FISCAL YEAR 2019

MAYOR KEVIN L. FAULCONER

General Fund Revenues

PROPOSED BUDGET

The City of SAN DIEGO

General Fund Revenues

Economic Environment

Property Tax

General Fund Transient Occupancy Tax (TOT)

Franchise Fees

Property Transfer Tax

Licenses and Permits

Fines, Forfeitures, and Penalties

Revenue from Money and Property
- Rents and Concessions
- Interest Earnings

Revenue from Federal & Other Agencies

Charges for Current Services

Transfers In

Other Revenue

State of California Budget Impacts

Annual Tax Appropriations Limit (Gann Limit)

The Fiscal Year 2019 General Fund revenue budget is $1.44 billion, which represents an increase of $27.7 million or 2.0 percent from the Fiscal Year 2018 Adopted Budget. The General Fund Revenues section provides a detailed description of the revenue categories listed to the right on this page. In the narrative below, background information describing growth trends, economic factors, and methods of allocation are provided for each revenue source. This information provides insight into the formulation of the Fiscal Year 2019 Proposed Budget for the General Fund revenues, which funds 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 2019 General Fund Revenue Change illustrates the components of the projected $27.2 million, or 2.0 percent increase, in General Fund revenues from the Fiscal Year 2018 Adopted Budget. The four major General Fund revenue sources are property taxes, sales taxes, transient occupancy taxes (TOT), and franchise fees. These sources account for 73.0 percent of the City's General Fund revenue in the Fiscal Year 2019 Proposed Budget and are projected to increase by $42.1 million, or 4.2 percent, from the Fiscal Year 2018 Adopted Budget.

Table 1: Fiscal Year 2019 General Fund Revenue Change

	Percent Change from FY 2018 Adopted Budget	Change (in millions)
Major Revenues	4.2%	$ 42.1
Other Revenue Sources	(3.6)%	(14.4)
Total	**2.0%**	**$ 27.7**

Table 2: Fiscal Year 2019 General Fund Revenues displays each of the revenue categories in the General Fund and includes Fiscal Year 2017 actual amounts, as well the Fiscal Year 2018 Adopted Budget.

General Fund Revenues

Table 2: Fiscal Year 2019 General Fund Revenues - $1.44 Billion (in millions)

Revenue Category	FY 2017 Actual	FY 2018 Adopted Budget	FY 2019 Proposed Budget	FY 2018 - FY 2019 Change	Percent Change	% of Total General Fund Revenue
Property Tax	$ 506.2	$ 534.6	$ 559.5	$ 24.9	4.7%	39.0%
Sales Tax	271.5	275.3	281.9	6.6	2.4%	19.6%
Transient Occupancy Tax	116.9	121.1	127.9	6.8	5.7%	8.9%
Franchise Fees	73.1	75.1	78.9	3.8	3.8%	5.5%
Property Transfer Tax	9.5	10.1	10.9	0.9	8.7%	0.8%
Licenses & Permits	24.5	21.7	25.3	3.6	16.8%	1.8%
Fines, Forfeitures, and Penalties	31.0	31.9	31.4	(0.5)	(1.5)%	2.2%
Revenue from Money and Property	60.8	57.8	59.2	1.4	2.4%	4.1%
Interest Earnings	1.9	0.7	0.7	(0.0)	(3.2)%	0.0%
Revenue from Other Agencies	22.7	4.5	5.5	1.0	22.1%	0.4%
Charges for Current Services	141.8	152.8	159.3	6.5	4.3%	11.1%
Transfers In	80.6	117.8	91.9	(-25.9)	(22.0)%	6.4%
Other Revenue	5.8	4.6	3.0	(1.5)	(33.2)%	0.2%
Total	**$ 1,346.4**	**$ 1,407.7**	**$ 1,435.4**	**$ 27.7**	**2.0%**	**100.0%**

As required by City Charter section 77.1, the Fiscal Year 2019 Proposed Budget includes the deposit of major revenue increment into an Infrastructure Fund to be used for new infrastructure costs. This includes 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 $16.2 million to the Infrastructure Fund is calculated according to the following:

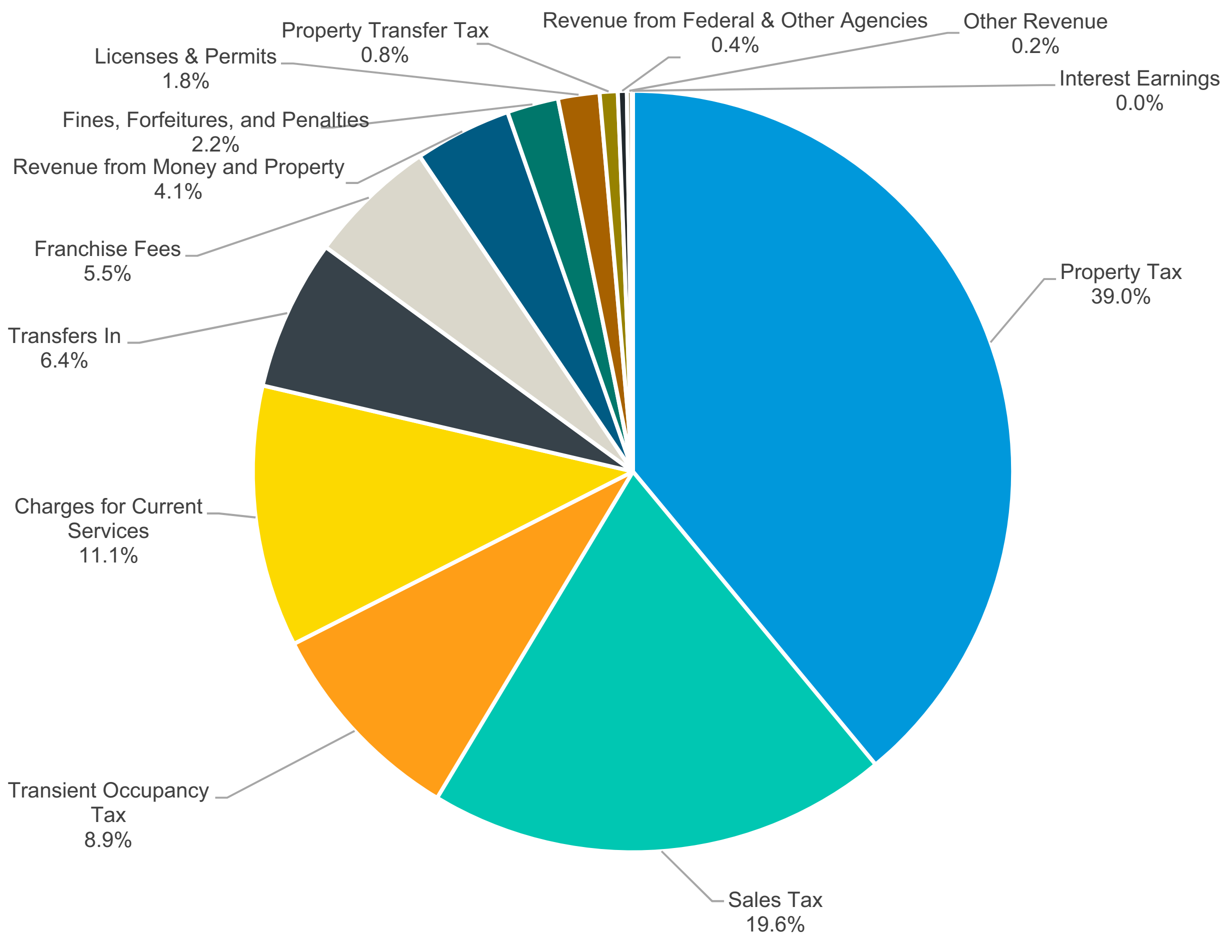
- Major revenue increment - For Fiscal Years 2018 through 2022, an amount equal to 50.0 percent of the year over year growth in property tax revenues, unrestricted General Fund TOT, and unrestricted franchise fees.
- Sales tax increment - For Fiscal Years 2018 through 2042, an amount equal to the annual 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 Fiscal Year 2019 Proposed Budget includes a contribution to the Infrastructure fund from the major revenue increment component only. The Fiscal Year 2019 sales tax component of this calculation is below the inflated baseline, and pension costs are above the base year costs, resulting in no contributions from these components of the Infrastructure Fund calculation.

