Adopted Budget Fiscal Year 2020

The City of SAN DIEGO

MAYOR KEVIN L. FAULCONER

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General Fund Revenues

The Fiscal Year 2020 General Fund revenue budget is $1.55 billion, which represents an increase of $112.7 million or 7.8 percent from the Fiscal Year 2019 Adopted Budget. A detailed description of the revenue categories is listed to the right on this page. This section provides background information describing trends, economic factors, and methods of allocation for each revenue source. This information provides insight into the formulation of the Fiscal Year 2020 Adopted Budget for the General Fund revenues, which funds essential City services including police, fire, refuse collection, library services, and parks and recreation programs. Volume II of the Budget details the revenues that are generated by departments. These revenues are included in categories listed to the right on this page which are discussed in this section of the budget document.

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)

Table 1: Fiscal Year 2020 General Fund Revenue Change illustrates the components of the projected $112.7 million, or 7.8 percent increase, in General Fund revenues from the Fiscal Year 2019 Adopted Budget.

Table 1: Fiscal Year 2020 General Fund Revenue Change

	Percent Change from FY 2019 Adopted Budget	Change (in millions)
Major Revenues	6.6%	$ 69.4
Other Revenue Sources	11.2%	43.3
Total	**7.8%**	**$ 112.7**

The four major General Fund revenue sources are property taxes, sales taxes, transient occupancy taxes (TOT), and franchise fees. These sources account for 72.2 percent of the City's General Fund revenue in the Fiscal Year 2020 Adopted Budget and are projected to increase by $69.4 million, or 6.6 percent, from the Fiscal Year 2019 Adopted Budget.

Table 2: Fiscal Year 2020 General Fund Revenues displays each of the revenue categories in the General Fund and includes Fiscal Year 2018 actual amounts, as well the Fiscal Year 2019 Adopted Budget.

Table 2: Fiscal Year 2020 General Fund Revenues (in millions)

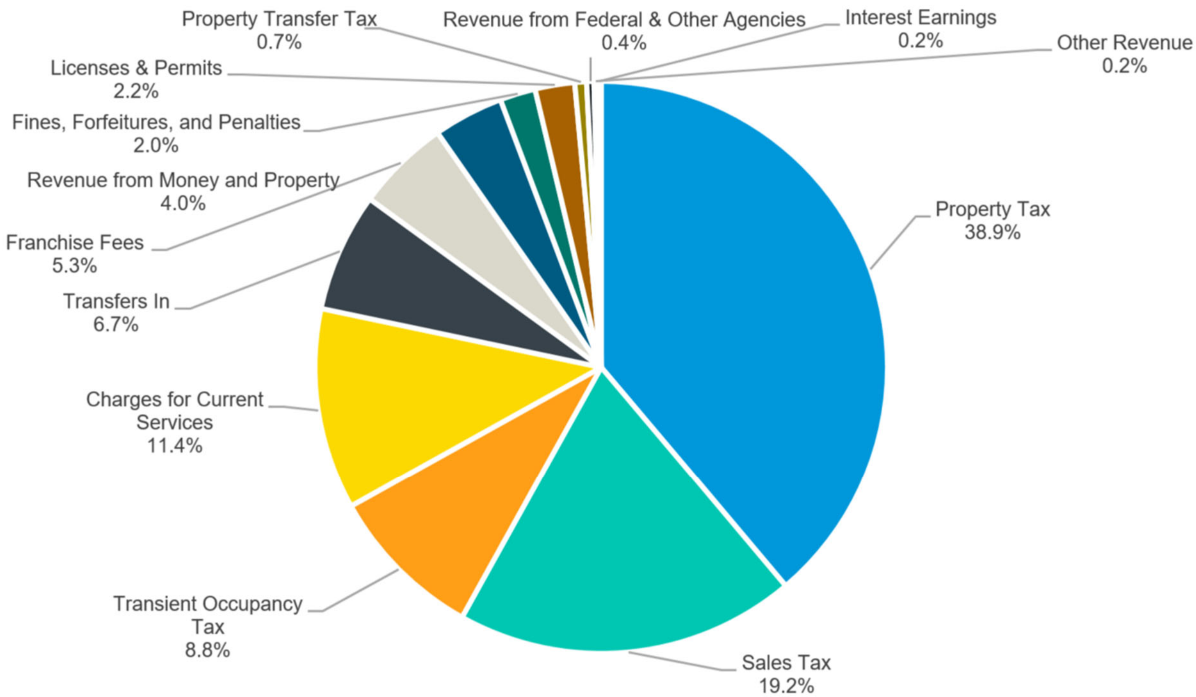
Revenue Category	FY 2018 Actual	FY 2019 Adopted Budget	FY 2020 Adopted Budget	FY 2019 - FY 2020 Change	Percent Change[1]	% of Total General Fund Revenue
Property Tax	$ 535.5	$ 560.0	$ 601.9	$ 41.9	7.5%	38.9%
Sales Tax	272.9	282.1	297.9	15.8	5.6%	19.2%
Transient Occupancy Tax	121.9	128.4	136.9	8.5	6.6%	8.8%
Franchise Fees	80.2	78.8	82.0	3.2	4.1%	5.3%
Property Transfer Tax	10.7	11.0	10.3	(0.8)	(6.8%)	0.7%
Licenses & Permits	22.0	25.8	34.7	8.9	34.4%	2.2%
Fines, Forfeitures, and Penalties	30.7	31.4	31.1	(0.2)	(0.8%)	2.0%
Revenue from Money and Property	63.0	59.3	61.4	2.1	3.5%	4.0%
Interest Earnings	2.3	0.7	3.0	2.4	367.7%	0.2%
Revenue from Other Agencies	8.2	5.5	6.4	0.9	16.2%	0.4%
Charges for Current Services	155.2	160.3	176.4	16.1	10.0%	11.4%
Transfers In	118.1	90.2	104.1	13.9	15.4%	6.7%
Other Revenue	5.4	3.1	3.2	0.1	3.2%	0.2%
Total	**$ 1,427.5**	**$ 1,436.5**	**$ 1,549.2**	**$ 112.7**	**7.8%**	**100.0%**

Numbers may not foot due to rounding.

[1] Percent change represents the change from FY 2019 Adopted to FY 2020 Adopted Budget. Budgeted growth rates for revenues may differ, as FY 2020 Adopted Budget amounts are based on updated Fiscal Year 2019 projections.

The major General Fund revenue projections included in the Fiscal Year 2020 Adopted Budget are based on Fiscal Year 2019 year-end projections and economic data through May 2019, the most recent information available at the time the Adopted Budget was developed. Since actual economic and financial conditions may differ materially from those assumed, the Department of Finance tracks and incorporates these changes in quarterly monitoring reports. The First Quarter Monitoring Report will be released in October 2019. 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 2020 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 2020 General Fund Revenues - $1.55 Billion



San Diego's Economic Environment[1]

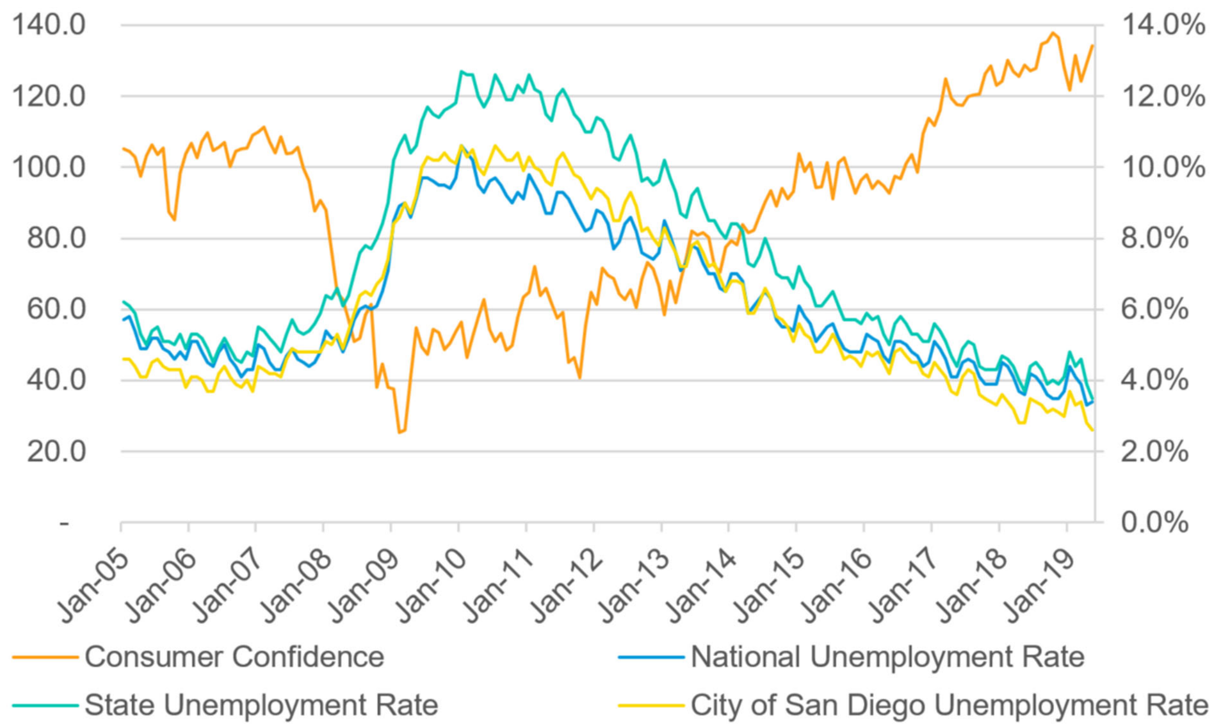
Development of the Fiscal Year 2020 Adopted Budget incorporates a positive economic outlook that balances the continuing trend of positive key economic factors with the corresponding softening in the year-over-year rate of growth in property tax, base sales tax, and transient occupancy tax. Local economic indicators are improving in Fiscal Year 2019; however, the rate of improvement is lower than in prior years. Additionally, uncertainty exists with inflation, interest rates, and 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 School of Management Forecast and California independent research firm, Beacon Economics.

