FISCAL YEAR 2024 ADOPTED BUDGET

Volume 1
General Fund Revenues

MAYOR TODD GLORIA

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The City of SAN DIEGO

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General Fund Revenues

The Fiscal Year 2024 Adopted General Fund revenue budget is $2.02 billion, which represents an increase of $69.0 million, or 3.5 percent, from the Fiscal Year 2023 Adopted Budget. General Fund revenues are comprised of four major revenue sources, federal funding from the American Rescue Plan Act (ARPA), and a series of other revenue sources, which are primarily generated by departments. These revenue sources are categorized and listed on the right of this page, and are described in further detail throughout this section of the budget document. Details include background information describing historical trends, economic factors, and methods of development for each revenue source. This information provides insight into the formulation of the Fiscal Year 2024 Adopted Budget (Adopted Budget) for General Fund revenues, which fund essential City services including police, fire, refuse collection, homelessness services, library services, transportation, and parks and recreation programs. Volume II of the budget document further details revenues that are generated by departments.

Table 1 - Fiscal Year 2024 General Fund Revenue Change illustrates the components of the projected $69.0 million, or 3.5 percent, increase in General Fund revenues from the Fiscal Year 2023 Adopted Budget.

Table 1 - Fiscal Year 2024 General Fund Revenue Change

	Percent Change from FY 2023 Adopted Budget	Change (in millions)
Major Revenues	9.6%	$ 126.0
Other Revenue Sources	(9.0%)	(57.0)
Total	**3.5%**	**$ 69.0**

Numbers may not foot due to rounding.

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 71.5 percent of the Fiscal Year 2024 Adopted Budget General Fund revenues, and are projected to increase by $126.0 million, or 9.6 percent, from the Fiscal Year 2023 Adopted Budget. The increase in major General Fund revenues are based on projections included in the Fiscal Year 2023 Third Quarter Budget Monitoring Report (Third Quarter Report), and most recent economic data available at the time of development.

In addition to increases in the major General Fund revenues, other revenue sources reflect a decrease of $57.0 million, or 9.0 percent, primarily attributed to a decrease of $95.6 million in the use of one-time American Rescue Plan Act (ARPA) funds included in the Fiscal Year 2023 Adopted Budget. The decrease is partially offset with an increase of $30.5 million in TOT revenues to support the safety and maintenance of visitor-related facilities, and $5.9 million in reimbursements from the Environmental Growth Funds to support eligible expenditures. These increases are addressed in further detail in later sections of this report.

General Fund Revenues

Table 2 - Fiscal Year 2024 General Fund Revenues displays the Adopted Budget for each of the revenue categories in the General Fund, in addition to Fiscal Year 2022 actual revenues and the Fiscal Year 2023 Adopted Budget.

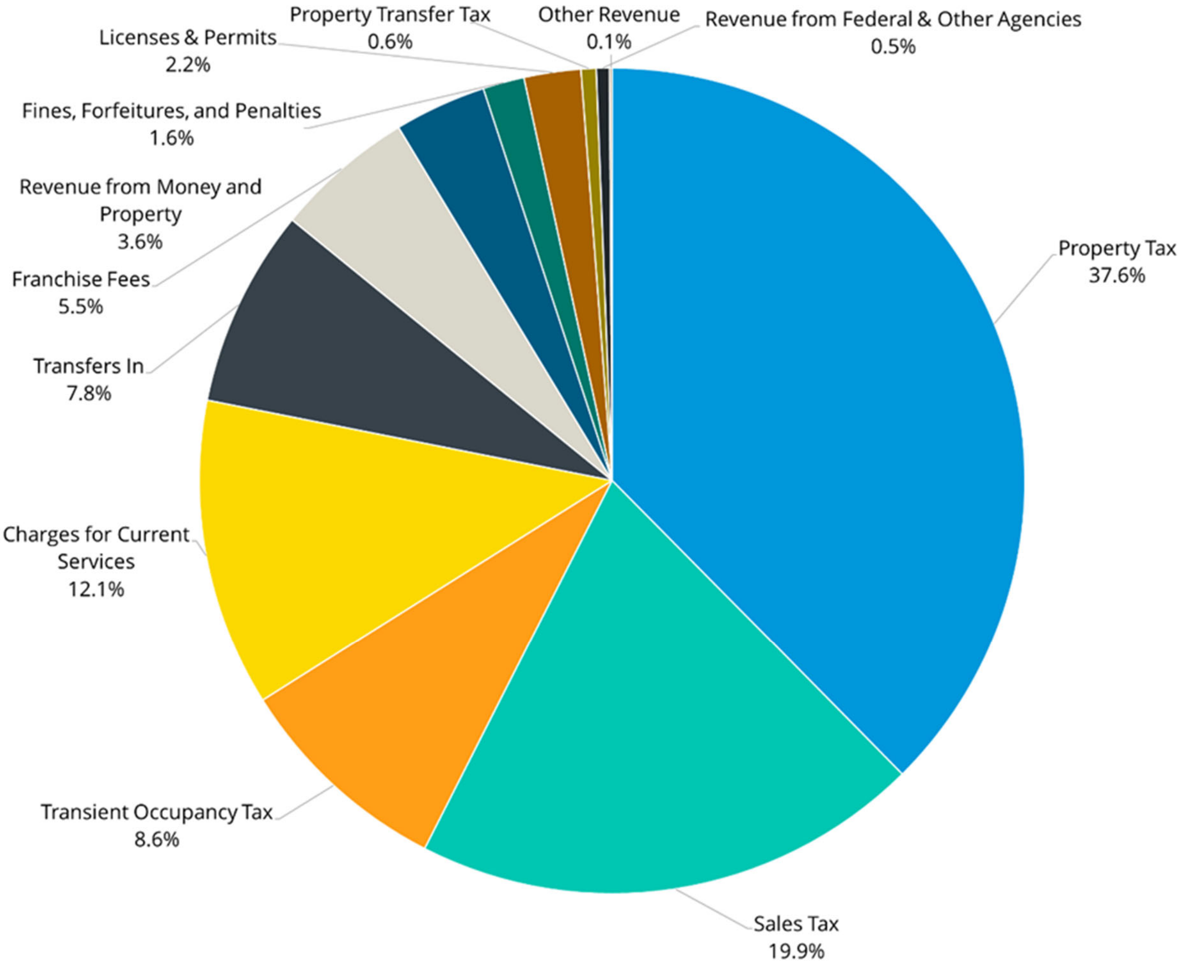
Table 2 - Fiscal Year 2024 General Fund Revenues (in millions)

Revenue Category	FY 2022 Actual	FY 2023 Adopted Budget	FY 2024 Adopted Budget	FY 2023 - FY 2024 Change	Percent Change	% of Total General Fund Revenue
Property Tax	$ 663.1	$ 706.2	$ 758.6	$ 52.4	7.4%	37.6 %
Sales Tax	375.6	380.2	401.7	21.4	5.6%	19.9 %
Transient Occupancy Tax	136.5	135.2	172.6	37.5	27.7%	8.6 %
Franchise	91.4	95.6	110.3	14.7	15.4%	5.5 %
Charges for Current Services	174.5	203.5	243.4	39.9	19.6%	12.1 %
Revenue from Money and Property	71.3	63.9	72.7	8.8	13.8%	3.6 %
Revenue from Federal & Other Agencies	8.0	5.3	10.3	5.0	94.3%	0.5 %
Other Revenue	7.5	2.1	2.0	(0.1)	(2.4%)	0.1 %
Fines, Forfeitures, and Penalties	30.3	34.4	32.6	(1.8)	(5.3%)	1.6 %
Property Transfer Taxes	17.4	15.5	12.0	(3.5)	(22.8%)	0.6 %
Licenses & Permits	43.8	56.6	45.0	(11.6)	(20.5%)	2.2 %
Transfers In	189.5	250.4	156.6	(93.8)	(37.5%)	7.8 %
Total	**$ 1,808.9**	**$ 1,948.8**	**$ 2,017.8**	**$ 69.0**	**3.5%**	**100.0 %**

Numbers may not foot due to rounding.
[1] Percent change represents the change from the Fiscal Year 2023 Adopted Budget to the Fiscal Year 2024 Adopted Budget. Budgeted growth rates for revenues may differ, as Fiscal Year 2024 Adopted Budget amounts are based on updated Fiscal Year 2023 projections.

Changes in local, State, and national economies can impact each of the General Fund revenue sources—the possible effects on the City's finances in Fiscal Year 2024 are further outlined in later sections of this report. The Department of Finance will continue to monitor economic and financial conditions and will incorporate changes as needed, as well as report significant changes in the Fiscal Year 2024 quarterly budget monitoring reports.

Figure 1 - Fiscal Year 2024 General Fund Revenues - $2.02 Billion



San Diego's Economic Environment

Development of the Fiscal Year 2024 Adopted Budget incorporates a positive yet slowing economic outlook that balances the continuing trend of stable key economic indicators following the COVID-19 pandemic, with corresponding growth in property tax, sales tax, and transient occupancy tax. In March 2020, at the onset of the COVID-19 pandemic, the City's economy came to a halt, inducing an economic recession. Since then, through ebbs and flows, the City's major revenues have robustly recovered, with all major revenues exceeding pre-pandemic levels in Fiscal Year 2023. The Fiscal Year 2024 Adopted Budget projects local economic indicators to remain stable in Fiscal Year 2024, following the robust improvements experienced over the last two years. Uncertainty in supply shortages, inflation, interest rates, and geopolitical conflict results in the slower paced growth anticipated in Fiscal Year 2024. The overall expectation and projection for the City's revenues, which is further discussed in the sections below, is consistent with information received from the City's sales tax consultant, Avenu insights and Analytics; the City's property tax consultant, HdL Coren & Cone; the San Diego Tourism Authority; Tourism Economics—an Oxford Economics Company; the San Diego Tourism and Marketing District; and the UCLA Anderson Forecast, at the time that the Adopted Budget was developed.

Compared to the Fiscal Year 2023 Adopted Budget, the Fiscal Year 2024 Adopted Budget includes moderate increases for all four major General Fund revenues—property tax, sales tax, transient occupancy tax, and received from the City's sales tax consultant, Avenu insights and Analytics; the City's property tax consultant, HdL Coren & Cone; the San Diego Tourism Authority; Tourism Economics—an Oxford Economics Company; the San Diego Tourism and Marketing District; and the UCLA Anderson Forecast, at the time that the Adopted Budget was developed.

Compared to the Fiscal Year 2023 Adopted Budget, the Fiscal Year 2024 Adopted Budget includes moderate increases for all four major General Fund revenues—property tax, sales tax, transient occupancy tax, and franchise fees—based on softening local economic indicators. The Adopted Budget for property tax assumes a 5.64 percent growth rate. This projected increase is supported by home sales activity, elevated median home prices, and continued low unemployment rates. The Adopted Budget for sales tax assumes a more moderate growth of 1.5 percent. While concerns over inflation and the general economic conditions persist, the Fiscal Year 2024 Adopted Budget balances these factors with slower projected growth as consumer spending patterns adjust to inflation and Federal Reserve policy changes. The Adopted Budget for TOT assumes a 5.9 percent growth rate based on historical year-over-year growth trends prior to the pandemic. This assumption is supported by continued pent-up demand for leisure travel and the gradual return of group and business travel. The Adopted Budget for Franchise Fee revenues is based on updated Fiscal Year 2023 projections. The growth rate of 8.05 percent incorporates the approved rate increase by the CPUC for both electric and gas, which took effect in January 2023. The development of all four General Fund major revenues, including assumptions, are discussed in further detail in later sections of the Adopted Budget.