The major General Fund revenue projections included in the Fiscal Year 2019 Proposed Budget are based on Fiscal Year 2018 year-end projections and economic data through December 2017. It is based on 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 2019 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 2019 General Fund Revenues - $1.44 Billion



San Diego's Economic Environment[1]

Development of the Fiscal Year 2019 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 in the City's Major Revenues. Local economic indicators improved during Fiscal Year 2018; 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.

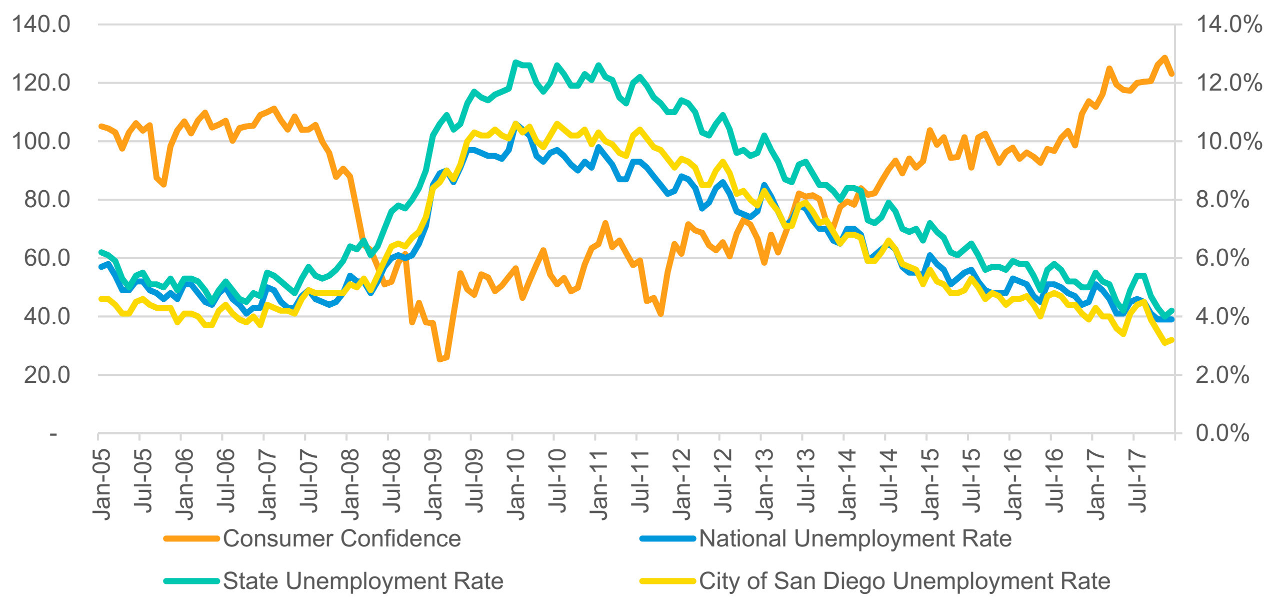
[1] The following sources were used in this section: National Bureau of Economic Research, California Employment Development Department, United States Bureau of Labor Statistics, California State Board of Equalization, University of San Diego Index of Leading Economic Indicators, CoreLogic ®, San Diego 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

In comparison to the Fiscal Year 2018 Adopted Budget, the Fiscal Year 2019 Proposed Budget includes projected increases to the four General Fund major revenues - property tax, sales tax, TOT and franchise fees - based on the continued, yet tempered, improvement in local economic indicators. The Fiscal Year 2019 Proposed Budget for property tax assumes that the City will experience 5.5 percent growth based on increasing home prices tempered by fewer home sales. This is a higher growth rate than projected Fiscal Year 2019-2023 Five-Year Financial Outlook (Outlook). The Fiscal Year 2019 Proposed Budget for sales tax assumes a 3.0 percent growth rate as assumed in the Outlook. The projected growth rate for TOT is 5.3 percent. This growth rate has been lowered slightly from the Outlook assumptions, due to lower tourism activity forecasted by the San Diego Tourism Authority. The Fiscal Year 2019 Proposed Budget for franchise fees is based on the Fiscal Year 2018 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 employment levels and consumer confidence. Consumer confidence has increased steadily since its low in March 2009 to a new high of 128.6 in November 2017, and ended the year at 123.1 in December 2017. Since the end of the recession, the employment rate for the City of San Diego has continued to improve steadily. In November 2017, State and national unemployment rates reached their lowest levels since 2001.

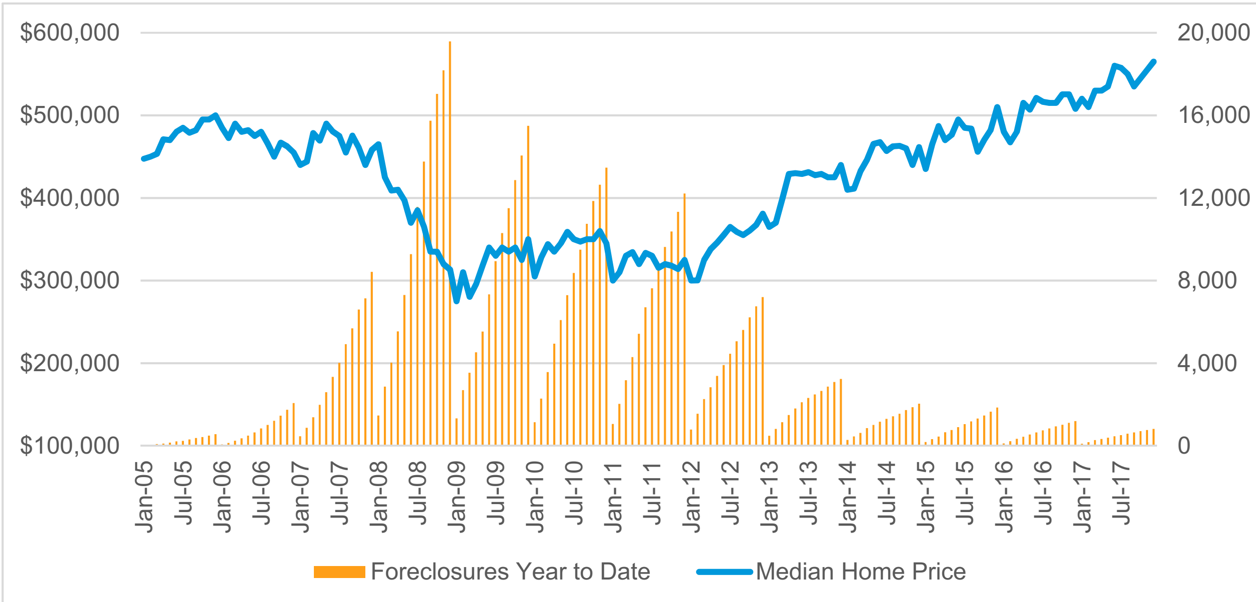
Figure 2: Consumer Confidence and Unemployment