In comparison to the Fiscal Year 2019 Adopted Budget, the Fiscal Year 2020 Adopted 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 2020 Adopted Budget for base property tax assumes that the City will experience 5.25 percent growth based on increasing home prices offset by fewer home sales as projected in the Fiscal Year 2020-2024 Five-Year Financial Outlook (Outlook). The Fiscal Year 2020 Adopted Budget for sales tax assumes a 3.75 percent growth rate, primarily from increases in sales tax receipts from out-of-state businesses due to the recent Supreme Court of the United States decision in *South Dakota v. Wayfair*. The overall growth rate is higher than projected in 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, 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, Beacon Economics, San Diego Tourism Authority, Colliers International, and The Conference Board.

Outlook, however, the base sales tax growth from businesses not impacted by the decision is lower than projected based on increased volatility in consumer confidence and softening growth in the economy. The Fiscal Year 2020 Adopted Budget projected growth rate for TOT is 3.0 percent. This growth rate has been lowered from the Outlook, to account for lower tourism activity as forecasted by the San Diego Tourism Authority. The Fiscal Year 2020 Adopted Budget for franchise fees is based on updated Fiscal Year 2019 projections and are anticipated to grow moderately. The four General Fund major revenues are discussed in further detail in the following sections.

Figure 2: Consumer Confidence and Unemployment



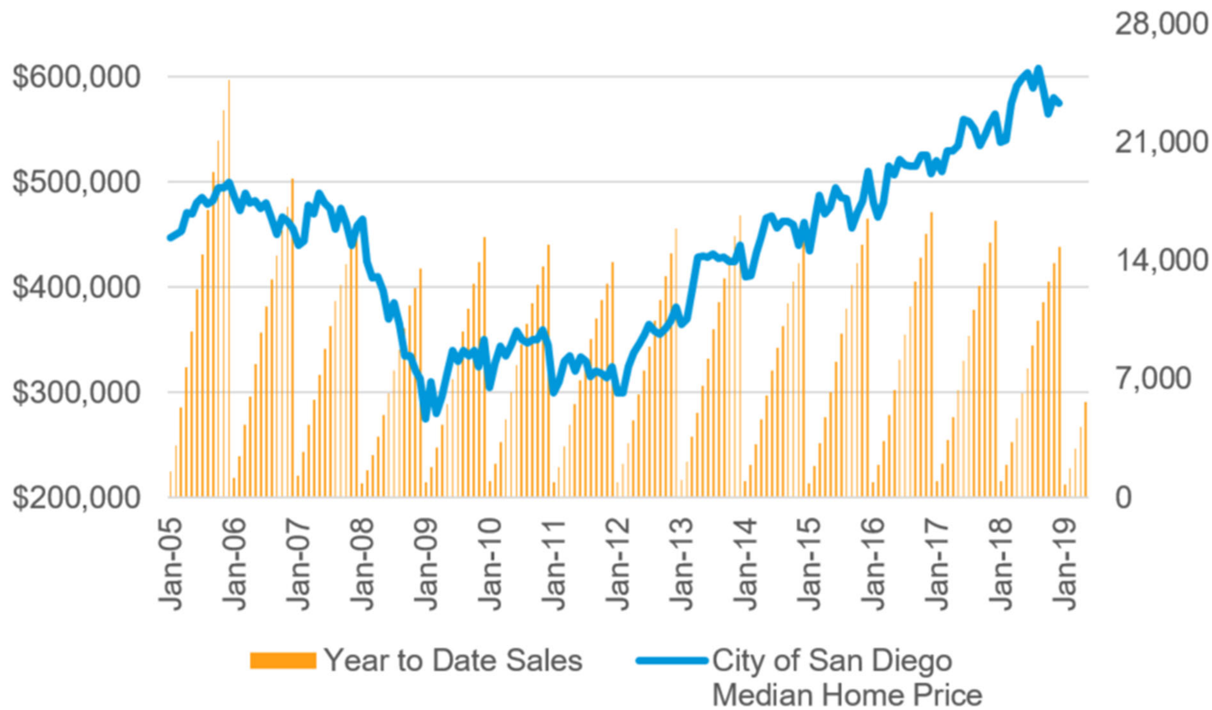
Source: Conference Board, Bureau of Labor Statistics, California Employment Development Department

The 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 137.9 in October 2018, and before settling at 134.1 in May 2019. The employment rate for the City of San Diego reached its lowest levels since 2001 in May 2019 at 2.6 percent and remains near historical lows. In May 2019, State and national unemployment rates also reached the lowest levels since 2001.

While mortgage rates have increased in the past couple of years, mortgage rates are still historically low, which supports a healthy real estate market. Citywide median home prices continue to rise, and again reached a new high of $608,000 in August 2018, before settling at $595,000 in May 2019. The average median sales price for the period of June 2018 through May 2019 is $583,667, representing an increase of 4.4 percent when compared to June 2017 through May 2018. The number of home sales for the same period, however, fell to 14,309, an 11.6

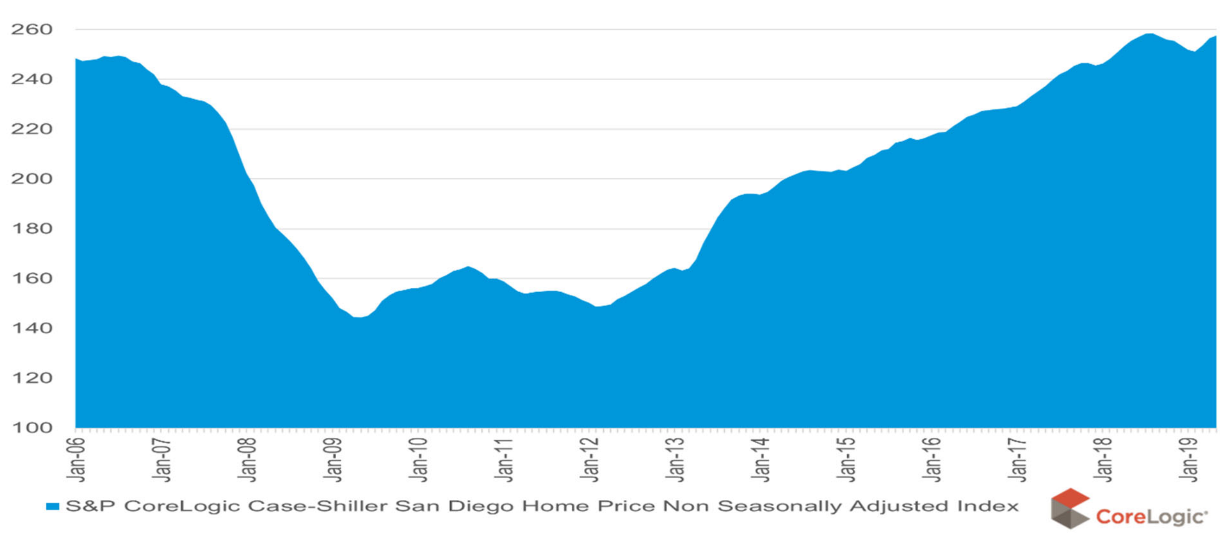
percent decrease. As reported by CoreLogic, a data and analytics company, the S&P/Case-Shiller San Diego Home Price Non-Seasonally Adjusted Index also reached new highs in Calendar Year (CY) 2018 of 258.5 in July 2018. The home price index as of April 2019 was 257.7, which is a 0.8 percent increase over the April 2018 index of 255.59. The index provides historical data on the change in home prices for the San Diego Metro area.