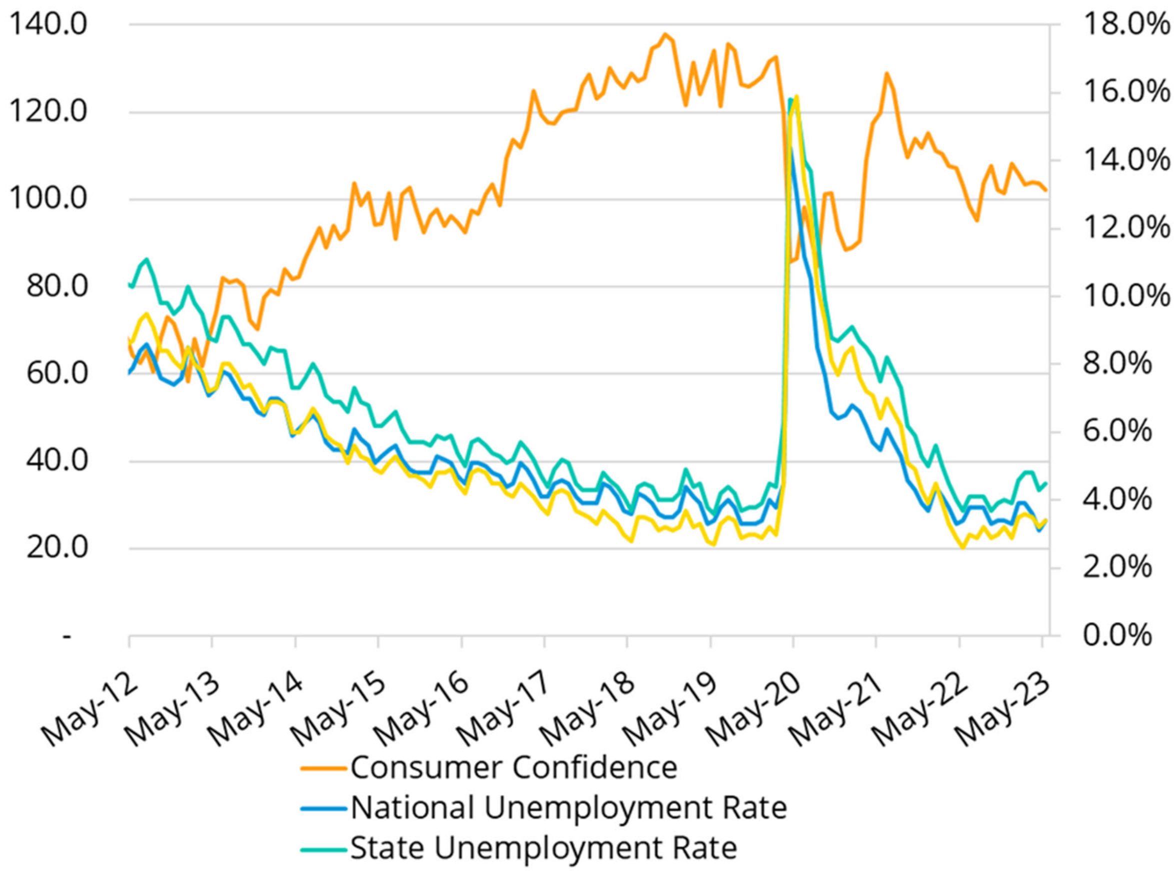
In forecasting the major General Fund revenues, the movement of key economic indicators help inform anticipated growth or contraction, and are used to determine growth rates for each revenue source. Main economic drivers that influenced the development of the Fiscal Year 2024 Adopted Budget for General Fund revenues include: consumer spending, which is greatly influenced by employment levels; consumer confidence; and housing market indicators, such as home sales and prices.

Consumer confidence, a measurement of consumers' willingness to spend, has experienced month-to-month fluctuations throughout the recovery from the COVID-19 pandemic. In April 2020, a few months after the pandemic began, consumer confidence decreased to 85.7, which represents a decrease of 35.4 percent when compared to 132.6 in February 2020, the month prior to the pandemic. Since then, consumer confidence has improved. As of May 2023, consumer confidence is recorded at 102.3, which is an improvement from the consumer confidence recorded at the inception of the COVID-19 pandemic. However, as noted, month-over-month data does fluctuate—the 102.3 recorded in May 2023 represents a slight decrease of 0.9 percent when compared to the 103.2 recorded in May 2022, which can be attributed to consumer reservations regarding elevated inflation, concerns over a possible recession and current geopolitical events. Despite the fluctuation, it is anticipated that consumer confidence will moderately increase as inflation begins to decline and unemployment rates decrease.

The unemployment rate for the City of San Diego fully recovered from the COVID-19 pandemic in calendar year 2022. At the beginning of the COVID-19 pandemic, response measures required non-essential business, including restaurants, retail stores, and other non-essential businesses to temporarily shut-down, resulting in a peak unemployment rate of 14.9 percent in May 2020. Since then, while the unemployment rate has fluctuated in response to the periodic reinstatement and lifting of various restrictions across the region, the re-opening of California's economy in June 2021 has stabilized the decline in the unemployment rate leading to a full recovery as of the second quarter of calendar year 2022. The unemployment rate has remained relatively stable as COVID response measures have ceased. The City of San Diego's unemployment rate is recorded at 3.4 percent in May 2023, which is an increase of 0.6 percent from the May 2022 unemployment rate of 2.8 percent. Although the unemployment rate slightly increased since last May, it is important to note that the labor force has grown by 0.93 percent, adding an additional 6,700 jobs in the City of San Diego.

Figure 2 - Consumer Confidence and Unemployment depicts the recent trend between consumer confidence and unemployment rates.

Figure 2 - Consumer Confidence and Unemployment



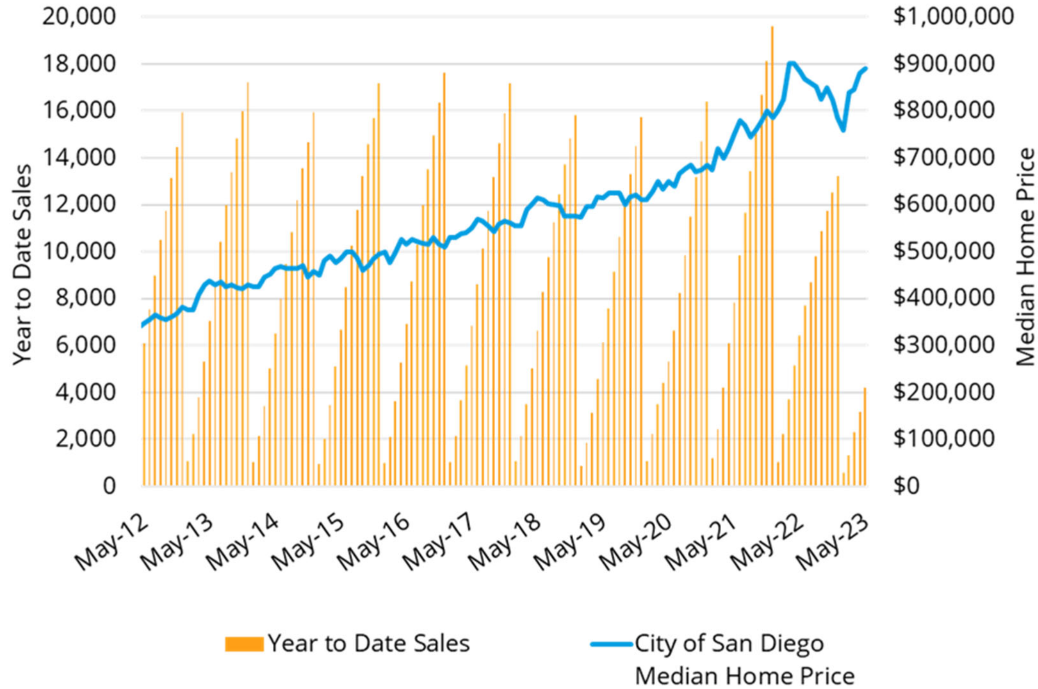
Source: Conference Board, Bureau of Labor Statistics, California Employment Development Department.

Although the housing market paused for a few months at the beginning of the COVID-19 pandemic, historically low interest rates led to increasing growth in the median home price and number of home sales over the last year. However, with persistent inflation, the Federal Reserve has increased interest rates several times to combat inflation and with the intention of reducing inflation to more normalized levels. The impact of these recent rate increases has resulted in a slowing in the number of home sales over recent months. This activity is not expected to impact property tax revenues until Fiscal Year 2025, due to the lag in when property taxes are recorded and collected. The slight slowing in home sales, coupled with sustained median home prices is reflected in the Fiscal Year 2024 Adopted Budget. As depicted in **Figure 3 - City of San Diego Monthly Median Home Price and Home Sales** and **Figure 4 - City of San Diego S&P/Case-Shiller Home Price Non-Seasonally Adjusted Index**, citywide median home prices continue to remain stable. The average 12-month median home price for the period of June 2022 through May 2023 reached $839,542, an increase of 3.6 percent when compared to $810,667 from June 2021 through May 2022. The number of home sales is recorded at 10,968 for the period of June 2022 through May 2023, which represents a decrease of 39.8 percent when compared to the period of June 2021 through May 2022 total home sales of 18,205.

General Fund Revenues

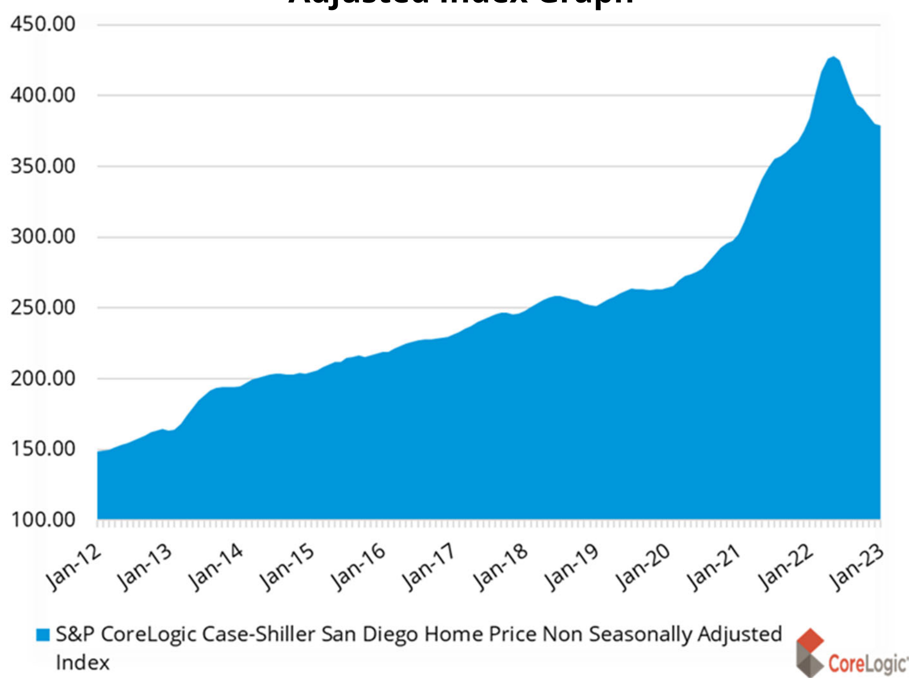
The Department of Finance will continue to monitor these economic indicators and the decisions made by the Federal Reserve to determine the impact to future property tax revenues.

