FISCAL YEAR 2018

General Fund Revenues

The City of SAN DIEGO

PROPOSED BUDGET

MAYOR KEVIN L. FAULCONER

General Fund Revenues

The Fiscal Year 2018 General Fund revenue budget is $1.4 billion, which represents an increase of $70.6 million or 5.3 percent from the Fiscal Year 2017 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 2018 Proposed Budget for the General Fund revenues which fund 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 budgeted 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 2018 General Fund Revenue Change illustrates the components of the projected $70.6 million or 5.3 percent increase in General Fund revenues from the Fiscal Year 2017 Adopted Budget. The four major General Fund revenue sources: property tax, sales tax, transient occupancy tax (TOT), and franchise fees account for 71.7 percent of the City's General Fund revenue in the Fiscal Year 2018 Proposed Budget and are projected to increase by $33.6 million or 3.5 percent from the Fiscal Year 2017 Adopted Budget.

Table 1: Fiscal Year 2018 General Fund Revenue Change

	Percent Change from FY 2017 Adopted Budget	Change (in millions)
Major Revenues	3.5%	$ 33.6
Other Revenue Sources	10.3%	37.0
Total	**5.3%**	**$ 70.6**

Table 2: Fiscal Year 2018 General Fund Revenues displays each of the revenue categories in the General Fund and includes Fiscal Year 2016 actual amounts, as well the Fiscal Year 2017 Adopted Budget.

General Fund Revenues

Table 2: Fiscal Year 2018 General Fund Revenues - $1.40 Billion (in millions)

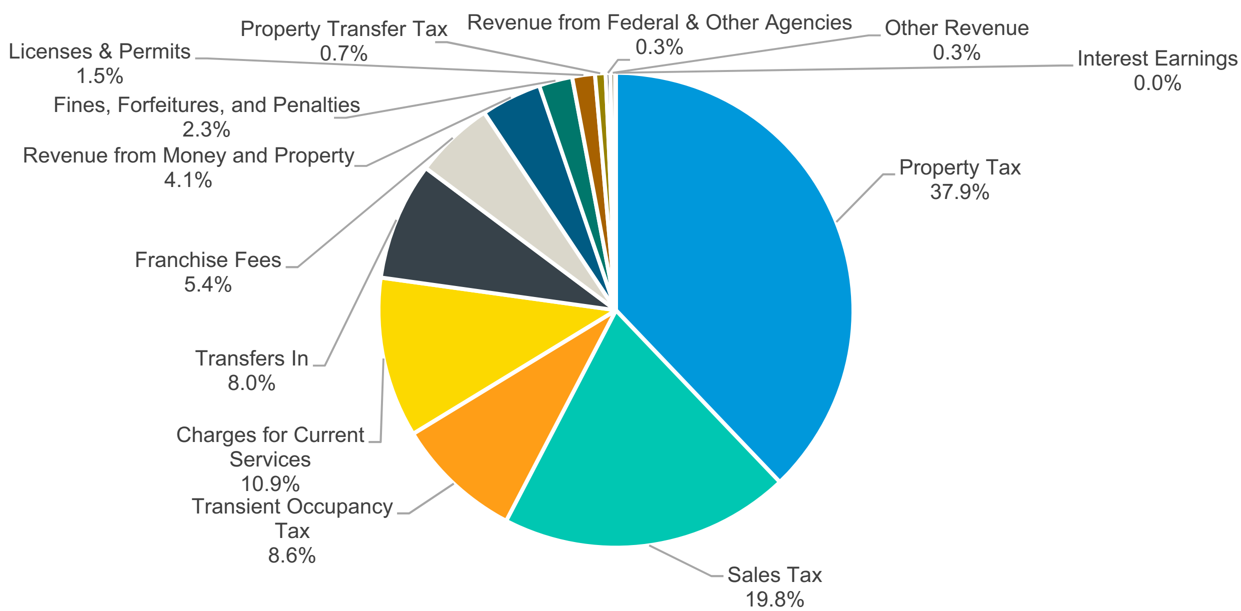
Revenue Category	FY 2016 Actual	FY 2017 Adopted Budget	FY 2018 Proposed Budget	FY 2017 - FY 2018 Change	Percent Change	% of Total General Fund Revenue
Property Tax	$ 471.3	$ 502.0	$ 530.5	$ 28.5	5.7%	37.9%
Sales Tax	275.7	272.8	276.9	4.1	1.5%	19.8%
Transient Occupancy Tax	107.7	113.3	121.0	7.7	6.8%	8.6%
Franchise Fees	81.9	82.6	75.8	(6.8)	(8.2)%	5.4%
Property Transfer Tax	10.5	9.6	10.1	0.5	5.2%	0.7%
Licenses & Permits	24.9	23.9	21.7	(2.2)	(9.3)%	1.5%
Fines, Forfeitures, and Penalties	40.2	29.8	31.9	2.1	6.9%	2.3%
Revenue from Money and Property	53.6	55.1	57.8	2.6	4.8%	4.1%
Interest Earnings	0.7	0.6	0.7	0.1	14.0%	0.0%
Revenue from Federal & Other Agencies	8.2	8.1	4.5	(3.6)	(44.9)%	0.3%
Charges for Current Services	133.7	136.5	152.8	16.3	11.9%	10.9%
Transfers In	80.3	91.4	112.4	21.1	23.0%	8.0%
Other Revenue	10.1	4.3	4.6	0.3	6.6%	0.3%
Total	**$ 1,298.8**	**$ 1,330.0**	**$ 1,400.6**	**$ 70.6**	**5.3%**	**100.0%**

Beginning in Fiscal Year 2018, City Charter section 77.1 requires the deposit of major revenue increment into an Infrastructure Fund to be used for new infrastructure costs, including financing costs, related to General Fund capital improvements such as streets, sidewalks and buildings, and the maintenance and repair of such improvements. The deposit of $18.1 million to the Infrastructure Fund is calculated upon the following:

- Major revenue increment - For Fiscal Years 2018 through 2022, an amount equal to 50.0 percent of the year over year growth in property tax revenues, unrestricted General Fund TOT, and unrestricted franchise fees.
- Sales tax increment - For Fiscal Years 2018 through 2042, an amount equal to the annual change in sales tax revenue when compared to the sales tax baseline (FY 2016) as inflated by the lessor of the California Consumer Price Index (CCPI) or two percent.
- General Fund Pension Cost Reduction - For Fiscal Years 2018 through 2042 any amount of pension costs for any fiscal year that are less than the base year (FY 2016).

The major General Fund revenue projections included in the Fiscal Year 2018 Proposed Budget are based on Fiscal Year 2017 year-end projections and economic data through January 2017, the most recent information available at the time the proposed budget was developed. Changes in the local, state, and national economies can impact each of the General Fund revenue sources, and the possible effects on the City's finances in Fiscal Year 2018 are outlined below. As such, the City maintains its strong financial position by developing prudent estimates, adhering to reserve policies and closely monitoring revenue receipts.

Figure 1: Fiscal Year 2018 General Fund Revenues - $1.4 Billion



San Diego's Economic Environment[1]

Development of the Fiscal Year 2018 Proposed Budget incorporates a positive economic outlook that balances the continuing trend of positive key economic factors with the corresponding softening in the year-over-year rate of growth.

Local economic indicators improved during Fiscal Year 2017; however the rate of improvement is lower than the prior year. Additionally, uncertainty exists with inflation, interest rates, and other pending federal policies that may affect these indicators in the future. The 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, the UCLA Anderson Forecast and Beacon Economics.

