FISCAL YEAR

2021

The City of SAN DIEGO

General Fund Revenues

ADOPTED BUDGET

MAYOR KEVIN L. FAULCONER

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General Fund Revenues

The Fiscal Year 2021 General Fund revenue budget is $1.62 billion, which represents an increase of $71.7 million or 4.6 percent from the Fiscal Year 2020 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 2021 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. The major General Fund revenue projections included in the Fiscal Year 2021 Adopted Budget are based on Fiscal Year 2020 Third Quarter Budget Monitoring Report (Third Quarter Report) projections, economic data through May 2020, and the most recent information available on the COVID-19 pandemic at the time the Adopted Budget was developed. In light of the current economic environment and impacts from the COVID-19 outbreak, actual economic and financial conditions may change materially from those assumed.

Table 1: Fiscal Year 2021 General Fund Revenue Change illustrates the components of the projected $71.7 million, or 4.6 percent increase, in General Fund revenues from the Fiscal Year 2020 Adopted Budget.

Table 1: Fiscal Year 2021 General Fund Revenue Change

	Percent Change from FY 2020 Adopted Budget	Change (in millions)
Major Revenues	(4.8%)	$ (53.8)
Other Revenue Sources	29.2%	125.7
Total	**4.6%**	**$ 71.7**

The City's four major General Fund revenue sources are property taxes, sales taxes, transient occupancy taxes (TOT), and franchise fees. These sources account for 65.7 percent of the City's General Fund revenue in the Fiscal Year 2021 Adopted Budget and are projected to decrease by $53.8 million, or 4.8 percent, from the Fiscal Year 2020 Adopted Budget. The decreases in the major General Fund revenues is primarily due to impacts of the COVID-19 pandemic, which is discussed in further detail in the following sections. Offsetting the decrease in the major General Fund revenues is an increase of $146.1 million in COVID-19 State and federal relief funds for Fiscal Year 2021. The relief funds are provided through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted by the federal government in March 2020 to provide emergency assistance and health care response for individuals, families, and businesses affected by the COVID-19 pandemic. Due to the revenue from the State, federal and other agencies, the Fiscal Year 2021 Adopted Budget revenue budget increased by $71.7 million from the Fiscal Year 2020 Adopted Budget.

Table 2: Fiscal Year 2021 General Fund Revenues displays each of the revenue categories in the General Fund and includes Fiscal Year 2019 actual amounts, as well the Fiscal Year 2020 Adopted Budget.

Table 2: Fiscal Year 2021 General Fund Revenues (in millions)

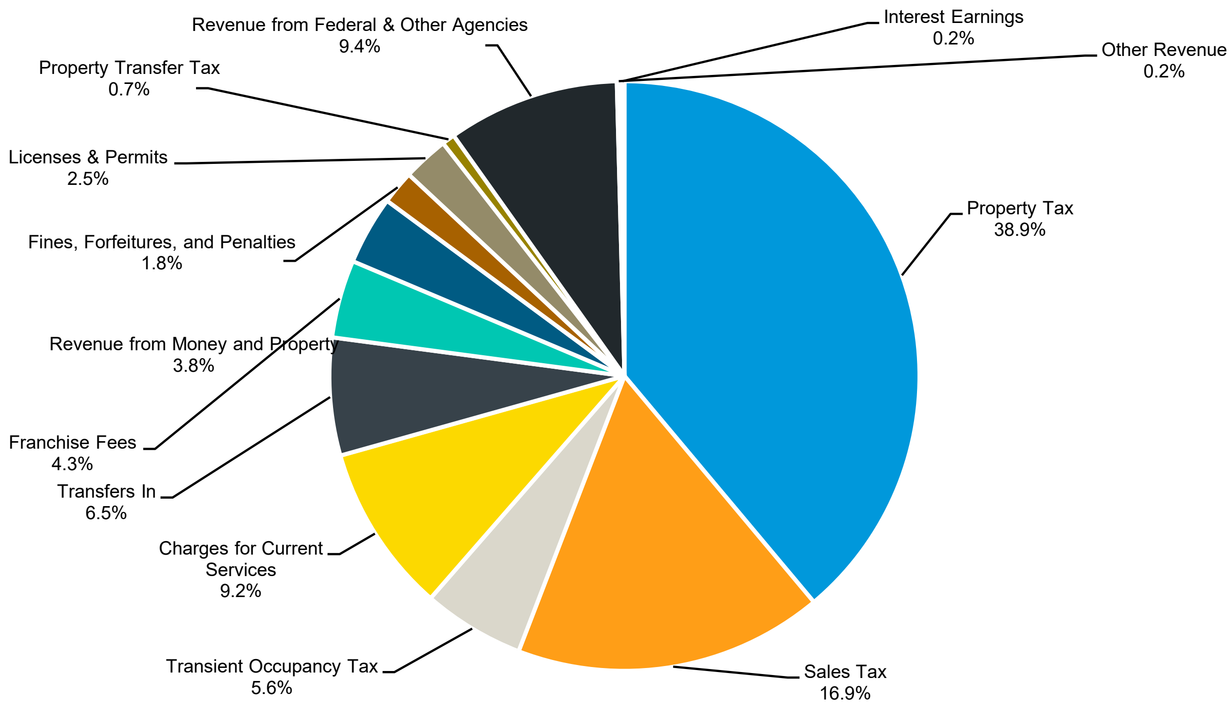
Revenue Category	FY 2019 Actual	FY 2020 Adopted Budget	FY 2021 Adopted Budget	FY 2020 - FY 2021 Change	Percent Change[1]	% of Total General Fund Revenue
Property Tax	$ 570.6	$ 601.9	$ 630.6	$ 28.7	4.8%	38.9 %
Sales Tax	304.4	297.9	274.4	(23.4)	(7.9%)	16.9 %
Transient Occupancy Tax	131.9	136.9	90.5	(46.4)	(33.9%)	5.6 %
Franchise Fees	80.6	82.0	69.3	(12.7)	(15.5%)	4.3 %
Property Transfer Tax	10.8	10.3	11.3	1.1	10.4%	0.7 %
Licenses & Permits	28.4	34.7	40.7	6.0	17.3%	2.5%
Fines, Forfeitures, and Penalties	28.5	31.1	29.7	(1.4)	(4.6%)	1.8 %
Revenue from Money and Property	63.9	61.4	61.0	(0.4)	(0.7%)	3.8 %
Interest Earnings	3.9	3.0	3.5	0.5	15.0%	0.2 %
Revenue from Federal Agencies	1.4	-	146.1	146.1	100%	9.0 %
Revenue from Other Agencies	6.9	6.4	6.6	0.2	2.4%	0.4%
Charges for Current Services	170.8	176.4	149.5	(26.9)	(15.3%)	9.2 %
Other Revenue	4.7	3.2	3.2	0.0	1.4%	0.2 %
Transfers In	84.9	104.1	104.6	0.5	0.5%	6.5 %
Total	**$ 1,491.6**	**$ 1,549.2**	**$ 1,620.9**	**$ 71.7**	**4.6%**	**100.0 %**

Numbers may not foot due to rounding.

[1] Percent change represents the change from FY 2020 Adopted Budget to FY 2021 Adopted Budget. Budgeted growth rates for revenues may differ, as FY 2021 Adopted Budget amounts are based on updated Fiscal Year 2020 projections.

The major General Fund revenue projections included in the Fiscal Year 2021 Adopted Budget are based on Fiscal Year 2020 Third Quarter Budget Monitoring Report (Third Quarter Report) projections, economic data through May 2020, and the most recent information available on COVID-19 at the time the Adopted Budget was developed. In light of the current economic environment and impacts from the COVID-19 outbreak, actual economic and financial conditions may change materially from those assumed. The Department of Finance will continue to monitor the situation closely and will incorporate these changes as needed and report significant changes in quarterly budget monitoring reports. The Fiscal Year 2021 First Quarter Budget Monitoring Report (First Quarter Report) will be released in November 2020 and will include updates to major General Fund revenues and other significant General Fund revenue changes. 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 2021 are outlined below. As such, the City maintains its strong position to weather the economic impacts of this global pandemic by developing prudent estimates, adhering to reserve policies and closely monitoring revenue receipts.