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

Table 3 - Key Economic Indicators reflects economic indicators and assumptions that were used in the preparation of the Fiscal Year 2024 Adopted Budget.

Table 3 - Key Economic Indicators

Economic Indicator	May 2022	May 2023
City of San Diego 12-month Home Sales (Source: CoreLogic ®)	18,205	10,968
City of San Diego 12-month Median Home Price (Source: CoreLogic ®)	$810,667	$839,542
S&P/CoreLogic Case-Shiller Home Price NSA Index for the City of San Diego (Source: S&P Dow Jones Indices / CoreLogic ® Case-Shiller)	427.89	378.87
Countywide Foreclosures (12 month) (Source: County of San Diego)	196	251
Countywide Notices of Default (12 month) (Source: County of San Diego)	1,510	2,147
City of San Diego Unemployment Rates (Source: State of California Economic Development Department)	2.8%	3.4%
Consumer Confidence (Source: Conference Board)	103.2	102.3

Additionally, data and assumptions in expert reports are referenced to help inform the development of the major General Fund revenues.

The April 2023 San Diego Lodging Forecast, prepared by Tourism Economics for the San Diego Tourism Authority, projects stable growth in the number of visitors to San Diego and room demand associated with continued moderate growth in leisure travel, and the growing demand for business and group travel.

According to the UCLA Anderson Forecast for the Nation and California June 2023 Reports, there is much uncertainty regarding the future of the economy. Current economic indicators do not guarantee an economic recession is on the horizon; however, a recession could occur in the near future. Although economic indicators currently point to more stable but slowing economic growth, much of the fate of the economy will be determined by future decisions made by the Federal Reserve to combat against inflation, and consumer sentiment resulting from continued elevated inflation. Based on a "no recession" scenario, Real Gross Domestic Product (GDP) is forecasted to grow at 1.8 percent in calendar year 2023 and 1.2 percent in calendar year 2024, as opposed to a "recession" scenario, which forecasts GDP to grow at 1.1 percent in calendar year 2023 and a negative 1.3 percent growth in calendar year 2024[2]. The UCLA Anderson Forecast acknowledges consumer pessimism regarding the economy as supply constraints and higher prices persist. However, despite this pessimism, consumers continue to purchase goods at record levels, which is supported by increases in available disposable income.

The Fiscal Year 2024 General Fund Revenues reflect economic growth to continue but at a much slower pace and does not include any assumptions of a potential recession in the coming fiscal year. In line with these assumptions, the overall growth rates reflected in the General Fund Revenues are slower than the accelerated improvement experienced over the last two years following the COVID-19 pandemic. The Department of Finance will continue to monitor economic indicators and expert reports to assess and review the continued economic growth and recovery, and will implement necessary revisions to General Fund revenues and report significant changes in the Fiscal Year 2024 quarterly budget monitoring reports.

[2] The UCLA Anderson Forecast for the Nation and California. UCLA Anderson Forecast. June 2023. Page 13-14, 53, 57.

General Fund Revenues

American Rescue Plan Act

On March 11, 2021, the federal government passed the American Rescue Plan Act of 2021 (ARPA) to provide additional relief and address the continued impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses. The bill expands on the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA) that was enacted on December 27, 2020 and provides economic state and local aid. The ARPA included a $299.7 million allocation of Coronavirus State and Local Fiscal Recovery Funds for the City.

In accordance with the ARPA guidelines, funds may be used to provide government services to the extent of a reduction in revenue due to COVID-19, relative to revenues collected in the most recent full fiscal year prior to the emergency. Consistent with these guidelines, Fiscal Year 2022 used $100.0 million in Coronavirus State and Local Fiscal Recovery Funds to supplement revenue lost due to the COVID-19 pandemic. As reported in the Mid-Year Report, Fiscal Year 2023 projected the use of $147.6 million; leaving $52.1 million to be used in Fiscal Year 2024. The ARPA funding is budgeted and reflected in **Table 2 - Fiscal Year 2024 General Fund Revenues**, in the Transfer In revenue category. These funds will allow the City to use unrestricted General Fund revenue to maintain current services and add critical expenditures.

The funds to the City were provided in two tranches. The first tranche was deposited on March 11, 2021; and the second tranche was deposited on June 6, 2022. The ARPA allows funds provided by this legislation to be used through December 31, 2024.

For additional information on the allocation of the ARPA funds, please refer to the Citywide Budget Overview section of Volume I.

Property Tax

General Fund Revenue
$758.6 million

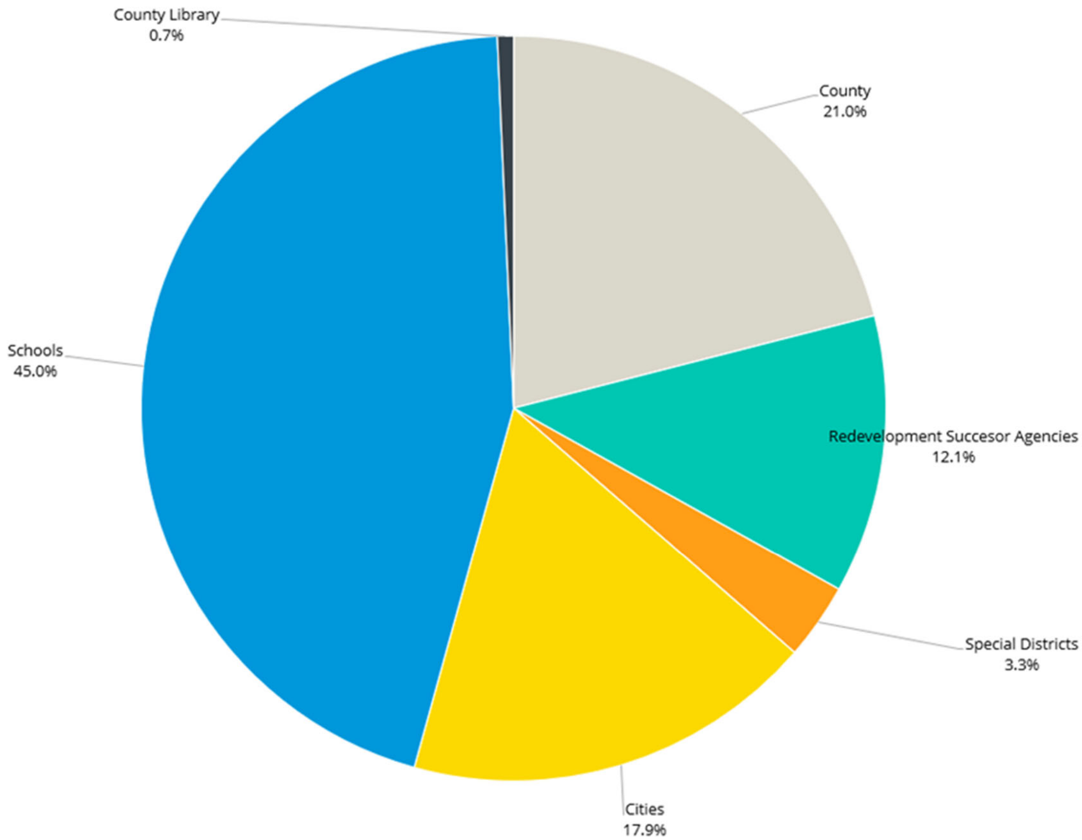
Percent of General Fund Revenues
37.6 percent

Background

Property tax revenue is the City's largest revenue source, representing 37.6 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. **Figure 5 - Fiscal Year 2023 Countywide Property Tax Distribution** depicts the respective distribution. According to the County of San Diego Assessor's Office, for every $100 collected in Fiscal Year 2023, the average allocation to cities within San Diego County totals $18. 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.

Additionally, 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 2023 Countywide Property Tax Distribution



Source: San Diego County Property Tax Services

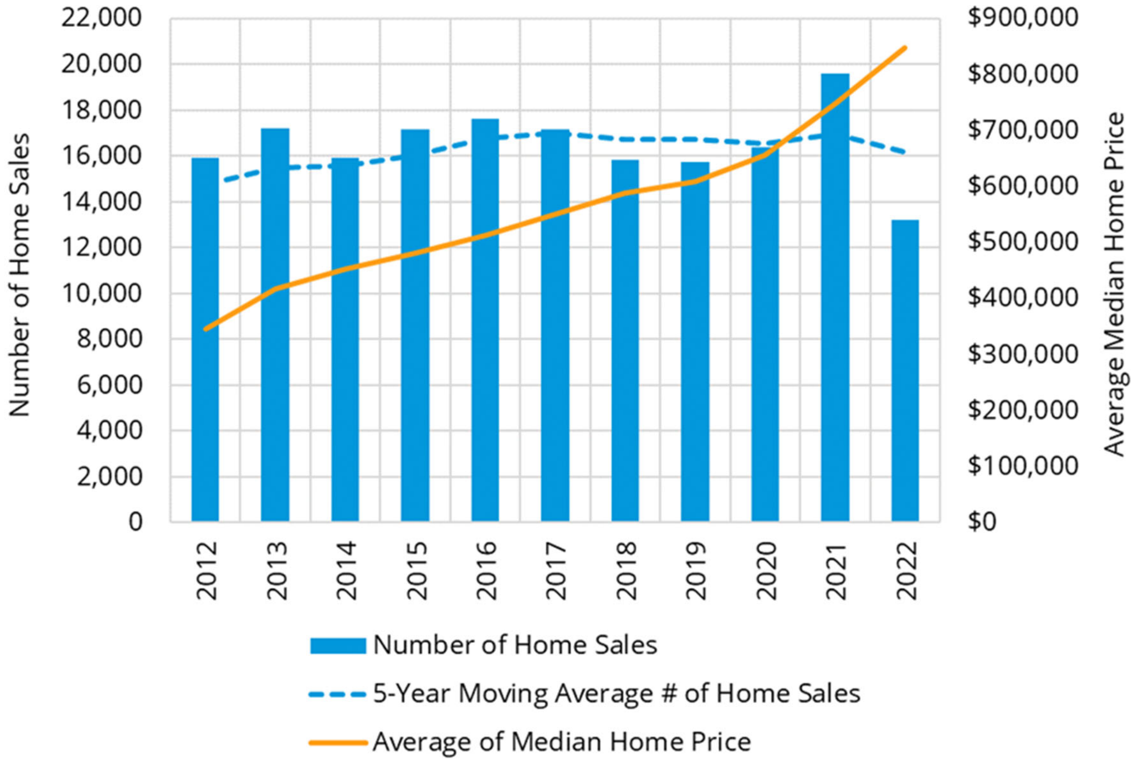
Economic Trends

Property Tax growth for the Fiscal Year 2024 Adopted Budget is based on real estate activity through calendar year 2022. This is due to a lag between the time assessed valuation is set by the County Assessor's Office and the time that 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 of the respective year and April of the following year. This is a delay of 12 to 18 months. Due to this delay, property tax revenue projections do not fully reflect recent market activity. The local real estate market continues to see elevated home values and a decrease in the number of home sales when compared to the previous year. Between December 2021 and December 2022 there was a 52.5 percent decrease in new home sales; however, the decline in reassessments for property tax will not be reflected in the City’s property tax revenues for several months.

