FISCAL YEAR

2014 ADOPTED BUDGET

General Fund Revenues

City of San Diego

General Fund Revenues

The Fiscal Year 2014 General Fund revenue budget is $1.20 billion, which represents an increase of $51.8 million or 4.5 percent from the Fiscal Year 2013 Adopted Budget. General Fund revenues pay for essential City services including police, fire, refuse collection, library services, and park and recreation programs.

Table 1 illustrates the components of the $51.8 million or 4.5 percent increase in General Fund annual revenue for Fiscal Year 2014.

Table 1: Fiscal Year 2014 General Fund Revenue Change

	Percent Change from FY 2013 Adopted Budget	Change (in millions)
Major Revenues	4.6%	$ 35.6
Other Revenue Sources	4.3%	16.2
Total	**4.5%**	**$ 51.8**

The General Fund Revenues section provides a detailed description of the revenue categories listed to the right on this page, including background information describing growth trends, economic factors, and methods of allocation affecting each revenue source. This information provides insight into the formulation of the Fiscal Year 2014 Adopted Budget for the General Fund revenues.

The four major General Fund revenue sources: property tax, sales tax, transient occupancy tax (TOT), and franchise fees account for 67.5 percent of the City's General Fund revenue in the Fiscal Year 2014 Adopted Budget. Changes in the local, State, and national economies can impact each of these revenue sources and trends, and the possible effects on the City's finances in Fiscal Year 2014 are outlined below. Other General Fund revenue sources are influenced by these same economic conditions as well as various other non-economic events, such as a fee change or the implementation of a new policy in an existing program.

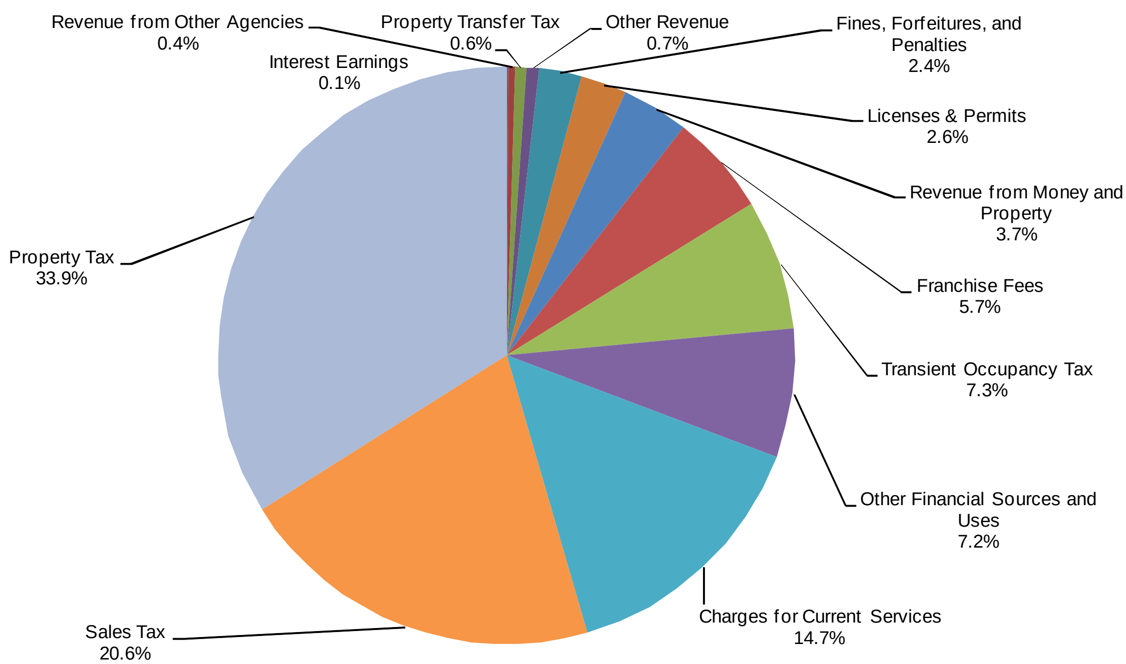
The Fiscal Year 2014 major revenue projections are based on Fiscal Year 2013 year-end projections and economic data through May 2013, the most recent information available at the time the adopted budget was prepared. It should be noted that local economic indicators have continued to slowly improve since development of the Fiscal Year 2014 Adopted Budget. Additionally, similar to Fiscal Year 2013 and as a result of the slowly improving local economy, preparation of the Fiscal Year 2014 Adopted Budget incorporated an improved economic outlook when compared to previous years, as is evidenced by the increases in property tax, sales tax and TOT. Despite the projected increases in the General Fund major revenues, there is some uncertainty related to the impacts of sequestration and the across-the-board federal spending cuts that might affect San Diego's economy. The impacts to the region's economy might be seen in a few economic sectors such as consumer spending and job growth but at the time of the publication of the adopted budget, the direct impacts to the City are uncertain. The City will continue to monitor the impacts of sequestration and its impacts to the City's General Fund budget.

Volume II details the budgeted revenues that are generated by departments. Each revenue source generated by individual General Fund departments also falls under one of the revenue categories listed on the previous page and is discussed in this section of the budget document.

Table 2: Fiscal Year 2014 General Fund Revenues - $1.20 Billion (in millions)

Revenue Category	FY 2012 Actual	FY 2013 Adopted Budget	FY 2014 Adopted Budget	FY 2013 - FY 2014 Change	Percent Change	% of Total General Fund Revenue
Property Tax	$ 408.8	$ 387.1	$ 408.0	$ 20.9	5.4%	33.9%
Sales Tax	220.3	236.3	248.1	11.9	5.0%	20.6%
Transient Occupancy Tax	78.3	81.7	87.9	6.1	7.5%	7.3%
Franchise Fees	69.1	71.7	68.4	(3.2)	(4.5)%	5.7%
Property Transfer Tax	5.7	6.4	7.0	0.7	10.5%	0.6%
Licenses & Permits	31.1	31.9	31.8	(0.1)	(0.2)%	2.6%
Fines, Forfeitures, and Penalties	62.4	31.4	29.3	(2.1)	(6.5)%	2.4%
Revenue from Money and Property	45.9	41.2	44.1	2.9	6.9%	3.7%
Interest Earnings	2.6	1.4	0.9	(0.5)	(36.5)%	0.1%
Revenue from Other Agencies	2.7	3.5	4.2	0.7	20.1%	0.4%
Charges for Current Services	164.7	181.4	177.1	(4.3)	(2.4)%	14.7%
Other Financial Sources and Uses	92.2	73.4	87.1	13.7	18.7%	7.2%
Other Revenue	5.3	3.8	9.0	5.1	133.9%	0.7%
Total	**$ 1,189.1**	**$ 1,151.2**	**$ 1,203.0**	**$ 51.8**	**4.5%**	**100.0%**

Figure 1: Fiscal Year 2014 General Fund Revenues - $1.20 Billion



San Diego's Economic Environment[1]

Development of the Fiscal Year 2014 Adopted Budget incorporated an improved economic outlook when compared to prior annual budgets based on the continuing trend of increases in consumer spending, a return of tourism and business travel, and reduced unemployment. The City first began seeing improvement within these three areas late in Fiscal Year 2011 and the trend continued throughout Fiscal Year 2013.

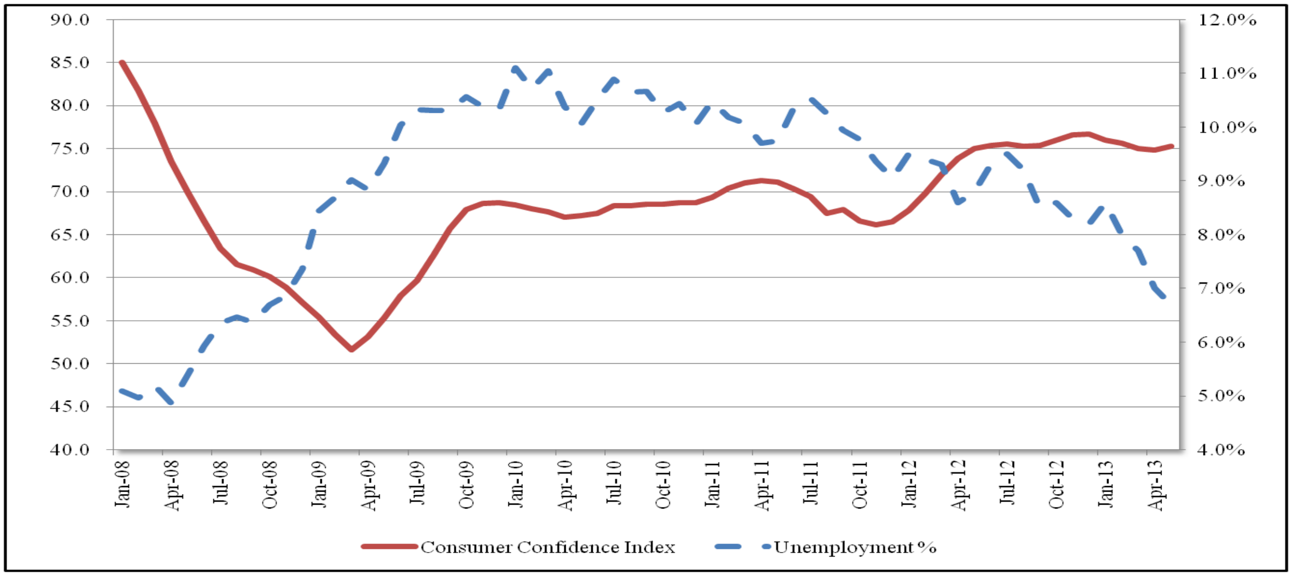
The recent nation-wide recession dramatically impacted State and local revenues due to the unprecedented pace and scope of declines in economic drivers such as unemployment, housing, and consumer confidence. Consumer spending began to rebound in late Fiscal Year 2011 and this trend continued throughout Fiscal Year 2013, resulting in increased transient occupancy and sales tax revenues. Additionally, during calendar year 2012 the local real estate market began showing signs of improvement, as is evident by the increases in home sales and median price, resulting in a projected increase in property tax receipts for Fiscal Year 2014.