Figure 1: Fiscal Year 2021 General Fund Revenues - $1.62 Billion



San Diego's Economic Environment[1]

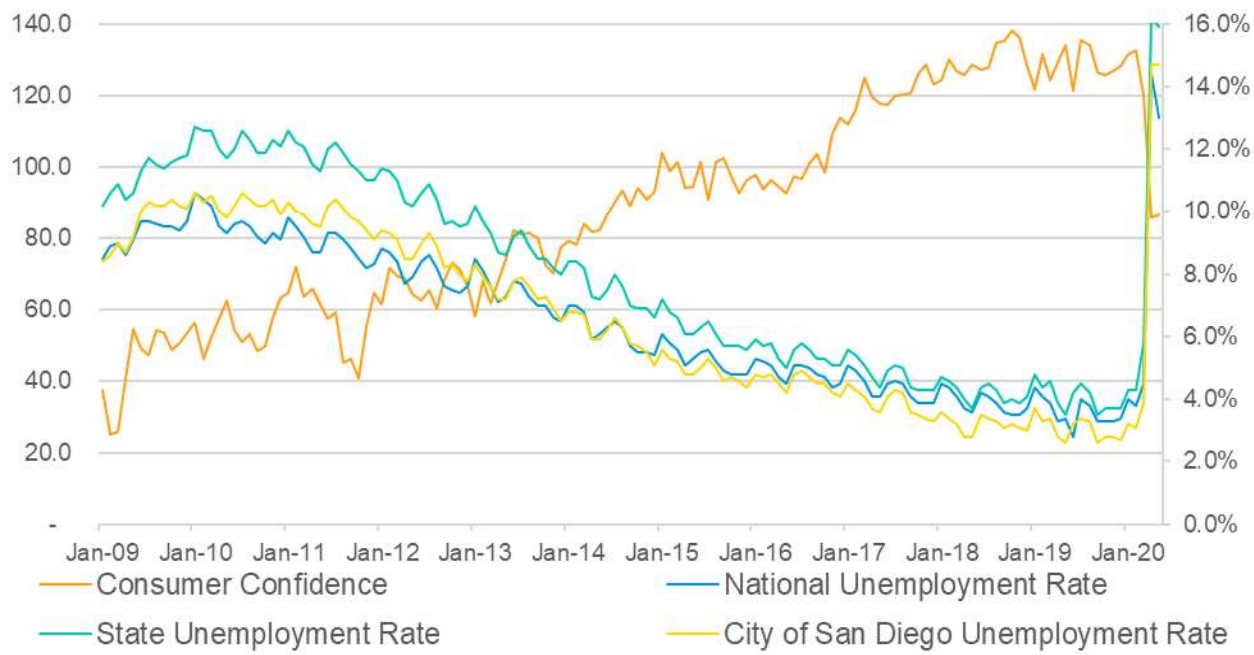
At the start of 2020, San Diego's economic outlook was trending stable and positive. However, with the start of the COVID-19 pandemic and the economic recession, City revenues have declined significantly and are projected to continue to decline into Fiscal Year 2021. There have been many fiscal challenges attributed to the COVID-19 pandemic, including a projected GDP decline, historic increases in unemployment claims in the region, travel restrictions and a decline in consumer spending resulting from business closures and changes in the way goods and services are sold to consumers. Additionally, uncertainty exists with inflation, and federal and international policies that may affect these indicators and the economy 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, Tourism Economics—an Oxford Economics Company, the San Diego Tourism and Marketing District, the UCLA Anderson Forecast, and California independent research firm Beacon Economics at the time the Adopted Budget was developed.

[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, Tourism Economics, San Diego Tourism and Marketing District, Colliers International, and The Conference Board.

In comparison to the Fiscal Year 2020 Adopted Budget, the Fiscal Year 2021 Adopted Budget includes projected decreases to three of the four major General Fund revenues—sales tax, transient occupancy tax, and franchise fees—primarily based on the projected impacts of the COVID-19 pandemic.

The Fiscal Year 2021 Adopted Budget for base property tax assumes that the City will experience 4.25 percent growth based on increasing home prices offset by fewer home sales. This growth rate represents a decline when compared to the Fiscal Year 2021-2025 Five-Year Financial Outlook (Outlook). The property tax growth rate is in line with current San Diego County estimates, and includes an offset of reduced collection rates as a result of COVID-19 pandemic impacts to the economy. The Fiscal Year 2021 Adopted Budget for sales tax assumes a negative 23.06 percent growth rate in the first quarter of Fiscal Year 2021, primarily from decreases in projected sales tax receipts as a result of decreased spending in retail, restaurants, travel, leisure, and entertainment sectors, all impacts from the COVID-19 pandemic. The sales tax growth rate for the remainder of Fiscal Year 2021 is projected at negative 4.00 percent based on the projected continued volatility in consumer confidence, continued decline in the economy, and is consistent with the City's sales consultant's recession scenario at the time of the preparation of the Adopted Budget. The Fiscal Year 2021 Adopted Budget projected growth rate for TOT is negative 36.71 percent. This growth rate has been lowered from the Outlook to account for lower tourism activity as forecasted by the San Diego Tourism Authority and San Diego Tourism and Marketing District. The tourism industry is projected to be most impacted in Fiscal Year 2021 due to the cancelation of major events and conferences, and continued restrictions on public gatherings and social distancing measures. The Fiscal Year 2021 Adopted Budget for franchise fees is based on updated Fiscal Year 2020 projections and are anticipated to decrease primarily due to the continued decrease in cable franchise fee revenue and lower than expected SDG&E franchise fee revenue. The SDG&E franchise fee revenue incorporates a projected negative 9.47 percent growth which includes declines in commercial energy consumption levels based on historical recession data. 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

General Fund Revenues

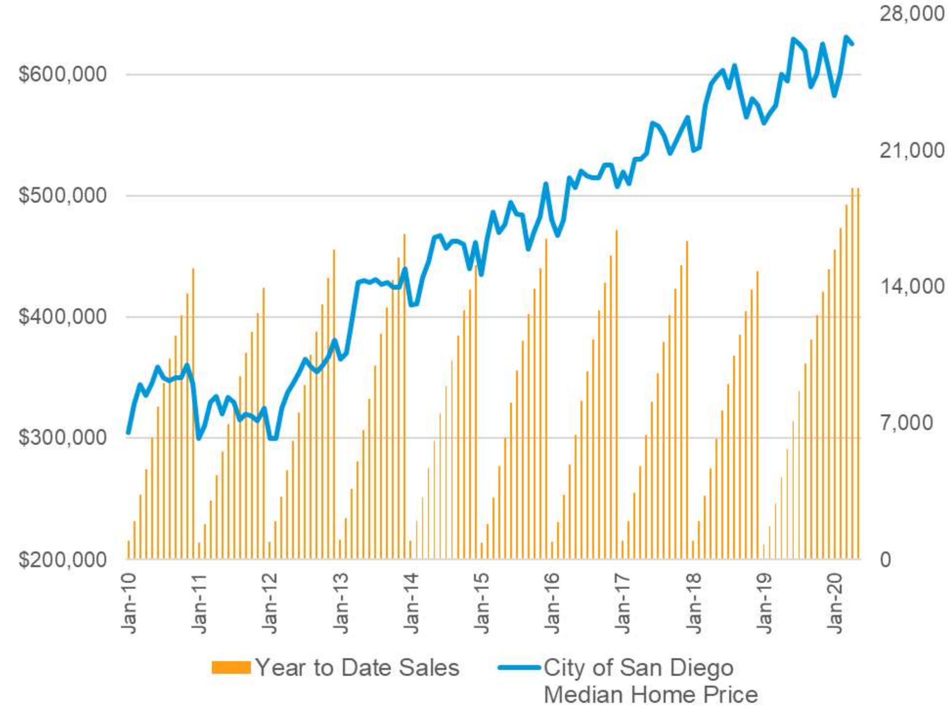
The main economic drivers of General Fund revenues include consumer discretionary spending and housing market indicators, such as home sales and prices. Consumer discretionary spending is greatly influenced by employment levels and consumer confidence. Consumer confidence has increased steadily over the last ten years since its historic low of 26.0 in March 2009. However, as a result of the COVID-19 pandemic, consumer confidence has decreased by 35.4 percent when compared to May 2019, reaching 86.6 in May 2020 when the Adopted Budget was developed. It is anticipated that consumer confidence will continue to be impacted until the virus is contained. The reduced consumer spending could result in additional job losses across the City and nation.

The unemployment rate for the City of San Diego has significantly increased over the last several months as a result of impacts from the COVID-19 pandemic reaching an unemployment rate of 14.7 percent in May 2020 at the time when the Adopted Budget was developed. This represents an increase of 12.1 percent when compared to a 2.6 percent unemployment rate in May 2019. Many restaurants, retail stores and other non-essential businesses had temporarily closed during the months of March through May leaving many people without work. As workers lose their jobs and income decreases, consumers will stop spending money. In addition, the San Diego Convention Center, which provides an estimated 12,500 jobs within the City, is currently closed and being used as a temporary shelter for people in need. With the majority of large group events cancelled through Fall 2020. The reopening of the Convention Center, once determined by State and County safe re-opening guidelines, will drive an increase in employment opportunities within the City.

Per the State's re-opening plan, some businesses have been authorized to open again with certain restrictions. The re-opening of businesses will decrease the unemployment rate slightly; however, based on the UCLA Anderson Forecast released in June 2020, it is anticipated to take time for the unemployment rate to be restored to 2019 levels. The magnitude of these effects is difficult to predict. There are many variables that will contribute to the final outcome, including how long social distancing measures will be in place, how effectively state and federal governments provide relief, and the timing for the ultimate containment and treatment of COVID-19.