Source: The Conference Board, California Employment Development Department

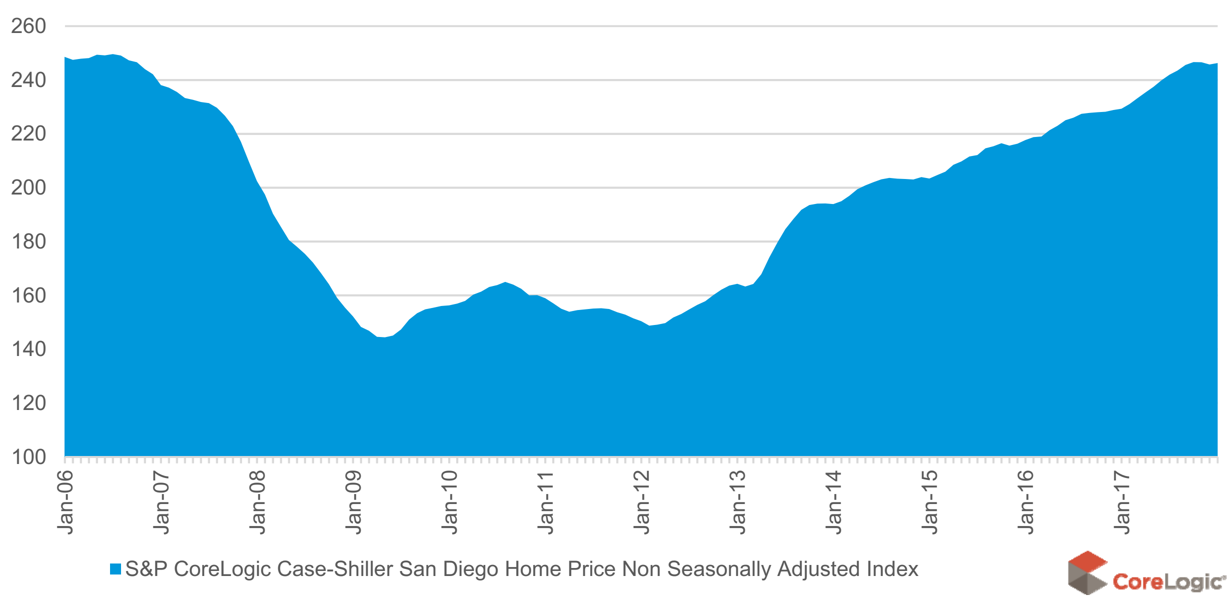
Citywide median home prices have rebounded from low of $279,000 in January 2009 to a new all-time high of $565,000 in December 2017. The number of home sales for 2017, however, fell to 16,372, a 3.1 percent decrease from 2016 home sales. As reported by CoreLogic, a data and analytics company, the S&P/ Case-Shiller San Diego Home Price Non-Seasonally Adjusted Index continues to climb towards its November 2005 market peak of 250.3. The home price index as of December 2017 was 246.3, which is a 7.4 percent increase over the December 2016 index of 229.3.

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 2019 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 2019 Proposed Budget:

- The Index of Leading Economic Indicators for San Diego County as of December 2017 was 149.0, which is an increase of 5.2 percent from the December 2016 index level of 141.3 (University of San Diego Index of Leading Economic Indicators).
- Home sales in the City of San Diego for the calendar year 2017 totaled 16,372 which is a decrease of 3.1 percent from the 16,897 homes sold in 2016 (CoreLogic ®).
- As of December 2017, the citywide median home price was $565,000 which is an 11.2 percent increase from the December 2016 median home price of $508,000 (CoreLogic ®).
- The S&P/CoreLogic Case-Shiller Home Price NSA Index for the City of San Diego was 246.3 as of December 2017, a 7.4 percent increase over the December 2016 index of 229.3.(S&P Dow Jones Indicies / CoreLogic ® Case-Shiller)
- Countywide foreclosures 2017 totaled 811 which is a decline of 32.1 percent from the 2016 total of 1,194. Notices of default, an indicator of potential future foreclosure levels, totaled 3,494 for 2017 , a decline of 19.7 percent from the 4,352 experienced the prior year (County of San Diego Assessor/Recorder/Clerk's Office).
- The City of San Diego's unemployment rate was 3.2 percent as of December 2017, which is a decrease from 3.9 percent in the prior year. (State of California Employment Development Department).
- As of December 2017, the National Consumer Confidence Index, a barometer of the health of the U.S economy from the perspective of the consumer, was 123.1, which is an increase of 8.3 percent from the December 2016 index of 113.7 (The Conference Board).

According to the UCLA Anderson Forecast for the Nation and California March 2018 Report, the economy is operating at full employment and further notes that “the outlook is for continued 3 percent growth, but as we enter 2019 the economy could very well begin to sputter under the strains of higher inflation and interest rates and by 2020 it could very well stall out.”

The Spring 2018 Beacon Economics United States Forecast notes that “2018 will be a good year overall for the economy. But the turmoil generated by these competing forces is likely to begin creating imbalances in the system. While Beacon Economics still sees no recession in the works for the next 24 months, we may well look back at 2018 as the year in which the cause of the next downturn took hold in the U.S. economy.”

Property Tax

Background

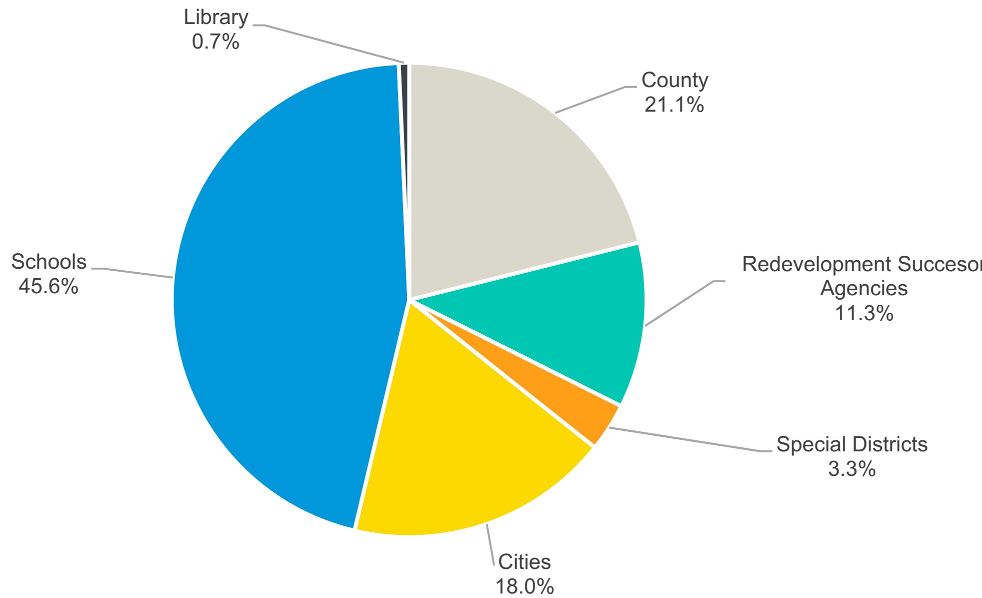
Property tax revenue is the City's largest revenue source, representing 39.0 percent of total General Fund revenue. Property tax revenue is collected by the San Diego County Tax Collector from a 1.0 percent levy on the assessed value of all real property. Proposition 13, passed by voters in 1979, specifies 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
$559.5 million

Percent of
General Fund Revenues
39.0 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. According to the County of San Diego Assessor's Office, for every $100 collected in Fiscal Year 2018, the allocation to the cities in San Diego County total $18.00, which includes offsets for Motor Vehicle License Fees. 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 2019, the property tax administration fee for the City is estimated to be $4.6 million, which is an increase of $0.1 million over the FY 2018 Adopted Budget of $4.5 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 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 $12.2 million in Fiscal Year 2019, which is a decrease of $6.3 million from the FY 2018 Adopted Budget of $18.5 million.
- There are two outstanding lawsuits regarding the distribution of residual funds in the RPTTF. Both lawsuits have the potential to correct certain prior residual distributions. One correction could positively impact property tax, while the other could negatively impact property tax. Further, one of the lawsuits contests the methodology of residual distributions and could increase the City's allocated percentage of future residual distributions.