The main economic drivers that contributed to the General Fund revenue decreases from Fiscal Year 2008 through Fiscal Year 2010 were declining consumer discretionary spending and the overall decline in the housing market (home sales and prices). Consumer discretionary spending is greatly influenced by levels of unemployment and consumer confidence. At the onset of the economic recession in December 2007, the City's unemployment level was 4.8 percent, and increased rapidly to 10.9 percent in January 2010. Although still above average historical levels, the unemployment rate had decreased to 6.7 percent as of May 2013, marking the first time it had dropped below 7.0

[1] The following sources were used in this section: National Bureau of Economic Research, California Employment Development Department, United States Bureau of Labor Statistics, California State Board of Equalization, University of San Diego Index of Leading Economic Indicators, DataQuick Information Systems, San Diego County Assessor / Recorder / Clerk's Office, San Diego Association of Governments, United States Bureau of Labor Statistics.

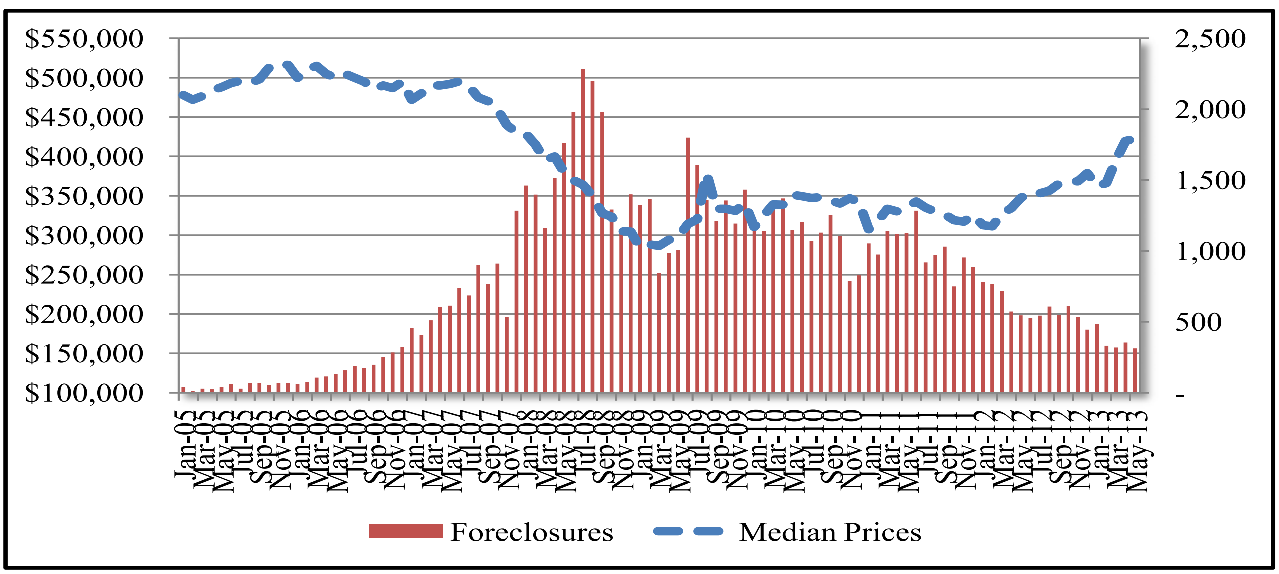
percent since November 2008. Local consumer confidence declined 41.2 percent from the December 2007 index level of 87.8, to the lowest level of 51.7 in March 2009. Subsequently, consumer confidence has increased 45.7 percent to an index level of 75.3 as of May 2013.

Figure 2: San Diego Consumer Confidence and Unemployment



Source: California Employment Development Department, USD Index of Leading Economic Indicators

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



Source: DataQuick Information Systems, San Diego County Assessor/Recorder/Clerk's Office

Countywide median home prices have increased from low levels in Fiscal Year 2009 and after stabilizing for several months have increased 21.6 percent from May 2012 to May 2013. The San Diego median home price as of December 2007 was $495,000, which decreased to a low of $284,435 in January 2009, and has subsequently increased to $422,578 as of May 2013.

Development of the Fiscal Year 2014 General Fund revenue budget considers and incorporates a wide variety of economic data in an effort to accurately forecast revenue amounts. The following are some of the economic indicators and assumptions that were used in the preparation of the Fiscal Year 2014 Adopted Budget for the General Fund. In most cases, the indicators used to prepare the Fiscal Year 2014 Adopted Budget were as of May 2013. Updated indicators are presented below where available:

- The Index of Leading Economic Indicators for San Diego County has increased 4.0 percent over the last twelve months (as of May 2013) from an index level of 121.6 to 126.4 (University of San Diego, Index of Leading Economic Indicators).
- Consumer spending in the City of San Diego on taxable items for the prior twelve months, as of March 2013, increased 4.5 percent when compared to the prior year (MuniServices).
- San Diego's unemployment rate was 6.7 percent as of May 2013, a decrease of 2.1 percent from the 8.8 percent as of May 2012.
- Home sales in San Diego for the twelve month period (June 2012 - May 2013) totaled 42,614, which is an increase of 15.5 percent from the 36,888 home sales from the prior twelve month period (June 2011 - May 2012)(San Diego County Assessor/Recorder/Clerk's Office).
- The median countywide home price as of May 2013 was $422,578 which is an increase of 21.6 percent from the May 2012 median home price of $347,417 (DataQuick Information Systems).
- Countywide foreclosures for the twelve month period (June 2012 - May 2013) totaled 5,618 which is a decline of 44.8 percent from the previous twelve month period (June 2011 - May 2012) total of 10,179. Notices of default, an indicator of potential future foreclosure levels, totaled 12,277 for the twelve month period (June 2012 - May 2013), a decline of 40.8 percent from the 20,725 experienced in the previous twelve month period (June 2011 - May 2012) (San Diego County Assessor/Recorder/Clerk's Office).
- The City's median income is forecasted to grow 4.9 percent from approximately $50,000 to $52,500 from calendar year 2010 to 2015 (San Diego Association of Governments).
- The County of San Diego Consumer Price Index (CPI) increased 1.6 percent in calendar year 2012 (United States Bureau of Labor Statistics).

Property Tax

Background

Total City Budget
$433.7 million

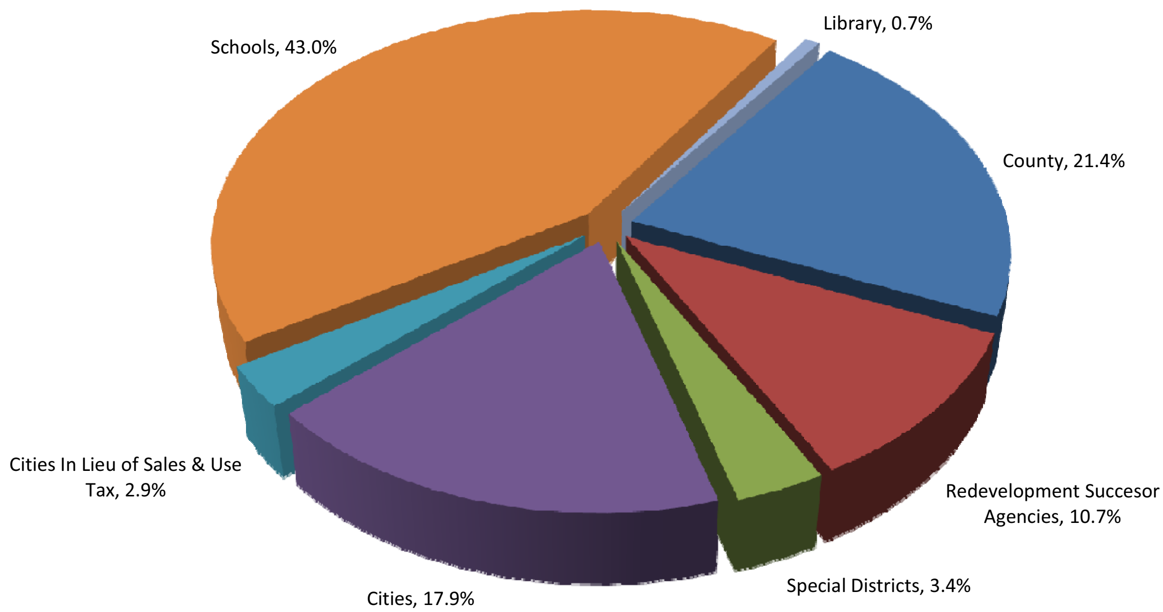
General Fund Budget
$408.0 million

Percent of General Fund
33.9 percent

Property tax revenue is the City's largest revenue source, representing 33.9 percent of the 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 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. For every $100 collected, the allocation to the cities in San Diego County total $17.90 (with an additional $2.90 going to cities for the sales tax "triple-flip" outlined in the sales tax section), which includes offsets for Motor Vehicle License Fees, according to the County of San Diego Assessor's Office. Property tax revenue is also collected in other (non-General) funds per City Charter requirement. Those include a special tax levy of $0.005 per $100 of assessed value for funding zoological exhibits in Balboa Park.