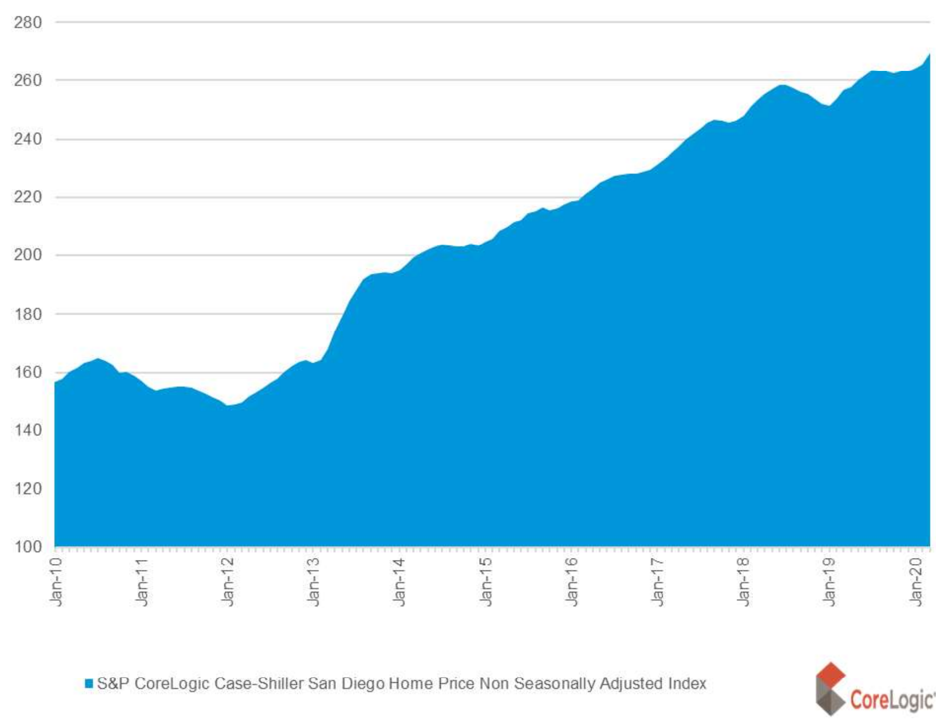
Mortgage rates remain historically low, which supports a healthy real estate market; however, as median home prices continue to rise and with the economic uncertainty from the COVID-19 pandemic, the housing market could be impacted in the near future. The City of San Diego median home prices still remain high, the average 12-month median sales price for the period of June 2019 through May 2020 is $614,083 representing an increase of 6.1 percent when compared to June 2018 through May 2019. The number of home sales for the same period, fell to 14,242 a 0.5 percent decrease. As reported by CoreLogic, a data and analytics company, the S&P/Case-Shiller San Diego Home Price Non-Seasonally Adjusted Index reached new highs in Calendar Year 2019. The March 2020 home price index released in May 2020 was 269.63 which is a 5.1 percent increase over the March 2019 index of 256.63. The index provides historical data on the change in home prices for the San Diego Metro area.

Figure 3: City 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 2021 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 2021 Adopted Budget.

Table 3: Key Economic Indicators

Economic Indicator	May 2019	May 2020
City of San Diego 12-month Home Sales (Source: CoreLogic ®)	14,309	14,242
City of San Diego 12-month Median Home Price (Source: CoreLogic ®)	$583,667	$614,083
S&P/CoreLogic Case-Shiller Home Price NSA Index for the City of San Diego (Source: S&P Dow Jones Indices / CoreLogic ® Case-Shiller)	257.7	263.5
Countywide Foreclosures (12 month) (Source: County of San Diego)	680	449
Countywide Notices of Default (12 month) (Source: County of San Diego)	3,335	2,547
City of San Diego Unemployment Rates (Source: State of California Economic Development Department)	2.6%	14.7%
Consumer Confidence (Source: Conference Board)	134.1	86.6

The UCLA Anderson Forecast and Beacon Economics data both agree that COVID-19 has brought on a sharp and sudden economic decline to the region that is expected to continue through Fiscal Year 2021; followed by a gradual recovery beginning in early 2023. The revenue projections included in this budget incorporate the sharp decline in economic growth and assume an economic recession in Fiscal Year 2021. However, the magnitude and full impact of the recession is impossible to predict considering the limited data and the inability to compare this unprecedented event to any other event in history. The Department of Finance will continue to monitor economic indicators and expert reports to determine the severity and length of the economic downturn and impacts of a recession.

An overview of State and federal relief funds for the COVID-19 pandemic and impacts to the four General Fund major revenues are discussed in further detail in the following sections.

COVID-19 State and Federal Relief Funds

State Funds

As part of the state's response to address the COVID-19 pandemic, the Governor declared a State of Emergency on March 4, 2020 to make additional resources available, formalize emergency actions already underway across multiple state agencies and departments, and help the State prepare for broader spread of COVID-19. On March 17, 2020, the State passed emergency legislation – SB 89 and SB 117 – providing up to $1.0 billion in funding for purposes related to the March 4, 2020 proclamation of a State of Emergency. Included within the emergency funding was an augmentation of $150.0 million to assist local governments in protecting the health and safety of homeless populations. This funding was distributed by the California Business, Consumer Services, and Housing Agency according to the Homeless Housing, Assistance and Prevention Program (HHAP) formula. Of the $7.1 million that was allocated to the greater San Diego region, the City received $3.7 million. The City Council voted on April 7, 2020 to allocate its COVID-19 Emergency Homelessness allocation, along with those for the County of San Diego and the Regional Task Force on the Homeless, toward emergency shelter operations at the Convention Center.

Federal Funds

On March 27, 2020, the federal government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide emergency assistance and health care response for individuals, families, and businesses affected by the COVID-19 pandemic. The CARES Act provides $150.0 billion in payments to states and local governments from its Coronavirus Relief Fund that may only be used to cover costs that: (1) are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19); (2) were not accounted for in the budget most recently approved as of the date of enactment of the CARES Act; and (3) were incurred during the period that begins on March 1, 2020, and ends on December 20, 2020. The CARES Act also provided additional allocations to Community Development Block Grant Program (CDBG), Emergency Solutions Grant Program (ESG), Housing Opportunities for Persons with AIDS Program (HOPWA). The funding allocation for these three programs was presented to City Council for approval on May 19, 2020.

Per federal guidelines, the requirement that expenditures be incurred “due to” the public health emergency means that expenditures must be used for actions taken to respond to the public health emergency. The Fund may not be used to cover shortfalls in government revenue, and communities receiving these payments are required to certify compliance with federal guidance regarding expenditures of CARES Act funds.

On May 4, 2020, the United States Department of the Treasury provided a frequently asked questions to supplement Treasury’s Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments. This document provided clarifications on key provisions in the legislation and guidance related to “payroll expenses for public safety, public health, health care, human services, and similar employees whose services are substantially dedicated to mitigating or responding to the COVID-19 public health emergency” and costs “not accounted for in the most recently approved budget if the cost is for a substantially different use from any expected use of funds”. The document also stated that “the Fund is designed to provide ready funding to address unforeseen financial needs and risks created by the COVID-19 public health emergency. For this reason, and as a matter of administrative convenience in light of the emergency nature of this program, a State, territorial, local, or Tribal government may presume that payroll costs for public health and public safety employees are payments for services substantially dedicated to mitigating or responding to the COVID-19 public health emergency, unless the chief executive (or equivalent) of the relevant government determines that specific circumstances indicate otherwise.”

Based on federal guidance, data obtained from the City’s existing COVID-19 internal tracking order, input from departments, and review from the City’s executive management team, the Fiscal Year 2021 Adopted Budget includes the use of $146.1 million in COVID-19 State and federal relief funds.

Property Tax

General Fund Revenue
$630.6 million

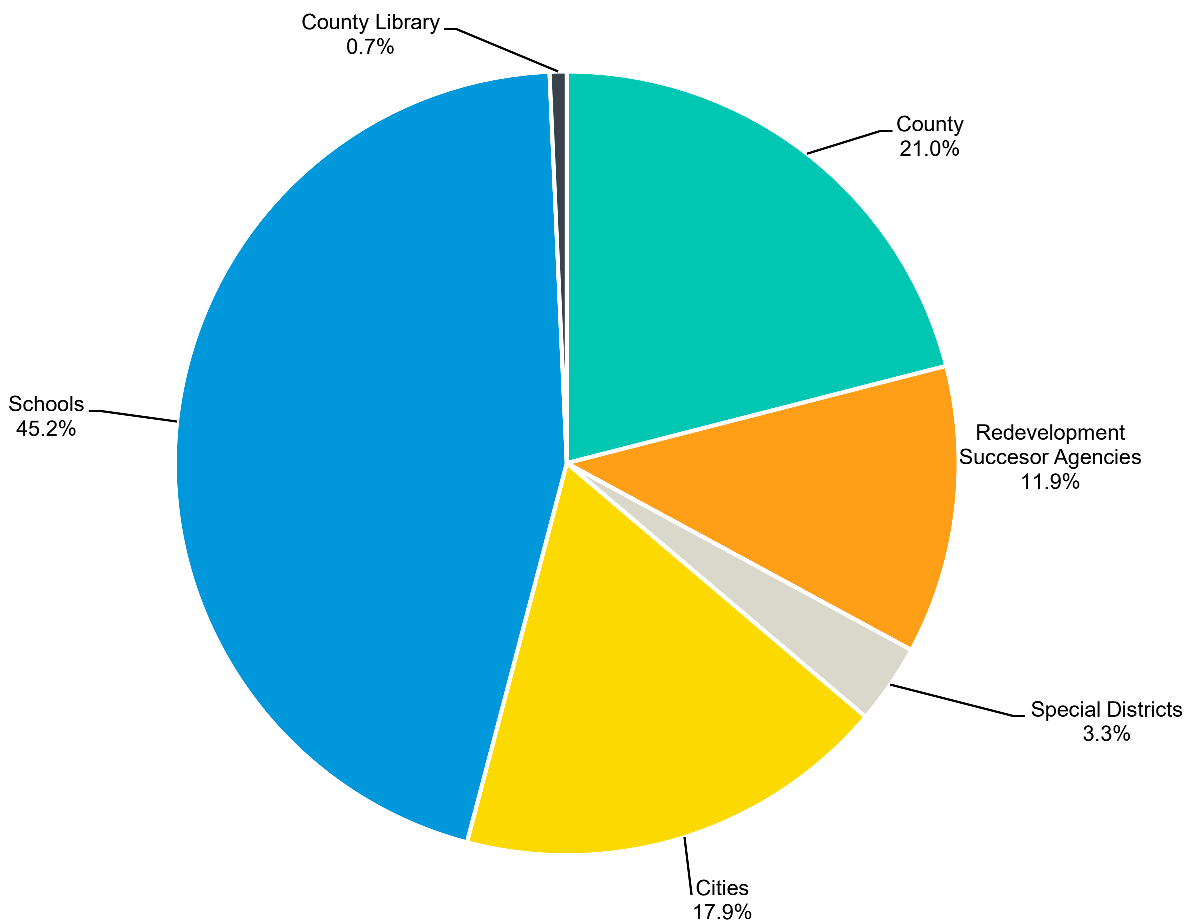
Percent of
General Fund Revenues
38.9 percent