In comparison to the Fiscal Year 2017 Adopted Budget, the Fiscal Year 2018 Proposed Budget includes projected increases in three of the four General Fund major revenues - property tax, sales tax, and TOT - based on the continued, yet tempered, improvement in local economic indicators. The Fiscal Year 2018 Proposed Budget for property tax assumes that the City will experience 5.0 percent growth in the property tax revenue based on increasing home prices offset by slow growth in home sales. The Fiscal Year 2018 Proposed Budget for sales tax assumes a 2.5 percent growth rate. The projected growth of 2.5 percent in sales tax is higher than the growth rate assumed in the Fiscal Year 2018-2022 Five-Year Financial Outlook, primarily due to improved economic indicators and increased receipts in Fiscal Year 2017. The projected growth rate for TOT is 5.7 percent based on the continued strength of the tourism economy. For Fiscal Year 2017, Franchise Fees are projected to end the year under budget. Fiscal Year 2018 Proposed Budget for Franchise Fees is based on the

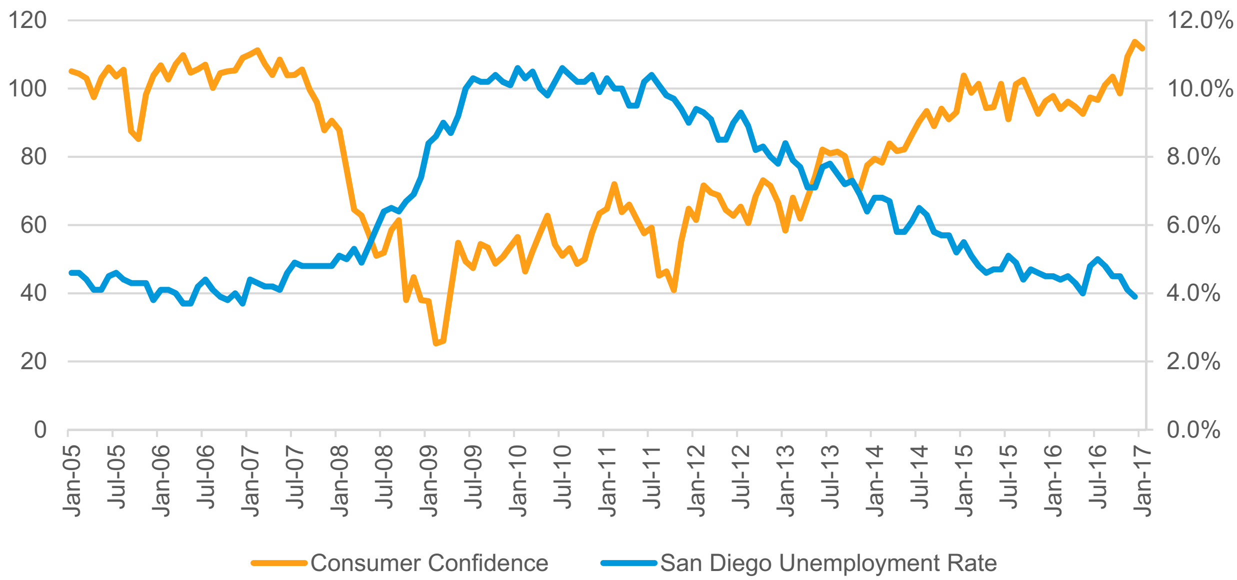
[1] The following sources were used in this section: National Bureau of Economic Research, California Employment Development Department, United States Bureau of Labor Statistics, California State Board of Equalization, University of San Diego Index of Leading Economic Indicators, CoreLogic ®, San Diego County Assessor / Recorder / Clerk's Office, San Diego Association of Governments, United States Bureau of Labor Statistics, S&P Dow Jones Indices LLC, UCLA Anderson Forecast, San Diego Tourism Authority, Colliers International, and The Conference Board.

General Fund Revenues

Fiscal Year 2017 year-end projections and are anticipated to grow moderately. The four General Fund major revenues are discussed in further detail in the following sections

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. Since the end of the recession, the unemployment rate for the City of San Diego has continued to improve steadily. According to the UCLA Anderson Forecast for the Nation and California March 2017 Report, the economy is operating at or near full employment. Consumer confidence has increased steadily since its low in March 2009 to a new high of 113.7 in December 2016.

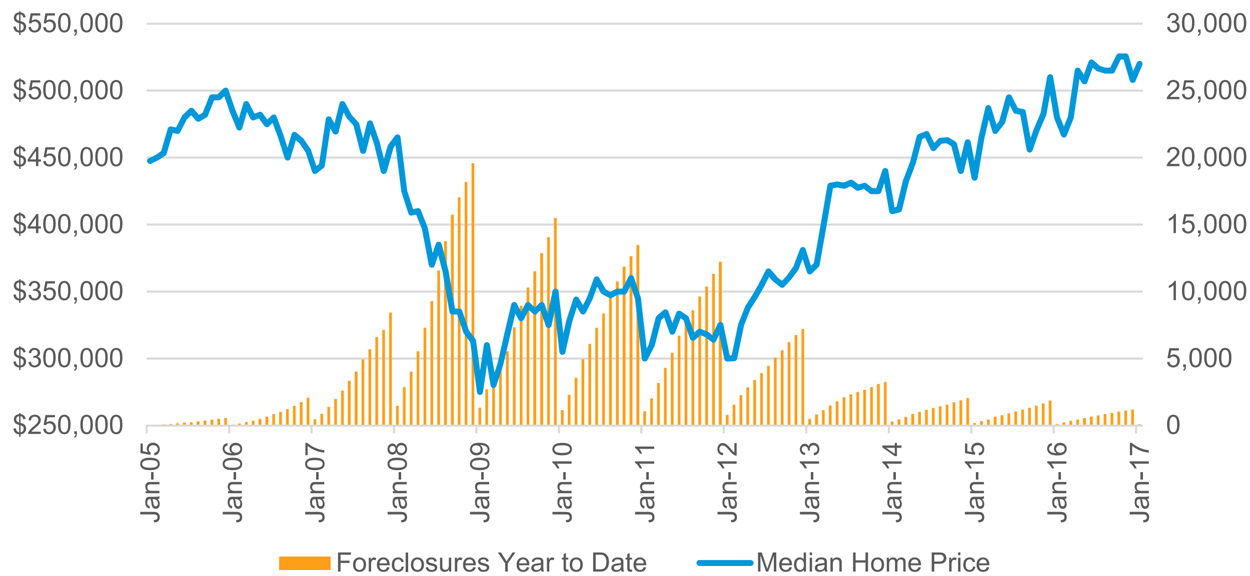
Figure 2: San Diego Consumer Confidence and Unemployment



Source: The Conference Board, California Employment Development Department

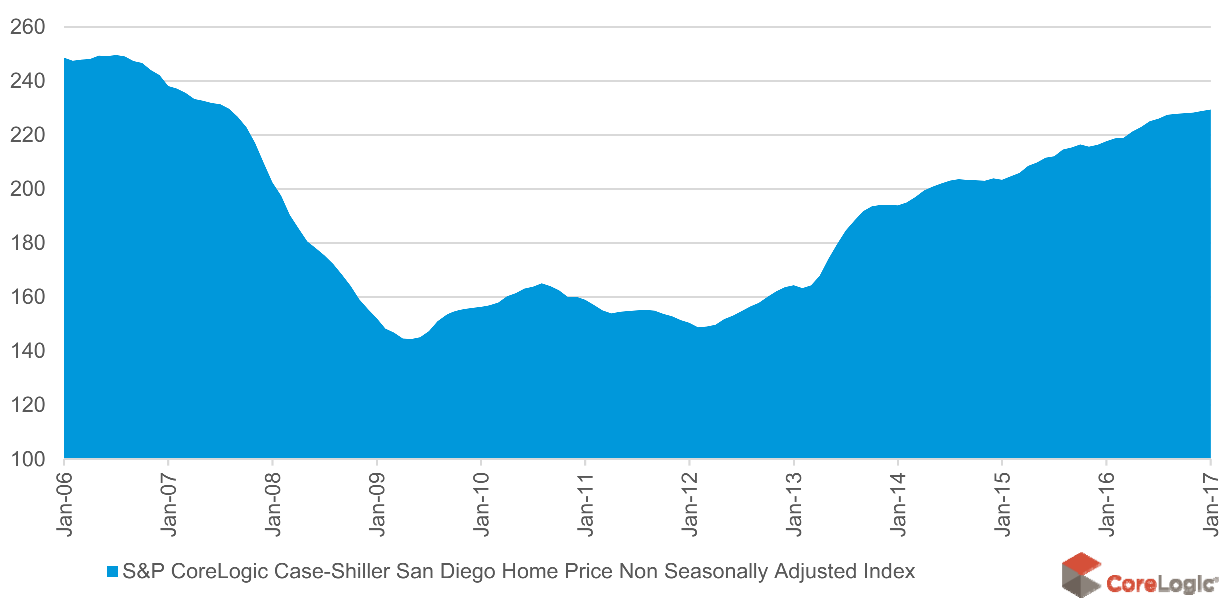
Citywide median home prices have increased from low levels in Fiscal Year 2009. The San Diego median home price peaked in December 2005 at $500,000 and decreased to a low of $279,000 in January 2009. Median home prices subsequently reached a new all-time high of $525,500 in October 2016 before settling at $520,000 as of January 2017. Home sales for the period of February 2016 through January 2017 grew by 2.6 percent when compared to February 2015 through January 2016 home sales, which is slower than the prior twelve month period growth rate of 10.0 percent. As reported by CoreLogic, a data and analytics company, the S&P/Case-Shiller San Diego Home Price Non Seasonally Adjusted Index continues to grow towards its market peak of 250.3 in November 2005. The home price index as of January 2017 was 231.2, a 5.7 percent increase over the January 2016 index of 218.7.