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



Source: CoreLogic ®

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



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

Development of the Fiscal Year 2020 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 2020 Adopted Budget.

Table 3: Key Economic Indicators

Economic Indicator	May 2018	May 2019
City of San Diego 12 month Home Sales (Source: CoreLogic ®)	16,191	14,309
City of San Diego 12 month Median Home Price (Source: CoreLogic ®)	$559,250	$583,667
S&P/CoreLogic Case-Shiller Home Price NSA Index for the City of San Diego (Source: S&P Dow Jones Indices / CoreLogic ® Case-Shiller)	255.6	257.7
Countywide Foreclosures (12 month) (Source: County of San Diego)	691	680
Countywide Notices of Default (12 month) (Source: County of San Diego)	3,166	3,336
City of San Diego Unemployment Rates (Source: State of California Economic Development Department)	2.7%	2.6%
Consumer Confidence (Source: Conference Board)	128.8	134.1

According to the UCLA Anderson Forecast for the Nation and California March 2019 Report forecasts that national *"real GDP growth will slow to below 2% in 2019 and around 1% in 2020 with a modest rebound in 2021. The jolt* from *the very expansionary fiscal policies of the Trump Administration will soon exhaust itself and there is a very real risk of a recession in late 2020."*

The Spring 2019 Beacon Economics United States Forecast notes that *"U.S. economic growth will slow from its pace in 2018, falling to the low 2% range"* and that *"Eventually, the current economic expansion the United States is experiencing will come to an end. When it does, that ending will be driven by a large,* negative *shock to the economy, which in turn, will be driven by some major internal imbalance that has formed. To date, Beacon Economics has yet to see any imbalance develop within the U.S. economy that has the capacity to cause a downturn, much less a recession, in the near term."*

Both UCLA and Beacon Economics agree that that economic growth is expected to slow in Fiscal Year 2020; however, consensus has not been reached on when a recession may develop. This budget incorporates the slowing economic growth into revenue projections.

Property Tax

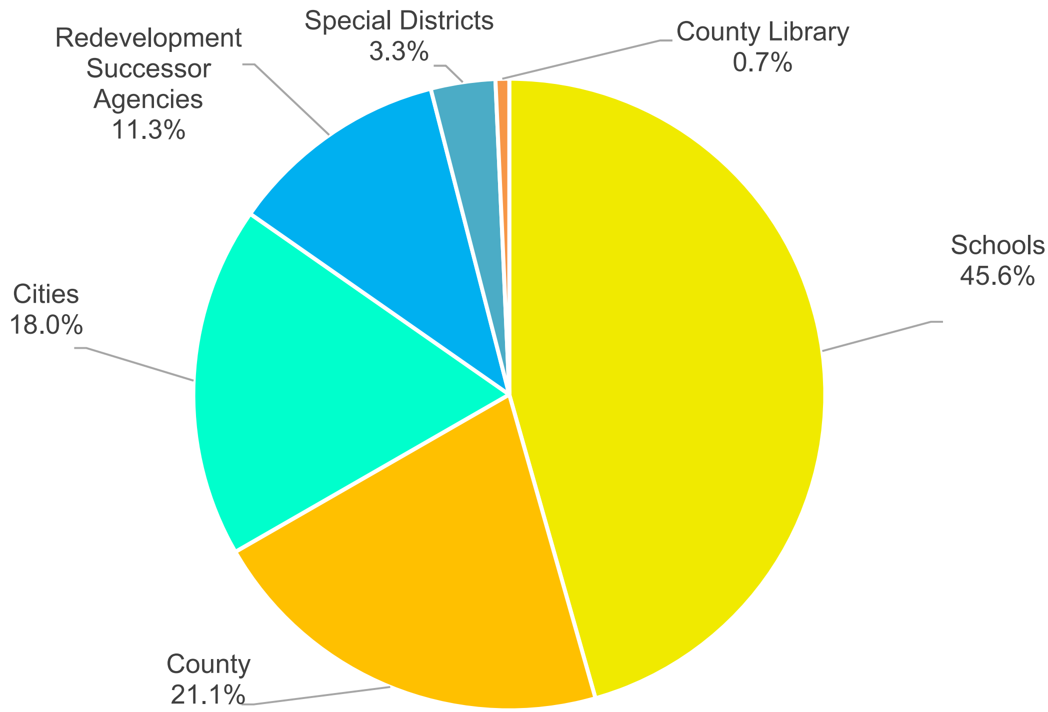
Background

General Fund Revenue
$601.9 million

Percent of
General Fund Revenues
38.9 percent

Property tax revenue is the City's largest revenue source, representing 38.9 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. 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 2019, the allocation to the cities in San Diego County total $18.00. Additionally, per City Charter requirement, a special tax levy, held separate from the General Fund, of $0.005 per $100 of assessed value is collected for funding the maintenance of zoological exhibits in Balboa Park.

Figure 5: Fiscal Year 2019 Countywide Property Tax Distribution



Source: San Diego County Property Tax Services

As a result of the dissolution of 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) after the Recognized Obligations Payment Schedule (ROPS) is met. These residual funds in the RPTTF are distributed to the local taxing entities per their individual allocation formulas at a rate ranging from 17.0 to 22.0 percent.

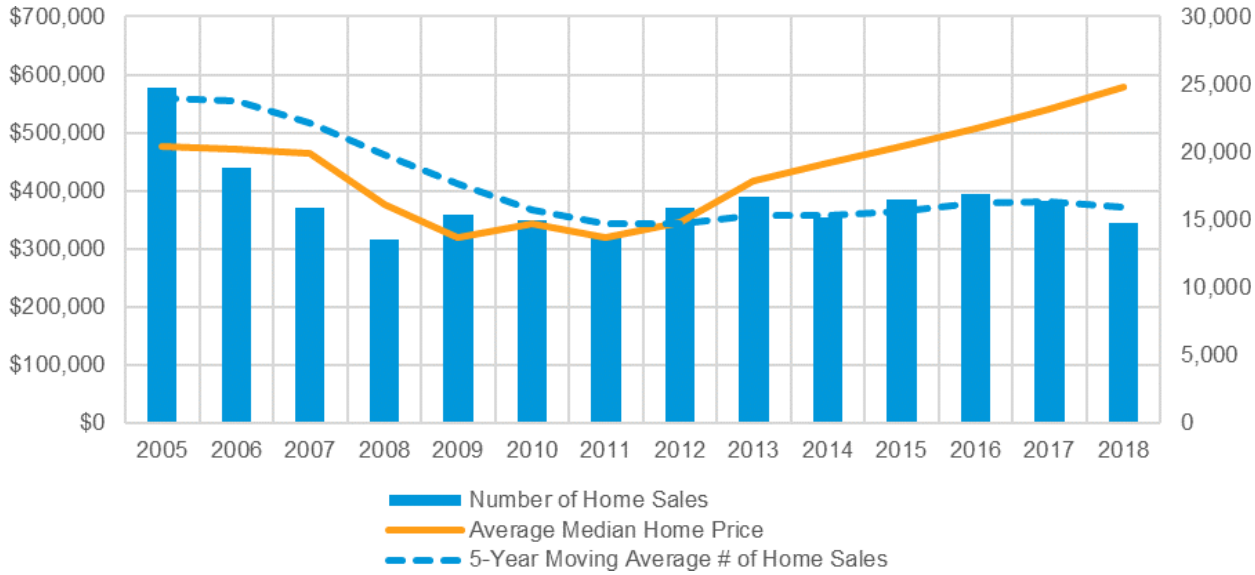
There are two outstanding lawsuits regarding the distribution of residual funds in the RPTTF. Both lawsuits have the potential to correct certain prior residual distributions. One correction could positively impact property tax, while the other could negatively impact property tax. Further, one of the lawsuits contests the methodology of residual distributions and could increase the City's allocated percentage of future residual distributions.

Economic Trends

Property Tax growth for Fiscal Year 2020 Adopted Budget is based on real estate activity through CY 2018. 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 local real estate market continues to see increasing prices; however, the volume of looks to be slowing. Foreclosures continue to decline, while notices of default have slightly increased.