Figure 4: Fiscal Year 2014 Countywide Property Tax Distribution



Source: County of San Diego Assessor's Office

Since the early 1990s, many factors have contributed to changes in the amount of revenue the City has received from property tax:

- In Fiscal Year 1993, the State of California faced a serious deficit and, in order to meet its obligations to fund school districts at specified levels under Proposition 98, the State enacted legislation that shifted partial financial responsibility for funding education to local governments. These revenue shifts were otherwise known as the Educational Revenue Augmentation Fund (ERAF) shifts.
- The State authorized counties to charge cities an administrative fee in order to collect and distribute property tax, further reducing the City's annual property tax receipts. For Fiscal Year 2014, the property tax administration fee for the City is estimated to be $4.1 million which is a reduction of $1.0 million from the Fiscal Year 2013 Adopted Budget of $5.1 million. The anticipated reduction for Fiscal Year 2014 is a result of the City of Alhambra v. County of Los Angeles court ruling which determined the imposition of property tax administration fees on the City's Motor Vehicle License Fees backfill and triple-flip to be unlawful.
- Beginning in Fiscal Year 2005, the Motor Vehicle License Fee (MVLF) rate was reduced from 2.0 percent to 0.65 percent resulting in less revenue received by the City, which was replaced dollar-for-dollar with property tax, resulting in a property tax revenue increase.
- Redevelopment agencies were dissolved statewide in California in Fiscal Year 2012. As a result, the distribution of property tax revenues to the former San Diego Redevelopment

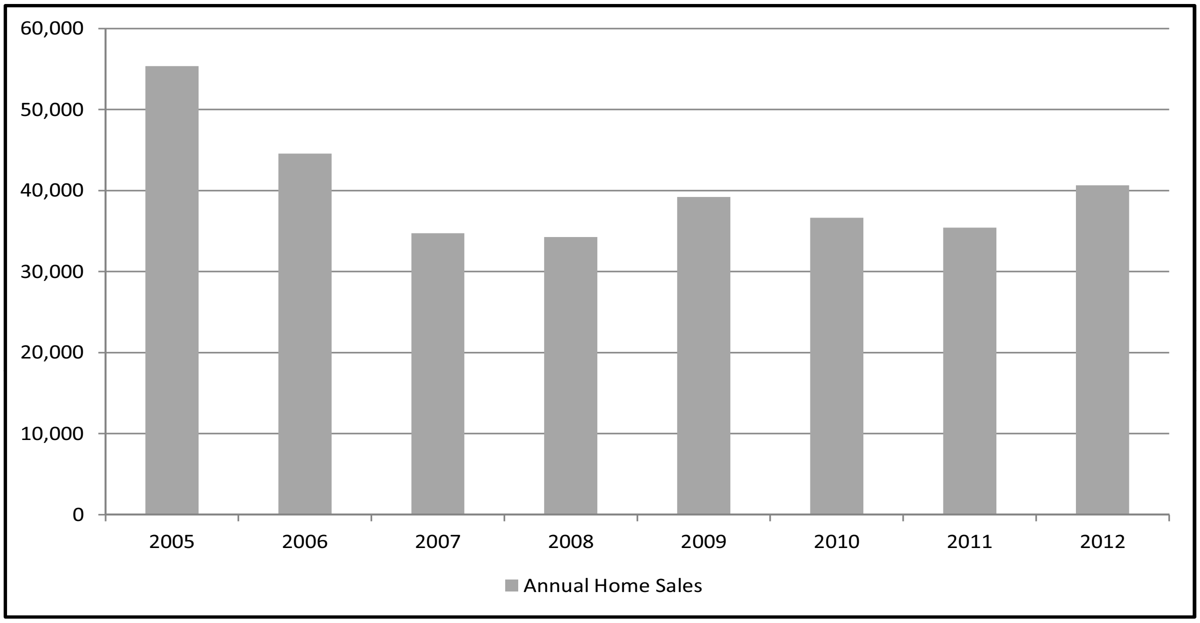
Agency has not occurred since Fiscal Year 2012. Funding for continuing obligations as approved by the State Department of Finance is expected to be distributed to the City as Successor Agency from the Redevelopment Property Tax Trust Fund (RPTTF). Property tax funds remaining after the former redevelopment agencies' obligations are met are expected to be distributed per appropriate allocation formulas. These amounts are estimated to be $11.2 million in FY 2014.

Economic Trends

The economic recession that began late in calendar year 2007, had a significant negative impact on median home prices, home sales, and foreclosures leading to a decline in property tax revenue. However, improvement in the foreclosure rate and the number of notices of default has taken place. Countywide foreclosures from June 2012 to May 2013 totaled 5,618, a decline of 44.8 percent over the prior twelve month period total of 10,179. Notices of default totaled 12,277 over the same time period, a decline of 40.8 percent from 20,725, indicating that future foreclosure levels should potentially be lower and increase property tax revenue collection rates. Although the median home sales price has increased for the County, the current median sales price is still well below the market peak of $518,000 in November 2005. Home sales in San Diego County also increased and as of May 2013, the County recorded 4,262 sales, a 13.8 percent increase over the May 2012 home sales total of 3,746. As of May 2013, the median countywide home price was $422,578, which is an increase of 21.6 percent from the May 2012 median home price of $347,417. It is anticipated that the median home price in San Diego will continue to improve during Fiscal Year 2014 as the number of foreclosed properties continues to decrease.

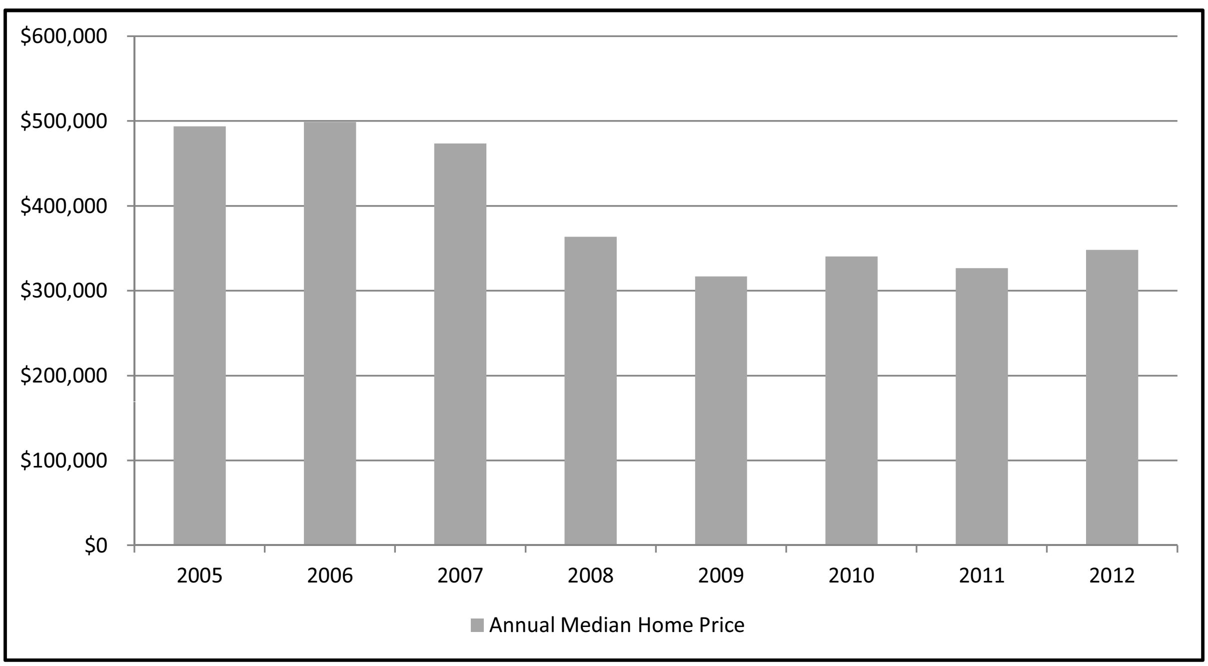
General Fund Revenues

Figure 5: San Diego County Home Sales (calendar year)



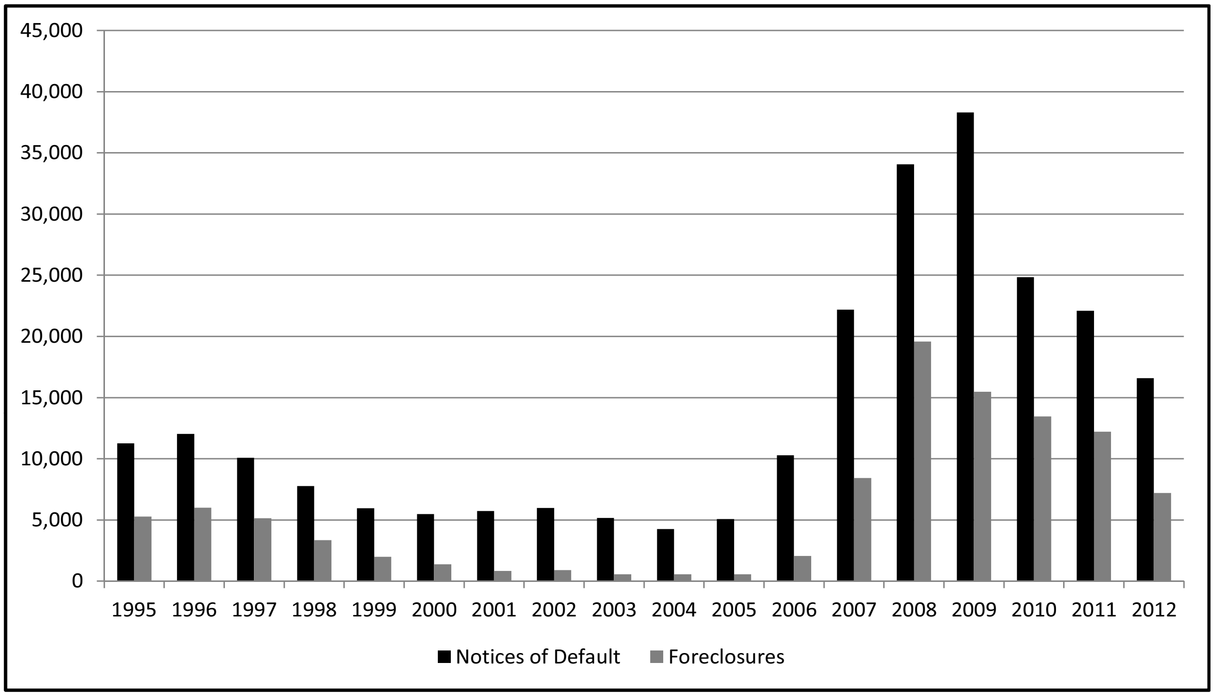
Source: DataQuick Information Systems

Figure 6: San Diego County Annual Median Home Price (calendar year)



Source: DataQuick Information Systems

Figure 7: San Diego Home Foreclosures (calendar year)



Source: San Diego County Assessor/Recorder/County Clerk

In addition to the local residential market continuing to slowly improve, the local commercial real estate market is showing signs of improvement. According to CB Richard Ellis, the overall vacancy rate during the second quarter of calendar 2013 showed improvement in the industrial and office real estate markets over the same period in 2012. The vacancy rates in the industrial and office real estate markets declined approximately 1.8 percent to 8.5 percent and 2.1 percent to 14.1 percent, respectively.