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



Source: CoreLogic ®, San Diego County Assessor/Recorder/Clerk's Office

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



Source: CoreLogic ® S&P Dow Jones Indices LLC / Case -Shiller

General Fund Revenues

Development of the Fiscal Year 2018 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 2018 Proposed Budget:

- The Index of Leading Economic Indicators for San Diego County as of January 2017 was 142.0, which is an increase of 1.7 percent from the January 2016 index level of 139.6 (University of San Diego Index of Leading Economic Indicators).
- Home sales in the City of San Diego for the twelve month period from February 2016 to January 2017 totaled 16,958 which is an increase of 2.6 percent from the 16,529 home sales from the prior twelve month period from February 2015 to January 2016 (CoreLogic ®).
- As of January 2017, the citywide median home price was $520,000 which is an 8.3 percent increase from the January 2016 median home price of $480,000 (CoreLogic ®).
- The S&P/ CoreLogic Case-Shiller Home Price NSA Index for the City of San Diego was 231.2 as of January 2017, a 5.7 percent increase over the January 2016 index of 218.7.(S&P Dow Jones Indicies / CoreLogic ® Case-Shiller)
- Countywide foreclosures for the twelve month period from February 2016 to January 2017 totaled 1,181 which is a decline of 33.8 percent from the previous twelve month period from February 2015 to January 2016 total of 1,784. Notices of default, an indicator of potential future foreclosure levels, totaled 4,201 for the twelve month period from February 2016 to January 2017, a decline of 18.1 percent from the 5,130 experienced in the previous twelve month period from February 2015 to January 2016 (County of San Diego Assessor/Recorder/ Clerk's Office).
- The City of San Diego's unemployment rate was 3.9 percent as of December 2016, a decrease of 0.6 percent from the 4.5 percent unemployment rate as of December 2015 (State of California Employment Development Department).
- As of January 2017, the National Consumer Confidence Index was 111.8, which is an increase of 14.3 percent from the January 2016 index of 97.8 (The Conference Board).

Property Tax

Background

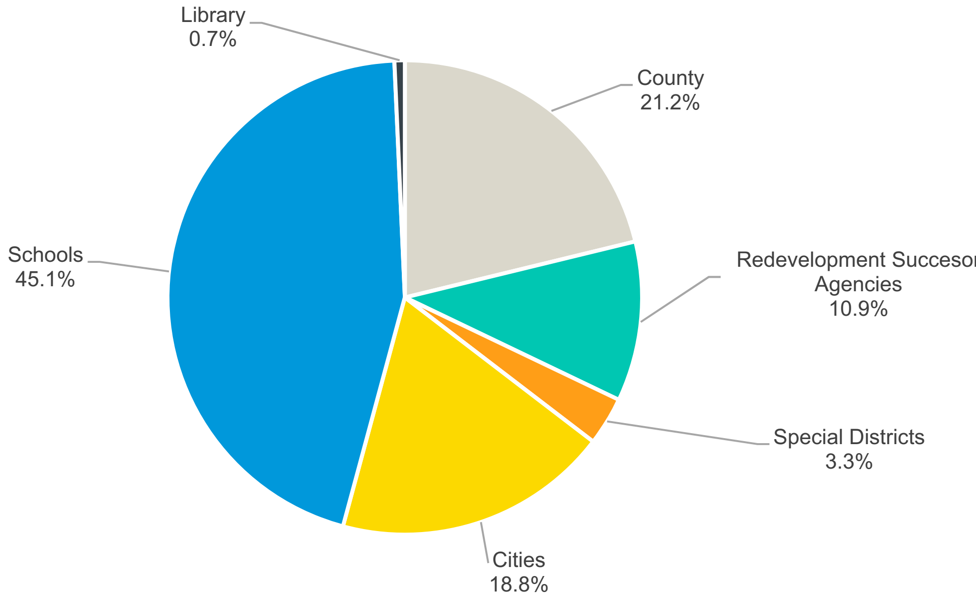
Property tax revenue is the City's largest revenue source, representing 37.9 percent of total General Fund revenue. Property tax revenue is collected by the San Diego County Tax Collector from a 1.0 percent levy on the assessed value of all real property. Proposition 13, passed by voters in 1979, specifies 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.

General Fund Revenue
$530.5 million

Percent of
General Fund Revenues
37.9 percent

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 $18.80, 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 2018 Countywide Property Tax Distribution



Source: County of San Diego Assessor's Office

The following factors have contributed to changes in property tax revenues:

- 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 2018, the property tax administration fee for the City is estimated to be $4.5 million, an increase of $0.1 million over the FY 2017 Adopted Budget of $4.4 million.
- As a result of dissolution of the redevelopment agencies in Fiscal Year 2012, funding for continuing obligations as approved by the State Department of Finance are distributed to the City as Successor Agency from the Redevelopment Property Tax Trust Fund (RPTTF). Residual funds remaining in the RPTTF are distributed to the local taxing entities per appropriate allocation formulas at a rate ranging from 17.0 to 22.0 percent. The City's residual tax sharing amount is estimated to be $16.7 million in Fiscal Year 2018, an increase of $1.9 million from the FY 2017 Adopted Budget of $14.8 million.
- There is an outstanding legal challenge between the County of San Diego and various local entities within the County including the City disputing the distribution of the residual balance of the RPTTF. The trial court's decision in favor of the City and other local entities is currently on appeal, and an appellate decision is expected sometime in Calendar Year 2017 or 2018. If the trial court's decision is upheld, the City would be compensated for any past underpayment of RPTTF residual amounts and would receive an increase in RPTTF residual payments going forward. The parties have not undertaken the complex task of calculating the amount of alleged underpayments of RPTTF residual amounts to date, but the underpayments to the City are believed to be significant (potentially in the tens of millions of dollars to date).

General Fund Revenues

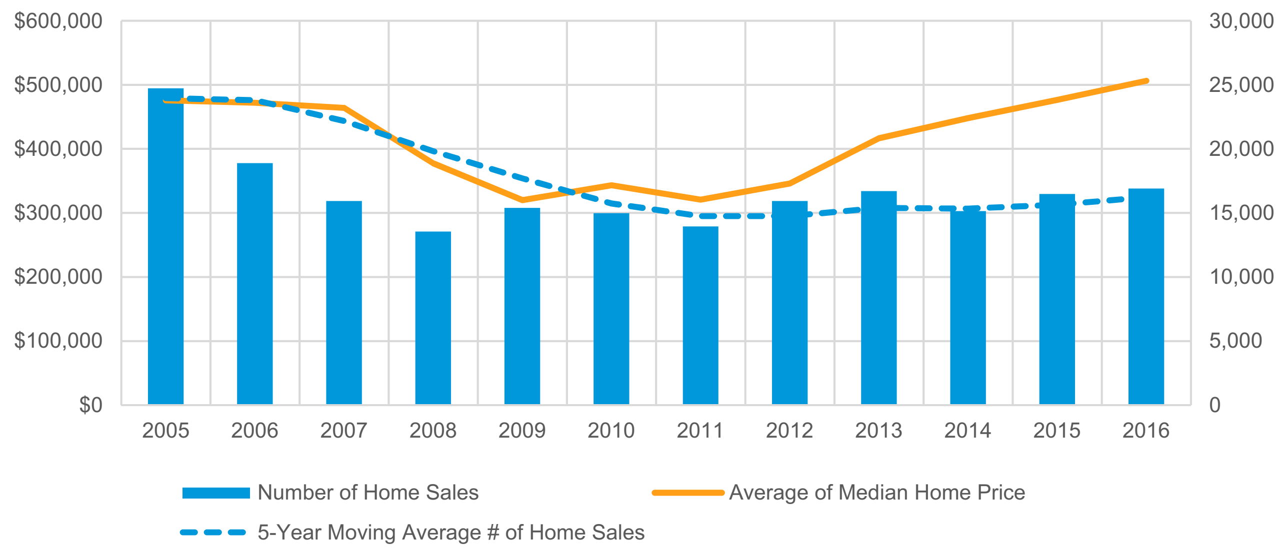
Economic Trends

While the local residential housing market continued to experience improvement in Fiscal Year 2017, the growth rate for the Fiscal Year 2018 Proposed Budget is based on the entire calendar year 2016 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. The assessed value of each property is determined as of January 1st each year; however, the resulting property tax payments based on this assessed valuation are not due from property owners until December and April of the following year. Due to this delay, property tax revenue projections do 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 2016 totaled 1,194, a decline of 35.6 percent over the prior twelve month period total of 1,853. Notices of default totaled 4,352 over the same time period, a decline of 15.4 percent from the calendar year 2015 count of 5,142. Less foreclosure activity strengthens the local real estate market as there are less homes selling as short sales, at auction, or as bank owned properties. 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 market's median home price, and strengthening the local real estate market.