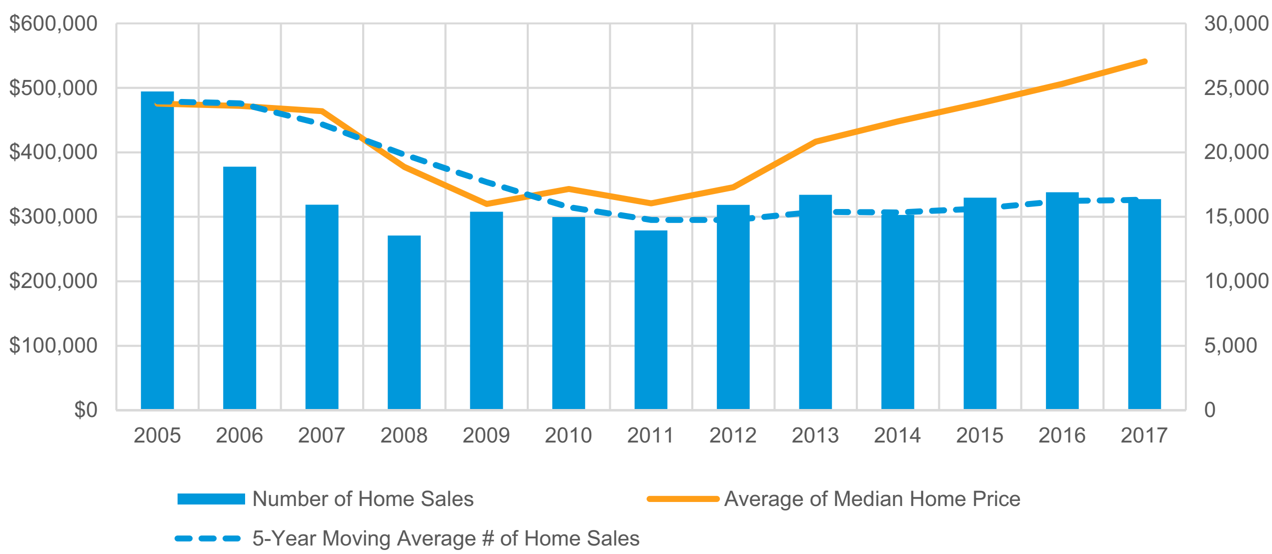
Economic Trends

While the local residential housing market continued to experience improvement in Fiscal Year 2018, the growth rate for the Fiscal Year 2019 Proposed Budget is based on calendar year 2016 market activity. This is 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, which led to a decline in property tax revenue. However, with the slow and extended recovery that followed, all of these indicators have improved. Foreclosures and notices of defaults continue to decline to record lows as home prices increase to record highs. However, while the number of homes sold has increased steadily since 2007, it has not returned to the levels seen during the previous real estate boom.

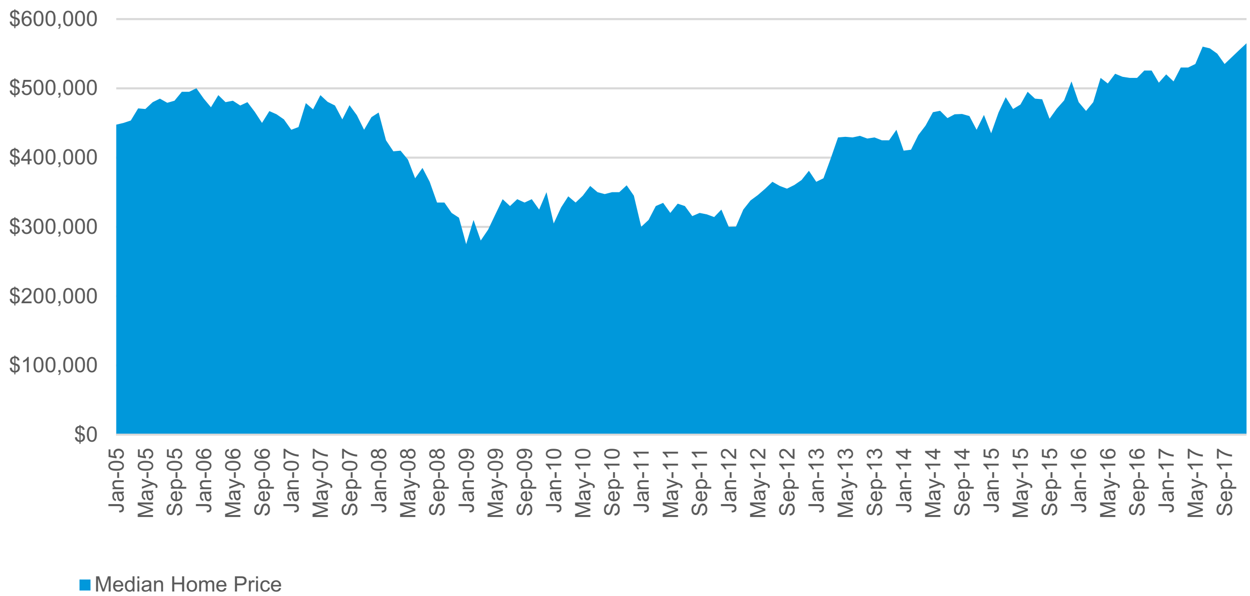
Home sales in the City of San Diego decreased slightly in Calendar Year 2017, as the City recorded 16,372 sales, which is a 3.1 percent decrease over the Calendar Year 2016 home sales total of 16,897. Home sales in 2017 were slightly above the five-year average. Median home sales price showed continued improvement during Calendar Year 2017. The monthly median home price in the City for Calendar Year 2017 averaged $541,042 which is an increase of 6.9 percent from the Calendar Year 2016 average monthly median home price of $506,313. The median home price reached a new all-time high in December 2017 at $565,000.

Figure 6: City of San Diego Home Sales (Calendar Year)



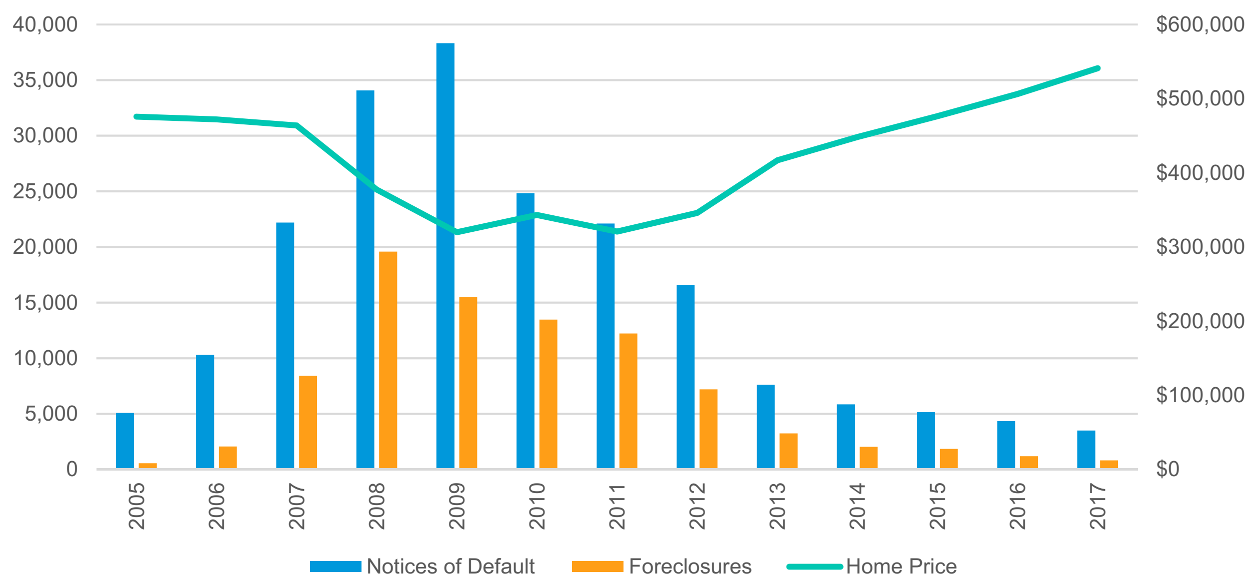
Source: CoreLogic ®

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 2017 was 265.5, which is a 3.0 percent increase over the October 2016 CCPI of 257.8. 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 new low for the decade in November 2017 at 3.1 percent, but settled at 3.2 percent as of December 2017. The State of California's unemployment rate also achieved a twenty-seven year low of 4.0 percent in November 2017, but ended the year at 4.2 percent in December 2017.

According to Colliers International Fourth Quarter 2017 Research & Forecast Report, completed commercial construction in San Diego County during Calendar Year 2017 was 635,461 square feet, which is an increase from the previous year construction of 155,333 square feet. Likewise, industrial construction increased in square footage from 426,227 to 850,935 in 2017. Commercial and industrial property represents approximately 20.0 and 6.3 percent, respectively, of the assessed property value within the City. Given the difference in commercial and industrial development between 2016 and 2017, property tax growth in Fiscal Year 2019 is anticipated to increase from the prior year in these categories.

In December 2015, the Federal Open Market Committee (FOMC) began raising the target range for the federal funds rate, for the first time in nine years, to a range of 0.25 to 0.50 percent. Subsequently, the FOMC raised the target range to 1.50 to 1.75 percent by with increases in five of the last eleven meetings. The committee notes in its March 21, 2018 press release that “The Committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.”

Lastly, while the 30-year mortgage rate has steadily decreased over the last nine years, 2017 generally experienced higher rates when compared to 2016. Mortgage rates are likely to continue to rise as the FOMC continues with its normalization of the federal funds rate and implementation of other monetary policy to maintain stable growth in the economy while curbing inflation.