While unemployment levels remain above historical levels, there has been improvement which has aided in the improvement in the local real estate market. San Diego's unemployment rate improved to 6.7 percent as of May 2013, a decline of 4.2 percent from the January 2010 high of 10.9 percent. The State of California's unemployment rate was 8.1 percent as of May 2013.

Fiscal Year 2014 Adopted Budget

While the local residential housing market experienced improvement in Fiscal Year 2013, this does not greatly impact the growth rate for the Fiscal Year 2014 Adopted Budget due to a lag between the time assessed valuation is set by the County Assessor's Office (reflecting the entire calendar year) and property tax revenue is received by the City. Property tax is a lagging revenue source and, therefore, does not depict recent market activity. Fiscal Year 2014 property tax revenue projections reflect housing market activity from calendar year 2012.

The Fiscal Year 2014 Adopted Budget for property tax is $408.0 million which assumes 2.2 percent growth over May 2013 receipts of base property tax (Proposition 13) and "in-lieu of motor vehicle license fee" payment. The $408.0 million property tax budget consists of an estimated $290.4 million in base property tax (Proposition 13), $106.4 "in-lieu of motor vehicle license fee" payment, $3.0 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA), and $8.2 million in anticipated residual property tax payments. As a result of the dissolution of the RDA, the tax sharing pass-through payments (which were previously budgeted in Other Financial Sources & Uses) will be received as part of the Recognized Obligations Payment Schedule (ROPS) and therefore will be recognized as property tax revenue. The residual property tax payments are the City's proportionate share of funds remaining in the Redevelopment Property Tax Trust Fund (RPTTF) after ROPS requirements have been met.

The 2.2 percent growth rate projected for Property Tax in Fiscal Year 2014 is based on strong home sales, increases in median home price, and a positive California CPI in calendar year 2012. This positive growth rate is also attributed to a projected decrease in property tax refunds related to an anticipated reduction in the number of property value reassessments during Fiscal Year 2014. All of these factors combined create a positive growth rate and forecast for property tax revenues.

Table 3: Fiscal Year 2014 Adopted Property Tax Budget

		(in millions)
Base Property Tax	$	290.4
Property Tax "In-Lieu" of MVLF		106.4
Tax Sharing Distribution		3.0
Residual Tax Sharing		8.2
Total Property Tax	**$**	**408.0**

Sales Tax

Background

Total City Budget
$285.7 million

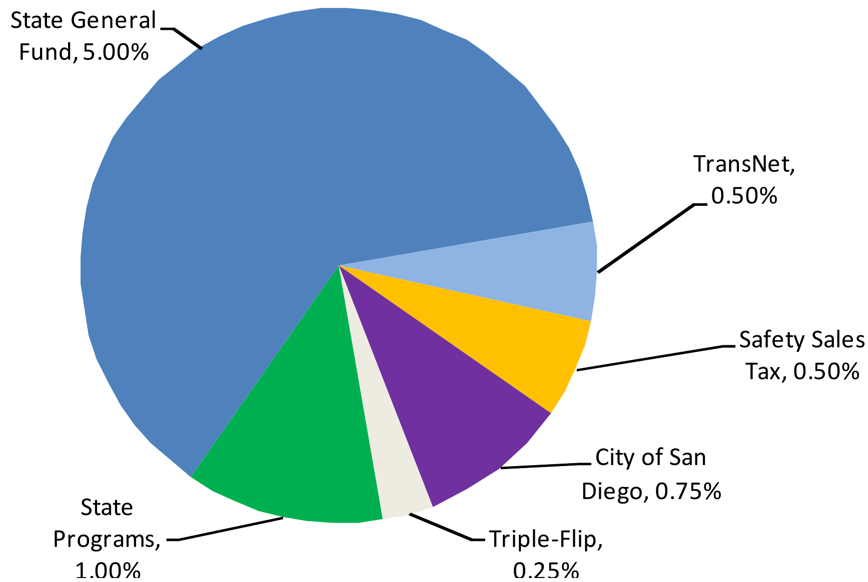
General Fund Budget
$248.1 million

Percent of General Fund
20.6 percent

Sales tax is the City's second largest General Fund revenue source, representing 20.6 percent of the total General Fund revenue. Collected at the point of sale, sales tax receipts are remitted to the State Board of Equalization, which allocates tax revenue owed to the City in monthly payments. According to the Bradley-Burns Sales and Use Tax law, the City is to receive one cent of the total Statewide sales tax levied on each dollar of taxable sales.

The total citywide sales tax rate in San Diego is 8.0 percent. Included in the 8.0 percent sales tax rate are three voter approved supplemental sales tax add-ons: TransNet Extension Ordinance and Expenditure Plan (TransNet), safety sales tax, and Proposition 30. TransNet was implemented in 1987 to fund the San Diego Transportation Improvement Program for the maintenance, construction, and expansion of roads and bridges. The TransNet Extension Ordinance and Expenditure Plan, which went into effect April 2008, renewed the half-cent obligation for an additional 40-year term. Additionally, the total citywide sales tax rate includes a half-cent tax approved by California voters in 1993 for the purpose of funding local public safety expenditures. The revenue from this half-cent sales tax, known as the safety sales tax, is discussed in the following section. Finally, in November 2012, California voters approved Proposition 30, a quarter-cent increase in the State sales tax rate from which revenue collected is deposited in the State's Education Protection Account to support school districts, county offices of education, charter schools, and community college districts.

Figure 8: City of San Diego Sales Tax Rate (8.0 percent)



Source: State Board of Equalization

Economic Trends

The City of San Diego saw a steady increase in sales tax revenue throughout Fiscal Year 2012 and this continued throughout Fiscal Year 2013, in all sectors of taxable sales. As shown in Table 4: City of San Diego Calendar Year Sales Tax Revenue, moderate growth was reported in the general retail, food products, transportation, business to business, and construction sectors.

Table 4: City of San Diego Calendar Year Sales Tax Revenue (in millions)

Economic Category	Calendar Year 2011	Calendar Year 2012	% Change
General Retail	$ 59.3	$ 60.2	1.4%
Food Products	$ 44.6	$ 47.6	6.8%
Transportation	$ 40.2	$ 42.4	5.5%
Business to Business	$ 33.3	$ 35.4	6.1%
Construction	$ 14.4	$ 14.7	1.8%

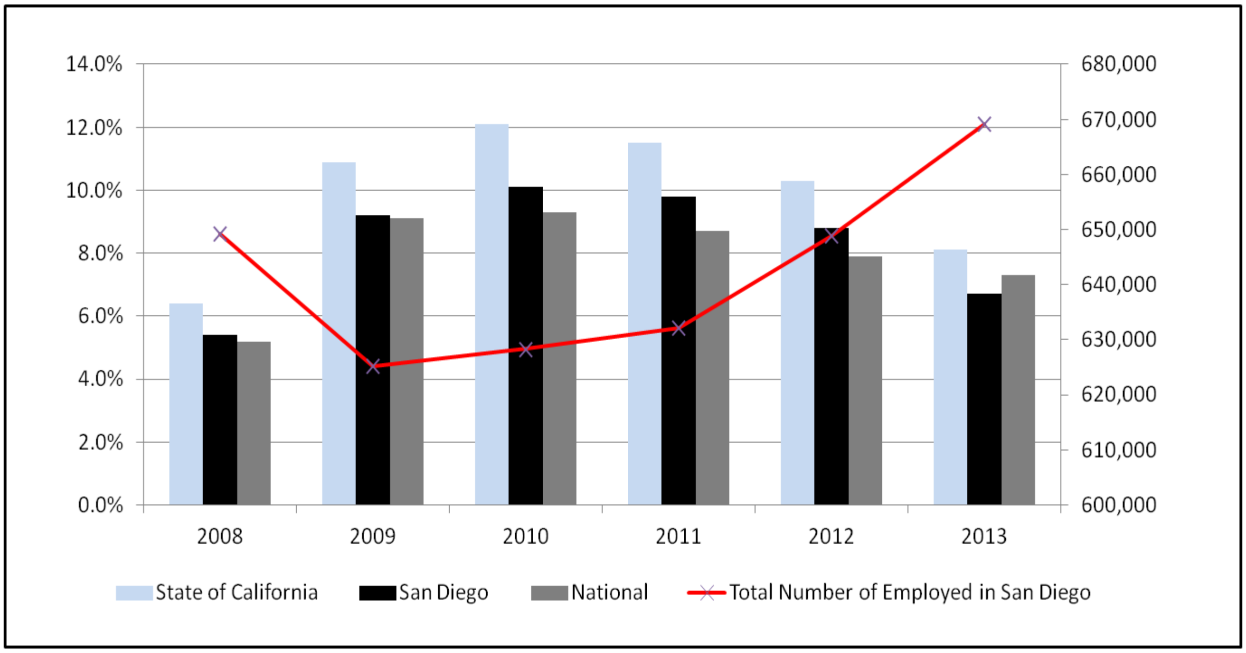
Source: MuniServices, LLC

The City's sales tax consultant, MuniServices, LLC (MuniServices), indicated consumer spending jumped from the previous quarters helping to stimulate the economy resulting in moderate growth into the second quarter of Fiscal Year 2013, thus continuing a favorable balance of sales tax receipts above projected revenue amounts. Based on current consumer confidence reports, it is projected that spending will continue into Fiscal Year 2014 with taxable sales increasing in the areas of department store retail, automobile sales, and service stations.

According to the most recent (February 2013) forecast from the State Board of Equalization, statewide taxable sales were forecasted to have an average growth of 6.9 percent in the remaining quarters of Fiscal Year 2013. Despite the State's projection for the remainder of Fiscal Year 2013, the City is forecasting a more moderate 5.5 percent growth rate for Fiscal Year 2014 based on uncertainties in the local economy. In May 2013, the California Employment Development

Department reported San Diego's unemployment rate at 6.7 percent and the State of California's unemployment rate at 8.1 percent, as shown in Figure 9: Unemployment Rates. The City of San Diego's unemployment rate is less than the national unemployment rate which was 7.3 percent as of May 2013. With the unemployment rate for the City dropping below the national unemployment rate and the State of California unemployment rate, a 5.5 percent growth rate for sales tax is being used for the Fiscal Year 2014 Adopted Budget.