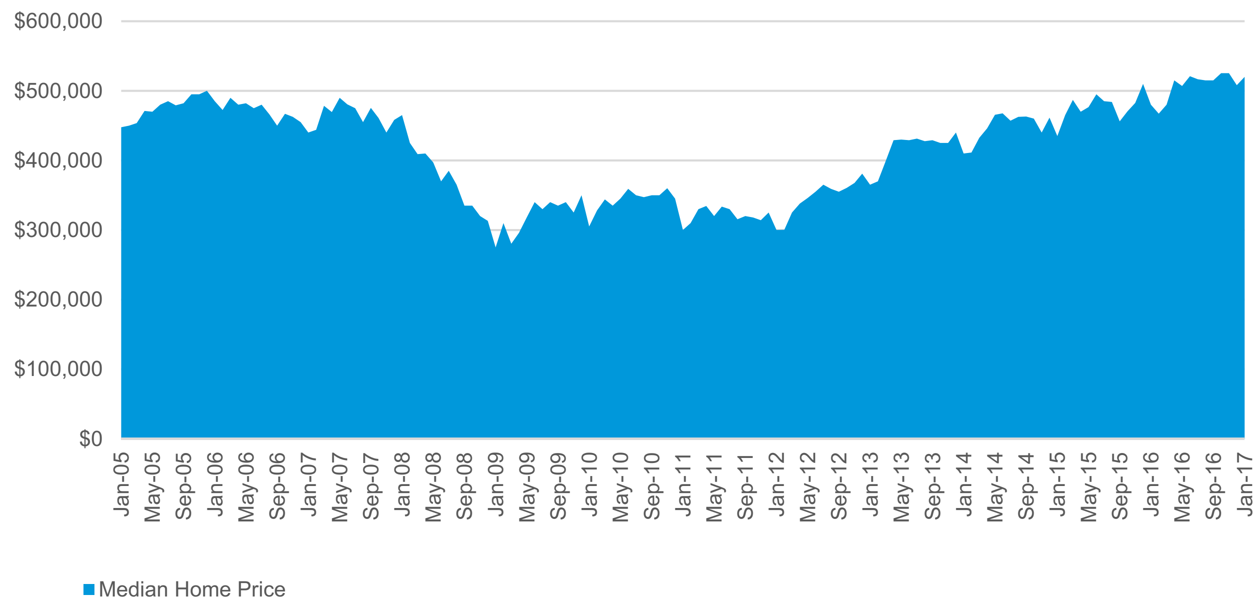
Home sales in the City of San Diego increased slightly in calendar year 2016, as the City recorded 16,897 sales, a 2.5 percent increase over the calendar year 2015 home sales total of 16,478. This is 4.1 percent greater than, or 670 home sales above the 5-year average home sales count of 16,227. In addition to the increase in total home sales, the median home sales price also showed continued improvement during calendar year 2016. The monthly median home price in the City for calendar year 2016 averaged $506,313 which is an increase of 6.3 percent from the calendar year 2015 average monthly median home price of $476,375. The median home price reached a new all-time high in October 2016 at $525,500.

Figure 6: City of San Diego Home Sales (calendar year)



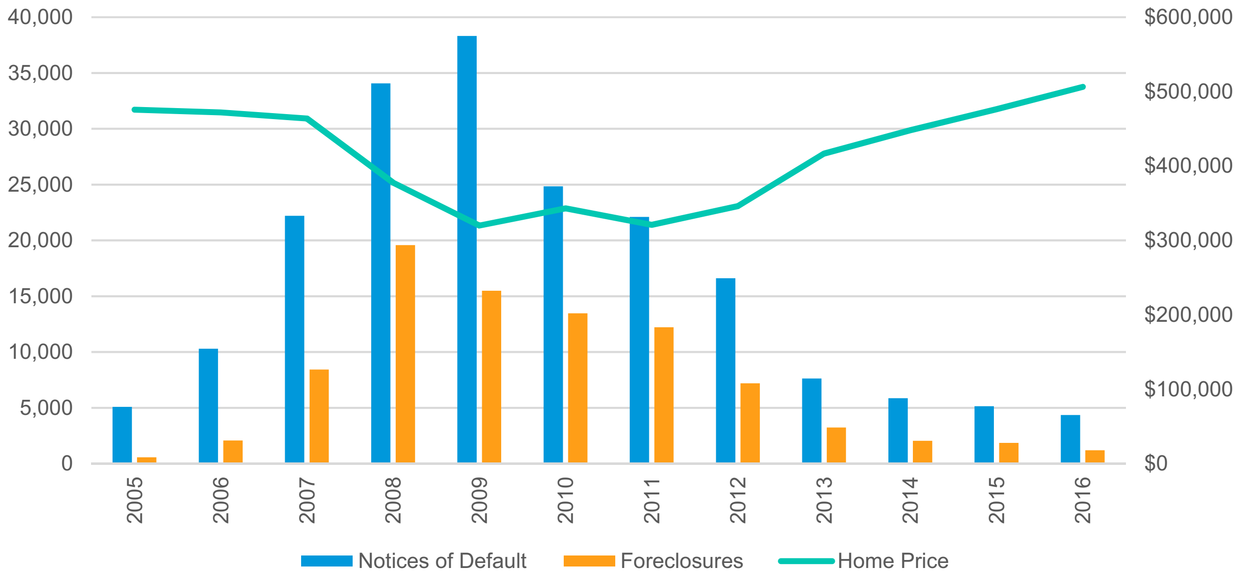
Source: CoreLogic ®

Figure 7: City of San Diego Annual Median Home Price



Source: CoreLogic®

Figure 8: San Diego County Home Foreclosures (calendar year)



Source: San Diego County Assessor/Recorder/County Clerk / CoreLogic ®

The CCPI plays an important part in the assessed valuation of properties that do not sell or are not improved within a given year. As previously stated, a property's value may increase at the rate of the CCPI, 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 2016 was 257.8, a 2.6 percent increase over the October 2015 CCPI of 251.3, therefore, assessed value for those properties, not otherwise sold or improved, will increase by 2.0 percent.

Improvements to the labor market has lowered unemployment rates contributing to the growth in the local real estate market. The City of San Diego's unemployment rate reached a 10-year low, decreasing to 3.9 percent as of December 2016 from the December 2015 unemployment rate of 4.5 percent. The State of California's unemployment rate was 5.0 percent as of December 2016.

According to Colliers International Q4 2016 Research & Forecast Report, completed commercial construction in San Diego County during calendar year 2016 was 155,333 square feet, which is lower than previous year construction of 1.2 million square feet. Commercial property represents approximately 20.0 percent of the assessed property value within the City. Given the difference in commercial development between 2015 and 2016, property tax growth in Fiscal Year 2018 will likely be restrained due to lower commercial development.

The Federal Open Market Committee (FOMC) began raising the target range for the federal funds rate for the first time in ten years in December 2015 to a range of 0.25 to 0.50 percent. Subsequently in December 2016, the FOMC raised the target range to 0.50 to 0.75. followed by a another increase to a range of 0.75 to 1.00 percent in March 2017. Real estate borrowing rates are influenced by the federal funds rate. The anticipated increase in borrowing costs are likely to slow real estate sales.

Fiscal Year 2018 Proposed Budget

The increase in the October 2016 CCPI, the sustained number of homes sales, increased median home prices, and low unemployment will drive the growth in assessed valuation for Fiscal Year 2018 and result in increased property tax receipts. These factors support the projected increase in the Fiscal Year 2018 property tax budget.This growth however, will be constrained by and increased borrowing costs and decreased commercial development as mentioned earlier.

The Fiscal Year 2018 Proposed Budget for property tax is $530.5 million, which assumes 5.0 percent growth for the base property tax (Proposition 13) and "in-lieu of motor vehicle license fee" payment. This growth rate is consistent with the Fiscal Year 2018-2022 Financial Outlook. The $530.5 million property tax budget consists of an estimated $371.8 million in base property tax (Proposition 13), $135.8 million "in-lieu of motor vehicle license fee" payment, $6.1 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA), and $16.7 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.