As depicted in **Figure 6 - City of San Diego Home Sales (CY)**, the City recorded 13,198 sales in calendar year 2022, which is a 32.6 percent decrease from calendar year 2021 home sales total of 19,587. The median home sales price reached a new, all-time high, at $900,000 in March 2022, and sustained elevated levels for the majority of the calendar year before decreasing to $785,000 in December 2022. Most recently the median home prices increased to $891,000 as of May 2023, representing an increase of 0.68 percent when compared to the May 2022 median home price of $885,000. **Figure 7 - City of San Diego Annual Median Home Price** depicts the trend in median home price after reaching all-time highs in March and April 2022.

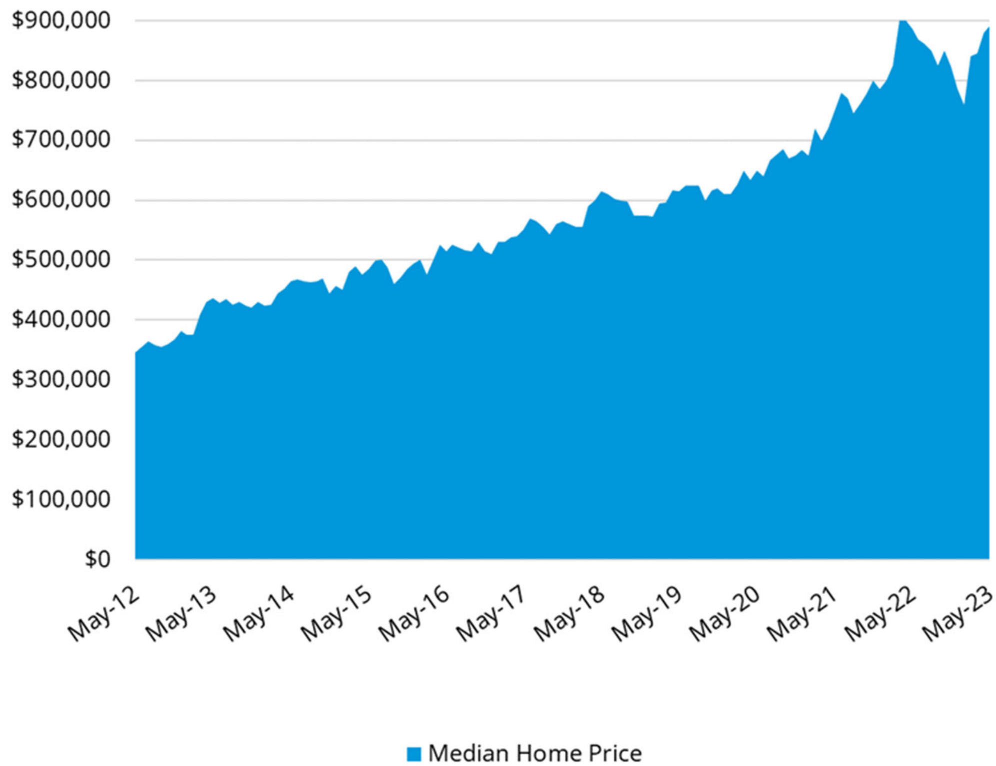
General Fund Revenues

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



Source: CoreLogic ®

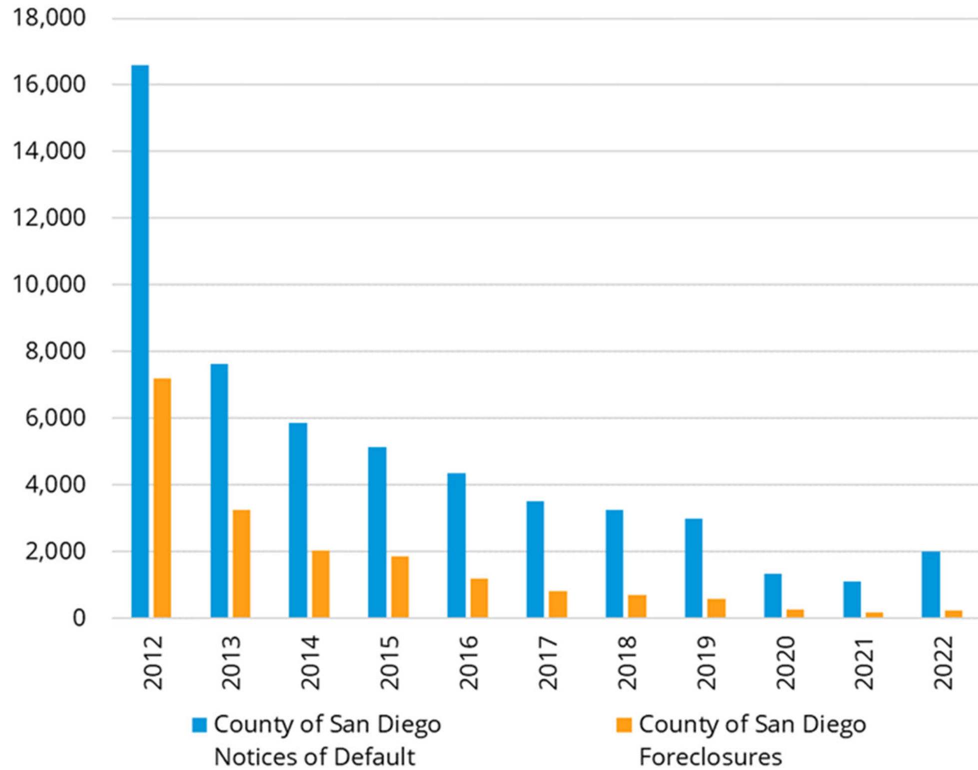
Figure 7 - City of San Diego Annual Median Home Price



Source: CoreLogic®

The year-over-year data depicted in **Figure 8 - San Diego County Home Foreclosures (CY)** reflects an increase in home foreclosures and notices of defaults after consecutive years of decline, which reached historic lows in spring of 2021. The rate is expected to continue to slightly increase, but with economic factors such as low unemployment, the increase is expected to be minimal moving forward.

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, it 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 2022 is 325.0, which reflects a 7.2 percent increase over the October 2021 CCPI of 303.0. Therefore, the assessed value for those properties, not otherwise sold or improved, will increase by the maximum 2.0 percent.

The City of San Diego's unemployment rate as of May 2023 is 3.4 percent, which is a slight increase from the May 2022 unemployment rate of 2.8 percent. Although slightly higher than last year's rate, the current 3.4 percent unemployment rate continues the trend of a stable job market and supports the real estate market.

Mortgage interest rates steadily increased in calendar year 2022, which are expected to slow the real estate economy in calendar year 2023. The Federal Open Market Committee (FOMC) has continued to raise the target range in calendar year 2023. In their June 14, 2023 press release, the FOMC "decided to maintain the target range for the federal funds rate at 5 to 5-1/4 percent. Holding the target range steady at this meeting allows the Committee to assess additional information and its implications for monetary policy. In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.[3] " Any possible future increases in the federal funds rate during Fiscal Year 2024 are not expected to impact Fiscal Year 2024 property tax revenues due to the delay of property tax payments as previously noted, in which property tax receipts reflect real estate market trends from 12 to 18 months prior.

Fiscal Year 2024 Adopted Budget

The Fiscal Year 2024 Adopted Budget for property tax is $758.6 million, or 37.6 percent, of the General Fund Budget. This represents an increase of $52.4 million, or 7.4 percent, from the Fiscal Year 2023 Adopted Budget. The Adopted Budget for property tax reflects a 5.64 percent growth from the base. The overall property tax receipts are expected to stabilize in Fiscal Year 2024. This projected increase is supported by continued home sales and elevated median home prices, the October 2022 CCPI being higher than the 2.0 percent, and continued low unemployment rates. The median home prices in San Diego had a slight decrease during the beginning of calendar year 2023 but is expected to stabilize and then grow through the second half of the year. These assumptions are consistent with the forecast prepared by the City's property tax consultant, HdL Coren & Cone. Supported by economic conditions, the Adopted Budget also assumes a collection rate of 99.1 percent, which is consistent with Fiscal Year 2023 levels. The growth projected in property tax revenue is relatively consistent with the growth forecasted in the Outlook, as projected market conditions remain relatively unchanged.

Moreover, the Adopted Budget for property tax includes a projected increase in "property tax in-lieu of motor vehicle license fee" payments, which is property tax revenue received from the State of California to replace the Motor Vehicle License fee (MVLF) that was repealed in 2004.

The $758.6 million property tax budget consists of an estimated $514.4 million in base property tax, $191.4 million "in-lieu of motor vehicle license fee" payments, $40.8 million in anticipated residual property tax payments and $12.0 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA). Residual property tax includes $5.8 million in one-time total tax sharing from the Residual Property Tax Trust Fund (RPTTF) associated with the sale of Tailgate Park, which is planned to be transferred to support the Bridge to Home Program. The sale was previously projected to occur in Fiscal Year 2023; however, was delayed due to pending litigation. **Table 4 - Fiscal Year 2024 Adopted Property Tax Budget** reflects this breakdown.

Table 4 - Fiscal Year 2024 Adopted Property Tax Budget

Property Tax Segments	Revenue (In Millions)
Base Property Tax	$ 514.4
Property Tax "In-Lieu" of MVLF	191.4
Residual Tax Sharing	40.8
Tax Sharing Distribution	12.0
Total Property Tax	**$ 758.6**

[3] Federal Reserve issues FOMC Statement. Press Release. June 14, 2023.