Fiscal Year 2019 Proposed Budget

The increase in the October 2017 CCPI, increased median home prices, low unemployment, and continued strength in the commercial real estate market, will drive the growth in assessed valuation for Fiscal Year 2018 and result in increased base property tax receipts. While the number of home sales in 2017 dropped decreased to 2016, the volume of home sales continues to sustain at levels that provide growth to the property tax base. These factors support the increased growth rate assumed for the Fiscal Year 2019 property tax budget. This growth, however, will be constrained by increased borrowing costs and increases in median home prices.

The Fiscal Year 2019 Proposed Budget for property tax is $559.5 million, which assumes 5.5 percent growth for the base property tax (Proposition 13) and "in-lieu of motor vehicle license fee" payment. This growth rate is higher than projected in the Fiscal Year 2019-2023 Financial Outlook due to continued strength in the real estate market. The $559.5 million property tax budget consists of an estimated $395.1 million in base property tax (Proposition 13), $145.0 million "in-lieu of motor vehicle license fee" payment, $7.1 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA), and $12.2 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 will be recognized as property tax revenue. The residual property tax payments are the City's proportionate share of funds remaining in the RPTTF after ROPS requirements have been met. The total property tax for the Fiscal Year 2019 Proposed Budget is lower than Outlook due to additional ROPS obligations paid from the RPTTF, thereby reducing residual RPTTF property tax. These additional ROPS obligations include an accelerated loan repayment to the City's Community Development Block Grants program, which will directly benefit on a dollar-for-dollar basis as opposed to a 17.0-22.0% distribution to the General Fund of residual RPTTF distributions.

Table 3: Fiscal Year 2019 Proposed Property Tax Budget

		(in millions)
Base Property Tax	$	395.1
Property Tax "In-Lieu" of MVLF		145.0
Tax Sharing Distribution		7.1
Residual Tax Sharing		12.2
Total Property Tax	**$**	**559.5**

Sales Tax

Background

General Fund Revenues
$281.9 million

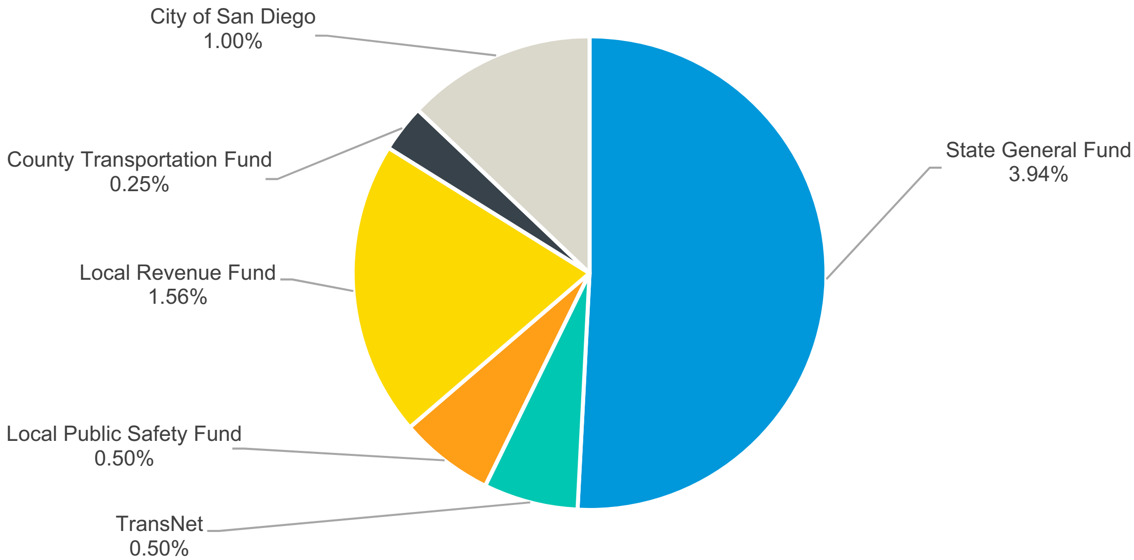
Percent of
General Fund Revenues
19.6 percent

Sales tax is the second largest General Fund revenue source, representing 19.6 percent of the total General Fund revenue. Collected at the point of sale, sales tax receipts are remitted to the California Department of Tax and Fee Administration (formerly the 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 7.75 percent. Included in the 7.75 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.

General Fund Revenues

Figure 9: City of San Diego Sales Tax Rate (7.75 percent)



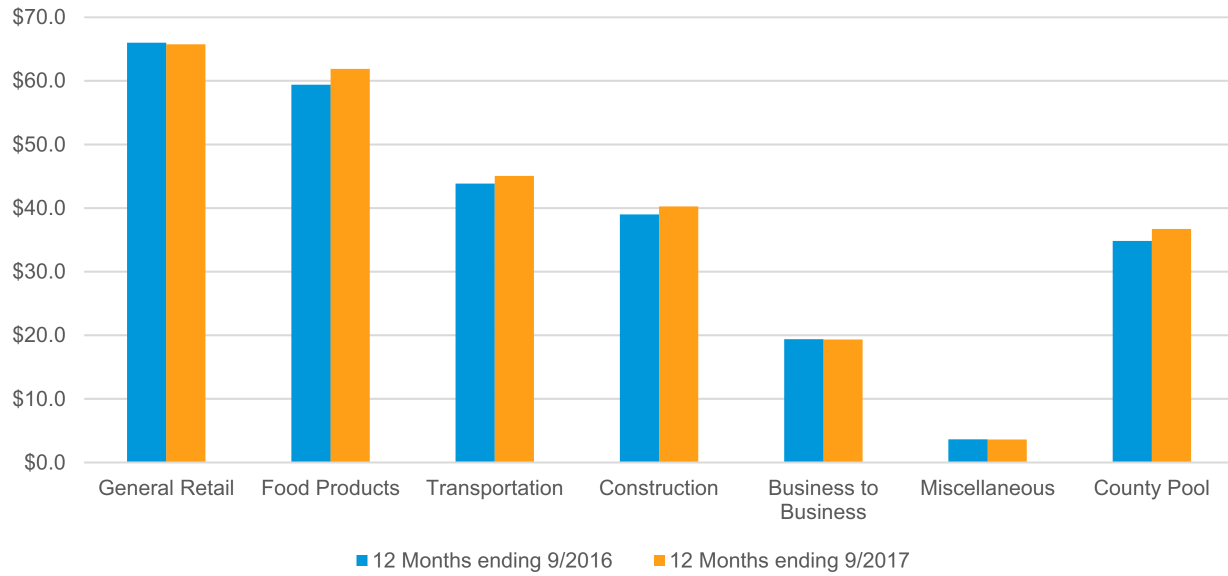
Source: State Board of Equalization

Economic Trends

The Fiscal Year 2019 Proposed Budget for Sales Tax was developed utilizing a 3.0 percent growth rate. **Figure 10:** Sales Tax Revenues by Economic Category displays sales tax for purchases made during the twelve months period ending September 2017 compared to the twelve month period ending September 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 to online sales. 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 48 percent of the total County Pool receipts based on the City’s pro rata share of total countywide sales tax receipts. Tourism trends continue to be strong along with the associated Food Products category reflecting strong receipts in hotels, fine dining and other restaurants. The transportation category which includes fuel and automobile sales, also grew in Fiscal Year 2018 driven by increases in fuel prices.