Table 3: Fiscal Year 2018 Proposed Property Tax Budget

		(in millions)
Base Property Tax	$	371.9
Property Tax "In-Lieu" of MVLF		135.8
Tax Sharing Distribution		6.1
Residual Tax Sharing		16.7
Total Property Tax	**$**	**530.5**

Sales Tax

Background

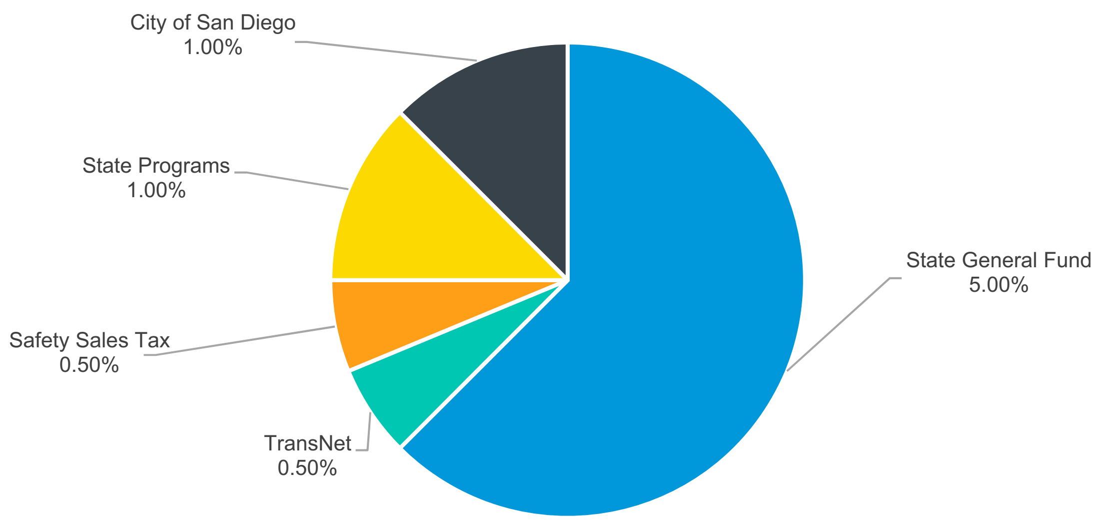
General Fund Revenues
$276.9 million

Percent of General Fund Revenues
19.8 percent

Sales tax is the second largest General Fund revenue source, representing 19.8 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. 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)



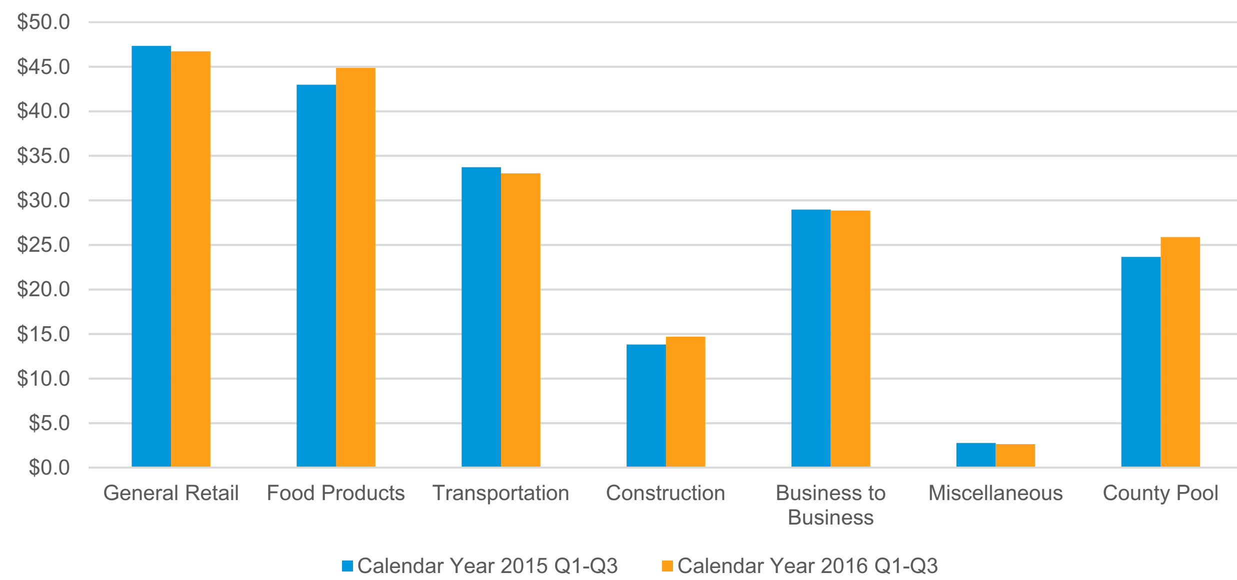
Source: State Board of Equalization

Economic Trends

The Fiscal Year 2017 Adopted Budget for Sales Tax was developed utilizing a 3.5 percent growth rate. Actual receipts were sluggish in the first quarter of Fiscal Year 2017, but have been trending upward and are now projected to end the year between 3.0 and 3.5 percent greater than Fiscal Year 2016. A portion of the growth in Fiscal Year 2017 is attributable to one-time receipts for corrections of mis-allocated sales tax. Figure 10: Sales Tax Revenues by Economic Category displays revenue for quarters one through three of Calendar Year 2015 compared to quarters one through three of Calendar Year 2016.

Sales tax from the General Retail category, the City's largest sales tax economic category, continues to grow slowly as sales in this category continue to shift away from brick and mortar stores and online sales increase. Sales tax to the City from online sales are received through the County Pool, which is distributed to the City at a rate of approximately 49 percent of the total County Pool receipts based on the City’s pro rata share of total sales tax receipts. The transportation category, which includes fuel sales, automotive sales, and repairs, continues its weakness given low fuel prices that have persisted over the past year. Recent trends indicate fuel prices are increasing and it is expected, all else being equal, that this category will see a return to growth in Fiscal Year 2018. Tourism trends continue to be strong along with the associated Food Products category reflecting strong receipts in hotels, fine dining and other restaurants.

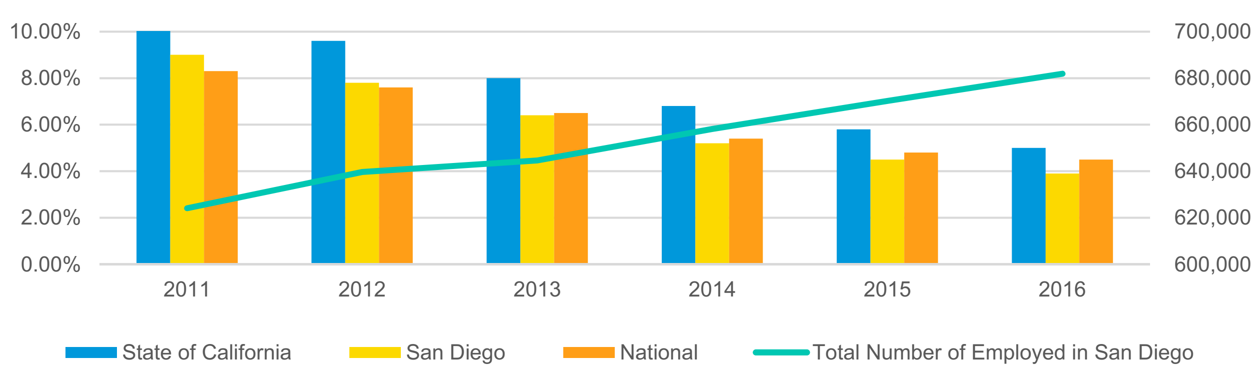
Figure 10: Sales Tax Revenues by Economic Category (in millions)



Source: MuniServices, LLC

Economic indicators that drive spending and therefore sales tax receipts include the unemployment rate, total number of persons employed, and consumer confidence. Calendar year 2016 showed record numbers for these indicators. The City of San Diego's Unemployment saw a 10-year low in December 2016 at 3.9 percent, while November 2016 was an all-time high for the total number of employed persons at 686,700. Furthermore consumer confidence saw a resurgence in calendar year 2016 reaching an all-time high of 113.7 in December 2016. Likewise the University of San Diego Index of Leading Economic Indicator also reached a 10-year high in December 2016 at a level of 141.3. As mentioned in the previous section, the California Consumer Price Index has also increased by 2.6 percent compared to the prior year growth 1.5 percent, leading to higher prices of goods, and therefore sales tax. It is unclear how long the highs experienced in the end of calendar year 2016 will continue. The City will closely monitor Sales Tax revenues and adjust the projections as necessary.

Figure 11: Unemployment Rates



Source: State of California, Employment Development Department

General Fund Revenues

Fiscal Year 2018 Proposed Budget

In the Fiscal Year 2018-2022 Five-Year Financial Outlook, sales tax growth for Fiscal Year 2018 was forecasted to be 1.5 percent. Based on sales tax receipts through the third quarter, the sales tax growth rate for Fiscal Year 2018 has been increased to 2.5 percent. This growth rate reflects anticipated higher fuel prices, marginal growth in general retail, continued trend away from brick-and-mortar retail stores to online purchases, stable automotive sales in light of higher interest rates, and a normalized level of consumer confidence. The Fiscal Year 2018 Proposed Budget for sales tax of $276.9 million.