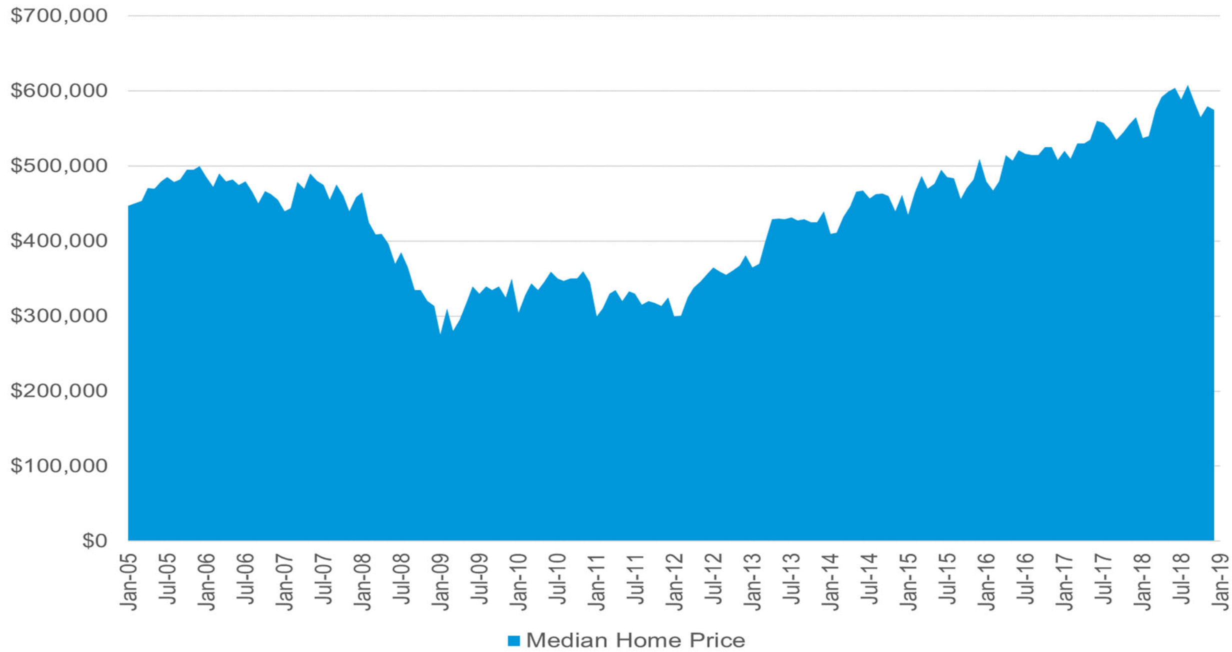
Home sales in the City of San Diego decreased in CY 2018, as the City recorded 14,826 sales, which is a 9.4 percent decrease over the CY 2017 home sales total of 16,372. Home sales in CY 2018 were slightly below the five-year average. Median home sales price showed continued modest improvement during CY 2018. The median home price reached a new all-time high in August 2018 at $608,000 but has decreased to $575,000 as of December 2018.

Figure 6: City of San Diego Home Sales (CY)



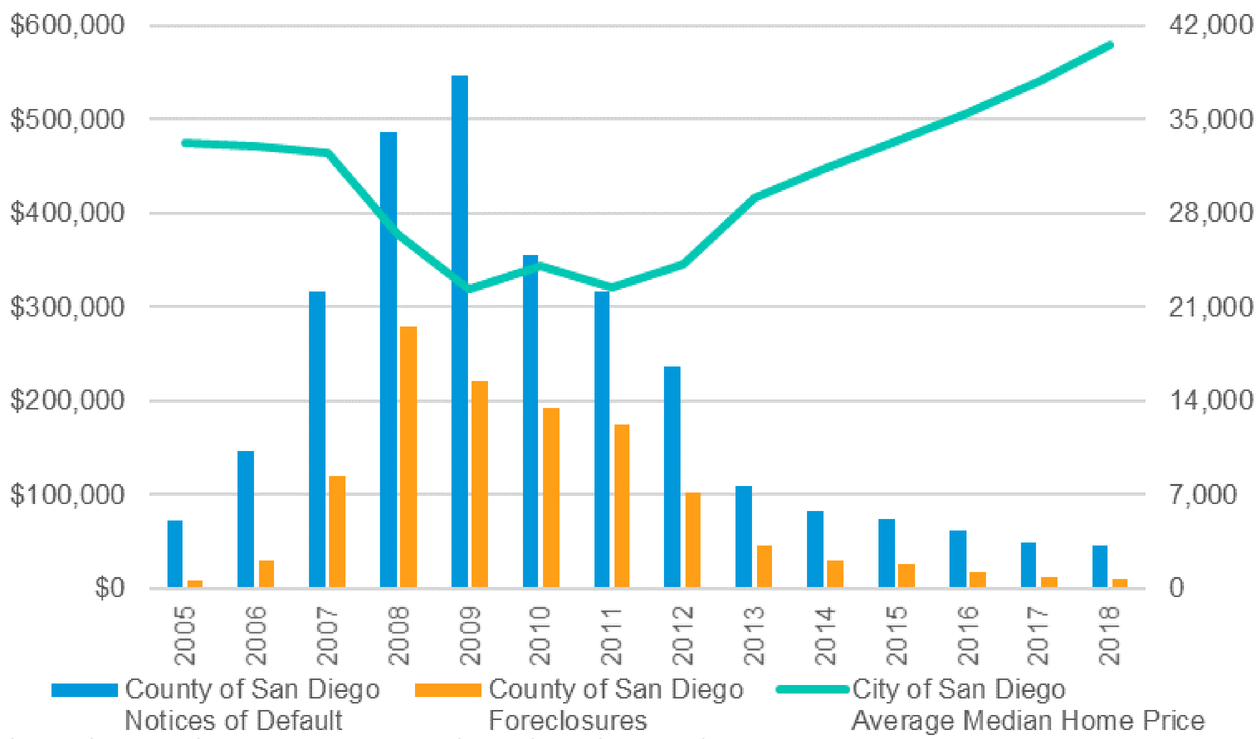
Source: CoreLogic ®

Figure 7: City of San Diego Annual Median Home Price



Source: CoreLogic®

Figure 8: San Diego County Home Foreclosures (CY)



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. Revenue and Taxation Code section 51 provides that a property's value may increase at the rate of the October 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 2018 was 275.7, which is a 3.8 percent increase over the October 2017 CCPI of 265.5. 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 continued growth in the local real estate market. The City of San Diego's unemployment rate reached a low in May 2019 at 2.6 percent. The State of California's unemployment rate also achieved a low of 3.5 percent in May 2019.

According to Colliers International Fourth Quarter 2018 Research & Forecast Report, a periodic publication of local commercial & industrial real estate information, completed commercial construction in San Diego County during CY 2018 was 131,608 square feet, which is a decrease from the previous CY construction of 635,461 square feet; however, 1,072,906 square feet of office space was still under construction. Industrial construction increased in square footage from 850,935 to 2.5 million in 2018 with 1.8 million square feet still under construction. Commercial and industrial property represents approximately 19.9 and 6.4 percent, respectively, of the assessed property value within the City.

Lastly, while the 30-year mortgage rate had steadily decreased through 2016, CY 2017 and CY 2018 have generally experienced higher rates. Mortgage rates are likely to follow the adjustments to the federal funds rate in the future.

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 and has continued increasing the rate at quarter percent intervals. The FOMC target range, at the time of the development of the City's budget, was 2.50 percent. The committee notes in its May 1, 2019 press release that *"The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes. In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes."* Since the development of this budget the federal funds rate target has decreased; however, this section reflects the latest information available at the time of the adoption of the budget.

Fiscal Year 2020 Adopted Budget

The increase in the October 2018 CCPI, increased median home prices, low unemployment, and continued strength in the real estate market, are expected to drive the growth in assessed valuation for Fiscal Year 2020 and result in increased base property tax receipts. While the number of home sales in 2018 decreased compared to 2017, the volume of home sales continues to support growth in property for Fiscal Year 2020. The Fiscal 2020 growth rate also incorporated relatively low borrowing costs that prevailed in CY 2018, however future property tax revenue could be affected by changes in mortgage borrowing costs.

The Fiscal Year 2020 Adopted Budget for property tax is $601.9 million, which assumes 5.25 percent growth for the base property tax (which is covered by Proposition 13) and "in-lieu of motor vehicle license fee" payment. The property tax in lieu of motor vehicle license fee is property tax from the State of California that is provided to the City to replace the Motor Vehicle License fee

(MVLF) that was repealed in 2004. This growth rate is consistent with the rate projected in the Outlook as the market conditions have remained relatively unchanged. The $601.9 million property tax budget consists of an estimated $415.7 million in base property tax, $153.5 million "in-lieu of motor vehicle license fee" payment, $8.0 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA), and $24.7 million in anticipated residual property tax payments. The total property tax for the Fiscal Year 2020 Adopted Budget is $4.1 million higher than the Outlook due to updated projections, and updated ROPS activity.