Background

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 2020, the average allocation to cities within San Diego County totals $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.

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.

Figure 5: Fiscal Year 2021 Countywide Property Tax Distribution



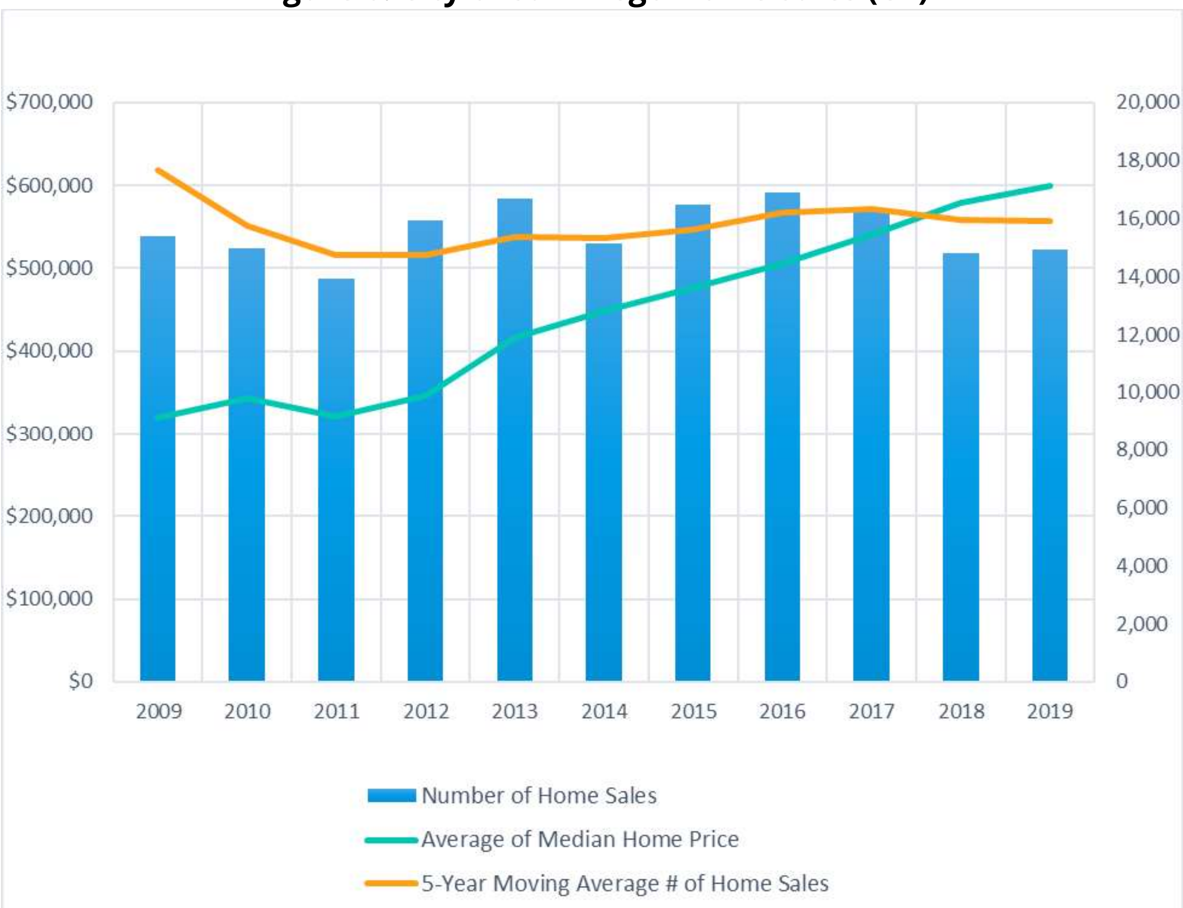
Source: San Diego County Property Tax Services

Economic Trends

Property Tax growth for Fiscal Year 2021 Adopted Budget is based on real estate activity through CY 2019. 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 home values; however, the number of home sales has slowed when compared to the previous year. In recent months, both foreclosures and notices of defaults continue to decline, which is attributed to the recently implemented State Executive Orders regulating evictions and post-foreclosure evictions across the State as a result of a reduction in household income or increase in household expenses. There is also an Assembly Bill pending that will provide further protections to borrowers affected by the COVID-19 pandemic.

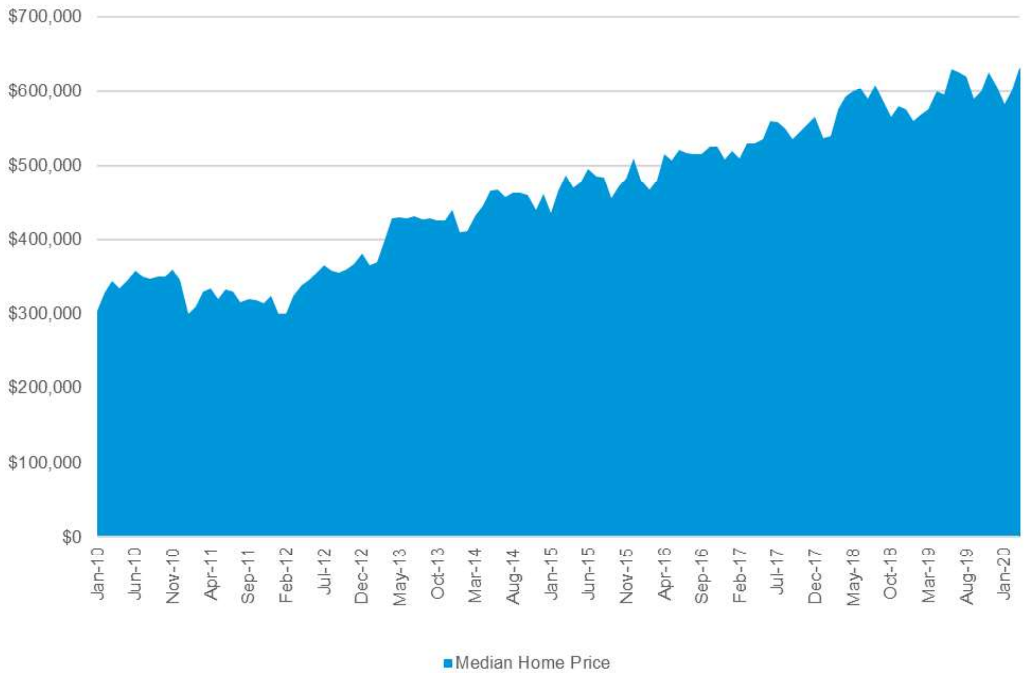
The City recorded 14,925 sales, which is a 0.7 percent increase over the CY 2018 home sales total of 14,826. Although home sales in the City of San Diego increased in CY 2019, the number of home sales has decreased in recent months as a result of the COVID-19 pandemic. As of May 2020, the total number of home sales calendar year to-date for the same period last year, decreased to 4,999, representing a 12.0 percent decrease. Median home sales price showed continued improvement, reaching a new, all-time high, at $635,000 as of May 2020 and has remained steady.