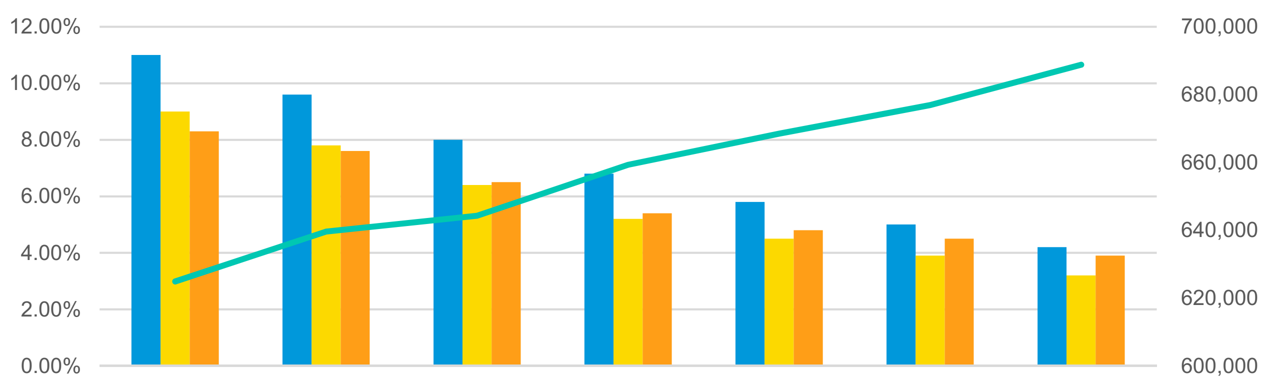
Figure 10: Sales Tax Revenues by Economic Category (in millions)



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 2017 showed record numbers for these indicators. The City of San Diego's Unemployment Rate saw a 17-year low in November 2017 of 3.1 percent with an new high of 689,900 persons employed. Furthermore, consumer confidence saw a resurgence within the last year reaching a new high of 128.6 in November 2017 before settling at 123.1 in December 2017. Likewise, the University of San Diego Index of Leading Economic Indicators reached an all-time high in December 2017 at 149.0. The San Diego Consumer Price Index has also increased by 3.0 percent from 274.7 to 283.0, leading to higher prices of goods, and therefore sales tax. It is unclear how long the highs experienced within the last year 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 2019 Proposed Budget

The growth rate for sales tax for Fiscal Year 2019 is 3.0 percent as forecasted in the Fiscal Year 2019-2023 Five-Year Financial Outlook. This growth rate reflects anticipated higher fuel prices, marginal to flat growth in general retail due to continued shift away from brick-and-mortar retail stores to online purchases, stable automotive sales in light of higher interest rates, and a continued overall optimistic outlook for the economy in Fiscal Year 2019. The Fiscal Year 2019 Proposed Budget for sales tax is $281.9 million.

General Fund Transient Occupancy Tax (TOT)

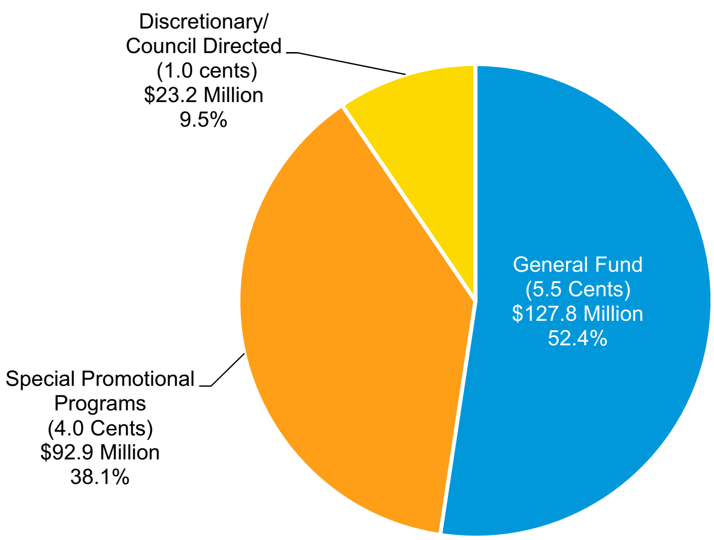
Background

Transient Occupancy Tax makes up 8.9 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 $244.2 million, of which, $127.9 million is applied directly to the General Fund.

General Fund Revenues
$127.9 million

Percent of
General Fund Revenues
8.9 percent

Figure 12: City of San Diego Transient Occupancy Tax Allocation



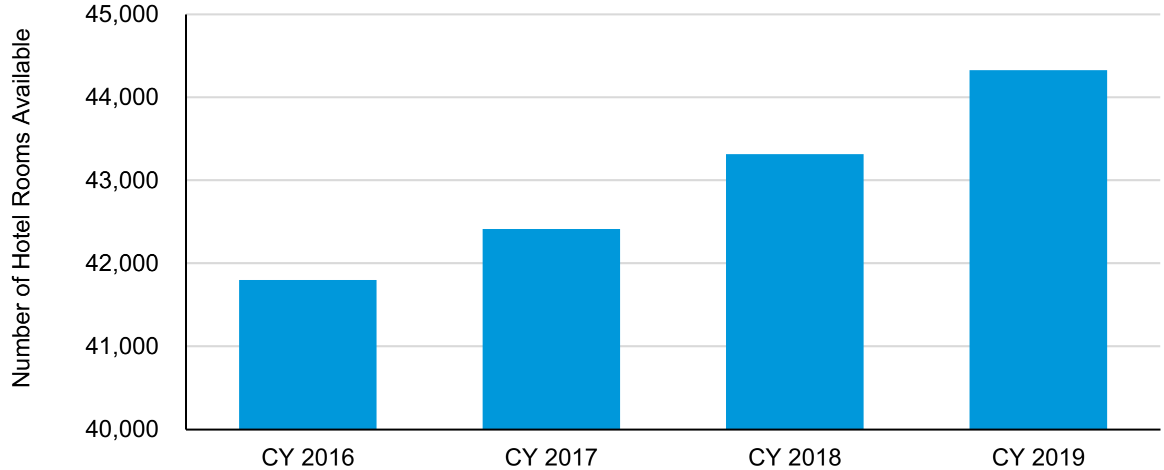
Economic Indicators

The San Diego hotel sector, which generates the majority of TOT receipts, 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. While the City is projected to see continued growth in TOT revenue in Fiscal Year 2019, growth is projected at a lower rate than previous years as a result of a recent slowing growth of TOT related economic indicators.

According to the San Diego Travel Forecast prepared for the San Diego Tourism Authority by Tourism Economics, overnight visits to San Diego County are projected to grow by 2.0 percent in calendar years (CY) 2018 and 2019. Even with increased overnight visits, the projected average hotel occupancy rate in CY 2018 and 2019 is projected to average 77.0 percent, which is decrease from prior year hotel occupancy rate of 77.6. These indicators drive the projected room demand in CY 2018 to 2.3 percent and decreasing in CY 2019 to 1.6 percent.

The supply of rooms is projected to increase in CY 2018 before slowing in CY 2019. As illustrated in the graph above, the total supply of rooms is projected to grow by 3.0 percent in CY 2018 and slow to 2.3 percent growth in CY 2019. This is an increase of approximately 1,000 hotel rooms within the City by CY 2019.

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



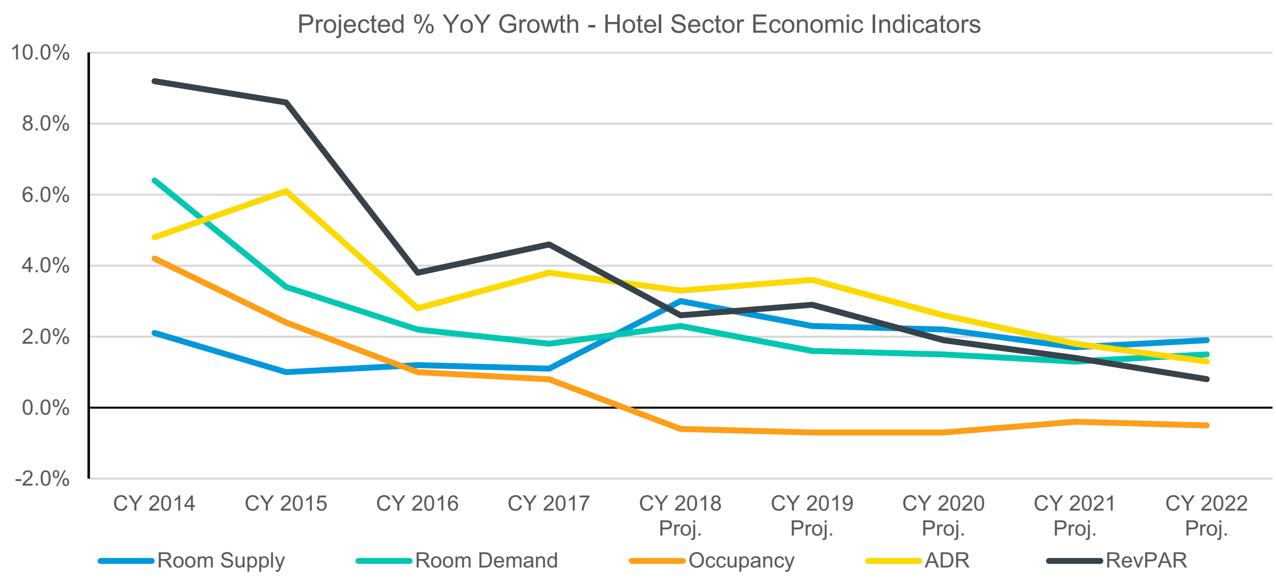
Source: San Diego Tourism Authority and Tourism Economics