General Fund Transient Occupancy Tax (TOT)

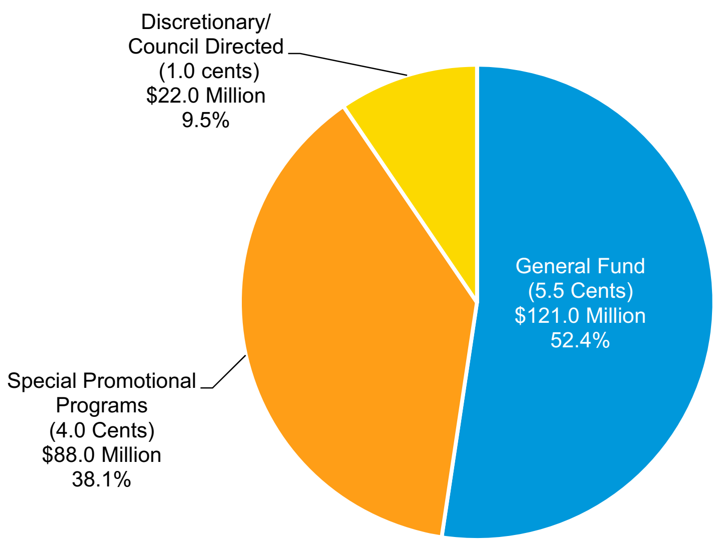
Background

General Fund Revenues
$121.0 million

Percent of
General Fund Revenues
8.6 percent

Transient Occupancy Tax makes up 8.6 percent of the City's General Fund revenue budget. TOT is levied at 10.5 cents per dollar on taxable rent for a transient's stay of 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 is to be applied toward general government purposes, 4.0 cents towards promoting the City as a tourist destination, and the remaining 1.0 cent towards any purposes approved by the City Council. TOT totals $231.0 million, of which, $121.0 million is allocable to the General Fund.

Figure 12: City of San Diego Transient Occupancy Tax Allocation



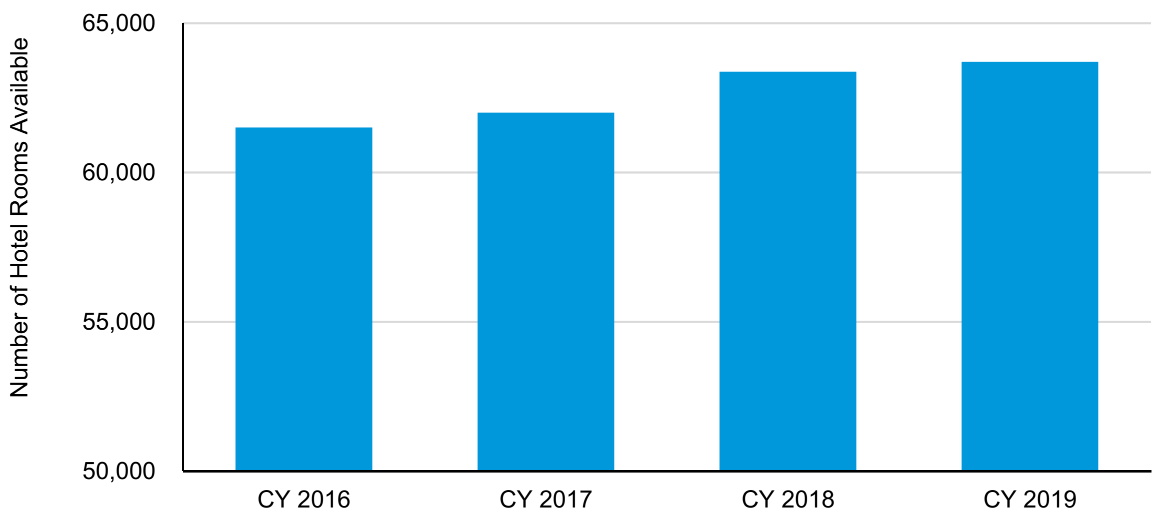
Economic Indicators

The San Diego hotel sector, which generates TOT receipts, has performed strongly over the past several years. The continued growth in room demand and supply, coupled with the rise in the average daily room rate (ADR) in San Diego have led to the sustained yearly growth in TOT revenue. The City is projected to see continued growth in TOT revenue in Fiscal Year 2018 but at a slower rate than previous years, as a result of the increases in TOT related economic indicators beginning to slow.

According to the San Diego Travel Forecast prepared for the San Diego Tourism Authority by Tourism Economics, overnight visits to San Diego County is projected to grow by 1.7 percent in calendar years (CY) 2017 and 2018. As a result of increased overnight visits, the projected average hotel occupancy in CY 2017 and 2018 is 77.3 percent, which is an increase from prior years hotel occupancy of 76.4. These indicators drive the projected growth in room demand for CY 2017 and 2018 to an average of 2.1 percent.

The supply of rooms in the City of San Diego is also projected to increase in CY 2017 and 2018. As illustrated in the Figure 13, the total supply of rooms is projected to increase by 5.5 percent from approximately 60,400 to 63,700 by CY 2018.

Figure 13: Total Projected Hotel Rooms In San Diego CY 2016 - 2019



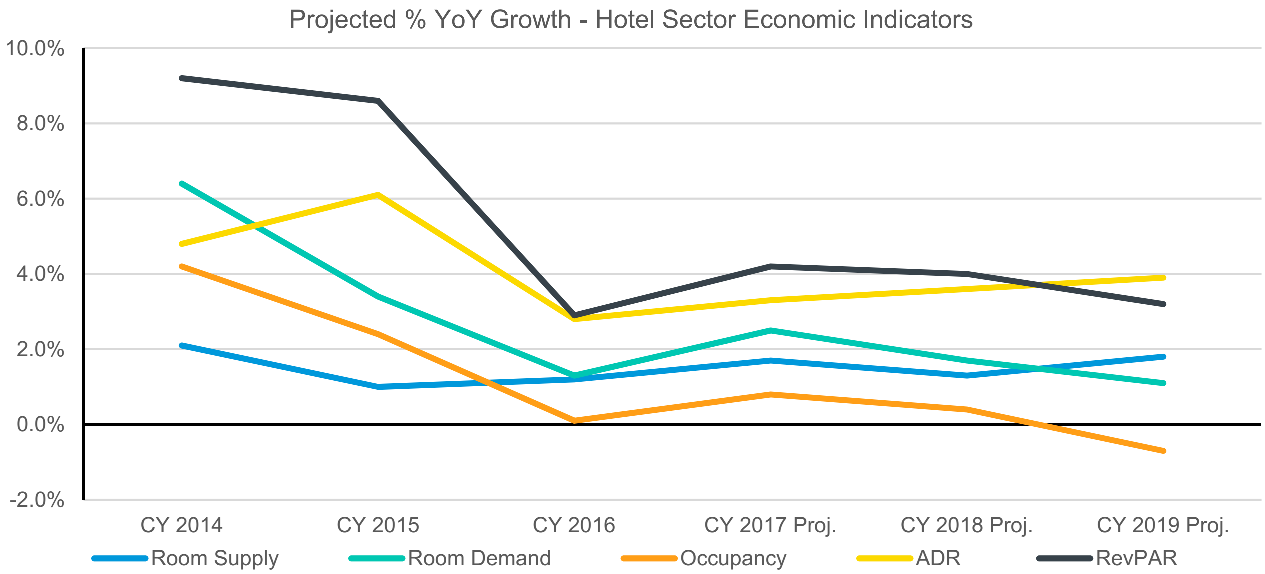
Source: San Diego Tourism Authority and Tourism Economics

Finally, the ADR and the revenue per available room (RevPAR) are also projected to show continued growth. San Diego is expected to outperform the nation as room rates are expected to be higher than the national average. As seen in the table below, the ADR is projected to grow an average of 3.5 percent in CY 2017 and CY 2018.

With sustained growth in TOT receipts in the first half of Fiscal Year 2017 and the projected increases in TOT related economic indicators, the Fiscal Year 2018 TOT growth rate is 5.7 percent. This is consistent with the Tourism Marketing District projected growth rate of 5.0 percent.