Sales Tax

Background

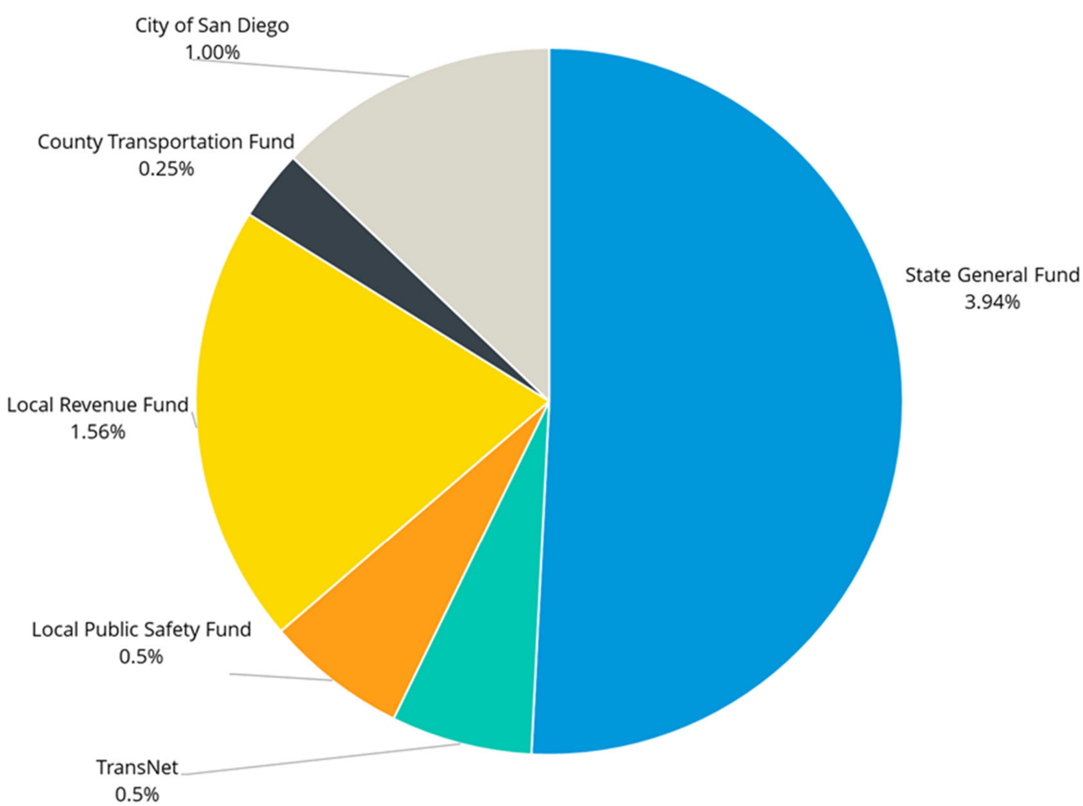
General Fund Revenues
$401.7 million

Percent of General Fund Revenues
19.9 percent

Sales tax is the second largest General Fund revenue source, representing 19.9 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.

As depicted in **Figure 9 - City of San Diego Sales Tax Rate (7.75 percent)**, 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.

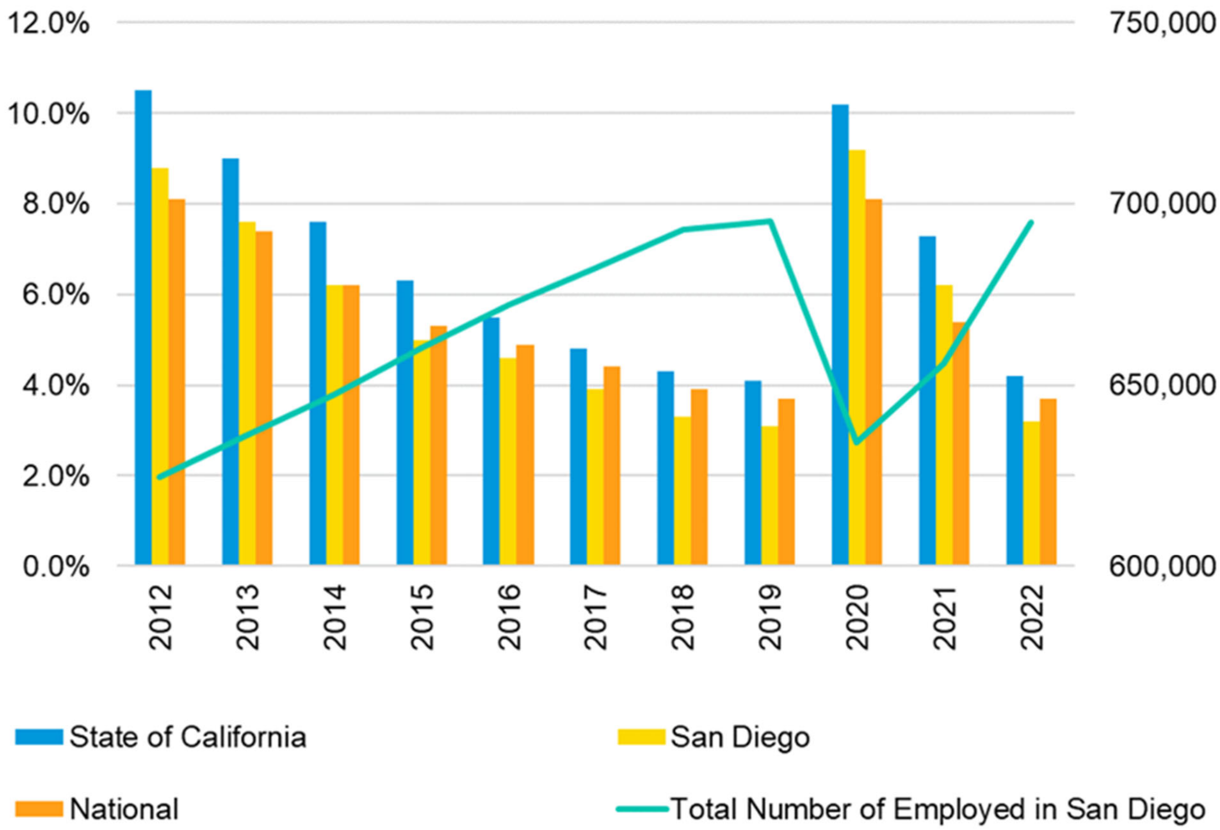
General Fund Revenues

Economic Trends

Economic indicators that drive spending and growth in sales tax receipts include consumer spending, which is greatly influenced by the unemployment rate, total number of persons employed, consumer confidence, and Consumer Price Index (CPI).

In May 2023, the City of San Diego recorded 699,500 persons employed and an unemployment rate of 3.4 percent. **Figure 10 - Unemployment Rates by Calendar Year** depicts the total number of employed and unemployment rate for the City of San Diego by full calendar year as of December data.

Figure 10 - Unemployment Rates by Calendar Year



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

Consumer confidence, which correlates with sales tax receipts, was recorded at 102.3 in May 2023, which represents a decrease of 0.9 percent when compared to 103.2 in May 2022. While consumer confidence continues to fluctuate month-over-month as consumers respond to reservations regarding inflation, lingering supply chain pressures, and geopolitical events, consumer consumption continues to remain steady.

The San Diego Consumer Price Index (CPI) has increased by 5.2 percent year-over-year from 343.502 in May 2022 to 361.339 in May 2023. The increase in CPI is primarily attributed to continued elevated inflation resulting from sustained consumer demand and lingering supply chain pressures. Per the recent UCLA Anderson Forecast released in June 2023, inflation is anticipated to remain elevated through 2023, which will ultimately depend on the Federal Reserve's future monetary policy decisions as efforts to combat elevated inflation continue.

The Department of Finance will continue to monitor these metrics, including changes to revenues, and will implement corresponding modifications and report significant changes in the Fiscal Year 2024 quarterly budget monitoring reports.

Fiscal Year 2024 Adopted Budget

The Fiscal Year 2024 Adopted Budget for sales tax is $401.7 million, or 19.9 percent of the General Fund revenue budget. This represents an increase of $21.4 million, or 5.6 percent, from the Fiscal Year 2023 Adopted Budget. The Adopted Budget for sales tax represents a slight increase of $7.6 million from the $394.1 million previously forecasted in the Outlook. A revision to the Fiscal Year 2024 projected growth rate included in the Outlook of 3.0 percent has been revised to 1.5 percent due to an anticipated economic slowdown beginning in the first quarter of Fiscal Year 2024. This revision is consistent with the City's sales tax consultant's, Avenu Insights and Analytics, recently released quarterly report in April 2023. Although the growth rate for the Adopted Budget is less than the Outlook, the projected sales tax receipts are higher in the Adopted Budget due to an increase in the sales tax receipts in Fiscal Year 2023, which forms the basis for the Adopted Budget's projections for Fiscal Year 2024.

The projected increase in sales tax receipts is supported by continued low unemployment rates, available disposable income, an ongoing trend of consumers paying for goods and services at record rates, and the continued elevated cost of goods as a result of elevated inflation. As reported in the Third Quarter Report, although the national economy is still expanding and adding jobs, consumers are still spending, and businesses are still investing, there remains uncertainty regarding the trajectory of the economy as the Federal Reserve uses monetary policy to combat inflation. [4] Actual local sales tax growth rates could be impacted by potential federal interest rate increases, inflation impacts, higher unemployment, and changes in consumer spending. All of these factors could impact consumer confidence and/or business-to-business growth. Any potential increase or decrease in local taxable sales performance will directly impact the City's sales tax projection. While concerns over inflation and the general economic conditions persist, the Fiscal Year 2024 Adopted Budget balances these factors with slower projected growth as consumer spending patterns adjust to inflation and Federal Reserve policy changes.

Per the voter-approved Proposition H, the City is required to dedicate specific sources of revenue to fund General Fund infrastructure. The calculation to fund the Infrastructure Fund is based on two specific components. One of the components of funding is through the incremental growth in sales tax revenue. Based on current sales tax projections, the incremental growth in sales tax is expected to result in additional contributions to the Infrastructure Fund, potentially limiting the revenue available to fund other General Fund obligations.

These assumptions are consistent with the forecast prepared by the City's sales tax consultant's Avenu Insights and Analytics. The City will continue to monitor potential economic impacts that could affect consumer confidence and/or business-to-business growth as any increase or decrease in local taxable sales performance will directly impact the City's sales tax projection.

[4] The UCLA Anderson Forecast for the Nation and California. UCLA Anderson Forecast. June 2023. Page 14.