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



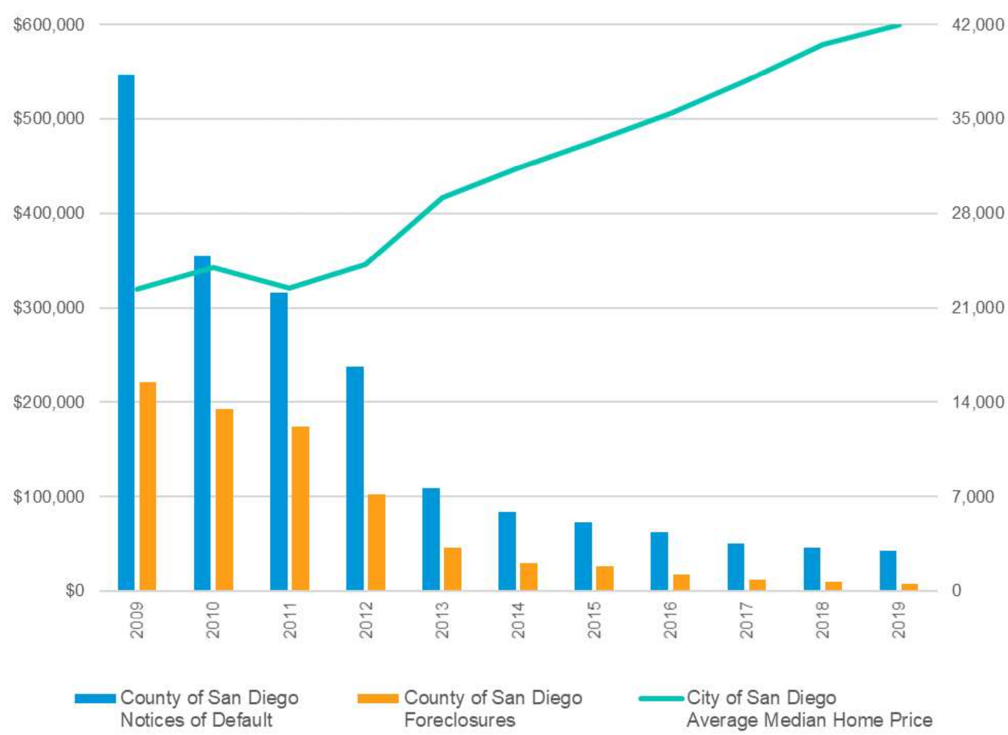
Source: CoreLogic ®

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 California Consumer Price Index (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; however, 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 2019 was 283.9, which is a 3.0 percent increase over the October 2018 CCPI of 275.7. Therefore, assessed value for those properties, not otherwise sold or improved, will increase by 2.0 percent. Improvements to the labor market lowered unemployment rates contributing to the continued growth in the local real estate market through CY 2019. The City of San Diego's unemployment rate reached a low in December 2019 at 2.7 percent. However, with the recent changes in the economy as a result of the COVID-19 pandemic, the unemployment rate has increased significantly to an all-time high of 14.7 in May 2020. High unemployment levels are forecasted to continue for the region, potentially hindering the growth in the local real estate market. Furthermore, with many unemployed within the City, the City may potentially see a decrease in property tax revenue collections in Fiscal Year 2021. This assumption is included in the Fiscal Year 2021 Adopted Budget.

Lastly, while the 30-year mortgage rate has steadily decreased, economic uncertainty in this current calendar year has caused increased adjustments to the federal funds rate. As a result of the recent effects of the COVID-19 pandemic and the risks to the economic outlook, in March of 2020, the Federal Open Market Committee (FOMC) lowered the target range for federal funds rate to between 0 and 1/4 percent. As of a recent statement from the Federal Reserve, “the Committee decided to maintain the target range for the federal funds rate at between 0 and 1/4 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals” (as noted in the Federal Reserve’s June 10, 2020 press release).

Fiscal Year 2021 Adopted Budget

The Fiscal Year 2021 Adopted Budget for property tax is $630.6 million, which assumes 4.25 percent growth for the base property tax (which is covered by Proposition 13) and a projected increase in collection rates for "in-lieu of motor vehicle license fee" payments. 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 a decrease from the rate projected in the Outlook as the market conditions have changed since the release of the Outlook. The primary anticipated impact to property tax revenue as a result of COVID-19 is the rate of collection. The rate of collection for the past three years during the economic expansion has been historically high at a rate of 99.2 percent. The Fiscal Year 2021 Adopted Budget estimates a decrease of 1.6 percent in collection rates, at a collection rate of 97.6 percent. The decrease in collection rate assumes that with many unemployed within the City, the City may potentially see a decrease in property tax revenue collections in Fiscal Year 2021. These assumptions are similar to the collection rates realized during the last recession.

The $630.6 million property tax budget consists of an estimated $432.0 million in base property tax, $160.8 million "in-lieu of motor vehicle license fee" payment, $9.0 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA), and $28.8 million in anticipated residual property tax payments. The total property tax for the Fiscal Year 2021 Adopted Budget is $5.5 million lower than the Outlook due to updated projections from the COVID-19 pandemic, and updated ROPS activity.

Table 4: Fiscal Year 2021 Adopted Property Tax Budget

Property Tax Segments	Revenue (In Millions)
Base Property Tax	$ 432.0
Property Tax "In-Lieu" of MVLF	160.8
Residual Tax Sharing	28.8

Property Tax Segments		Revenue (In Millions)
Tax Sharing Distribution		9.0
Total Property Tax	**$**	**630.6**

Sales Tax

Background

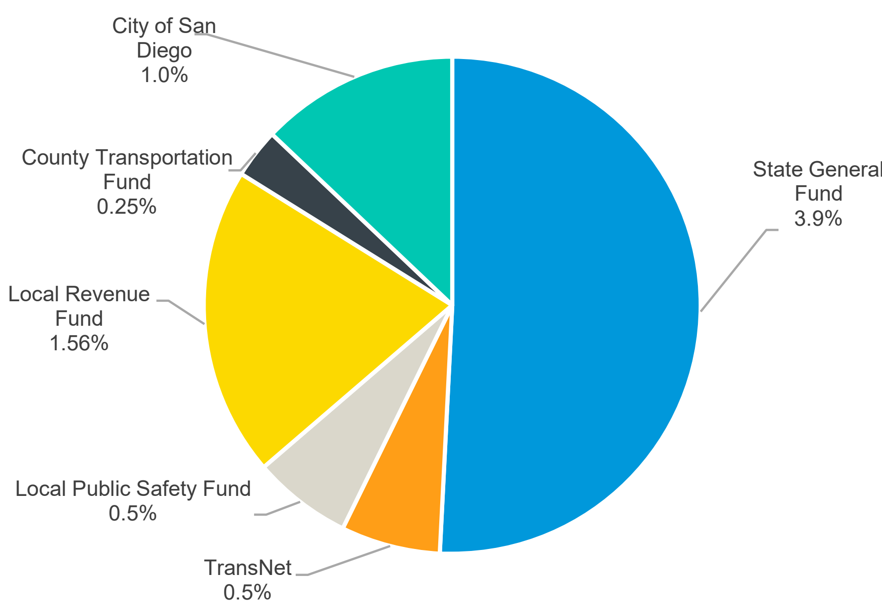
General Fund Revenues
$274.4 million

Percent of
General Fund Revenues
16.9 percent

Sales tax is the second largest General Fund revenue source, representing 16.9 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

Economic indicators that drive spending and growth in sales tax receipts include unemployment rate, total number of persons employed, and consumer confidence. While CY 2019 showed record numbers for these indicators, recent uncertainty, volatility, and slower growth estimates due to the COVID-19 pandemic have significantly decreased the projections. As of December 2019, the City of San Diego had 710,500 persons employed resulting in an all-time low Unemployment Rate of 2.7 percent. However, when compared to May

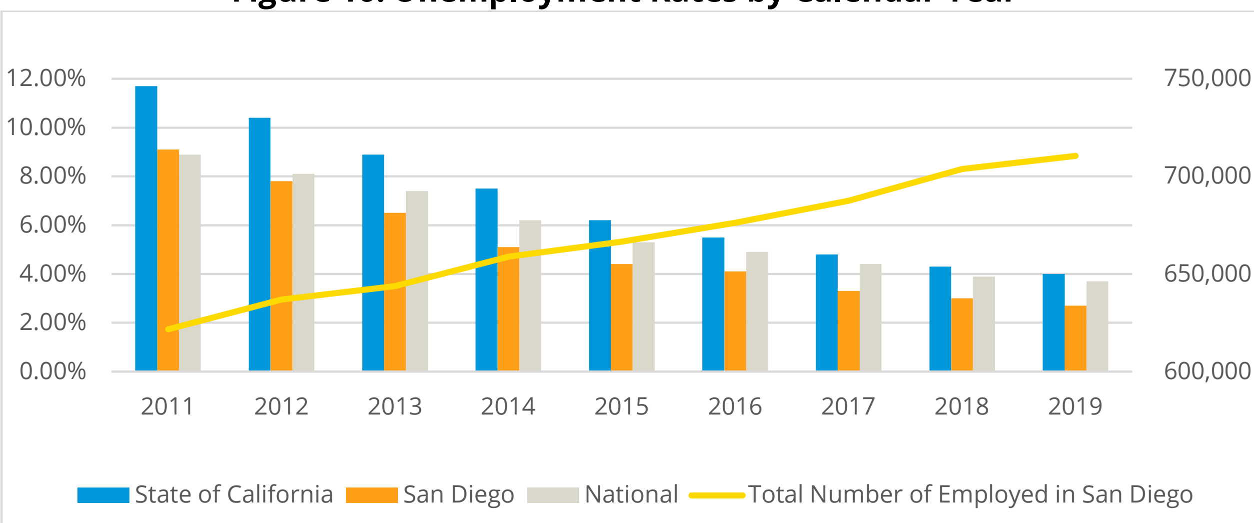
2019, the unemployment rate and the number of unemployed in the City of San Diego for May 2020 reflects a sharp increase of 12.1 percent, from 2.6 percent to 14.7 percent. **Figure 10** depicts each full calendar year as of December data and calendar year 2020 as of May 2020. The spike in unemployment is largely contributed to federal, state and local restrictions including Stay-at-Home orders, limitations on gatherings and closures of non-essential businesses. The San Diego unemployment rate is the highest on record with data going back to 1990.