General Fund Revenues

Figure 14: Hotel Sector Economic Indicators



	CY 2014	CY 2015	CY 2016	CY 2017[1]	CY 2018[1]	CY 2019[1]
Visitors						
Total Visits (millions)	33.8	34.3	34.6	35.2	35.8	36.3
Overnight Visits (millions)	16.9	17.2	17.4	17.7	18.1	18.3
Hotel Sector						
Avg. Occupancy	74.6%	76.4%	76.4%	77.1%	77.4%	76.9%
Avg. Daily Rate	$ 141.4	$ 150.0	$ 154.2	$ 159.3	$ 165.0	$ 171.5
Rev PAR[2]	$ 105.5	$ 114.6	$ 117.9	$ 122.8	$ 127.7	$ 131.9
Room Demand (growth)	6.4%	3.4%	1.3%	2.5%	1.7%	1.1%

Source: San Diego Tourism Authority and Tourism Economics

[1] Forecast - Tourism Economics, December 2016

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

Fiscal Year 2018 Proposed Budget

The Fiscal Year 2018 total Transient Occupancy Tax budget for the City of San Diego is $231.0 million. Consistent with the Fiscal Year 2018 - 2022 Five-Year Financial Outlook, this is a 5.7 percent growth rate over the Fiscal Year 2017 year-end projection. The FY 2018 growth rate reflects the sustained growth in TOT receipts as a result of projected improvements in TOT related economic indicators.

Of the $231.0 million, $121.0 million which represents the 5.5 cents allocable to general government purposes, 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.

Franchise Fees

Background

General Fund Revenues $75.8 million
Percent of General Fund Revenues 5.4 percent

Franchise fee revenue makes up 5.4 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, cable companies, and Cal AM is based on a percentage of gross sales while the revenue received from refuse haulers is based on tonnage.

SDG&E is the single largest generator of franchise fee revenue in the General Fund and remits 3.0 percent of the gross sales of gas and electricity within the City of San Diego. Revenue from SDG&E is split between the General Fund (75.0%) and the Environmental Growth Funds (25.0%) based on the City Charter. Cable providers, which are the second largest contributors to franchise fees, remit 5.0 percent of gross revenues.

Fiscal Year 2018 Proposed Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2018 Proposed Budget for SDG&E franchise fee revenue of $59.4 million is based on the Fiscal Year 2017 year-end projection and assumes a 2.0 percent growth rate for Fiscal Year 2018. Although, Fiscal Year 2017 revenue projections came in under budget due to SDG&E actual receipts for Calender Year 2016 being significantly lower by approximately 7 percent, revenue is expected to increase in Fiscal Year 2018 based on growth trends of previous years. Historically, revenue receipts have shown positive growth rates, and in the few years that revenues declined, the proceeding periods showed modest growth. As such, revenue growth for Fiscal Year 2018 is budgeted at 2.0 percent, consistent with the Fiscal Year 2018 - 2022 Five-Year Financial Outlook.

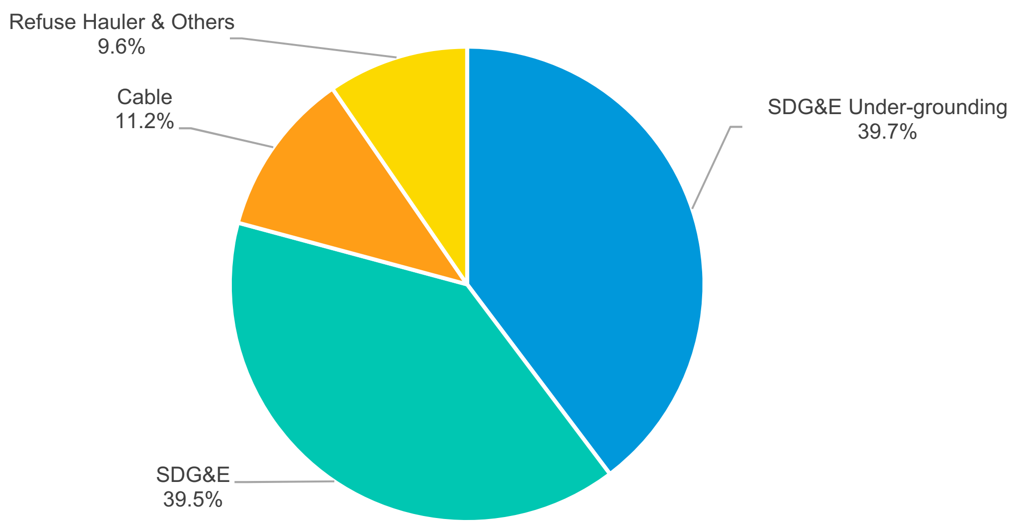
In accordance with the City Charter, 75.0 percent of the revenue received from SDG&E, or $44.5 million, is allocated to the General Fund. The remaining 25.0 percent of revenue received from SDG&E, or $14.8 million, is deposited into special revenue funds called the Environmental Growth Funds (EGF). One-third 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 park and open space maintenance in Fiscal Year 2018.

CABLE COMPANIES. The Fiscal Year 2018 Proposed Budget for cable franchise fee revenue of $16.8 million is based on the Fiscal Year 2017 year-end projection and assumes a 0.0 percent growth rate for Fiscal Year 2018. 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 2018 Proposed Budget for refuse hauler franchise fee revenue from private refuse haulers is $14.5 million and is based on the Fiscal Year 2017 year-end projection. The City anticipates $10.9 million from refuse collection fees, $1.5 million in franchise fees from the EDCO and Sycamore Landfill facilities, $1.5 million in revenue related to the Police Department vehicle tow program, and $0.5 million from other franchise fee sources.

UNDERGROUNDING UTILITY FEE. The Fiscal Year 2018 Proposed Budget for SDG&E undergrounding utility fee revenue of $59.7 million is based on the current Fiscal Year 2017 year-end revenue projection. This revenue is budgeted in the Underground Surcharge Fund.

Figure 15: Franchise Fee Revenue Breakdown



Property Transfer Tax

Background

Property transfer tax makes up 0.7 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.

General Fund Revenues
$10.1 million

Percent of
General Fund Revenues
0.7 percent

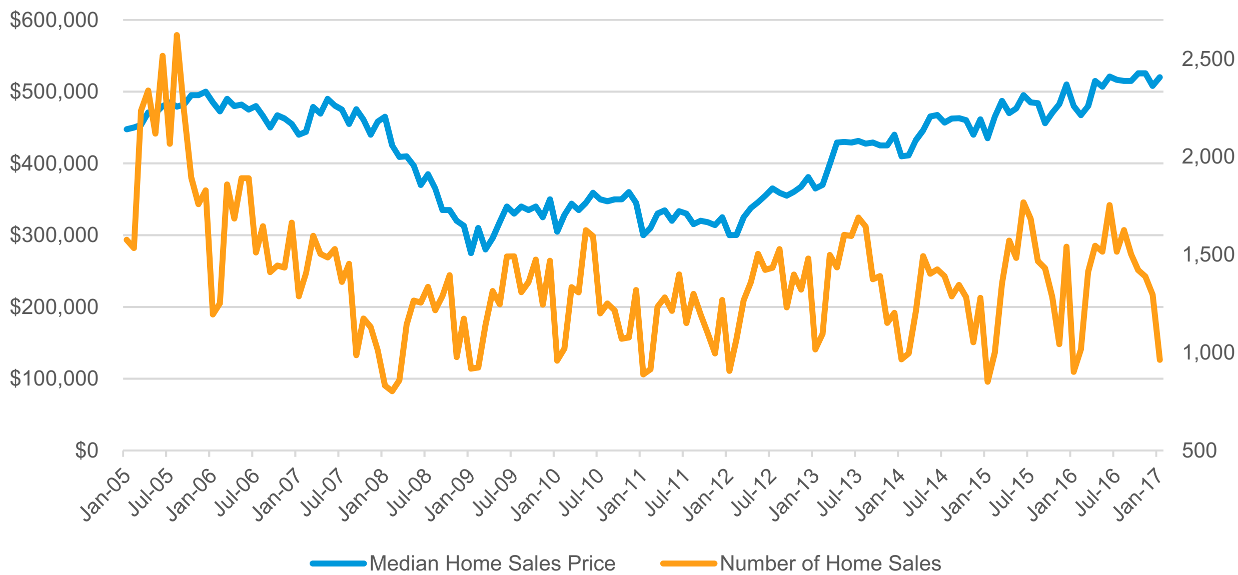
Economic Trends

Unlike property tax revenue, property transfer tax revenue reflects changes to current economic conditions since it does not experience a time lag as with property tax. The economic factors that primarily affect property transfer tax revenue are home sales and prices and both indicators show positive growth trends. Home sales in San Diego during the period February 2016 through January 2017 totaled 16,958 which is an increase of 2.6 percent increase from the total of 16,529 during the period February 2015 through January 2016. The citywide median home price for January 2017 was $520,000 which is an increase of 8.3 percent from last January's home price of $480,000. In addition, twelve month foreclosure activity totals has declined from 1,784 as of January 2016 to 1,181 in January 2017, which is a 33.8 percent decrease. Overall, economic conditions demonstrate year-to-date positive improvements.