Table 4: Fiscal Year 2020 Adopted Property Tax Budget

Property Tax Segments	Revenue (In Millions)
Base Property Tax	$ 415.7
Property Tax "In-Lieu" of MVLF	153.5
Residual Tax Sharing	24.7
Tax Sharing Distribution	8.0
Total Property Tax	**$ 601.9**

Sales Tax

Background

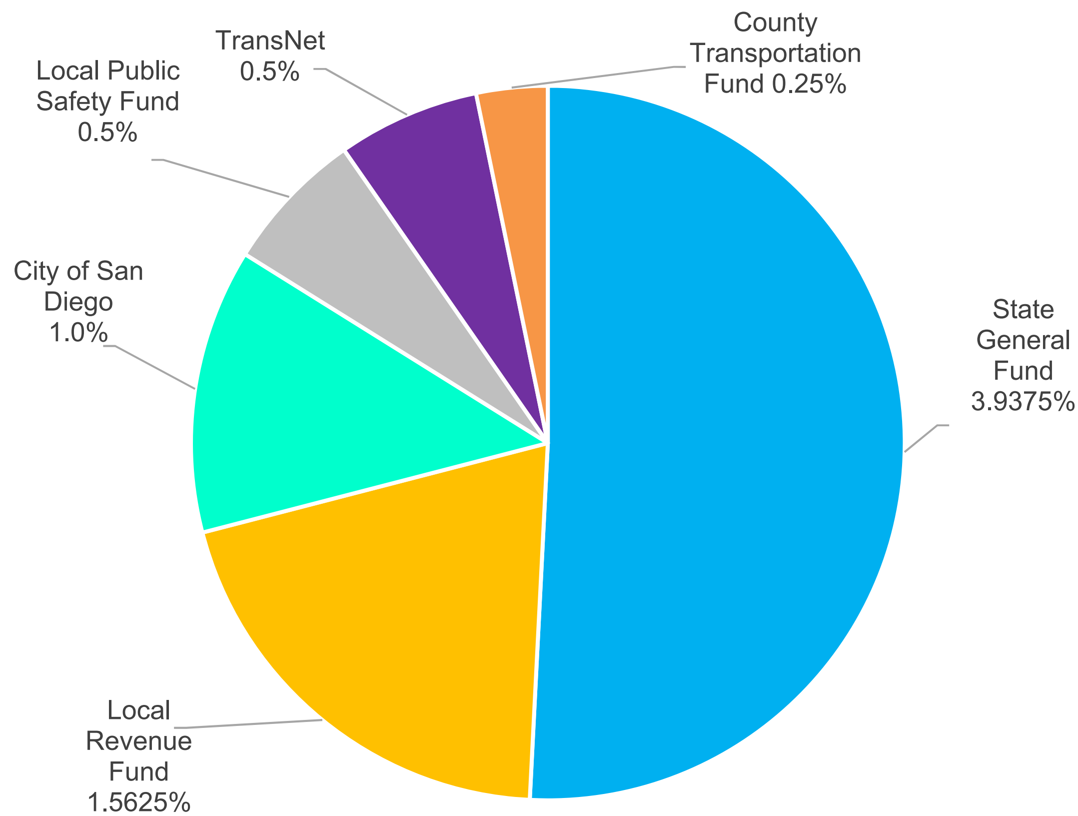
General Fund Revenues
$297.9 million

Percent of General Fund Revenues
19.2 percent

Sales tax is the second largest General Fund revenue source, representing 19.2 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, 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 two voter approved supplemental sales tax add-ons: TransNet Extension Ordinance and Expenditure Plan (TransNet) and safety sales tax. 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.

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



Source: California Department of Tax and Fee Administration

Economic Trends

The Fiscal Year 2020 Adopted Budget for Sales Tax was developed utilizing an overall 3.75 percent growth rate, which includes a 2.0 percent growth rate from a recent Supreme Court of the United States decision of *South Dakota v. Wayfair,* which provides for the collection of additional sales taxes from out-of-state businesses, plus a 1.75 percent in base sales tax growth rate of local taxable sales. To implement the Wayfair decision, the California Department of Tax and Fee requires the payment a use tax if during the preceding or current CY the retailer's sales into California exceed $100,000, or the retailer made sales into California in two hundred (200) or more separate transactions. The 2.0 percent growth represents an anticipated $6.0 million in new sales tax from out-of-state businesses based on the city’s portion of economic activity from out-of-state taxable sales.

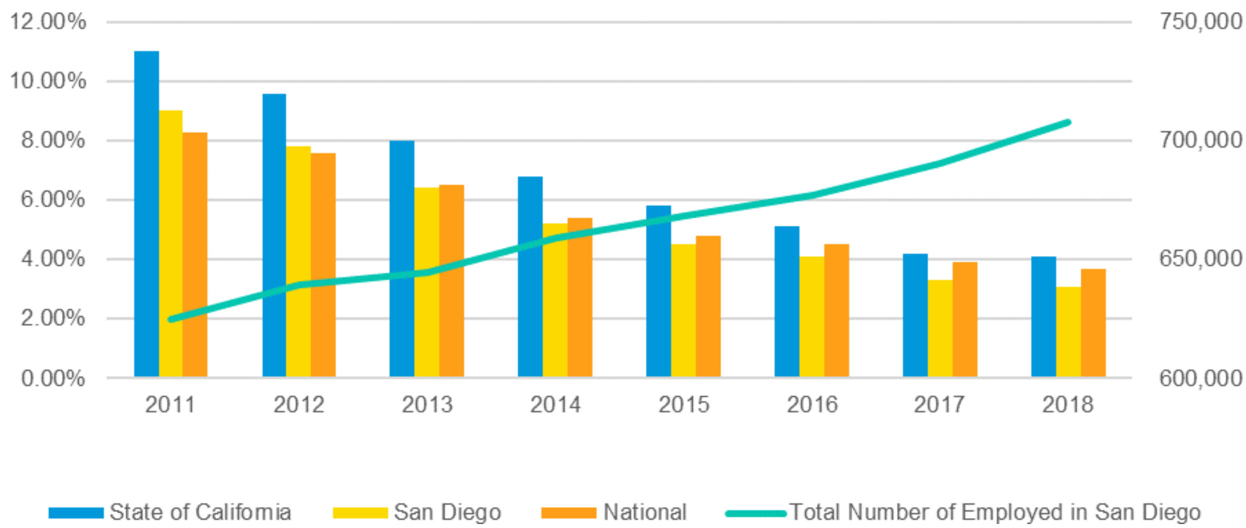
Economic indicators that drive spending and growth in sales tax receipts include unemployment rate, total number of persons employed, and consumer confidence. While CY 2018 showed record numbers for these indicators, recent uncertainty, volatility, and slower growth estimates have tempered our projections. The City of San Diego had 696,300 persons employed as of May 2019 resulting in an all-time low Unemployment Rate of 2.6 percent.

Consumer confidence, which is highly correlated with sales tax, reached a new high of 137.9 in October 2018 before settling at 134.1 in May 2019, a 4.1 percent increase over the 128.8 reported in May 2018.

The May 2019 San Diego Consumer Price Index has also increased by 3.8 percent from 289.2 to 300.3, leading to higher prices of goods, and therefore sales tax.

While the leading sales tax indicators are positive, the larger economics forecast is for slower growth than in prior fiscal years. It is unclear how long the highs experienced within the last year will continue and the City will closely monitor sales tax revenues and adjust the projections as necessary.

Figure 10: Unemployment Rates



Source: State of California-Employment Development Department, Bureau of Labor Statistics

Fiscal Year 2020 Adopted Budget

The growth rate for sales tax for Fiscal Year 2020 is 3.75 percent, which is higher than the 2.4 percent forecasted in the Outlook. As mentioned earlier, this increased growth rate reflects the United States Supreme Court's decision in *South Dakota v. Wayfair* along with a lower base sales tax growth due to weakening consumer confidence, full employment, and overall slower economic growth. The Fiscal Year 2020 Adopted Budget for sales tax is $297.9 million.