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 2018 and CY 2019

With sustained growth in TOT receipts in the first half of Fiscal Year 2018, and increases in TOT related economic indicators projected for Calendar Year 2018 and 2019, the Fiscal Year 2019 growth rate for the City's TOT revenue is projected at 5.3 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 2017

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

Fiscal Year 2019 Proposed Budget

The Fiscal Year 2019 total Transient Occupancy Tax (TOT) budget for the City of San Diego is $244.2 million which reflects a 5.3 percent growth rate. The Fiscal Year 2019 projected growth rate of 5.3 percent is a decrease from the projected growth rate of 5.9 percent as reported in the Fiscal Year 2019-2023 Five-Year Outlook. This decrease is primarily due to a decline in occupancy levels. The decline in occupancy levels can be attributed to slower visitor growth and continued supply growth, coupled with a slowdown in demand. The FY 2019 growth rate reflects a slower growth in TOT receipts as a result of projected declines in TOT related economic indicators.

Of the $244.2 million of total TOT, $127.9 million represents the 5.5 cents allocable to the general government purposes, will be recognized in 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 other TOT allocated for reimbursement of General Fund tourism-related expenditures.

Franchise Fees

Background

General Fund Revenues
$78.9 million

Percent of
General Fund Revenues
5.5 percent

Franchise fee revenue makes up 5.5 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, Spectrum (formerly known as Time Warner), 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 2019 Proposed Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2019 Proposed Budget for total SDG&E franchise fee revenue of $63.6 million is based on the Fiscal Year 2018 year-end projection and assumes a 2.0 percent growth rate for Fiscal Year 2019. Historically, revenue receipts have shown positive growth rates, and in the few years that revenues declined, the following periods showed modest growth. As such, revenue growth for Fiscal Year 2019 is budgeted at 2.0 percent, consistent with the Fiscal Year 2019 - 2023 Five-Year Financial Outlook.

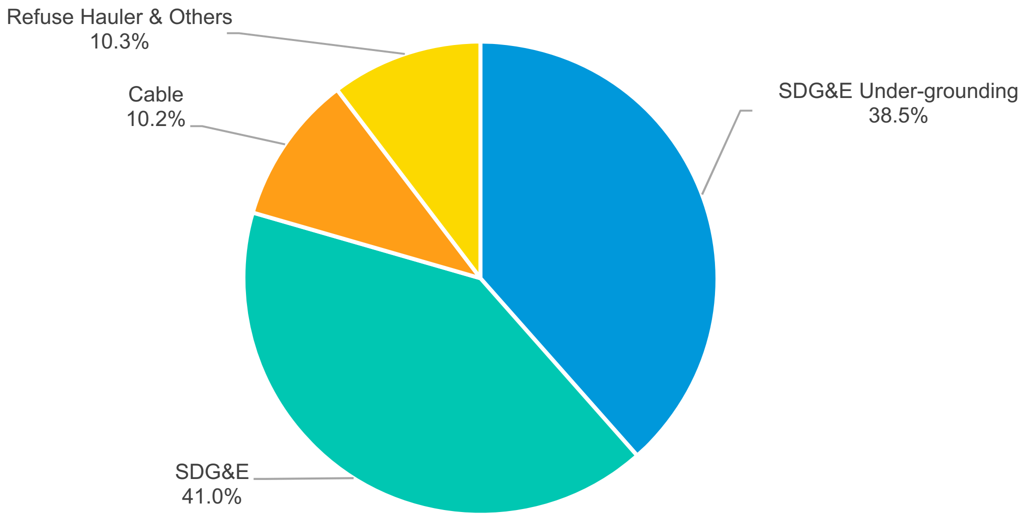
In accordance with the City Charter, 75.0 percent of the revenue received from SDG&E, or $47.7 million, is allocated to the General Fund. The remaining 25.0 percent of revenue received from SDG&E, or $15.9 million, is deposited into special revenue funds called the Environmental Growth Funds (EGF). One-third 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, this will provide funding for park and open space maintenance in Fiscal Year 2019.

CABLE COMPANIES. The Fiscal Year 2019 Proposed Budget for cable franchise fee revenue of $15.8 million is based on the Fiscal Year 2018 year-end projection and assumes a negative 2.0 percent growth rate for Fiscal Year 2019. The projected growth rate is based on current market conditions and lower revenues from cable providers experienced over the past couple of years.

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2019 Proposed Budget for refuse hauler and other franchise fee revenues is $15.5 million and is based on the Fiscal Year 2018 year-end projection. The City anticipates $12.7 million from refuse collection fees, $1.6 million in revenue related to the Police Department vehicle tow program, $0.8 million in franchise fees from the EDCO and Sycamore Landfill facilities, and $0.4 million from other franchise fee sources.

UNDERGROUNDING UTILITY FEE. The Fiscal Year 2019 Proposed Budget for SDG&E undergrounding utility fee revenue of $59.7 million is based on the current Fiscal Year 2018 year-end revenue projection. This revenue is budgeted in the Underground Surcharge Fund.

Figure 15: Franchise Fee Revenue Breakdown



Property Transfer Tax

Background

General Fund Revenues
$10.9 million

Percent of General Fund Revenues
0.8 percent

Property transfer tax makes up 0.8 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.

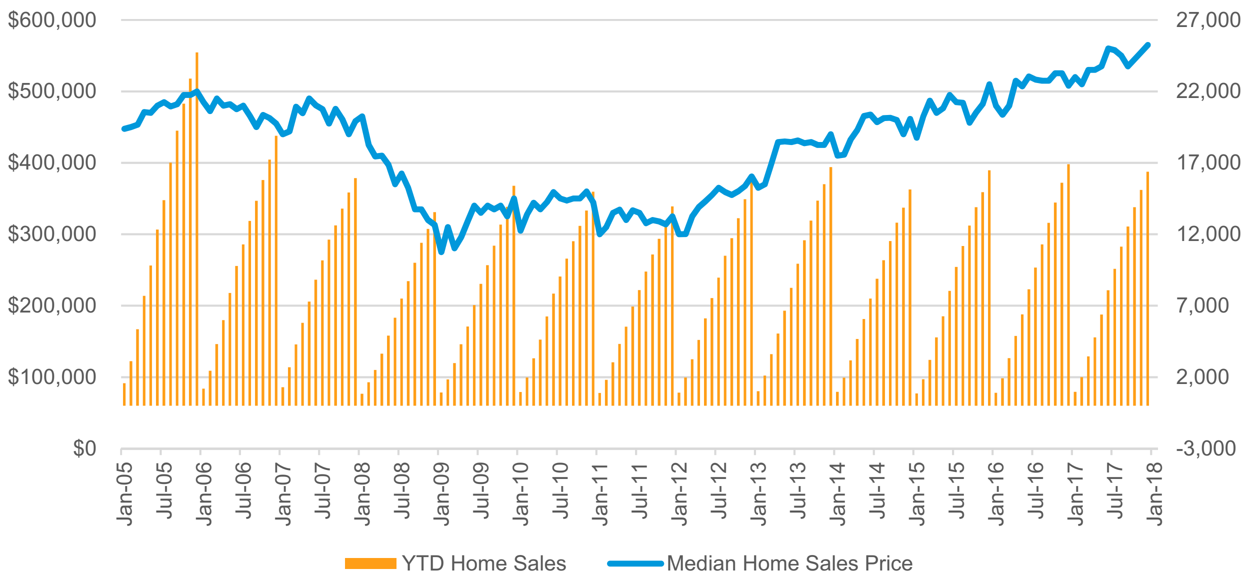
Economic Trends

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. The citywide median home price an all-time high of $565,000 which is an increase of 11.2 percent from last December's median home price of $508,000. Home sales in San Diego during calender year 2017 totaled 16,372 which is a decrease of 3.1 percent of home sales totaling 16,897 during calender year 2016. In addition, foreclosure activity totals declined from 1,194 in calender year 2016 to 811 in calender year 2017, which is a 32.1 percent decrease. While the number of homes sold has decreased slightly, the overall volume of sales, along with increased prices will continue to provide growth in property transfer tax.