Consumer confidence, which is highly correlated with sales tax, has also been significantly impacted by the COVID-19 pandemic. As of May 2020, consumer confidence is measured at 86.6 which is a 35.4 percent decrease from May 2019.

The May 2020 San Diego Consumer Price Index has increased by 0.3 percent year-over-year from 301.017 in May 2019 to 301.317, leading to higher prices of goods, and therefore sales tax. Although compared to March 2020, the San Diego Consumer Price Index has decreased by 0.4 percent indicating a shift to a potential declining trend.

In alignment with the negative narrative of the leading sales tax indicators, the Fiscal Year 2021 Adopted Budget reflects a decline in sales tax projected revenue. It is unclear how current uncertainties around global health conditions will ultimately impact the full fiscal year. The City has been affected by changes in State and County of San Diego mandates on the operations of businesses. As a result, this has impacted the reopening of businesses across San Diego, causing the closure of many indoor operations, including the closure of indoor malls. The City continues to monitor the metrics and will closely monitor revenue changes, additional modifications will be made during the budget monitoring process in Fiscal Year 2021.

Figure 10: Unemployment Rates by Calendar Year



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

Fiscal Year 2021 Adopted Budget

The Fiscal Year 2021 Adopted Budget for sales tax is $274.4 million with a growth rate of negative 8.77 percent. The Fiscal Year 2021 Adopted Budget for Sales Tax was developed utilizing a negative 23.06 percent growth rate on local businesses in the first quarter of Fiscal Year 2021, and a negative 4.00 percent growth rate for the remainder of Fiscal Year 2021. The first quarter growth rate of negative 23.06 percent is primarily due to decreases in projected sales tax receipts as a result of decreased spending in retail, restaurants, travel, leisure and entertainment sectors, all impacts from the COVID-19 pandemic. The growth rate for the remainder of Fiscal Year 2021 is projected at negative 4.00 percent based on the projected continued volatility in consumer confidence, continued decline in the economy, and is consistent with the City's sales consultant's recession scenario. In addition, the sales tax revenue includes the potential impact on the sales and use tax deferment option offered by the State and the projected revenue increases associated with AB 147 and the Marketplace Facilitator Act.

The State has implemented a sales and use tax deferment option for businesses with $5.0 million or less in California total sales revenue to defer and repay up to $50,000 in annual sales tax liability in twelve equal monthly installments resulting in less sales tax deposits in Fiscal Year 2021. The true impacts of the sales and use tax deferment is difficult to predict. However, based on a recent survey conducted by the San Diego Regional Economic Development Corporation and the Downtown San Diego Partnership, 42.0 percent of small businesses have closed and 61 percent have indicated a need for financial assistance. As a result, it is expected that many of small businesses are likely to take advantage of the sales tax deferment option, potentially impacting the City's sales tax revenues by $9.8 million in Fiscal Year 2021.

Assembly Bill 147 provides for the collection of additional sales taxes from out-of-state businesses and the new Marketplace Facilitator Act. Effective October 1, 2019, the Marketplace Facilitator Act requires marketplace facilitators to be responsible for collecting and paying the tax on retail sales made through their marketplace for delivery to California customers. Marketplace facilitators include companies such as Amazon, eBay, Etsy and Walmart and is expected to partially offset the declines in sales tax growth and impacts from the sales and use tax deferment with a projected increase of $7.9 million in Fiscal Year 2021.

General Fund Transient Occupancy Tax (TOT)

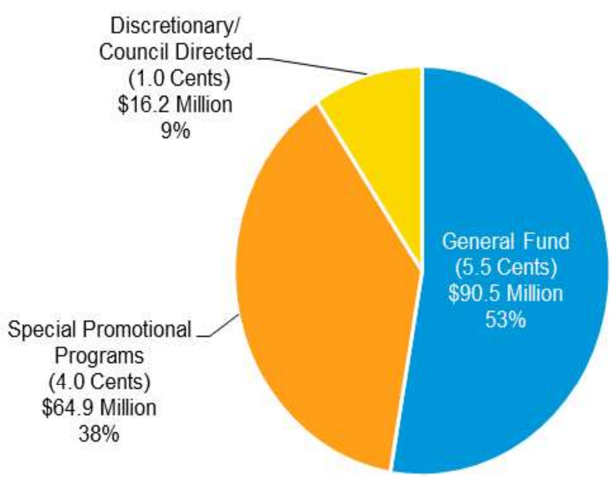
Background

Transient Occupancy Tax makes up 5.6 percent of the City's General Fund revenue budget. TOT is levied at 10.5 cents per dollar on taxable rent for a transient's stay of less than one month. The use of TOT is guided by the City's Municipal Code which stipulates that of the 10.5 cents of collected TOT, 5.5 cents is to be applied toward general government purposes, 4.0 cents towards promoting the City as a tourist destination, and the remaining 1.0 cent towards any purposes approved by the City Council. TOT totals $171.6 million, of which, $90.5 million is applied directly to the General Fund and associated with the 5.5 cent that is for general government purposes.

General Fund Revenues
$90.5 million

Percent of
General Fund Revenues
5.6 percent

Figure 11: City of San Diego Transient Occupancy Tax Allocation



Economic Indicators

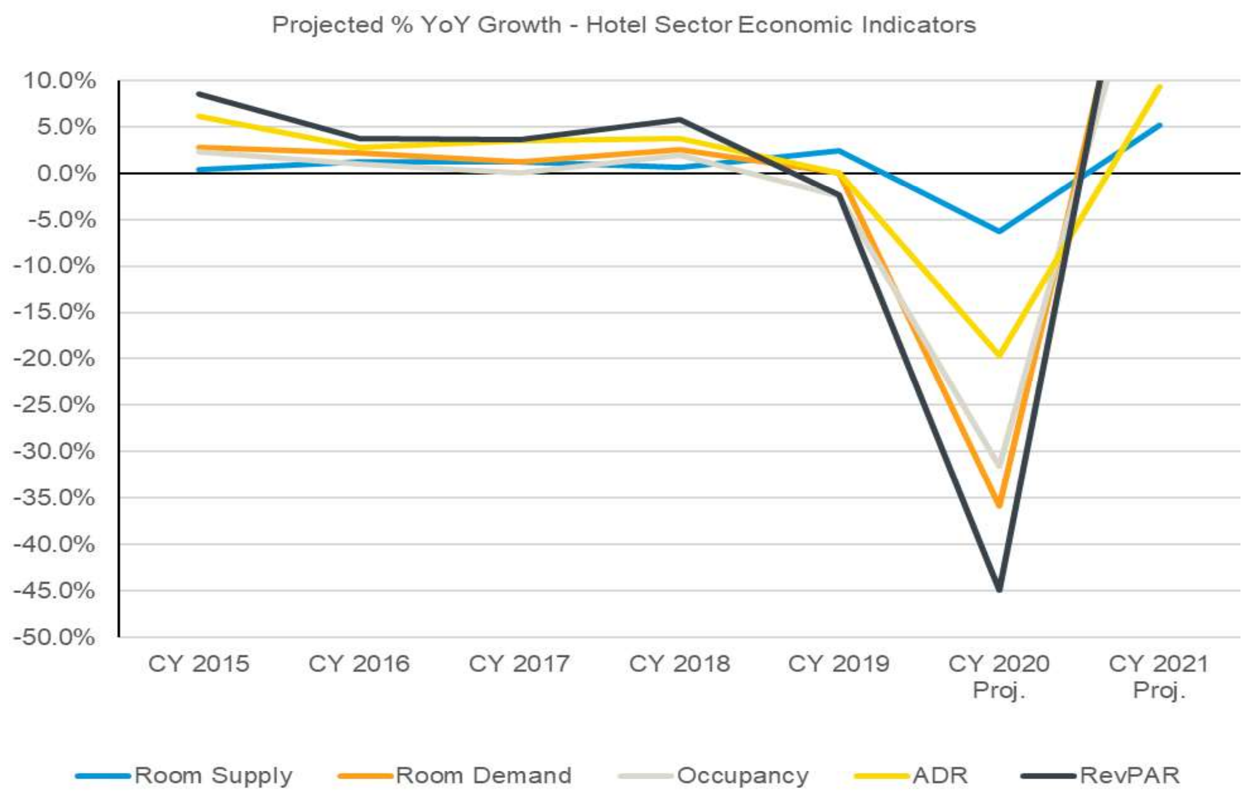
The San Diego hotel sector, which generates the majority of TOT receipts, has performed strongly over the past several years. However, over the recent several months, the City has experienced reduced spending in travel, leisure, and entertainment sectors, all impacts from the COVID-19 pandemic. Lower tourism activity continues to be forecasted by the San Diego Tourism Authority and San Diego Tourism and Marketing District, which incorporates the immediate impacts of COVID-19 such as event cancelations, hotel closures, and low occupancy rates. In addition, the San Diego Convention Center, which hosts thousands of visitors each year, is closed for events and currently being used as a temporary shelter for people in need. With the majority of large group events, conferences and trade shows cancelled through Fall 2020, the City is projecting a significant decrease in tourism in the region. The reopening of the Convention Center will be determined upon the State and County's COVID-19 re-opening plan for public gatherings.