General Fund Transient Occupancy Tax (TOT)

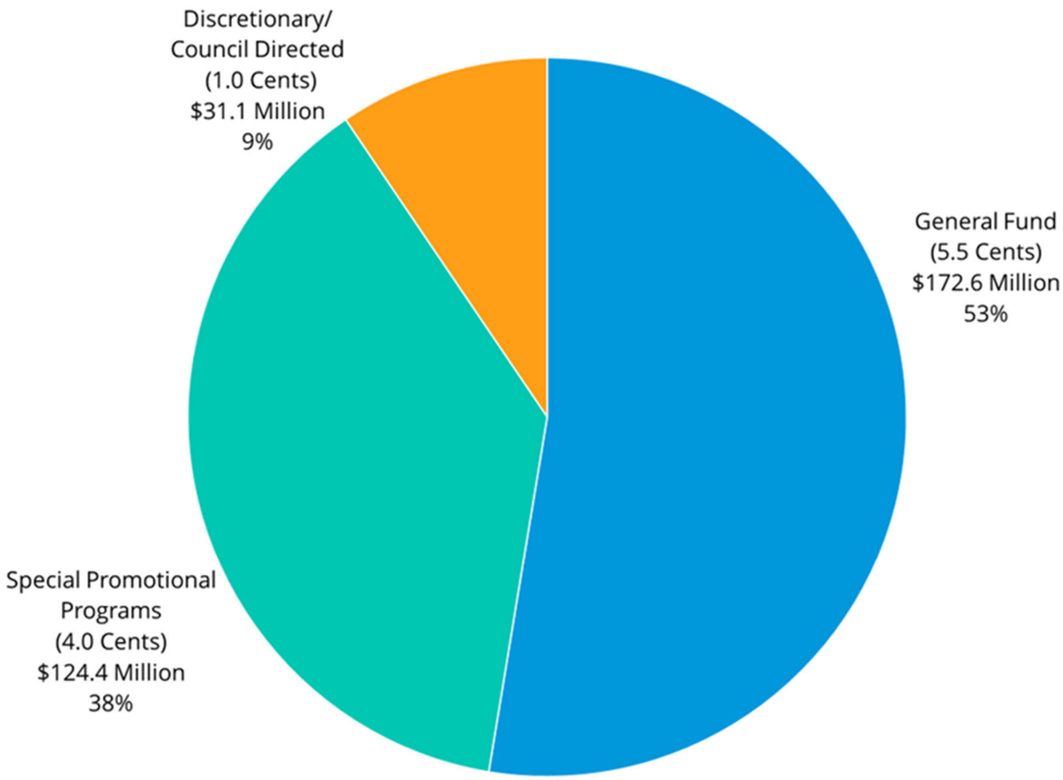
Background

General Fund Revenues
$172.6 million

Percent of General Fund Revenues
8.6 percent

Transient Occupancy Tax makes up 8.6 percent of the City's General Fund revenue budget. TOT is levied at 10.5 cents per dollar on taxable rent for a transient's stay of less than one month. The use of TOT is guided by the City's Municipal Code which stipulates that of the 10.5 cents of collected TOT, 5.5 cents is to be applied toward general government purposes, 4.0 cents towards promoting the City as a tourist destination, and the remaining 1.0 cent towards any purposes approved by the City Council—this breakdown is depicted in **Figure 11 - City of San Diego Transient Occupancy Tax Allocation**. In the Fiscal Year 2024 Adopted Budget, TOT totals $328.2 million, of which $172.6 million is applied directly to the General Fund and represents the 5.5 cents designated for general government purposes. The remaining 5.0 cents, or $155.5 million, includes the 4.0 cents allocated to programs that promote the City as a tourist destination—including reimbursements to the General Fund for safety and maintenance of visitor-related facilities—and the 1.0 cent Council Discretionary allocation.

Figure 11 - City of San Diego Transient Occupancy Tax Allocation

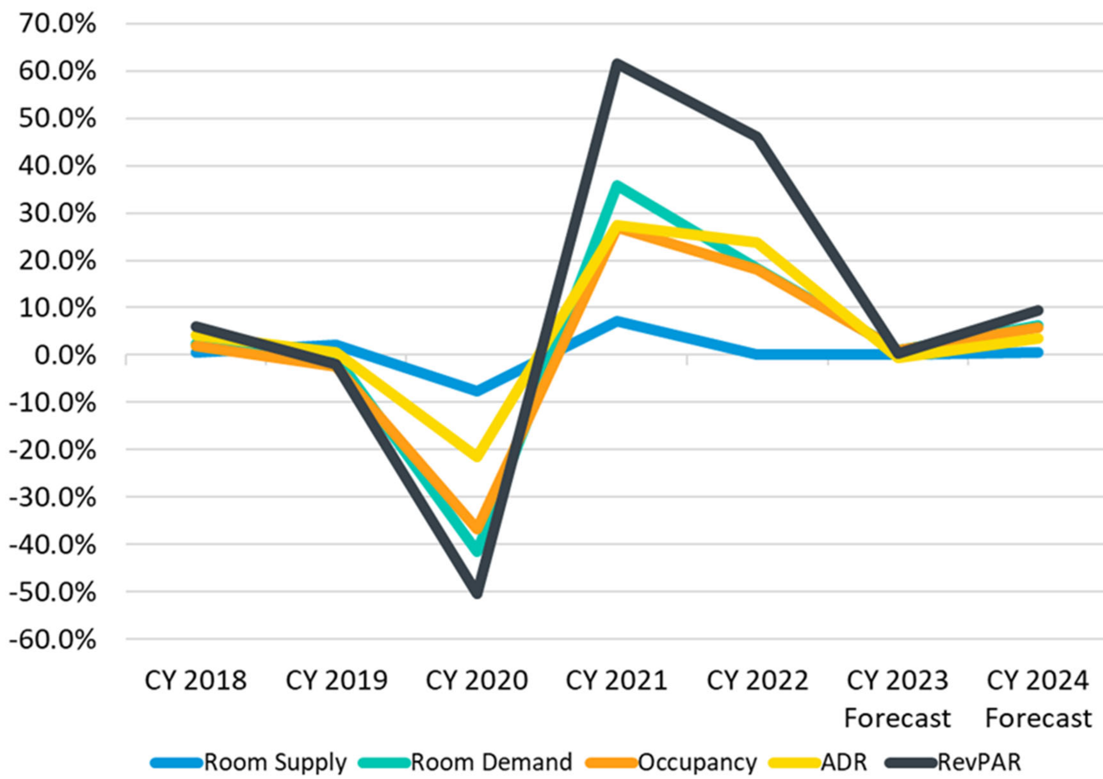


Economic Indicators

The primary economic indicators of transient occupancy tax include room rates, occupancy, and room demand growth, all of which are projected to see growth in Fiscal Year 2024 and reflect continued growth in tourism in the region. This assumption is supported by continued demand for leisure travel, and the gradual improvement of group and business travel. “San Diego’s travel sector is expected to show resilience in the face of the approaching economic downturn as business travel continues to recover and the leisure segment continues to be supported by remaining built-up savings and pent-up demand.”[5] The San Diego Convention Center, which is host to many large events throughout San Diego, is also expecting a robust growth in the number of events hosted in the City.[6] Increases in group events contribute to the local economy by increasing hotel stays and promoting additional spending in dining and leisure activities.

The April 2023 San Diego Lodging Forecast, prepared by Tourism Economics for the San Diego Tourism Authority, includes projected growth for these primary indicators. The average hotel occupancy rate is forecasted at 77.6 percent in calendar year 2024, which represents an increase from the prior year rate of 73.4 percent. Room demand is forecasted to grow by 6.3 percent in calendar year 2024, while the supply of rooms is projected to increase by 0.5 percent in calendar year 2024. Moreover, the Average Daily Rate (ADR) is projected to increase an average of 3.5 percent in calendar year 2024, while the revenue per available room (RevPAR) is projected to increase by 9.4 percent. **Figure 12 - Year-Over-Year Percentage Growth in Key Hotel Sector Indicators** depicts the projected growth of these indicators.

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



[5] Tourism Economics San Diego Travel Forecast. January 2023.

[6] "Conventions Generate $1.2 Billion for San Diego Regional Economy in 2022". www.visitsandiego.com. February 13, 2023.

General Fund Revenues

	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023[1]	CY 2024[1]
Hotel Sector						
Avg. Occupancy	76.6%	48.5%	61.5%	72.6%	73.4%	77.6%
Avg. Daily Rate	$ 165.80	$ 130.06	$ 165.52	$ 204.66	$ 203.35	$ 210.44
RevPAR[2]	$ 127.08	$ 63.05	$ 101.80	$ 148.59	$ 149.18	$ 163.26
Room Demand (growth)	-0.4%	-41.6%	35.9%	18.3%	1.1%	6.3%

Source: San Diego Tourism Authority and Tourism Economics.
[1] Lodging Forecast - Tourism Economics, April 2023.
[2] Revenue Per Available Room. (Average Occupancy multiplied by Average Daily Rate)

Fiscal Year 2024 Adopted Budget

The Fiscal Year 2024 Adopted Budget for total Transient Occupancy Tax (TOT) revenue is $328.2 million, of which $172.6 million is allocated to the General Fund and represents 8.6 percent of the General Fund revenue budget. The General Fund allocation represents an increase of $37.5 million, or 27.7 percent, from the Fiscal Year 2023 Adopted Budget. Similarly, the Adopted Budget for TOT represents a $16.8 million increase from the Outlook. The development of the Adopted Budget for TOT includes a 5.9 percent growth rate and assumes continued moderate growth in leisure travel based on favorable conditions, including continued low unemployment levels, reduced public health concerns, available excess savings and disposable income, and continued pent-up demand. Additionally, continued progressive increases towards pre-pandemic levels in group and international travel are anticipated. These assumptions are consistent with assumptions and data reported by Tourism Economics in the April 2023 San Diego Lodging Forecast.

As noted earlier in this section, of the $328.2 million in total TOT revenue, $172.6 million is budgeted in the General Fund and represents the 5.5 cents allocable for general government purposes; the remaining $155.5 million is allocated to Special Promotional Programs, which includes the 4.0 cents allocated to programs that promote the City as a tourist destination, including reimbursements to the General Fund for safety and maintenance of visitor related facilities, and the 1.0 cent Council Discretionary allocation. The Department of Finance continues to monitor economic indicators and changes to revenues, and will implement changes and report significant changes in the Fiscal Year 2024 quarterly budget monitoring reports.

Franchise Fees

Background

General Fund Revenues
$110.3 million

Percent of General Fund Revenues
5.5 percent

The Fiscal Year 2024 Adopted Budget for Franchise Fee revenue is $110.3 million which represents 5.5 percent of the General Fund revenue budget; this is an increase of $14.7 million, or 15.4 percent, from the Fiscal Year 2023 Adopted Budget. Franchise fee revenue is generated 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 remit 5.0 percent of gross revenues.

Fiscal Year 2024 Adopted Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2024 Adopted Budget for SDG&E franchise fee revenue is $102.5 million and assumes an 8.05 percent growth rate for Fiscal Year 2024. The SDG&E franchise fee revenue is based on Fiscal Year 2023 year-end projections, while the growth rate accounts for historical trends in energy consumption levels and anticipates new rate increases proposed by SDG&E. Aside from weather, usage, and energy market conditions, SDG&E energy rates are impacted by regulatory proceedings at the California Public Utilities Commission (CPUC). San Diego Gas & Electric implemented new natural gas and electricity rates effective January 1, 2023, which can be found on the CPUC website. SDG&E states that the rate increases reflect the increasing costs of providing clean, safe and reliable energy services. SDG&E has reported increased revenues from fees from Community Choice Aggregation (CCA) companies, like Community Power, for the usage of their lines and utilities to transport electricity to consumers.

In accordance with the City Charter, 75.0 percent of the revenue from SDG&E, or $76.9 million, is allocated to the General Fund; the remaining 25.0 percent of revenue received from SDG&E, or $25.6 million, is deposited into the Environmental Growth Funds (EGF). Additionally, 10.0 percent, or $7.7 million, of the 75.0 percent allocated to the General Fund is then transferred to the newly created Climate Equity Fund, in accordance with the resolution establishing the fund. Of the revenues transferred to the EGF, one-third is used to fund the maintenance of parks, and two-thirds is designated for parkland maintenance and debt service payments for open space acquisitions. The Fiscal Year 2024 Adopted Budget includes the additional revenue deposits in the EGF, and provides funding for park and open space maintenance.

