget. This represents an approximate $0.3 million or a 6.4 percent increase from the Fiscal Year 2015 Adopted Budget. Other revenue is composed of library donations, ambulance fuel reimbursements, corporate sponsorships, recovery from damages to City property and other miscellaneous revenues. The increase for Fiscal Year 2016 is mainly attributable to anticipated increases in revenue generated from ambulance fuel reimbursements in the Fire-Rescue Department.

State of California Budget Impacts

On January 9, 2015, Governor Brown released the 2015-2016 Proposed Budget appropriating $158.8 billion, including $113.3 billion in the General Fund. The proposed budget document marks the first budget proposal since Proposition 2 - the budget reserve and debt payment measure - was approved by voters in November 2014. Under Proposition 2, spikes in revenue from capital gains will be used to build the state's Rainy Day reserve and retire outstanding debts and liabilities. In the Governor's Proposed Budget, the primary focuses of spending increases were education and health and human services. The 2015-2016 Governor's Budget increases education spending as a result of increases in Proposition 30 revenues, which implemented temporary increases in personal income and sales taxes to fund the State's Proposition 98 funding requirements for education. Health care is demonstrated as a continued priority by an increase in appropriations to fund expansion of Medi-Cal benefits. Other actions in the 2015-2016 Proposed Budget that will impact the City are described below.

Redevelopment Agencies

As a result of Assembly Bill x1 26 (AB 26) enacted by the State Legislature in June 2011 and a decision issued by the California Supreme Court in December 2011, each redevelopment agency in California dissolved as of February 1, 2012 at which time a successor agency assumed responsibility for winding down its operations. In June 2012, the State Legislature enacted Assembly Bill 1484 (AB 1484), seeking to clarify and modify certain aspects of AB 26. As a result, the distribution of property tax revenues to the former San Diego Redevelopment Agency has not occurred since Fiscal Year 2012. Funding for continuing obligations as approved by the State Department of Finance is distributed to the City as Successor Agency from the Redevelopment Property Tax Trust Fund (RPTTF). Residual funds remaining in the RPTTF after the successor agency's enforceable obligations are met are distributed to the local taxing entities per appropriate allocation formulas. For Fiscal Year 2016, residual distributions from the RPTTF are projected to be $14.4 million.

Administering the orderly dissolution of almost 400 redevelopment agencies has been complex and time consuming. Oversight of the dissolution process has progressed to the point where the Budget proposes legislation to streamline the State review process to continue the wind-down activities. Specifically, the Governor's proposed legislation will include the following process changes:

- Transition all successor agencies from a biannual Recognized Obligations Payment Schedule (ROPS) process to an annual ROPS process beginning July 1, 2016, when the successor agencies transition to a countywide oversight board.

- Establish a "Last and Final" ROPS process beginning September 2015. The Last and Final ROPS will be available only to successor agencies that have a Finding of Completion, are in agreement with Finance on what items qualify for payment, and meet other specified conditions. If approved by the Department of Finance, the Last and Final ROPS will be binding on all parties and the successor agency will no longer submit a ROPS to Department of Finance or the oversight board. The County Auditor Controller will remit the authorized funds to the successor agency in accordance with the approved Last and Final ROPS until each remaining enforceable obligation has been fully paid.

State Mandate Reimbursements

Current estimates in the Governor's 2015-2016 Proposed Budget indicate that a $533 million payment will be made towards the State's approximately $800 million in outstanding pre-2004 mandate debt. These funds will provide counties, cities, and special districts with general purpose revenue to reimburse costs associated with State mandated programs and services. While the amount of reimbursement of pre-2004 mandates to be received by the City in Fiscal Year 2016 is currently unknown, these payments will be closely monitored.

Annual Tax Appropriations Limit (Gann Limit)

In November 1979, California voters approved Proposition 4 (Gann Initiative) and added Article XIIIB to the California State Constitution. In 1980, the State Legislature added Division 9 (commencing with Section 7900) to Title I of the Government Code to implement Article XIIIB. This legislation required the governing body of each local jurisdiction in California to establish an Annual Tax Appropriations Limit (Gann Limit) on or before June 30 for the following fiscal year. The Tax Appropriations Limit was based on actual appropriations during the fiscal years 1978-79, and was increased each year using the growth in population and inflation.

On June 5, 1990, California voters approved Proposition 111, amending Article XIIIB. Proposition 111 allowed local jurisdictions to choose the annual adjustment factors. The adjustment factors include the growth in the California per capita income, or the growth in the non-residential assessed valuation due to construction within the city and the population growth within the county or the city.

The Tax Appropriations Limit is applicable only to proceeds of taxes. Appropriations not subject to the limit are debt service on voter-approved debt and qualified capital outlays (a fixed asset, including land, with a useful life of more than 10 years and a value that equals or exceeds $100,000).

The San Diego City Council adopted a resolution in June 2014 that established the Tax Appropriations Limit for Fiscal Year 2015 at $1,929,603,239. Using the Fiscal Year 2015 Proposed Budget and Fiscal Year 2015 May Revise, the appropriations subject to the limit (i.e., proceeds of taxes, excluding debt service on voter-approved debt and qualified capital outlays) were calculated to be $879.0 million, which was $1,050.6 million lower than the Gann Limit.

The Fiscal Year 2016 Gann Limit calculation will be presented to City Council in June 2015. Adjustment factors used for the computation are released by the California Department of Finance in late May 2015. Therefore, as has been the practice in prior years, the Fiscal Year 2016 Gann Limit will not be established before the release of the Fiscal Year 2016 Proposed Budget.