General Fund Transient Occupancy Tax (TOT)

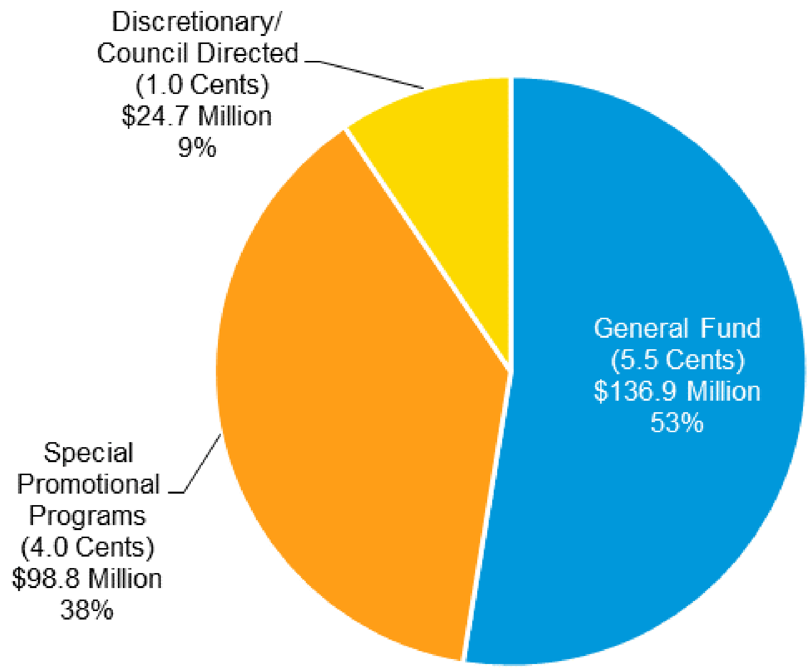
Background

General Fund Revenues
$136.9 million

Percent of
General Fund Revenues
8.8 percent

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 $260.3 million, of which, $136.9 million is applied directly to the General Fund.

Figure 11: City of San Diego Transient Occupancy Tax Allocation

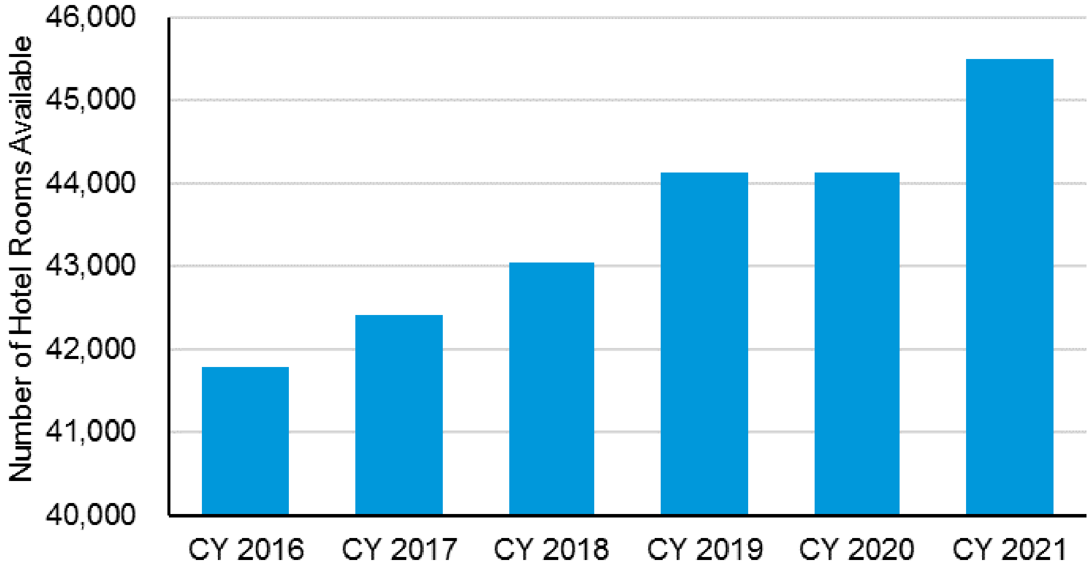


Economic Indicators

The San Diego hotel sector, which generates the majority of TOT receipts, has performed strongly over the past several years. However, according to the December 2018 San Diego Travel Forecast prepared for the San Diego Tourism Authority (Travel Forecast), *"Calendar year 2018 was likely a peak in the tourism market."* While the City is projected to see continued growth in TOT revenue in Fiscal Year 2020, growth is projected at a lower rate than previous years as a result of slowing growth of TOT related economic indicators.

According to the Travel Forecast, overnight visits to San Diego County are projected to grow by 2.0 percent in CY 2019 and CY 2020. Even with increased overnight visits, the projected average hotel occupancy rate in CY 2019 and 2020 is projected to average 77.5 percent, which is decrease from prior year hotel occupancy rate of 78.3. These indicators drive the projected growth in room demand in CY 2019 to 2.0 percent and decreasing to 1.4 percent in CY 2020.

Figure 12: Total Projected Hotel Rooms In San Diego CY 2016 - 2021

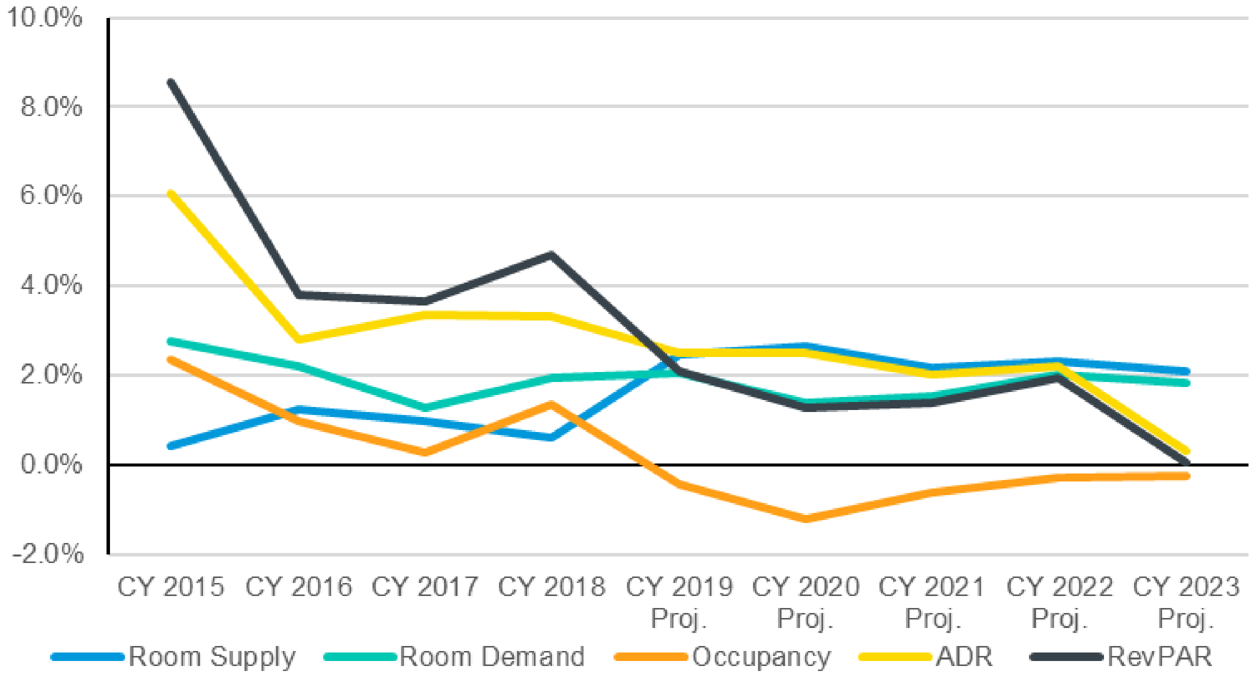


Source: San Diego Tourism Authority and Tourism Economics

The supply of rooms is projected to increase over the next several years. As illustrated in the graph above, the total supply of rooms in the City is projected to grow in CY 2019. There is an increase of approximately 2,400 hotel rooms within the City by CY 2021.

Finally, the Average Daily Rate (ADR) and the revenue per available room (RevPAR) are also projected to show slower growth. As seen in the table below, the ADR is projected to grow an average of 2.5 percent in CY 2019 and CY 2020.

Figure 13: Year-Over-Year Percentage Growth in Key Hotel Sector Indicators



	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019[1]	CY 2020[1]
Visitors						
Total Visits (millions)	34.3	34.9	35.0	35.8	36.5	37.3
Overnight Visits (millions)	17.2	17.4	17.6	17.9	18.3	18.7
Hotel Sector						
Avg. Occupancy	76.3%	77.1%	77.3%	78.3%	78.0%	77.0%
Avg. Daily Rate	$ 150.7	$ 154.9	$ 160.1	$ 165.4	$ 169.6	$ 173.8
Rev PAR[2]	$ 115.0	$ 119.4	$ 123.7	$ 129.5	$ 132.2	$ 133.9
Room Demand (growth)	2.8%	2.2%	1.3%	2.0%	2.0%	1.4%

Source: San Diego Tourism Authority and Tourism Economics

[1] Forecast - Tourism Economics, December 2018

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

With the slowing growth in related economic indicators projected for CY 2019 and CY 2020, the Fiscal Year 2020 growth rate for the City's TOT revenue is projected at 3.0 percent increase to the monthly rates observed in Fiscal Year 2019.