Figure 9: Unemployment Rates (May 2013)



Source: State of California, Employment Development Department

Fiscal Year 2014 Adopted Budget

The Fiscal Year 2014 adopted sales tax budget of $248.1 million is based on the Fiscal Year 2013 year-end projection and assumes 5.5 percent growth for Fiscal Year 2014. The Fiscal Year 2014 Adopted Budget for sales tax revenue also includes the property tax reimbursement that the City receives as a result of the triple-flip (triple-flip is the shift enacted by the State in Fiscal Year 2005 whereby local governments were required to shift one-quarter of one cent of the Bradley-Burns Sales and Use Tax to the State in exchange for an equivalent amount of property tax). Once the State's Economic Recovery Bonds are paid off, local governments will no longer receive the property tax reimbursement, but will instead regain the quarter-cent sales tax that was diverted to the State by the triple-flip. The State's Economic Recovery Bonds are expected to be paid in full by Fiscal Year 2017 unless retired prior to maturity.

Table 5: Fiscal Year 2014 Adopted Sales Tax Budget

		(in millions)
Sales Tax Revenue		182.2
Triple Flip Property Tax Reimbursement		65.9
Total Sales Tax	$	**248.1**

As a destination city for visitors and tourists around the globe, San Diego has historically been economically stronger than the State of California in aggregate. However, even though it is evident that economic recovery is occurring, it has been slow and tentative State-wide, with adverse effects of the recession still apparent in California's cities. In order to continue to generate increased sales tax revenues in the future there must be an improvement in job growth which in turn will support further increases in the local real estate market and consumer confidence.

Safety Sales Taxes

Background

Total City Budget
$8.4 million

General Fund Budget
$7.0 million

Percent of General Fund
0.6 percent

Safety sales tax revenue is derived from a half-cent sales tax resulting from the enactment of Proposition 172 in 1994. Safety sales tax revenues are used to support local public safety needs. The State Board of Equalization collects the one-half cent and the State Controller's Office allocates the monies to each county based on its proportionate share of statewide taxable sales. In accordance with the California Government Code, the City of San Diego receives approximately 3.2 percent from the San Diego County's Public Safety Augmentation Fund on a monthly basis.

In an effort to increase transparency, the Public Safety Needs and Debt Service Fund was created in Fiscal Year 2012 as a special revenue fund with the purpose of tracking expenditures for public safety needs. Debt service for the Fire and Lifeguard Facilities Fund will be paid first from this fund and the remainder will be distributed equally between the Police and Fire-Rescue Departments.

Economic Trends

Safety sales tax receipts generally follow the same economic trends that determine sales tax receipts such as per capita income levels, employment rates, consumer savings, and discretionary spending. However, safety sales tax revenue also depends on the County's share of total statewide taxable sales and allocations to the City do not entirely depend on taxable sales within the City.

Fiscal Year 2014 Adopted Budget

Safety sales tax revenue is budgeted and collected in the special revenue fund, Public Safety Needs and Debt Service. The Fiscal Year 2014 Adopted Budget for safety sales tax of $8.4 million is based on the Fiscal Year 2013 year-end projection and assumes a 5.5 percent growth rate for Fiscal Year 2014. In Fiscal Year 2014, approximately $1.4 million will be allocated to the Fire and Lifeguard Facilities Fund for debt service payments on facility improvements, while the remaining $7.0 million will be equally distributed between the Police and Fire-Rescue Departments' budgets to support public safety needs.

General Fund Revenues

General Fund Transient Occupancy Tax (TOT)

Background

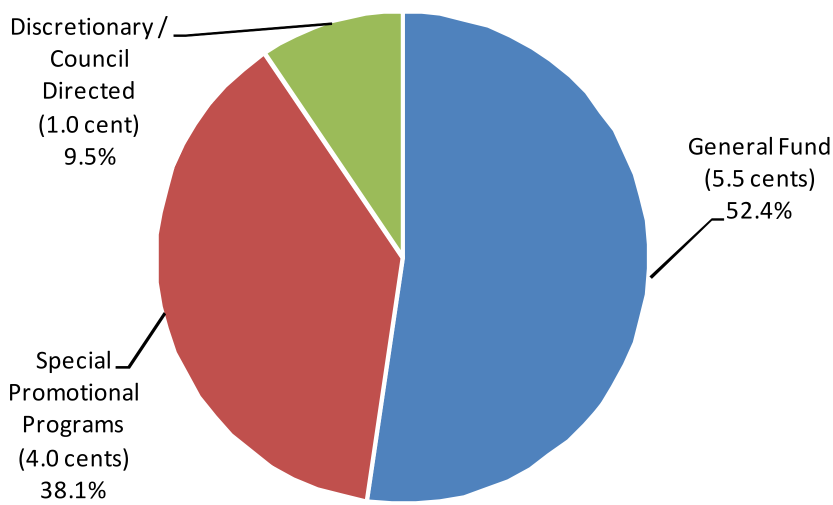
Total City Budget
$167.7 million

General Fund Budget
$87.9 million

Percent of General Fund
7.3 percent

Transient occupancy tax (TOT) makes up 7.3 percent of the General Fund revenue budget and is levied at 10.5 cents per dollar of the daily room price of hotels and motels used by visitors staying in San Diego for less than 30 consecutive days. 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 shall be applied toward general government purposes, 4.0 cents shall be applied toward promoting the City as a tourist destination, and the remaining 1.0 cent shall be allocated for any purposes approved by the City Council.

Figure 10: City of San Diego Transient Occupancy Tax Allocation



Economic Trends

Locally, tourism performed well in calendar year 2012 and this is expected to continue through calendar years 2013 and 2014, according to the July 2013 Quarterly Travel Forecast from the San Diego Tourism Authority (SDTA), formerly the San Diego Convention and Visitors Bureau (CONVIS). Overall, visitor growth in the San Diego region during calendar years 2013 and 2014 is projected at 1.3 percent and 2.0 percent, respectively, with overnight visitor growth of 1.0 percent and 2.0 percent during the same periods. Growth in room demand is projected to be 1.9 percent and 2.6 percent for calendar years 2013 and 2014, respectively. Very little expansion in room supply occurred during the recession and as a result, the average daily rate of hotel rooms is expected to continue to improve with positive growth in room demand and only a slight increase in the room supply. The average daily rate (ADR) is expected to reach $134.23 for calendar year 2013, a 2.4 percent increase over calendar year 2012, and $140.90 in calendar year 2014, an increase of 5.0 percent over calendar year 2013 projections. The overall hotel occupancy rate is anticipated to increase to 71.4 percent in calendar year 2013, from 70.6 percent in calendar year 2012. This exceeds the occupancy rate in calendar year 2008 of 69.2 percent which was prior to the start of the economic recession. Total occupancy is also projected to increase to 72.5 percent in calendar year 2014.[1]

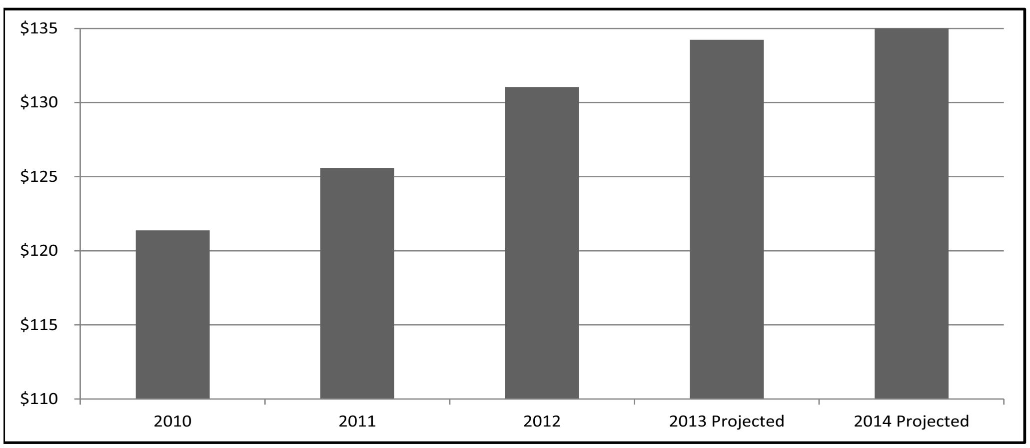
Table 6 illustrates hotel performance in San Diego since calendar year 2010 and projections for calendar years 2013 and 2014.

Table 6: 2010 - 2014 San Diego County Tourism

	CY 2010	CY 2011	CY 2012	Projected CY 2013	Projected CY 2014	% Change '09-'10	% Change '10-'11	% Change '11-'12	Projected % Change '12-'13	Projected % Change '13-'14
Total Visitors (in millions)	29.9	31.1	32.3	32.7	33.3	1.0%	4.0%	3.9%	1.2%	1.8%
Overnight (in millions)	15.1	15.8	16.1	16.3	16.6	4.9%	4.6%	1.9%	1.2%	1.8%
Day (in millions)	14.8	15.4	16.1	16.4	16.7	-2.6%	4.1%	4.5%	1.9%	1.8%
Room Supply	21.1	21.2	21.2	21.3	21.6	1.0%	0.5%	0.0%	0.5%	1.4%
Room Demand	14.0	14.5	14.9	15.2	15.6	6.9%	3.6%	2.8%	2.0%	2.6%
Average Occupancy	66.4%	68.7%	70.6%	71.4%	72.5%	5.7%	3.5%	2.8%	1.1%	1.5%
Average Daily Rate	$ 121.3	$ 125.5	$ 131.0	$ 134.2	$ 140.9	-2.3%	3.5%	4.3%	2.4%	5.0%