Fiscal Year 2018 Proposed Budget

The Fiscal Year 2018 proposed property transfer tax budget of $10.1 million is based on Fiscal Year 2017 projections which assumes a 3.0 percent growth rate. The positive growth rate is based on anticipated continued growth in median home prices projected to occur during Fiscal Year 2018.

Figure 16: City of San Diego Home Sales



Source: CoreLogic®

Licenses and Permits

Background

General Fund Revenues
$21.7 million

Percent of
General Fund Revenues
1.5 percent

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.

Fiscal Year 2018 Proposed Budget

The Fiscal Year 2018 Proposed Budget for licenses and permits is $21.7 million or 1.5 percent of the General Fund revenue budget. This represents a decrease of $2.2 million or 9.3 percent from the Fiscal Year 2017 Adopted Budget. The primary reason for the variance in revenue is a reduction of $2.7 million in alarm permit fees to be collected by the Police Department, which will be partially offset in the Charges and Services category for increased False Alarm Penalty revenue. In addition, $2.3 million of fee revenue is being reallocated to the new General Plan Maintenance Fee Plan Fund. These decreases are offset by a $2.4 million increase in the City Treasurer Department for non-medical cannabis business tax.

General Fund Revenues

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.

General Fund Revenues
$31.9 million

Percent of
General Fund Revenues
2.3 percent

Fiscal Year 2018 Proposed Budget

The Fiscal Year 2018 Proposed Budget for fines, forfeitures, and penalties revenue is $31.9 million or 2.3 percent of the General Fund revenue budget. The Fiscal Year 2018 Proposed budget is $2.1 million or 6.9 percent greater than the Fiscal Year 2017 Adopted Budget. The increase for fines, forfeitures, and penalties is primarily due to a projected increase in parking citation revenue.

Revenue from Money and Property

Rents and Concessions

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 rentals 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 Midway/Frontier property and City Pueblo lands.

General Fund Revenues
$57.8 million

Percent of
General Fund Revenues
4.1 percent

Per Measure C (approved by the voters in November 2008) as amended by Measure J (approved by the voters in November 2016), and City Charter Section 55.2,the threshold amount of $20.0 million of Mission Bay rents and concessions will remain in the General Fund. 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 35.0 percent of revenues in excess of the threshold amount or $3.5 million, whichever is greater, with 65.0 percent or the remaining amount allocated to the Mission Bay Improvements Fund.

Fiscal Year 2018 Proposed Budget

The Fiscal Year 2018 Proposed Budget for rents and concessions revenue is $57.8 million or 4.1 percent of the General Fund revenue budget. This represents a $2.6 million or 4.8 percent increase from the Fiscal Year 2017 Adopted Budget.

The increase can primarily be attributed to $6.2 million in reimbursements from non-general funds for the allocation of costs of the newly acquired 101 Ash Street building as well as revenue for the Civic Center Plaza building that is transferring to this category from Transfers In. This is offset by a reduction of a $2.9 million due to the removal of a one-time receipt of Midway/Frontier lease revenue from Fiscal Year 2017.

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 of the Fund are allocated to the participating City funds based on their pro rata share.

Interest Earnings Outlook

Interest rates have remained historically low since the financial crisis of 2008, however the Federal Reserve has recently embarked on the process of normalization. The FOMC began raising the target range for the federal funds rate for the first time in ten years in December 2015 to a range of 0.25 to 0.50 percent. Subsequently in December 2016, the FOMC raised the target range to 0.50 to 0.75. followed by a another increase to a range of 0.75 to 1.00 percent in March 2017.

As the FOMC continues upon a rate normalization cycle, interest earnings for Fiscal Year 2018 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. Markets can be extremely volatile, especially at the beginning of a rate hike cycle, which may result in significant deviation from the current estimate.

Fiscal Year 2018 Proposed Budget

The Fiscal Year 2018 Proposed Budget for interest earnings revenue is $0.7 million, which represents a $0.1 million or 14.0 percent increase from the Fiscal Year 2017 Adopted Budget.

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.

General Fund Revenues
$4.5 million

Percent of
General Fund Revenues
0.3 percent

Fiscal Year 2018 Proposed Budget

The Fiscal Year 2018 Proposed Budget for revenue from federal and other agencies is $4.5 million or 0.3 percent of the General Fund revenue budget. This represents an approximate $3.6 million or 44.9 percent decrease from the Fiscal Year 2017 Adopted Budget. The decrease from the Fiscal Year 2017 Adopted Budget is primarily attributable to the reallocation from the General Fund of $3.3

million in reimbursement revenue from the City's successor agency to the newly created Successor Agency Administration and Project Management - CivicSD Special Fund.

Charges for Current Services

Background

General Fund Revenues
$152.8 million

Percent of
General Fund Revenues
10.9 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.Transient Occupancy Tax (TOT) revenue is allocated to several departments for General Fund reimbursable expenditures related to the safety and maintenance of visitor related facilities.

Fiscal Year 2018 Proposed Budget

The Fiscal Year 2018 Proposed Budget charges for current services revenue is $152.8 million or 10.9 percent of the General Fund revenue budget. This represents a net increase of $16.3 million or 11.9 percent increase from the Fiscal Year 2017 Adopted Budget. The Fire-Rescue Department is anticipated to receive an increase of $9.0 million in TOT revenues to support the safety and maintenance of visitor related facilities. The Police Department is reallocating $1.9 million from Alarm Permit Fees contained in License and Permits category to Charges for Current Services for False Alarm Penalties. An increase of $5.8 million in Transportation and Storm Water Department revenues is attributable to a reclassification from the Transfers In category related to Gas Tax revenues.

Transfers In

Background

General FundRevenues
$112.4 million

Percent of
General Fund Revenues
8.0 percent

The Transfers In 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 2018 Proposed Budget

The Fiscal Year 2018 Proposed Budget for Transfers In is $112.4 million or 8.0 percent of the General Fund revenue budget. This represents an approximate $21.1 million or 23.0 percent increase from the Fiscal Year 2017 Adopted Budget. A portion of this increase is attributable to a one-time transfer of $16.0 million from the Pension Stabilization Fund to mitigate the $40.6 million increase in the Actuarially Defined Contribution pension payment. A one-time transfer from the Workers Compensation Fund of excess reserves in the amount $10.2 million to fund the General Fund Reserve and Public Liability Reserve contributions in Fiscal Year 2018 also contributes to this increase. These are partially offset by a reclassification of $5.8 million of Transportation and Storm Water Department revenues to the Charges for Current Services category related to Gas Tax revenues.

Other Revenue

Fiscal Year 2018 Proposed Budget

Other revenue is composed of library donations, ambulance fuel reimbursements, corporate sponsorships, recovery from damages to City property and other miscellaneous revenues. The Fiscal Year 2018 Proposed Budget for other revenue is $4.6 million or 0.3 percent of the General Fund revenue budget. This represents an approximate $0.3 million increase from the Fiscal Year 2017 Adopted Budget attributable primarily to reimbursements to the Transportation and Storm Water Department.

General Fund Revenues
$4.6 million

Percent of
General Fund Revenues
0.3 percent

State of California Budget Impacts

On January 10, 2017, Governor Brown released the 2017-2018 Proposed Budget appropriating $179.5 billion, including $122.5 billion in the State's General Fund. In the Governor's Proposed Budget the primary focus is addressing a projected $1.6 billion budget deficit. The Governor's budget includes more than $3.2 billion in actions to reduce the State's General Fund spending. The most significant action is related to the Proposition 98 minimum funding guarantee for schools and community colleges, which the administration is recommending adjusting the required General Fund spending downward by $1.7 billion. The budget also cancels a $400 million set-aside for affordable housing and $300 million for the replacement and renovation of State office buildings. The Governor's budget does maintain "core" funding for K-12 Education, projected to grow to $73.5 billion in 2017-18. In accordance with Proposition 2, which sets a goal of having 10 percent of tax revenues to save for the next recession, the budget proposal would provide additional funding to achieve 63 percent of the Rainy Day Fund target. The City does not anticipate any negative impacts to the City's General Fund Revenues as a result of the State's Budget Proposal.

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 2016 that established the Tax Appropriations Limit for Fiscal Year 2017 at $2,305,382,355. Using the Fiscal Year 2017 Proposed Budget and Fiscal Year 2017 May Revise, the appropriations subject to the limit (i.e., proceeds of taxes, excluding debt service on voter-approved debt, of which the City has none, and qualified capital outlays) were calculated to be $991.0 million, which was $1.3 billion lower than the Gann Limit.

The Fiscal Year 2018 Gann Limit calculation will be presented to City Council in June 2017. Adjustment factors used for the computation are release by the California Department of Finance in late May 2017. Therefore, the Fiscal Year 2017 Gann Limit will not be established before the release of the Fiscal Year 2017 Proposed Budget.