Fiscal Year 2020 Adopted Budget

The Fiscal Year 2020 total Transient Occupancy Tax (TOT) budget for the City of San Diego is $260.3 million which reflects a 3.0 percent growth rate. The Fiscal Year 2020 projected growth rate of 3.0 percent is a decrease from the projected growth rate of 4.8 percent as reported in the Outlook. This decrease is primarily due to a decline in occupancy levels and weaker growth in average daily room rates and revenue per available room as projected by the San Diego Tourism

Authority. The decline in occupancy levels is attributed to slower visitor growth and continued supply growth, coupled with a slowdown in demand. The Fiscal Year 2020 growth rate reflects a slower growth in TOT receipts as a result of projected declines in TOT related economic indicators.

Of the $260.3 million of total TOT, $136.9 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.

In Fiscal Year 2019, the City issued compliance letters for Short Term Residential Occupancy (STRO) units under existing TOT regulations. The budget estimates that 1,900 units will begin paying TOT in Fiscal Year 2020 based of Treasurer's analysis. The new revenue resulting from these actions is budgeted at $2.4 million, of which $1.3 million will be received in the General Fund, and is in addition to the base 3.0 percent growth rate for TOT.

Franchise Fees

Background

General Fund Revenues
$82.0 million

Percent of
General Fund Revenues
5.3 percent

Franchise fee revenue makes up 5.3 percent of the General Fund revenue budget and results from agreements with private utility companies in exchange for use of the City's rights-of-way. The largest of the franchise fee payers in the City are San Diego Gas and Electric (SDG&E), Cox Communications, Spectrum TV, AT&T U-verse, and California American Water (Cal AM). 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 2020 Adopted Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2020 Adopted Budget for total SDG&E franchise fee revenue of $68.1 million is based on updated Fiscal Year 2019 projections and assumes a 3.2 percent growth rate for Fiscal Year 2020. The projected growth rate is consistent with historical growth rates from the past 15 years and with the Outlook.

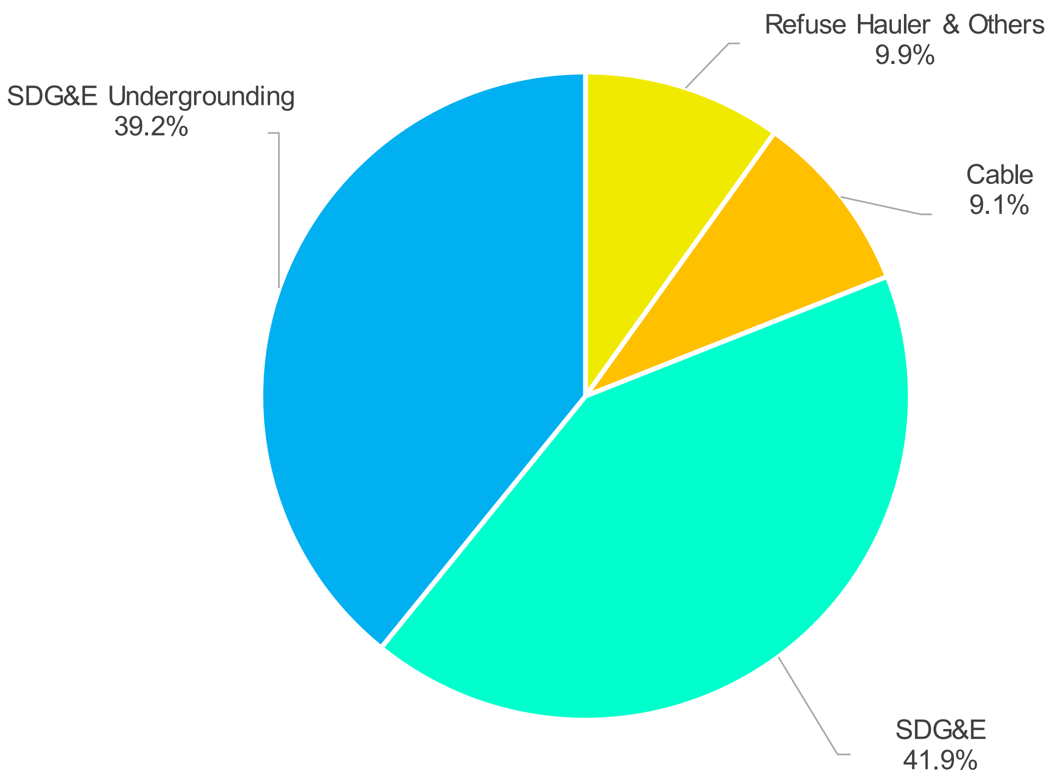
In accordance with the City Charter, 75.0 percent of the revenue received from SDG&E, or $51.1 million, is allocated to the General Fund. The remaining 25.0 percent of revenue received from SDG&E, or $17.0 million, is deposited into the Environmental Growth Funds (EGF). One-third of the EGF is used to fund the maintenance of parks; the remaining two-thirds are designated for parkland maintenance and debt service payments for open space acquisitions. With no debt currently outstanding in the EGF, this will provide funding for park and open space maintenance in Fiscal Year 2020.

The City also receives an undergrounding utility franchise fee from SDG&E. The Fiscal Year 2020 Adopted Budget for SDG&E undergrounding utility fee revenue of $63.8 million. This revenue is budgeted in the Underground Surcharge Fund.

CABLE COMPANIES. The Fiscal Year 2020 Adopted Budget for cable franchise fee revenue of $14.8 million is based on updated Fiscal Year 2019 projections and assumes a negative 2.2 percent growth rate for Fiscal Year 2020. 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 2020 Adopted Budget for refuse hauler and other franchise fee revenues is $16.1 million and is based on updated Fiscal Year 2019 projections. The City anticipates $13.5 million from refuse collection fees, $1.6 million in revenue related to the Police Department vehicle tow program, $0.5 million in franchise fees from the EDCO facilities, and $0.5 million from other franchise fee sources.

Figure 14: 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.

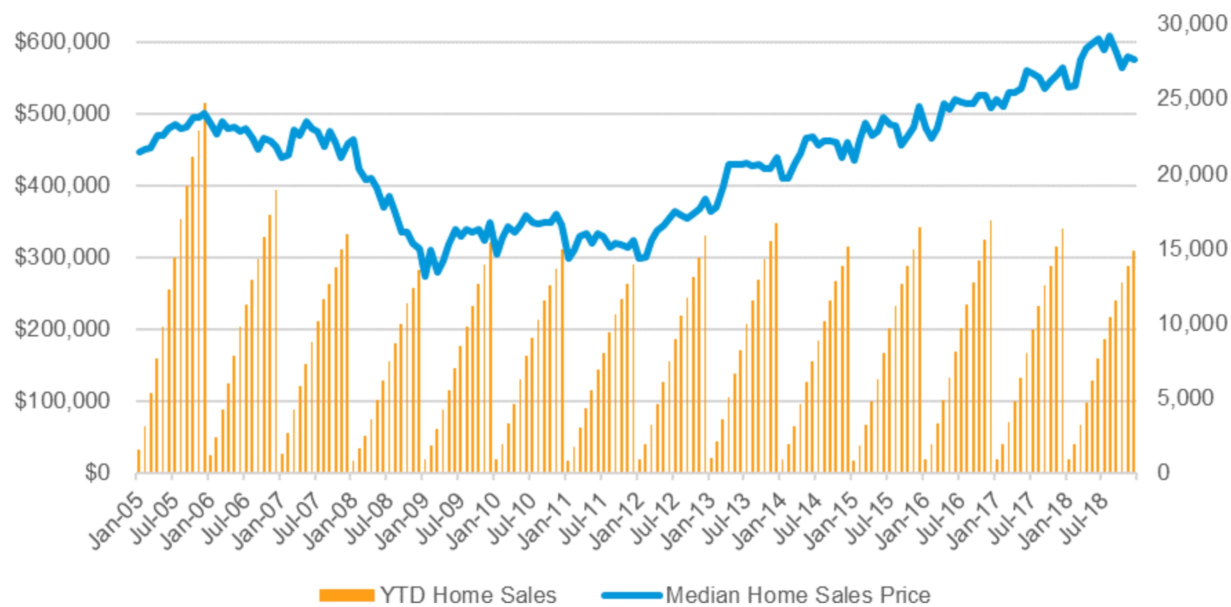
General Fund Revenues
$10.3 million

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. These factors are discussed in detail in the earlier property tax section and are summarized in the figure below.

Figure 15: City of San Diego Home Sales



Source: CoreLogic®

While the number of homes sold has decreased slightly, the overall volume of sales, expected mortgage rate stability, and increasing prices will continue to provide sustained levels of property transfer tax. The Department of Finance will continue to closely monitor Property Transfer Tax and adjust projections as necessary.

Fiscal Year 2020 Adopted Budget

The Fiscal Year 2020 Adopted property transfer tax budget of $10.3 million is based on the Fiscal Year 2019 year-end projections and assumes a 1.5 percent growth rate. The positive growth rate is based on anticipated continued growth in median home prices Fiscal Year 2020 tempered by slowing number of home sales.