Source: San Diego Tourism Authority Quarterly Travel Forecast, July 2013

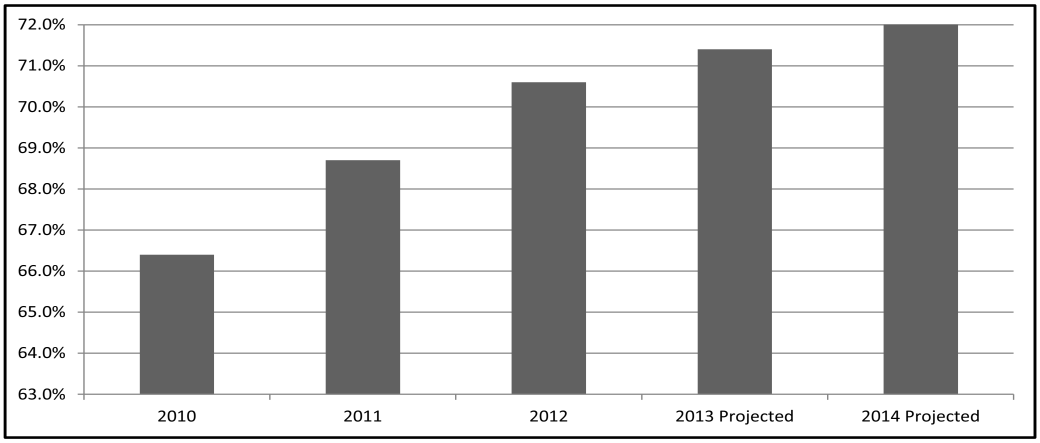
Figure 11: San Diego Hotel Average Daily Rate (calendar year)



Source: San Diego Tourism Authority Quarterly Travel Forecast, July 2013

[1] San Diego Tourism Authority Quarterly Travel Forecast, July 2013

Figure 12: San Diego Hotel Occupancy Rate (calendar year)



Source: San Diego Tourism Authority Quarterly Travel Forecast, July 2013

Fiscal Year 2014 Adopted Budget

The Fiscal Year 2014 total transient occupancy tax budget for the City of San Diego is $167.7 million, which incorporates a 6.0 percent growth rate over the Fiscal Year 2013 year-end projection. Of the $167.7 million, $87.9 million will be allocated to the General Fund. The remaining funds are allocated to Special Promotional Programs, which includes the one-cent Council discretionary TOT funding budgeted to be transferred to the General Fund and TOT allocated for reimbursement of General Fund tourism related expenditures.

The TOT revenue estimate for Fiscal Year 2014 is based on the growth in receipts experienced over the past two calendar years and projections for continued increases in overnight visitors. As a result, growth in TOT receipts is expected to continue through the remainder of calendar year 2013 and into 2014.

Property Transfer Tax

Background

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.

Total City Budget
$7.0 million

General Fund Budget
$7.0 million

Percent of General Fund
0.6 percent

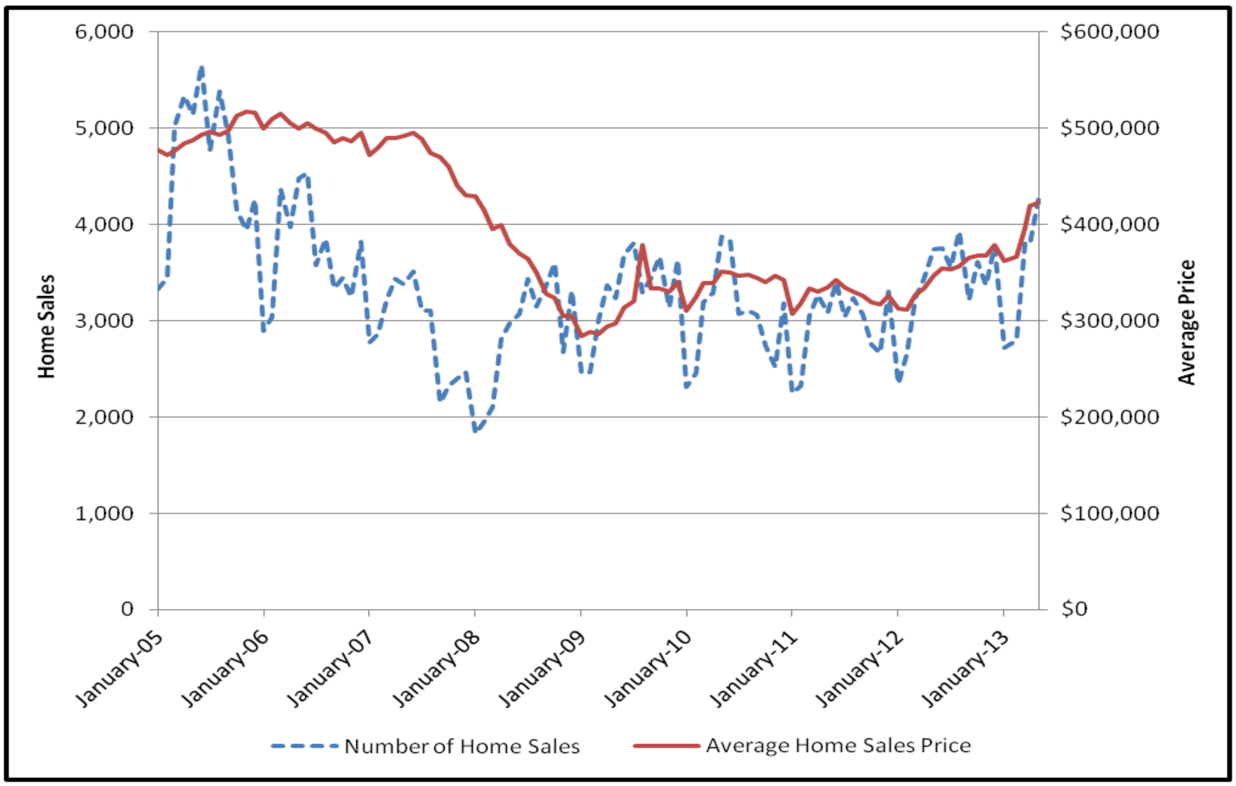
Economic Trends

The Fiscal Year 2014 Adopted Budget for property transfer tax reflects the market conditions and trends as of May 2013. Home sales in San Diego for the twelve month period totaled 42,614, which is an increase of 15.5 percent from the 36,888 home sales from the prior twelve month period. The annual median countywide home price for May 2013 was $422,578 which is an increase of 21.6 percent from the May 2012 home price of $347,417.[1] It is anticipated that the positive indicators will continue in Fiscal Year 2014 and have a positive impact on property transfer tax revenue.

Fiscal Year 2014 Adopted Budget

The Fiscal Year 2014 adopted property transfer tax budget of $7.0 million is based on the Fiscal Year 2013 year-end projection and assumes 8.0 percent growth for Fiscal Year 2014. The positive growth rate is based on anticipated growth in home sales and median home prices.

Figure 13: San Diego County Home Sales



Source: DataQuick Information Systems

[1] DataQuick Information Systems

General Fund Revenues

Franchise Fees

Background

Total City Budget **$129.0 million**
General Fund Budget **$68.4 million**
Percent of General Fund **5.7 percent**

Franchise fee revenue makes up 5.7 percent of the General Fund revenue budget and results from agreements with private utility companies in exchange for use of the City's rights-of-way. Currently, San Diego Gas and Electric (SDG&E), Cox Communications, Time Warner Cable, and AT&T are the franchises that pay a franchise fee to the City. In addition, the City collects franchise fees from private refuse haulers that conduct business within the City limits. The revenue received from the agreements with SDG&E is based on a percentage of gross sales while the revenue received from refuse haulers is based on tonnage.

SDG&E, the single largest generator of franchise fee revenue in the General Fund, remits 3.0 percent of the gross sales of gas and electricity within the City of San Diego, which is split between the General Fund (75.0 percent) and the Environmental Growth Fund (25.0 percent), according to the City Charter. In addition, the City receives a 3.5 percent surcharge on SDG&E's electricity sales for the undergrounding of electric utility lines that was approved by the California Public Utilities Commission in December 2002 (this revenue is placed in a special revenue fund). The City also generates revenue by collecting 5.0 percent of gross revenues from Cox Communications, Time Warner Cable, and AT&T.

Refuse hauler franchise fees are imposed on private refuse haulers depending on tonnage per year. There are Class I haulers (less than or equal to 75,000 tons per year) or Class II haulers (more than 75,000 tons per year).

Fiscal Year 2014 Adopted Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2014 Adopted Budget for SDG&E franchise fee revenue of $47.4 million is based on the Fiscal Year 2013 year-end projection of actual receipts and assumes a 2.0 percent growth rate for Fiscal Year 2014. The projected growth rate of 2.0 percent is based on the average growth of actual receipts in previous years.

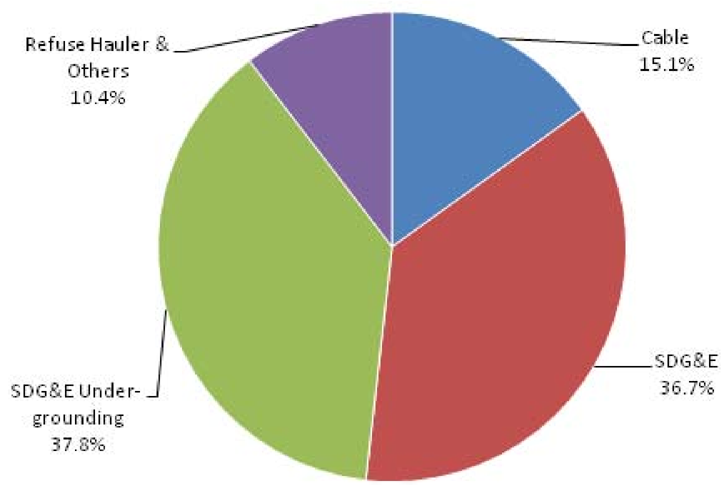
In accordance with the City Charter, 25.0 percent of revenue received from SDG&E or $11.9 million is to be deposited into the Environmental Growth Fund (EGF). One-third of the EGF is used to fund the maintenance of parks; the remaining two-thirds are designated for parkland maintenance and debt service payments for open space acquisitions. With no debt currently outstanding in the EGF, all funds will be utilized for maintenance in Fiscal Year 2014. The remaining revenue balance of approximately $35.6 million received from SDG&E franchise fees is allocated to the General Fund.

CABLE COMPANIES. The Fiscal Year 2014 Adopted Budget for cable franchise fee revenue of $19.4 million is based on the Fiscal Year 2013 year-end revenue projection and assumes a 4.0 percent growth rate for Fiscal Year 2014. The projected growth rate of 4.0 percent is based on the average growth of actual receipts in previous years.