Fiscal Year 2019 Proposed Budget

The Fiscal Year 2019 proposed property transfer tax budget of $10.9 million is based on Fiscal Year 2018 year-end projections and assumes a 4.0 percent growth rate. The positive growth rate is based on anticipated continued growth in median home prices projected to occur during Fiscal Year 2019.

Figure 16: City of San Diego Home Sales



Source: CoreLogic®

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.

General Fund Revenues
$25.3 million

Percent of
General Fund Revenues
1.8 percent

Fiscal Year 2019 Proposed Budget

The Fiscal Year 2019 Proposed Budget for licenses and permits is $25.3 million or 1.8 percent of the General Fund revenue budget. This represents an increase of $3.6 million or 16.8 percent from the Fiscal Year 2018 Adopted Budget. The primary reason for the variance in revenue is an increase of $3.6 million in cannabis business tax. The City began collecting cannabis business tax began in January 2018, and therefore only six months of taxes were budgeted in Fiscal Year 2018. This increase represents the change to twelve months of cannabis business tax budgeted for Fiscal Year 2019.

General Fund Revenues

Fines, Forfeitures, and Penalties

Background

General Fund Revenues
$31.4 million

Percent of
General Fund Revenues
2.2 percent

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.

Fiscal Year 2019 Proposed Budget

The Fiscal Year 2019 Proposed Budget for fines, forfeitures, and penalties revenue is $31.4 million or 2.2 percent of the General Fund revenue budget. The Fiscal Year 2019 Proposed Budget is $0.5 million or 1.5 percent lower than the Fiscal Year 2018 Adopted Budget. The decrease for fines, forfeitures, and penalties is primarily due to a projected decrease in parking citation revenue.

Revenue from Money and Property

Rents and Concessions

General Fund Revenues
$59.2 million

Percent of
General Fund Revenues
4.1 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 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.

Per 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 2019 Proposed Budget

The Fiscal Year 2019 Proposed Budget for rents and concessions revenue is $59.2 million or 4.1 percent of the General Fund revenue budget. This represents a $1.4 million or 2.4 percent increase from the Fiscal Year 2018 Adopted Budget.

The increase is attributed to a $0.6 million re-categorization of office space rent from Non-General Funds from the transfers in category to the rents and concessions category. Additionally, rents and concessions of city owned property is increasing by $1.9 million, however, this is offset by a $1.0 decrease in Mission Bay lease revenue primarily due to lower lease revenues from Sea World.

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

The Federal Open Market Committee (FOMC) began raising the target range for the federal funds rate for the first time in nine years in December 2015 to a range of 0.25 to 0.50 percent. Subsequently, the FOMC raised the target range to 1.50 to 1.75 percent with increases in five of the last eleven meetings. The Committee notes in the March 21, 2018 press release that “The Committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.”

Fiscal Year 2019 Proposed Budget

The Fiscal Year 2019 Proposed Budget for interest earnings revenue is unchanged from the Fiscal Year 2018 Adopted Budget of $0.7 million.

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
$5.5 million

Percent of
General Fund Revenues
0.4 percent

Fiscal Year 2019 Proposed Budget

The Fiscal Year 2019 Proposed Budget for revenue from federal and other agencies is $5.5 million or 0.4 percent of the General Fund revenue budget. This represents an approximate $1.0 million or 22.1 percent increase from the Fiscal Year 2018 Adopted Budget. The increase from the Fiscal Year 2018 Adopted Budget is primarily attributable to reimbursements for Fire-Rescue and Office of Homeland Security.

General Fund Revenues

Charges for Current Services

Background

General Fund Revenues
$159.3 million

Percent of
General Fund Revenues
11.1 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 for the safety and maintenance of visitor related facilities.

Fiscal Year 2019 Proposed Budget

The Fiscal Year 2019 Proposed Budget for charges for current services revenue is $159.3 million or 11.1 percent of the General Fund revenue budget. This represents a net increase of $6.5 million or 4.3 percent increase from the Fiscal Year 2018 Adopted Budget. The Fire-Rescue Lifeguard Division and Police Department are anticipated to receive an increase of $4.9 million and $1.0 million, respectively in TOT revenues to support the safety and maintenance of visitor related facilities.

Transfers In

Background

General FundRevenues
$91.9 million

Percent of
General Fund Revenues
6.4 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 2019 Proposed Budget

The Fiscal Year 2019 Proposed Budget for transfers in is $91.9 million or 6.4 percent of the General Fund revenue budget. This represents an approximate $25.9 million or 22.0 percent decrease from the Fiscal Year 2018 Adopted Budget.

The change is primarily attributed to the removal of prior year one-time transfers in, and the addition of new one-time transfers in for Fiscal Year 2019. The removal of one-time transfers in were as follow: Pension Stabilization Reserve Fund $16.0 million, Workers Compensation Reserve Fund $10.1 million, Stadium Operations Fund $8.5 million, Concourse Fund $1.5 million and various fund closures $0.3 million.

One-time transfers in for Fiscal Year 2019 include a transfer from the Compensated Absences Fund of $4.7 million representing the General Fund's portion of an overcharge to various departments of deferred compensation of overtime add-on pay. Additionally, a one-time transfer in of $3.4 million from the Fleet Replacement Fund representing surplus funds also increases the transfers in.

Increases in transfers in also includes $3.0 million in revenue from a restructure of personnel from the Stadium Fund to Public Works - General Services, $1.3 million in City Council 1-cent discretionary TOT from the TOT Fund, and $0.6 million in transfers in to Fire-Rescue from the Public

Safety Services and Fire EMS funds. These are offset by a redistribution of revenue from Parks and Recreation of $1.0 million and removal of one-time transfer in for Transportation and Storm Water Department in the amounts $0.7 million. Lastly, the reclassification of Development Services Department's rent for City Operations Building from transfers in to the rents and concessions category in the amount of $0.6 million completes the changes of transfers in.

Other Revenue

General Fund Revenues
$3.0 million

Percent of
General Fund Revenues
0.2 percent

Fiscal Year 2019 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 2019 Proposed Budget for other revenue is $3.0 million or 0.2 percent of the General Fund revenue budget. This represents an approximate $1.5 million decrease from the Fiscal Year 2018 Adopted Budget primarily attributable to end of an ongoing donation to the Library.

State of California Budget Impacts

On January 10, 2018, Governor Brown released the 2018-2019 Proposed Budget appropriating $190.3 billion, including $131.7 billion in the State's General Fund. The Governor's budget includes more than $4.5 billion in increasing the State's General Fund spending. Additionally, the 2018-2019 proposed budget will see a revenue growth of 4.6%, or $5.9 billion, due to the increase in the personal income tax revenue. 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 provides funding to achieve the 100 percent of the Rainy Day Fund target this fiscal year. Increases in revenues also provides for increases in constitutionally required spending on education per Proposition 98. The budget also allocates money toward infrastructure proposals, including $375 million for design and construction of trial courts and $135 million for correctional facilities. Also included in the proposed budget is $200 million for business tax credits intended to expand employment and investment within California. The City does not anticipate any negative impacts to the City's General Fund Revenues as a result of the State's Budget Proposal. The May Revision of the Governor's Proposed Budget will give more information on the impacts of cannabis taxes and SB-1 gas taxes.

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.

General Fund Revenues

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 2017 that established the Tax Appropriations Limit for Fiscal Year 2018 at $2,640,584,949. Using the Fiscal Year 2018 Proposed Budget and Fiscal Year 2018 May Revision, 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 $1.0 billion, which was $1.6 billion lower than the Gann Limit.

The Fiscal Year 2019 Gann Limit calculation will be presented to City Council in June 2018. Adjustment factors used for the computation are released by the California Department of Finance in late May 2018. Therefore, the Fiscal Year 2019 Gann Limit will not be established before the release of the Fiscal Year 2019 Proposed Budget.