Licenses and Permits

Background

General Fund Revenues
$34.7 million

Percent of
General Fund Revenues
2.2 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 2020 Adopted Budget

The Fiscal Year 2020 Adopted Budget for licenses and permits is $34.7 million or 2.2 percent of the General Fund revenue budget. This represents an increase of $8.9 million or 34.4 percent from the Fiscal Year 2019 Adopted Budget. The primary reason for the variance in revenue is the increase of cannabis business tax rate from 5.0 percent to 8.0 percent per the Municipal Code, along with the opening of two additional outlets, and the collection of tax from related ancillary cannabis business resulting in an increase of $6.2 million. An additional $2.4 million is revenue from the regulation of shared dockless mobility devices and $165,000 from increased revenue from refuse business tax and increased revenue from instructional beach camp fees.

Fines, Forfeitures, and Penalties

Background

General Fund Revenues
$31.1 million

Percent of
General Fund Revenues
2.0 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 2020 Adopted Budget

The Fiscal Year 2020 Adopted Budget for fines, forfeitures, and penalties revenue is $31.1 million or 2.0 percent of the General Fund revenue budget. The Fiscal Year 2020 Adopted Budget for fines, forfeitures, and penalties revenue is $247,000 or 0.8 percent lower than in the Fiscal Year 2019 Adopted Budget. The decrease for fines, forfeitures, and penalties is primarily due to a projected decrease of $230,000 in parking citation revenue.

Revenue from Money and Property

Rents and Concessions

General Fund Revenues
$61.4 million

Percent of
General Fund Revenues
4.0 percent

Revenue from Money and Property is primarily comprised of rents and concessions revenue generated from Mission Bay Park, Balboa Park, City Pueblo Lands, 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 2020 Adopted Budget

The Fiscal Year 2020 Adopted Budget for revenue from rents and concessions is $61.4 million or 4.0 percent of the General Fund revenue budget. This represents a $2.1 million or 3.5 percent increase from the Fiscal Year 2019 Adopted Budget.

An increase of $2.1 million is primarily due to the increased rents and concessions of city owned property due to increasing activity at the Mission Bay hotels, SeaWorld, and City Pueblo Lands. In addition, there is a $194,000 increase from library parking revenue and rent from non-general funds. This is offset by a decrease of $295,000 in revenue from Public Utilities' lakes concessions to reflect current receipts.

Interest and Dividends

Background

General Fund Revenues
$3.0 million

Percent of
General Fund Revenues
0.2 percent

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 interest rate that the City earns on its investments are likely to follow the Federal Funds Rate. As previously discussed, The 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 2.25 to 2.50 percent with increases in eight of the last twelve meetings. The committee notes in its June 19, 2019 press release that *"The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes, but uncertainties about this outlook have increased. In light of these uncertainties and muted inflation pressures, the Committee will closely monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2 percent objective."*

Fiscal Year 2020 Adopted Budget

The Fiscal Year 2020 Adopted Budget for interest earnings revenue has increased to $3.0 million, due to the increase in assumed interest rates on the City's pooled investments.

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
$6.4 million

Percent of
General Fund Revenues
0.4 percent

Fiscal Year 2020 Adopted Budget

The Fiscal Year 2020 Adopted Budget for revenue from federal and other agencies is $6.4 million or 0.4 percent of the General Fund revenue budget. This represents an approximate $900,000 or 16.2 percent increase from the Fiscal Year 2019 Adopted Budget. The increase from the Fiscal Year 2019 Adopted Budget is primarily attributable to reimbursements and user fee revenue for Fire-Rescue.

Charges for Current Services

Background

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, Department of Finance, City Attorney, and City Clerk 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

General Fund Revenues
$176.4 million

Percent of
General Fund Revenues
11.4 percent

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 2020 Adopted Budget

The Fiscal Year 2020 Adopted Budget for charges for current services revenue is $176.4 million or 11.4 percent of the General Fund revenue budget. This represents a net increase of $16.1 million or 10.0 percent increase from the Fiscal Year 2019 Adopted Budget. The Fire-Rescue Lifeguard Division and Transportation and Storm Water are anticipated to receive an increase of $9.2 million and $1.1 million, respectively in TOT revenues to support the safety and maintenance of visitor related facilities. Revenues for the Smart and Sustainable Communities increased $1.6 million due to the transfer of downtown permitting, planning, and parking programs functions from Civic San Diego (CivicSD). Parks and Recreation revenue from the Environmental Growth Fund has increased by $1.0 million. Also included is revenue from inspection and repair activity on: high-rises, new construction, water pipes, and sidewalks totaling $1.3 million, a disparity study in the amount of $800,000, Fire-Rescue revenue of $670,000 for dispatch services, and $730,000 in revenues from Facilities for services provided to Public Utilities. These increases are offset by a reduction of Police revenue from joint agency operations in the amount of $640,000.

Transfers In

Background

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.

General Fund Revenues
$104.1 million

Percent of
General Fund Revenues
6.7 percent

Fiscal Year 2020 Adopted Budget

The Fiscal Year 2020 Adopted Budget for transfers in is $104.1 million or 6.7 percent of the General Fund revenue budget. This represents an increase of $13.9 million or 15.4 percent from the Fiscal Year 2019 Adopted Budget. The change is primarily attributed to a $13.9 million increases Gas Tax revenue, $558,000 in TransNet Revenue, a $448,000 increase in Safety Sales Tax revenue, and a $554,000 in reimbursable revenue from the Non-General Funds for branch management positions that support non-general fund services. Transfers from other funds also include a $4.8 million one-time fund transfer from the Long-Term Disability Fund and increases in transfers in totaling $1.7 million from the Golf Enterprise and the TOT 1-cent discretionary transfer. These increases are offset by the removal of $8.2 million one-time fund contributions included in the Fiscal Year 2019 Adopted Budget.

Other Revenue

Fiscal Year 2020 Adopted Budget

Other revenue is composed of library donations, ambulance fuel reimbursements, corporate sponsorships, recovery from damages to City property and other miscellaneous revenues. The Fiscal Year 2020 Adopted Budget for other revenue remains unchanged at $3.2 million or 0.2 percent of the General Fund revenue budget.

General Fund Revenues
$3.2 million

Percent of
General Fund Revenues
0.2 percent

State of California Budget Impacts

On June 27, 2019, Governor Newsom enacted the 2019-2020 Budget appropriating $215 billion, including $148 billion in the State's General Fund. The Governor's budget includes more than $5.1 billion in increases to the State's General Fund spending. Additionally, the 2019-2020 general fund budget will see revenue growth of 3.1 percent, or $4.4 billion, due to the increase in the personal income and sales use 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 an additional $1.6 billion to the Rainy-Day Fund this fiscal year. The Budget dedicates $4.5 billion to eliminate debts and reverse deferrals, $5.5 billion to build reserves, and $4.3 billion to reduce unfunded retirement liabilities. Increases in revenues also provide for an increase over last year’s spending on education per Proposition 98. The budget allocates $1.75 billion toward housing production, including $250 million for technical support to regional jurisdictions and an additional $500 million for capital improvement grants. The remaining $1 billion is allocated to bolster further development of low- and moderate-income housing. The budget also includes expanding earned income tax credit program by $1 billion. However, the cost is dependent on the overall health of the economy and is difficult to estimate with a high level of confidence.

The State Adopted Budget includes financial commitment to finishing construction on several Projects in the City of San Diego, including a $21 million on Park Boulevard at-grade vehicle crossing that connects Park Boulevard with Harbor Drive, $8 million for restoration of Balboa Park’s Botanical Building and $9 million earmarked for repairs at Liberty station.

The Budget commits $918 million to improve wildfires emergency responses, including: $ 240.3 million to enhance protection capabilities; $225.8 million for prevention efforts; more than $159 million to bolster the state’s emergency preparedness, response, and recovery capacity; $75 million in one-time resources to protect vulnerable communities and improve resiliency; with the remaining funds devoted to supporting local recovery.

While the Governor’s Budget does not assume a recession in the budget estimate, the administration does discuss the likely and potential impacts of a recession. The administration’s current recession scenario assumes a greater slowdown than the 2001 recession, but a smaller slowdown than the 2009 recession. A one-year recession in 2019-20 could result in nearly $70 billion revenue loss and a $40 billion deficit over three years. Revenue loss from a single year recession is forecasted to average $25 billion in the first year and following year, then $15 to $20 billion in the third year.

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 Gann 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 Gann 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 2019 that established the City's Tax Appropriations Limit for Fiscal Year 2020 at $3,374,445,439. Using the Fiscal Year 2020 Adopted Budget, 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 $1.17 billion, which was $2.2 billion lower than the Gann Limit.

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