In June 2021, the City Council agreed to a new 10-year gas and electric franchise agreement with SDG&E, with the option of extending it another 10 years. For the last 100 years, these rights had been granted to SDG&E through two 50-year terms. The agreement included $80.0 million for the gas and electric franchise and an additional $20.0 million to advance the City's climate equity goals. The franchise agreements each have a separate payment plan. The gas franchise bid will be paid in equal installment payments of $500,000 over the entire 20 years covered by the agreement. If the agreement is terminated at any time, the remaining payments will be voided. The electric franchise bid will pay $10.0 million annually for the first five-years, while the final two $10.0 million payments will be delayed until years 10 and 11 (2030 and 2031) of the agreement. The installment payments are subject to an annual interest rate of 3.38 percent. The payment in 2031 will only occur if the contract is renewed for another 10 years following the initial 10-year term. Additionally, per City Council modifications, the agreement requires SDG&E to contribute $2.0 million for the first five years of the agreement to further the City’s climate action and equity goals—of which $1.5 million is allocated to the Climate Equity Fund and $500,000 is allocated to the EGF. Consistent with the terms of this agreement, the Fiscal Year 2024 Adopted Budget includes $11.2 million in a gas & electric franchise bid payment, including the annual interest rate of 3.38 percent.

On May 3, 2022, the City Council established the Energy Independence Fund (EIF) and approved the allocation of a minimum of 20.0 percent of the Bid amount each year for the EIF. The Fiscal Year 2024 Adopted Budget includes a contribution of $2.2 million for the EIF for the multi-phased Public Power Feasibility Study to evaluate the processes, costs, risks, and opportunities associated with municipalizing the energy infrastructure assets of San Diego Gas & Electric (SDG&E). The remainder of the franchise bid amount is subject to the General Fund and EGF split, with $6.2 million allocated to the General Fund, and $2.8 million allocated to the EGF funds.

The City also receives an undergrounding utility franchise fee from SDG&E. The Fiscal Year 2024 Adopted Budget for SDG&E undergrounding utility fee revenue totals $98.0 million. This revenue is budgeted in the Underground Surcharge Fund.

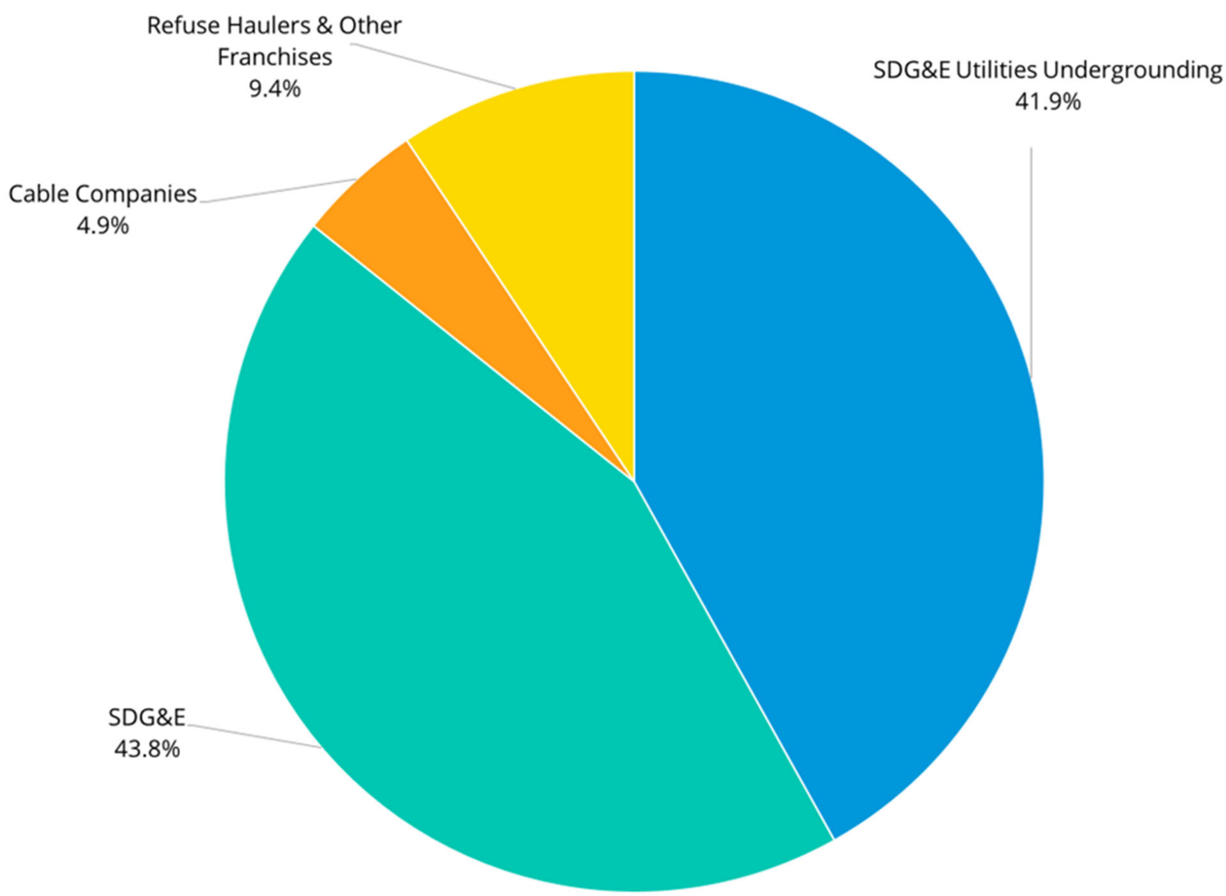
General Fund Revenues

CABLE COMPANIES. The Fiscal Year 2024 Adopted Budget for cable franchise fee revenue is $11.5 million and is based on updated Fiscal Year 2023 projections; the budget assumes a negative 4.63 percent growth rate based on historical actuals and a trend of declining revenues from traditional cable providers.

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2024 Adopted Budget for refuse hauler and other franchise fee revenues is $15.7 million and is based on updated Fiscal Year 2023 projections. The City anticipates $13.2 million from refuse collection fees, $1.7 million in revenue related to the Police Department vehicle tow program, $160,000 in franchise fees from the EDCO facilities, and $701,000 from other franchise fee sources.

Figure 13 - Franchise Fee Revenue Breakdown depicts the composition of total franchise fee revenue.

Figure 13 - Franchise Fee Revenue Breakdown



Property Transfer Tax

Background

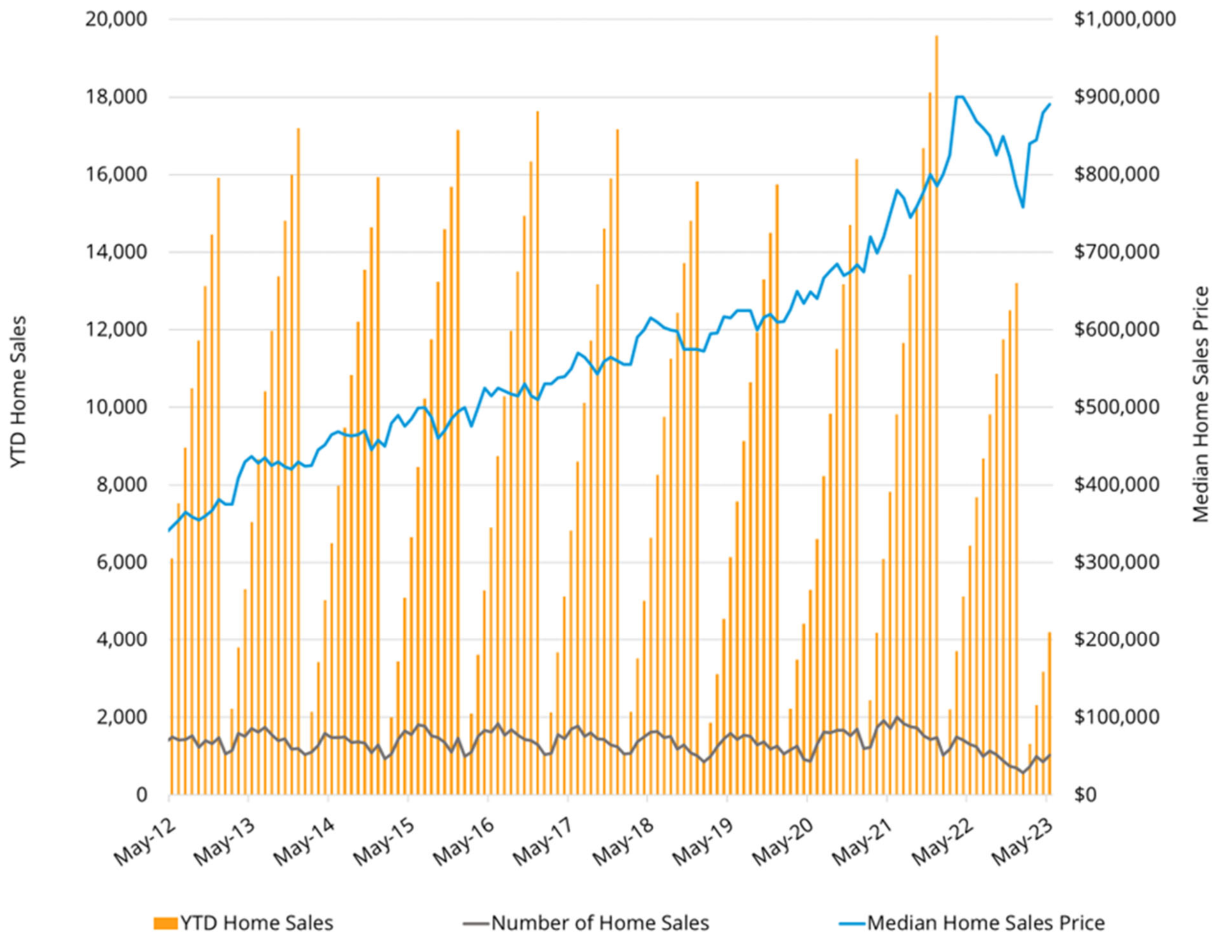
General Fund Revenues
$12.0 million
Percent of General Fund Revenues
0.6 percent

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

Economic Trends

Unlike property tax revenue, property transfer tax revenue reflects changes to current economic conditions since it does not experience a lag time as with property tax. The economic factors that primarily impact 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 Figure 14 - City of San Diego Home Sales**.

Figure 14 - City of San Diego Home Sales



Source: CoreLogic®

General Fund Revenues

Home sales have decreased as a result of the Federal Reserve Committee's decision to raise rates in calendar year 2022. However, the median home prices are anticipated to continue at elevated levels through calendar year 2023. The Department of Finance will continue to closely monitor Property Transfer Tax revenue and adjust projections as necessary.