According to the July 2020 Travel Forecast prepared by Tourism Economics, the projected average hotel occupancy rate in CY 2020 and 2021 is projected to average 60.5 percent, which is decrease from prior year hotel occupancy rate of 76.7 percent. These indicators drive the projected decrease in room demand in CY 2020 to negative 25.9 percent.

The supply of rooms is projected to decrease over the next year as a result of the COVID-19 pandemic. The total supply of rooms in the City is projected to decrease by 6.3 percent in CY 2020. By CY 2021, there is an expected increase of approximately 1,378 hotel rooms within the City.

Finally, the Average Daily Rate (ADR) and the revenue per available room (RevPAR) are also projected to show decreased growth. As seen in the table below, the ADR is projected to decrease an average of negative 10.2 percent in CY 2020 and CY 2021.

Figure 12: Year-Over-Year Percentage Growth in Key Hotel Sector Indicators



	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020[1]	CY 2021[1]
Hotel Sector						
Avg. Occupancy	77.1%	77.2%	78.6%	76.7%	52.5%	68.4%
Avg. Daily Rate	$ 154.9	$ 160.3	$ 166.4	$ 166.6	$ 133.9	$ 146.6
Rev PAR[2]	$ 119.4	$ 123.8	$ 130.8	$ 127.7	$ 70.3	$ 100.2
Room Demand (growth)	2.2%	1.2%	2.5%	0.0%	-35.9%	37.2%

Source: San Diego Tourism Authority and Tourism Economics

1 Forecast - Tourism Economics, April 27, 2020

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

With the slowing growth in related economic indicators projected for CY 2020 and CY 2021, the Fiscal Year 2021 growth rate for the City's TOT revenue is projected at negative 36.71 percent due to the monthly rates observed in Fiscal Year 2020.

The assumptions included in the Tourism Economics Report, released April 27, 2020, assumed a concentrated Stay-at-Home Order from March through May 2020, with a gradually improving context for travel beginning in July 2020. Since the release of the Tourism Economics Report, the City has been affected by changes in State and County of San Diego mandates on the operations of businesses. As a result, this has impacted the reopening of businesses across San Diego, potentially delaying the growth in tourism and travel related activities. The City continues to monitor the metrics and will closely monitor revenue changes, additional modifications will be made during the budget monitoring process in Fiscal Year 2021.

Fiscal Year 2021 Adopted Budget

The Fiscal Year 2021 Adopted Budget for total Transient Occupancy Tax (TOT) revenue the City of San Diego is $171.6 million which reflects a negative 36.71 percent growth rate. The Fiscal Year 2021 projected negative growth rate of 36.71 percent is a decrease from the projected growth rate of 3.8 percent as reported in the Outlook. As referenced earlier, this decrease is due to impacts from the COVID-19 pandemic which negatively impacts the following economic indicators: occupancy levels, 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 slowdown in demand. The Fiscal Year 2021 growth rate reflects a slower growth in TOT receipts as a result of projected declines in TOT related economic indicators.

Of the $171.6 million of total TOT, $90.5 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 and reflected in other revenue categories.

Additionally, the City has entered into a compliance contract with VRBO (Vacation Rentals by Owner) and anticipates new revenue from this contract which is not incorporated into the average annual rate of negative 36.71 percent.

Franchise Fees

Background

General Fund Revenues
$69.3 million

Percent of
General Fund Revenues
4.3 percent

Franchise fee revenue makes up 4.3 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 percent) and the Environmental Growth Funds (25.0 percent) 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 2021 Adopted Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2021 Adopted Budget for total SDG&E franchise fee revenue of $55.1 million is based on updated Fiscal Year 2020 projections and assumes a negative 9.47 percent growth rate for Fiscal Year 2021. The projected growth rate includes historical declines in commercial energy consumption levels comparative to past recessions. This growth rate represents a decrease from the growth rate assumed in the Outlook.

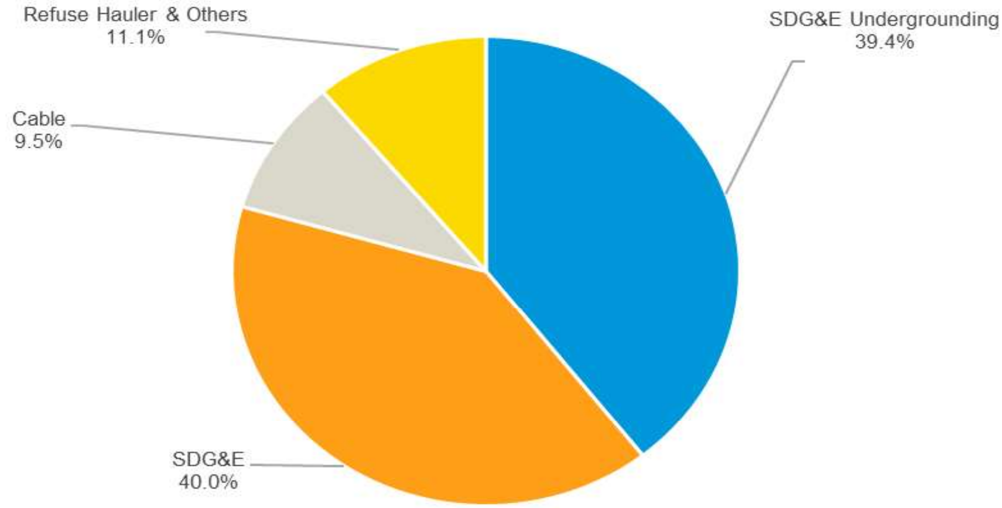
In accordance with the City Charter, 75.0 percent of the revenue from SDG&E, or $41.3 million, is allocated to the General Fund. The remaining received 25.0 percent of revenue received from SDG&E, or $13.8 million, is deposited into the Environmental Growth Funds (EGF). One-third of the EGF is used to fund the maintenance of parks; the remaining two-thirds are designated for parkland maintenance and debt service payments for open space acquisitions. This will provide funding for park and open space maintenance in Fiscal Year 2021. The impacts of less revenue deposits in EGF have been reflected in the Fiscal Year 2021 Adopted Budget. SDG&E currently operates under a 50-year City franchise that was granted in 1970. The agreement is set to expire in Calendar Year 2021. However, the Fiscal Year 2021 Adopted Budget assumes no impact associated with the new franchise fee agreement. Any potential impacts in Fiscal Year 2021 will be subject to terms of the new agreement.

The City also receives an undergrounding utility franchise fee from SDG&E. The Fiscal Year 2021 Adopted Budget for SDG&E undergrounding utility fee revenue of $54.2 million. This revenue is budgeted in the Underground Surcharge Fund.

CABLE COMPANIES. The Fiscal Year 2021 Adopted Budget for cable franchise fee revenue of $13.0 million is based on updated Fiscal Year 2020 projections and assumes a negative 9.38 percent growth rate for Fiscal Year 2021. The projected growth rate is based on four years of historical actuals reflecting a trend of declining revenues from traditional cable providers compounded by the cancellation of major televised events such as sports leagues, live studio performances and a halt in production due to the COVID-19 pandemic.

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2021 Adopted Budget for refuse hauler and other franchise fee revenues is $15.3 million and is based on updated Fiscal Year 2020 projections. The City anticipates $12.8 million from refuse collection fees, $1.5 million in revenue related to the Police Department vehicle tow program, $400,000 in franchise fees from the EDCO facilities, and $519,000 from other franchise fee sources.

Figure 13: 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.

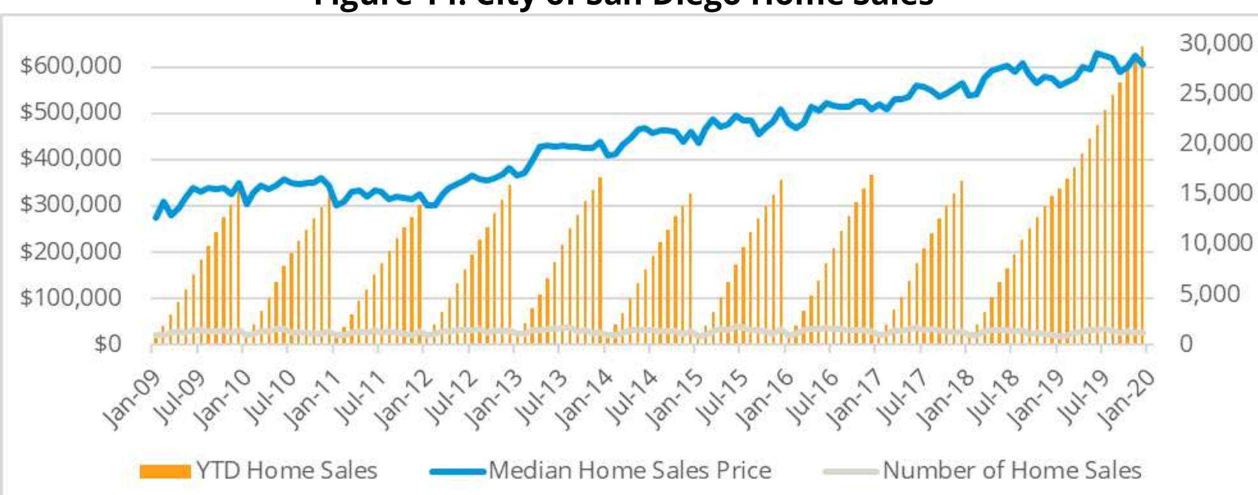
General Fund Revenues
$11.3 million

Percent of
General Fund Revenues
0.7 percent

Economic Trends

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 14: City of San Diego Home Sales



Source: CoreLogic®

While the number of homes sold has decreased; 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 2021 Adopted Budget

The Fiscal Year 2021 property transfer tax Adopted Budget of $11.3 million is based on the Fiscal Year 2020 year-end projections. The property transfer tax budget is projected at no growth in Fiscal Year 2021 based on the slowing number of home sales and steady growth in median home prices.