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2014 Adopted Budget for refuse hauler franchise fee revenue from private refuse haulers is $9.1 million, a decrease of $0.9 million over the Fiscal Year 2013 year-end revenue projection. The decrease in Fiscal Year 2014 is due to the removal of a one-time penalty payment that was received during Fiscal Year 2013. The City also anticipates an additional $2.9 million in franchise fees from the EDCO and Sycamore Landfill facilities, $1.3 million in revenue related to the Police Department vehicle tow program, and $0.2 million from other franchise fee sources.

UNDERGROUNDING UTILITY FEE. The Fiscal Year 2014 Adopted Budget for SDG&E undergrounding utility fee revenue of $48.8 million is based on the current Fiscal Year 2013 revenue projection and assumes a 2.0 percent growth rate for Fiscal Year 2014. This revenue is budgeted in the Underground Surcharge Fund.

Figure 14: Franchise Fee Revenue Breakdown



Licenses and Permits

Background

The Licenses and Permits revenue category includes revenue for the purpose of recovering costs associated with regulating an activity and other revenues such as business license taxes, rental unit taxes, parking meter collections, and alarm permit fees.

Total City Budget
$58.9 million

General Fund Budget
$31.8 million

Percent of General Fund
2.6 percent

Fiscal Year 2014 Adopted Budget

The Fiscal Year 2014 Adopted Budget for licenses and permits is $31.8 million or 2.6 percent of the General Fund revenue budget. The Fiscal Year 2014 Adopted Budget is also $0.1 million or 0.2 percent less than the Fiscal Year 2013 Adopted Budget. The decrease in revenue is due to a $0.7 million reduction in fire false alarm penalty revenues and a $1.4 million decrease in Police revenues, which includes a $0.1 million reduction in card room licenses, $0.4 million reduction in alarm permit fees, and a $0.8 million reduction due to the redistribution of revenues within the Police Department. The decrease is then offset by a $0.5 million increase from additional parking meters and the Parking Meter Utilization Program, a $0.3 million increase in General Plan Maintenance Fees to reflect current activity levels, and a $1.2 million increase in business taxes which include a $0.9 million increase from the implementation of a new Rental Unit Business Tax billing system.

General Fund Revenues

Fines, Forfeitures, and Penalties

Background

Total City Budget
$31.1 million

General Fund Budget
$29.3 million

Percent of General Fund
2.4 percent

The fines, forfeitures, and penalties revenue 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 2014 Adopted Budget

The Fiscal Year 2014 Adopted Budget for fines, forfeitures, and penalties revenue is $29.3 million or 2.4 percent of the General Fund revenue budget. The adopted budget is also $2.1 million or 6.5 percent less than the Fiscal Year 2013 Adopted Budget.

The decrease in the Fiscal Year 2014 Adopted Budget for fines, forfeitures, and penalties is primarily due to a $1.7 million reduction as a result of the discontinuation of the City's red light photo enforcement program, $0.3 million reduction in interest on collections revenue, $0.3 million removal of one-time revenue related to the Parking Amnesty Program, $0.2 million reduction in Redevelopment Agency (RDA) Code Enforcement as a result of the dissolution of the RDA, and $0.1 million reduction in one-time litigation settlement revenues. These decreases are partially offset by a projected $0.7 million increase in citation revenue due to the Police Department's increased enforcement of red light violations.

Revenue from Money and Property

Rents and Concessions

Total City Budget
$70.6 million

General Fund Budget
$44.1 million

Percent of General Fund
3.7 percent

The rents and concessions category includes revenue generated from Mission Bay Park, Balboa Park, and Torrey Pines Golf Course. The largest component of this category is revenue from Mission Bay Park rents 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 City Pueblo lands.

The threshold amount of Mission Bay rents and concession revenues that are to be placed into the General Fund for use in any municipal purpose without restriction is set by the City Charter at $23.0 million. This threshold amount will remain at the same level until Fiscal Year 2015, at which time it will be reduced to $20.0 million. 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 Improvement Fund is to receive 25.0 percent of revenues in excess of the threshold amount or $2.5 million, whichever is greater, with 75.0 percent or the remaining amount allocated to the Mission Bay Improvements Fund.

Fiscal Year 2014 Adopted Budget

The Fiscal Year 2014 Adopted Budget for rents and concessions revenue is $44.1 million or 3.7 percent of the General Fund revenue budget. This represents a $2.9 million or 6.9 percent increase from the Fiscal Year 2013 Adopted Budget. The positive increase in revenue is primarily attributable to increased revenue generated from rents and concessions from Mission Bay Park of $2.6 million.

Mission Bay Park rents and concessions are projected to generate $28.6 million in Fiscal Year 2014, as compared to the Fiscal Year 2013 Adopted Budget of $26.0 million, which is an increase of $2.6 million. In Fiscal Year 2014, pursuant to the City Charter, the excess above the threshold of $23.0million will be budgeted in the San Diego Regional Park Improvements Fund and Mission Bay Improvements Fund in the amounts of $2.5 million and $3.1 million, respectively.

Interest Earnings

Background

In accordance with the City Charter and authority granted by the City Council, the City Treasurer is responsible for investing the City's cash assets, exclusive of City Pension Trust Funds. With the exception of certain bond funds, all City funds are pooled and invested together in the City Treasurer's Pooled Investment Fund ("Fund") to manage the City's cash flow requirements. Fund investments must comply with the City Treasurer's Investment Policy and the State of California Government Code guidelines and restrictions. The maximum maturity of any investment may not exceed five years. Selection of an investment is based on safety, liquidity, risk, interest rate environment, and the cash flow requirements of the City. Deviations in returns from one fiscal year to the next can generally be attributed to changes in market interest rates or the actual average amount invested during the fiscal year. Past interest earnings performance is no guarantee or indicator of future results.

Interest Earnings Trends

Interest rates have remained historically low since the financial crisis of 2008. The federal funds rate has remained at a target of 0.00 to 0.25 percent during the entire period even as economic activity has been through several stops and starts. Recent economic figures have been showing signs of moderate strength. The Federal Open Market Committee (FOMC) has stated that the exceptionally low level of rates "will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2.0 percent longer-run goal, and longer-term inflation expectations continue to be well anchored." This is a change from the previous time-based guidance of 2015.

The Federal Reserve is expected to start tapering back its bond purchases in Fiscal Year 2014 which could lead to higher interest rates. Additionally, Federal Reserve Chairman Bernanke’s term is set to expire in January 2014 and while he has not announced that he would not accept another term as Chairman, all indications are that the President will nominate a new person to this key position. This potential vacancy creates uncertainty on the future of interest rates since the new Chairperson may have a different philosophy on monetary policy and the exit strategy needed from the FOMC’s accommodative monetary stimulus efforts.

Interest Earnings Outlook

Recently, the Federal Reserve moved from time-based rate guidance to guidance based on achieving certain economic benchmarks. Based on their own forecasts for these economic numbers, the result should be continued low interest earnings for Fiscal Year 2014 and beyond. It should be noted that interest rates are market driven and subject to a number of uncontrollable or unpredictable factors, resulting in outcomes different from our outlook.

General Fund Revenues

Motor Vehicle License Fees

Background

Total City Budget
$0.0 million

General Fund Budget
$0.0 million

Percent of General Fund
0.0 percent

Motor vehicle license fees (MVLF) are levied as a percentage of an automobile's purchase price, subject to depreciation, and are paid annually to the California Department of Motor Vehicles as part of the owner's registration.

Fiscal Year 2014 Adopted Budget

The Fiscal Year 2014 Adopted Budget does not include a budget for motor vehicle license fees due to the elimination of MVLF allocations to cities as the result of the adoption of State Bill 89 passed in June 2011. The revenue previously allocated to cities has been be redirected to fund State public safety grants.

Revenue from Federal & Other Agencies

Background

Total City Budget
$51.3 million

General Fund Budget
$4.2 million

Percent of General Fund
0.4 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 2014 Adopted Budget

The Fiscal Year 2014 Adopted Budget for revenue from federal and other agencies is $4.2 million or 0.4 percent of the General Fund revenue budget. This represents an approximate $0.7 million or 20.1 percent increase from the Fiscal Year 2013 Adopted Budget. The net revenue increase from the Fiscal Year 2013 Adopted Budget to the Fiscal Year 2014 Adopted Budget is primarily attributable to an increase of $0.4 million in reimbursement revenue to the Police Department, an increase of $0.1 million in reimbursement revenue from the State for Peace Officer Standards & Training (POST), and $0.1 million in new revenue from the Urban Area Security Initiative (UASI) grant as reimbursement for a Regional Maritime Preparedness Manager in the Fire-Rescue Department.

Charges for Current Services

Background

Total City Budget
$1,160.7 million

General Fund Budget
$177.1 million

Percent of General Fund
14.7 percent

Charges for current services revenue is generated by payments for services provided to the public and other City funds. The City's General Fund pays for basic City services such as public safety, parks, and libraries. In addition, the City allocates the costs associated with central service departments, such as the City Auditor, City Comptroller, City Attorney, City Clerk, and Financial Management to all City departments by means of a rate based on the General Government Services Billing (GGSB) standard. The amounts allocated to non-General Fund departments are billed and received into the General Fund as revenue to offset the cost of the services provided by these central service departments.

Fiscal Year 2014 Adopted Budget

The Fiscal Year 2014 Adopted Budget for charges for current services revenue is $177.1 million or 14.7 percent of the General Fund revenue budget. This represents a net decrease of $4.3 million or 2.4 percent from the Fiscal Year 2013 Adopted Budget, which is primarily attributable to decreased reimbursements from other funds.

Other Financial Sources & Uses

Total City Budget
$182.0 million

General Fund Budget
$87.1 million

Percent of General Fund
7.2 percent

Background

The Other Financial Sources & Uses revenue category includes revenues received by the General Fund from other non-General Fund City funds such as the transient occupancy tax (TOT) 1.0 cent transfer, Safety Sales Tax transfer, and Gas Tax revenue.