Fiscal Year 2024 Adopted Budget

The Fiscal Year 2024 Adopted Budget for property transfer tax is $12.0 million and is based on Fiscal Year 2023 year-end projections. This represents a decrease of $3.5 million, or 22.8 percent, from the Fiscal Year 2023 Adopted Budget. The negative growth is based on a projected decline in home sales. As noted in the property tax section, on June 14, 2023, the Federal Reserve Committee "decided to maintain the target range for the federal funds rate at 5 to 5-1/4 percent. Holding the target range steady at this meeting allows the Committee to assess additional information and its implications for monetary policy. In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.[7]" Additional increases in the federal funds rate in calendar year 2023 would likely impact property transfer tax; any significant changes will be included in the Fiscal Year 2024 quarterly budget monitoring reports.

Licenses and Permits

Background

General Fund Revenues
$45.0 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. Recreational Cannabis Business Tax makes up almost half of the licenses and permits revenue category. On Nov. 8, 2016, San Diego voters passed Measure N, a tax on non-medical cannabis, which imposes a gross receipts tax on non-medical cannabis businesses that operate or provide services within the City of San Diego. Businesses were initially taxed at a rate of 5 percent of monthly gross receipts, but this rate increased to 8.0 percent on July 1, 2019. Effective May 1, 2022, the Cannabis Tax rate for Cannabis Production Facilities (Cultivation, Manufacturing, Distribution, Storage) is 2.0 percent of monthly gross receipts.

Fiscal Year 2024 Adopted Budget

The Fiscal Year 2024 Adopted Budget for licenses and permits is $45.0 million, or 2.2 percent of the General Fund revenue budget. This represents a decrease of $11.6 million, or 20.5 percent, from the Fiscal Year 2023 Adopted Budget. The decrease is primarily attributed to the removal of $8.1 million one-time licensing revenue for the Short-Term Residential Occupancy (STRO) Program, where licenses are valid for two-years with fees due at the beginning of January every two years after applications are submitted and a lottery on those applications occurs. This decrease is partially offset with an additional $645,000 of one-time revenue to account for the Short-Term Residential Occupancy Program application and licensing fees as mandated by Ordinance O-21305 in Fiscal Year 2024. Additionally, there is a reduction of $4.4 million from Cannabis Business Tax revenue due to a decrease in gross receipts reported by cannabis business outlets and a reduction of business tax remitted associated to increased competition from other municipalities and delivery services.

[7] Federal Reserve issues FOMC Statement. Press Release. June 14, 2023.

Fines, Forfeitures, and Penalties

Background

General Fund Revenues
$32.6 million

Percent of General Fund Revenues
1.6 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 2024 Adopted Budget

The Fiscal Year 2024 Adopted Budget for fines, forfeitures, and penalties revenue is $32.6 million, or 1.6 percent, of the General Fund revenue budget. This represents a decrease of $1.8 million, or 5.3 percent, from the Fiscal Year 2023 Adopted Budget.

The decrease is primarily attributed to a $1.4 million reduction in Municipal Court revenue due to fewer vehicle code violation citations being issued. The reduction in citations is primarily a result of patrol officer vacancies and an increased emphasis on public safety. Additionally, a decrease of $900,000 reflects revised parking citation revenue due to the implementation of State Bill 1359 associated with expired placard stickers with current or valid vehicle registrations no longer being cited as of January 2023. These decreases are partially offset by a $560,000 increase in delinquent account collection revenue following a return to pre-pandemic levels.

Revenue from Money and Property

Rents and Concessions

General Fund Revenues
$72.7 million

Percent of General Fund Revenues
3.6 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. Additionally, it includes revenue from interest and dividends. 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 the 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 Parks Improvements Fund and the Mission Bay Park Improvements Fund. The San Diego Regional Parks 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 Park Improvements Fund.

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

General Fund Revenues

Fiscal Year 2024 Adopted Budget

The Fiscal Year 2024 Adopted Budget for revenue from money and property is $72.7 million, or 3.6 percent of the General Fund revenue budget. This represents an increase of $8.8 million, or 13.8 percent, from the Fiscal Year 2023 Adopted Budget. This increase is primarily attributed to an increase of $10.6 million from rents and concessions due to additional activity and rent revenue at Mission Bay hotels, Sea World, and City Pueblo Lands. This increase is partially offset by a decrease in projected interest on pooled investments.

Revenue from Federal & Other Agencies

Background

General Fund Revenues
$10.3 million

Percent of General Fund Revenues
0.5 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, and service level agreements.

Fiscal Year 2024 Adopted Budget

The Fiscal Year 2024 Adopted Budget for revenue from federal and other agencies is $10.3 million, or 0.5 percent of the General Fund revenue budget. This represents an increase of $5.0 million, or 94.1 percent, from the Fiscal Year 2023 Adopted Budget. The increase is primarily associated with the recategorization of $2.2 million in revenues from the charges for services category to the federal & other agencies category, and $2.7 million in opioid settlement grant revenue to support the Community Harm Reduction and Safe Haven programs.

Charges for Current Services

Background

General Fund Revenues
$243.4 million

Percent of General Fund Revenues
12.1 percent

Charges for current services revenue is generated by payments for services provided to the public and other City funds. The City's General Fund pays for basic City services such as public safety, parks, and libraries. In addition, the City allocates the costs associated with central service departments, such as the City Auditor, 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 by the General Fund as revenue to offset the cost of the services provided by these central service departments. Additionally, Transient Occupancy Tax (TOT) revenue is allocated to several departments for reimbursable expenditures in the General Fund that support the safety and maintenance of visitor-related facilities.

Fiscal Year 2024 Adopted Budget

The Fiscal Year 2024 Adopted Budget for charges for current services revenue is $243.4 million, or 12.1 percent of the General Fund revenue budget. This represents an increase of $39.9 million, or 19.6 percent, from the Fiscal Year 2023 Adopted Budget. This increase is primarily attributed to an increase of $31.8 million in TOT reimbursements to General Fund departments for the safety and maintenance of visitor-related facilities, $5.9 million in reimbursements from the Environmental Growth Funds to support eligible expenditures, and $2.6 million in inspection fee revenue for fire inspections to comply with Senate Bill 1205.

Transfers In

Background

General Fund Revenues
$156.6 million

Percent of General Fund Revenues
7.8 percent

The transfers in revenue category includes revenues received by the General Fund from other non-general funds, and includes the transient occupancy tax (TOT) 1.0 cent transfer, the safety sales tax transfer, and gas tax revenue.

Fiscal Year 2024 Adopted Budget

The Fiscal Year 2024 Adopted Budget for transfers in is $156.6 million, or 7.8 percent of the General Fund revenue budget. This represents a decrease of $93.8 million, or 37.5 percent, from the Fiscal Year 2023 Adopted budget. This decrease is primarily attributed to a net reduction of $95.6 million in the use of one-time American Rescue Plan Act (ARPA) funds—the Fiscal Year 2024 Adopted Budget includes the use of $52.1 million in one-time ARPA funds, but relied on $147.6 million in Fiscal Year 2023—and a $7.9 million reduction due to the one-time use of the Pension Stabilization Reserve in Fiscal Year 2023. These decreases are offset by an increase of $6.8 million in the 1.0 cent transfer from TOT, $1.8 million increase to the Police and Fire-Rescue Departments for safety sales tax, and a $1.0 million one-time adjustment to reflect the transfer from the Fire-Emergency Medical Services Transport Fund to the General Fund.

Other Revenue

Background

General Fund Revenues
$2.0 million

Percent of General Fund Revenues
0.1 percent

Other revenue is comprised of library donations, ambulance fuel reimbursements, corporate sponsorships, recovery from damage to City property, and other miscellaneous revenues.

Fiscal Year 2024 Adopted Budget

The Fiscal Year 2024 Adopted Budget for other revenue is $2.0 million, or 0.1 percent, of the General Fund revenue budget. This represents a decrease of $50,000, or 2.4 percent, from the Fiscal Year 2023 Adopted Budget, which is associated with updated projections from the Accounts Payable audit services contract.

State of California Budget Impacts[7]

On June 27, 2023 Governor Newsom signed the 2023-2024 Budget appropriating $310.8 billion in State funds, which includes $225.9 billion in the General Fund, $82.0 billion from special funds, and $2.9 billion from bond funds.

> *"After two years of unprecedented General Fund revenue growth, California faces a downturn in revenues driven by a declining stock market and persistently high inflation in 2022, rising interest rates, and job losses in high-wage sectors—all of which have led to slower revenue growth than previously projected. Through prudent planning and budget resilience built into previous budgets, the state is in its best fiscal position in recent history to address this downturn. By paying down the state's debt and using one-time surplus funds on one-time commitments, the Budget is able to address the shortfall with balanced solutions that protect core state programs and services. Importantly, the Budget avoids new significant ongoing commitments, and maintains fiscal discipline by setting aside a record $37.8 billion in total*

[7] Governor's Budget Summary - 2023-24. Budget Summary (ca.gov). Retrieved July 18, 2023

budgetary reserves. Together, these factors put California on strong fiscal footing to better withstand future economic downturns or revenue declines.

The Budget preserves investments in the programs that are essential to millions of Californians while closing a shortfall of more than $30.0 billion through a balanced package of solutions that avoids deep program cuts. It protects investments in education, health care, climate, public safety and social service programs that are relied on by millions of Californians. Additionally, it is paired with the Governor's streamlining proposals that accelerate construction of water, transportation, and clean energy projects to advance the state's ambitious economic, climate, and social goals." [8]

The budget includes $15.3 billion to address homelessness; $108.3 billion to support K-12 Education per proposition 98; $3.4 billion in additional discretionary resources for the Local Control Funding Formula; an additional $300.0 million ongoing for the Equity Multiplier; $1.1 billion in higher education; $5.1 billion for the public transit; $52.0 billion for the Climate Energy Package; $800.0 million in public safety; and over the next ten years, California has the potential to invest as much as $180.0 billion in infrastructure projects that would create an estimated 400,000 direct and indirect jobs.

Annual Tax Appropriations Limit (Gann Limit)

In November 1979, California voters approved Proposition 4 (the 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 a Tax Appropriations Limit (also referred to as the Gann Limit) on or before June 30 of each year for the following fiscal year. The Tax Appropriations Limit is based on actual appropriations during the State of California Fiscal Year 1978-79, and adjusted each year using population and inflation adjustment factors.

On June 5, 1990, California voters approved Proposition 111, amending Article XIIIB. Proposition 111 allows local jurisdictions to choose among measures of inflation and population growth to compute the adjustment factor. The measures for inflation (price factors) include growth in California per capita income, or growth in the City's gross assessed valuation due to new non-residential construction; while measures for population growth include population growth within the county or city.

The Gann Limit is applicable only to proceeds of taxes and State subventions (unrestricted money received by a local agency from the State). 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 on June 27, 2023 that established the City's Tax Appropriations Limit for Fiscal Year 2024 at $5,127,592,710. Using the Fiscal Year 2024 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 $1,554,198,470, which is $3,573,394,240 below the Gann Limit.

In accordance with California Law, Division 9 of the Government Code and Proposition 111 guidelines, the Fiscal Year 2024 Tax Appropriations Limit was set and adopted before June 30, 2023.

[8] California State Budget – 2023-2024. July 2023. Page 1

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