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
$40.7 million

Percent of
General Fund Revenues
2.5 percent

Fiscal Year 2021 Adopted Budget

The Fiscal Year 2021 Adopted Budget for licenses and permits is $40.7 million or 2.5 percent of the General Fund revenue budget. This represents an increase of $6.0 million or 17.3 percent from the Fiscal Year 2020 Adopted Budget. The primary reason for the variance in revenue is due to an increase of $7.5 million in cannabis business tax. This increase is due to restricting the medical exemption to patients who possess a valid State of California Medical Marijuana Identification Card, the opening of additional outlets and production facilities, and increased compliance with cannabis businesses located outside of the City's limits and conducting cannabis business activities within City boundaries. The increase in cannabis business tax is offset with a decrease of $830,000 in revenue from the regulation of shared dockless mobility devices and $430,000 in less business tax revenue from small businesses impacted by the COVID-19 pandemic.

Fines, Forfeitures, and Penalties

Background

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

General Fund Revenues
$29.7 million

Percent of
General Fund Revenues
1.8 percent

Fiscal Year 2021 Adopted Budget

The Fiscal Year 2021 Adopted Budget for fines, forfeitures, and penalties revenue is $29.7 million or 1.8 percent of the General Fund revenue budget. The Fiscal Year 2021 Adopted Budget for fines, forfeitures, and penalties revenue is $1.4 million or 4.5 percent lower than in the Fiscal Year 2020 Adopted Budget. The decrease for fines, forfeitures, and penalties is primarily due to a projected decrease of $450,000 in parking citation revenue; a one-time revenue decrease in collection referral fees associated with the suspension of parking enforcement across the City; and a $500,000 decrease in municipal court revenue associated with a decrease in vehicle code violations, traffic school fees and ordinance violations.

Revenue from Money and Property

Rents and Concessions

General Fund Revenues
$61.0 million

Percent of
General Fund Revenues
3.8 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 2021 Adopted Budget

The Fiscal Year 2021 Adopted Budget for revenue from rents and concessions is $61.0 million or 3.8 percent of the General Fund revenue budget. This represents a $400,000 or 0.7 percent decrease from the Fiscal Year 2020 Adopted Budget.

The decrease is primarily attributed to a net $3.7 million decrease in rents and concessions of city owned property due to the temporary shut-down of Sea World and various Mission Bay hotels. In addition, there is a $500,000 decrease from library parking revenue due to the closure of the Central Library and Mission Hills Library due to the COVID-19 pandemic. This is offset with an increase of $3.8 million in rent from non-general funds, of which, $2.8 million is from golf course rent that was reclassified from the Transfers In category.

Interest and Dividends

Background

General Fund Revenues
$3.5 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.

Fiscal Year 2021 Adopted Budget

The Fiscal Year 2021 Adopted Budget for interest earnings revenue has increased to $3.5 million, due to the increase in assumed interest rates on the City’s pooled investments. This represents a $500,000 increase or 14.3 percent from the Fiscal Year 2020 Adopted Budget. In addition, the Fiscal Year 2021 Adopted Budget assumes the investment of the recently deposited Coronavirus Aid, Relief, and Economic Security (CARES) Act funds.

Revenue from Federal & Other Agencies

Background

General Fund Revenues
$152.7 million

Percent of
General Fund Revenues
9.4 percent

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.

Fiscal Year 2021 Adopted Budget

The Fiscal Year 2021 Adopted Budget for revenue from federal and other agencies is $152.7 million or 9.4 percent of the General Fund revenue budget. The Fiscal Year 2021 Adopted budget includes $146.1 million of CARES funds received from the Treasury Fund and $6.6 million in revenue from other agencies. As discussed earlier in this section, on March 27, 2020, the federal government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide emergency assistance and health care response for individuals, families, and businesses affected by the COVID-19 pandemic. The CARES Act also provided additional allocations to Community Development Block Grant Program (CDBG), Emergency Solutions Grant Program (ESG), Housing Opportunities for Persons with AIDS Program (HOPWA). The funding allocation for these three programs was presented to City Council for approval on May 19, 2020.

Charges for Current Services

Background

General Fund Revenues
$149.5 million

Percent of
General Fund Revenues
9.2 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, 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 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 2021 Adopted Budget

The Fiscal Year 2021 Adopted Budget for charges for current services revenue is $149.5 million or 9.2 percent of the General Fund revenue budget. This represents a net decrease of $26.9 million or 15.2 percent from the Fiscal Year 2020 Adopted Budget. The revenue decrease is primarily attributed to a decrease of $28.0 million in TOT revenues to support the safety and maintenance of visitor related facilities.

The decrease is offset with an increase of $880,000 in false alarm penalties in the Police Department; $580,000 in reimbursements to the Police Department associated with increased activity related to grants, Petco Park and other special events throughout the City; and $460,000 in revenues from Facilities for services provided to Public Utilities. 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
$104.6 million

Percent of
General Fund Revenues
6.5 percent

Fiscal Year 2021 Adopted Budget

The Fiscal Year 2021 Adopted Budget for transfers in is $104.6 million or 6.5 percent of the General Fund revenue budget. This represents a slight increase of $500,000 or 0.5 percent from the Fiscal Year 2020 Adopted Budget. The change is primarily attributed to a $21.5 million one-time use of excess fund balance from the Fleet Replacement Fund. This increase is offset by $8.0 million decrease in the TOT 1-cent discretionary transfer; $2.8 million reduction in revenue associated with the debt service payments related to the sale of the Stadium; $1.9 million decrease in Safety Sales Tax revenue; $1.0 million decrease in Gas Tax revenue; and $860,000 in TransNet Revenue.

Other Revenue

Fiscal Year 2021 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 2021 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 26, 2020, Governor Newsom enacted the 2020-2021 Budget appropriating $202.1 billion, including $133.9 billion in the General Fund. The Governor's budget faced a $54.3 billion budget gap, largely due to a decrease in revenues and higher expenditures associated with the COVID-19 pandemic and the overall decline in the economy from the recession. As part of the State's budget, the Governor offered $54.3 billion in solutions to submit a balanced budget. Some of these solutions include making baseline adjustments to federal funding to Medicaid Programs, remove or modify the January proposals, withdraw from reserves and increase revenues from taxes on businesses, reduce and shift spending, and use of available federal funds. After solutions, the 2020-2021 budget would end in a projected fund balance of $2.0 billion.

The budget includes more than $5.7 billion in estimated spending in response to the COVID-19 pandemic, with 75.0 percent of expenses being eligible for federal reimbursement. The budget also includes a $716.0 million reserve within the Special Fund, to fully prepare the State in the response to the COVID-19 pandemic. Of the $9.5 billion in Coronavirus Relief Fund, $1.3 billion is allocated to Counties and $500.0 million to Cities across the State.

Due to the decline in revenues, the Proposition 98 guarantee level of $70.9 billion was not met by more than $10.0 billion. To offset this decrease, the Governor deferred payments into the next year to preserve current education programs and provide schools the resources needed to reopen safely. The Budget commits to funding the Proposition 98 guarantee level beginning in 2021-2022.

The Budget commits to assisting Californians experiencing the greatest hardship by continuing many of the services enacted in the 2019 Budget Act, including, eligibility for the Medi-Cal Program, expanded senior eligibility, In-Home Supportive Services and developmental services. As well as allocating funds for combating homelessness, by providing funds to cities, counties and continuums to assist in the efforts to reduce homelessness. The Budget also includes an additional $75.0 million for loan loss mitigation and reducing the cost of capital for small businesses to address potential federal funding gaps. The State Administration is committed to reduce spending and improve government efficiencies to help address the budget gap; however, many more tough decisions will need to be made in the future based upon the long-term impacts of the COVID-19 pandemic and the current recession. However, some decisions are dependent on action from the Federal Government.

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 1978-1979 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 2020 that established the City’s Tax Appropriations Limit for Fiscal Year 2021 at $3,783,765,671. Using the Fiscal Year 2021 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 $1.10 billion, which was $2.69 billion lower than the Gann Limit.