Fiscal Year 2014 Adopted Budget

The Fiscal Year 2014 Adopted Budget for other financial sources & uses is $87.1 million or 7.2 percent of the General Fund revenue budget. This represents an approximate $13.7 million or 18.7 percent increase from the Fiscal Year 2013 Adopted Budget. Other financial sources & uses revenue is mainly generated from the transfers from other funds category. The transfer from other funds category consist of a one-time revenue increases of $12.9 million related to the SDG&E Fire Settlement, a $3.0 million transfer from the Computer Aided Dispatch (CAD) CIP project and a reimbursement of $1.0 million in expenses incurred in Fiscal Year 2013 for the San Diego Convention Center Phase III Expansion project. Partially offsetting the increases is a decrease of $2.5 million as a result of the cooperative agreement between the City and the Centre City Development Corporation (CCDC) not being eligible for reimbursement on the former Redevelopment Agency's Recognized Obligations Payment Schedule (ROPS). Additionally, there is a decrease of $2.3 million in disaster recovery reimbursement funds and the reduction of a one-time transfer of $0.5 million that resulted from the closure of the Public Safety Communication Bonds Fund which were paid off in Fiscal Year 2012.

Other Revenue

Total City Budget
$26.0 million

General Fund Budget
$9.0 million

Percent of General Fund
0.7 percent

Fiscal Year 2014 Adopted Budget

The Fiscal Year 2014 Adopted Budget for other revenue is $9.0 million or 0.7 percent of the General Fund revenue budget. This represents an approximate $5.1 million or a 133.9 percent increase from the Fiscal Year 2013 Adopted Budget. Other revenue is composed of library donations, ambulance fuel reimbursements, corporate sponsorships, and other miscellaneous revenues. The increase in revenue is mainly attributable to the anticipated increase in revenue generated from library donations and reimbursement from other agencies related to the dissolution of redevelopment agencies.

Redevelopment Agencies

As the result of Assembly Bill x1 26 (AB 26) enacted by the State Legislature in June 2011 and a decision issued by the California Supreme Court in December 2011, each redevelopment agency in California dissolved as of February 1, 2012 at which time a successor agency assumed responsibility for winding down its operations. In June 2012, the State Legislature enacted Assembly

Bill 1484 (AB 1484), seeking to clarify and modify certain aspects of AB 26. Among other things, AB 1484 clarified that each successor agency is a separate public entity from the public agency that provides for its governance, and that the liabilities of each former redevelopment agency shall not be transferred to its sponsoring entity (in this case, the City). AB 1484 imposed several new requirements and deadlines on successor agencies and established a new set of potential civil penalties on successor agencies and their sponsoring entities for noncompliance as well as a new set of potential rewards for compliance. AB 1484 was mainly designed to extract excess cash reserves from each successor agency in a prompt fashion.

On January 10, 2012, the City Council designated the City to serve as the "Successor Agency" to the former Redevelopment Agency (Former RDA) and as the "Successor Housing Entity" to the Former RDA. As the Successor Agency, the City is responsible for winding down the Former RDA's operations. State law limits the "administrative cost allowance" available to the Successor Agency, although other funding sources may be used to pay for certain administrative expenses. Any costs to the Successor Agency beyond those allowed by law would impact the City's General Fund. The City's Fiscal Year 2013 Adopted Budget included payments to the City under agreements entered into by the Former RDA to support the City's outstanding debt service obligations for Petco Park and for the Convention Center, among other loans and obligations. The Former RDA's agreements with respect to Petco Park and the Convention Center totaled $13.8 million in debt service support for both obligations for Fiscal Year 2013. The full amount of these obligations is appropriated in the Fiscal Year 2014 Adopted Budget.

During Fiscal Year 2013, these agreements between the City and the Former RDA were determined to be invalid by the State of California Department of Finance (DOF) resulting in a negative impact to the General Fund. Furthermore, should the DOF or the State Controller seek to exercise their rights under certain due diligence review and "claw-back" provisions in AB 26 and AB 1484 to compel the City to reimburse the Successor Agency for certain prior payments made to the City under invalidated agreements, the negative impact to the General Fund would be further increased. The level of funds available to the Successor Agency is not known and may vary based on determinations by the San Diego County Auditor-Controller (County Auditor), the Oversight Board that supervises the Successor Agency (Oversight Board), the DOF, and the State Controller regarding enforceable obligations and administrative cost allowances, among other matters. Costs to the City related to the Successor Agency may be offset, in part, by increased property tax revenues distributed to the City as general property tax revenue to the extent such property tax revenue (formerly known as tax increment revenue) is not needed to pay the Successor Agency's enforceable obligations and administrative cost allowances. For Fiscal Year 2014, it is estimated that the City will receive an additional $8.2 million in property tax revenues as result of the dissolution of the redevelopment agencies, although the actual number may differ substantially from the estimate depending on future events.

State of California Budget Impacts

On June 28, 2013, Governor Brown signed the 2013-2014 Budget Act appropriating $145 billion, including $96.3 million in the General Fund. The enacted budget document states that the budget is balanced and reflects the most stable fiscal footing in well over a decade. As in the Governor's Proposed Budget, the primary focuses of spending increases are education and healthcare. Increases in education spending are the result of the approval of Proposition 30 in November 2012, which implemented temporary increases in personal income and sales taxes to fund the State's Proposition 98 funding requirements for education. Healthcare is demonstrated as a priority by the appropriation of $1.5 billion in federal funds to raise Medi-Cal's income eligibility limits and to cover single adults in this program. No fiscal impact to the City is expected from these State budget actions. Other actions in the 2013-14 Budget Act that will impact the City are described below.

Gasoline Taxes

The Fiscal Year 2014 Adopted Budget includes $19.5 million to be received in Proposition 42 'replacement revenue'[1] and $20.5 million in Highway Users Tax Account (HUTA) gas tax. The State's restructuring of gasoline taxes allows both HUTA and the Proposition 42 replacement revenues' to be redirected back to the State's General Fund at any time if the State's legislature votes in majority to do so. The 2013-14 Budget Act does not include redirection of these local revenue sources.

Fiscal measures taken by the State continue to be monitored by the City for their potential effects on General Fund revenues and expected cash flows. If necessary, changes to projected revenues included in the Fiscal Year 2014 Adopted Budget due to actions taken by the State will be addressed during the Fiscal Year 2014 budget monitoring process.

Service Authority for Freeway Emergencies (SAFE)

Effective January 1, 2013, the San Diego Association of Governments (SANDAG) assumed the responsibilities of the San Diego Service Authority for Freeway Emergencies (SAFE) in accordance with Assembly Bill 1572, and was required to distribute to the 18 cities and the County of San Diego all SAFE program reserves in excess of $4.0 million that existed on September 13, 2012. Distribution of these reserves is based on the vehicle registration fees paid in Fiscal Year 2011 by the residents of each city and unincorporated areas. As a result, in March of 2013, the City of San Diego received $4.1 million of the approximate $9.9 million total of excess reserves available for distribution as determined by the independent auditor retained by SANDAG.

SAFE funds are restricted in use by the provisions of Section 2557 of the California Streets & Highways Code. Allowable uses for these funds include, but are not limited to, the following: the implementation, maintenance, and operation of a motorist aid system of call boxes, including the lease or lease-purchase of facilities and equipment for the system; changeable message signs; lighting for call boxes; support for traffic operations centers; and contracting for removal of disabled vehicles from the traveled portion of the right-of-way. The Fiscal Year 2014 Adopted Budget appropriates the $4.1 million in SAFE funds for allowable expenditures within the Fire-Rescue, Police and Transportation & Stormwater Departments.

Abandoned Vehicle Abatement Program

The Abandoned Vehicle Abatement (AVA) Program is a State funded program for vehicle abatements, focusing on inoperable vehicles on public or private property within public view. It is funded through the collection of a $1 fee as part of annual vehicle registrations. The Abandoned Vehicle Abatement Fund is administered and managed by a County board (AVA Board). The ten year State authorization from 2002 to collect the $1 DMV registration fee funding the AVA program expired in April 2012. Agencies wishing to continue to participate in the program are required to reauthorize their participation by passing resolutions. In addition to this, San Diego County Counsel and the City Attorney's Office determined that, in consideration of Proposition 26, reinstating the fee would be considered a tax, and would require two-thirds voter approval. The County AVA board decided not to pursue a vote. With this, the AVA Program could cease to exist once available fund balance for the program is depleted. AVA Fund balance for AVA was available to support the

[1] Generated from flat 17.3 cent per gallon tax, which replaced the 6.0 percent tax that generated Proposition 42 revenue prior to Fiscal Year 2011.

program through Fiscal Year 2013, however the ability to continue to fund the program from fund balance will be monitored throughout Fiscal Year 2014.

Citizens' Option for Public Safety

The City is expected to receive funding from the State restricted for Citizens' Option for Public Safety (COPS). The Fiscal Year 2014 Adopted Budget includes $2.1 million in COPS revenue.

Annual Tax Appropriations Limit (Gann Limit)

In November 1979, California voters approved Proposition 4 (Gann Initiative) and added Article XIIIB to the California State Constitution. In 1980, the State Legislature added Division 9 (commencing with Section 7900) to Title I of the Government Code to implement Article XIIIB. This legislation required the governing body of each local jurisdiction in California to establish an Annual Tax Appropriations Limit (Gann Limit) on or before June 30 for the following fiscal year. The Tax Appropriations Limit was based on actual appropriations during the fiscal years 1978-79, and was increased each year using the growth in population and inflation.

On June 5, 1990, California voters approved Proposition 111, amending Article XIIIB. Proposition 111 allowed local jurisdictions to choose the annual adjustment factors. The adjustment factors include the growth in the California per capita income, or the growth in the non-residential assessed valuation due to construction within the city and the population growth within the county or the city.

The Tax Appropriations Limit is applicable only to proceeds of taxes. Appropriations not subject to the limit are debt service on voter-approved debt and qualified capital outlays (a fixed asset, including land, with a useful life of more than 10 years and a value that equals or exceeds $100,000).

The San Diego City Council adopted a resolution in June 2013 that established the Tax Appropriations Limit for Fiscal Year 2014 at $1,723,013,875. Using the Fiscal Year 2014 Proposed Budget and Fiscal Year 2014 May Revise, the appropriations subject to the limit (i.e., proceeds of taxes, excluding debt service on voter-approved debt and qualified capital outlays) were calculated to be $826.4 million, which was $896.6 million lower than the Gann Limit.