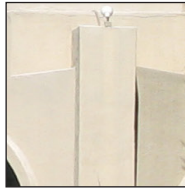
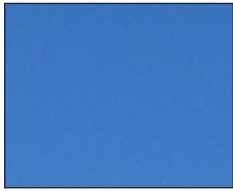


CITY OF SAN DIEGO



# ADOPTED BUDGET



# 2015

FISCAL YEAR

## General Fund Revenues



# General Fund Revenues

The Fiscal Year 2015 General Fund revenue budget is \$1.19 billion, which represents a decrease of \$14.5 million or 1.2 percent from the Fiscal Year 2014 Adopted Budget. 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 2015 Adopted Budget for the General Fund revenues which pay for essential City services including police, fire, refuse collection, library services, and park and recreation programs. Volume II details the budgeted revenues that are generated by departments. Each revenue source generated by individual General Fund departments also falls under one of the revenue categories listed to the right on this page and is discussed in this section of the budget document.

While General Fund revenues included in the Fiscal Year 2015 Adopted Budget have decreased from the Fiscal Year 2014 Adopted Budget as a result of the restructure of departments to non-general funds, General Fund revenues are projected to increase from Fiscal Year 2014 year-end projections. **Table 1:** Fiscal Year 2015 General Fund Revenue Change illustrates the components of the projected \$14.5 million or 1.2 percent decrease in General Fund revenues from the Fiscal Year 2014 Adopted Budget.

**Table 1: Fiscal Year 2015 General Fund Revenue Change**

	Percent Change from FY 2014 Adopted Budget	Change (in millions)
Major Revenues	6.7%	\$ 54.5
Other Revenue Sources <sup>1</sup>	(17.7)%	(69.0)
<b>Total</b>	<b>(1.2)%</b>	<b>\$ (14.5)</b>

<sup>1</sup> The decrease in Other Revenue Sources is primarily due to a fund restructure in which Parking Meter Operations and the Engineering and Capital Projects Department were transferred from the General Fund in Fiscal Year 2015.

**Table 2:** Fiscal Year 2015 General Fund Revenues displays each of the revenue categories in the General Fund and includes Fiscal Year 2013 actual amounts, as well the Fiscal Year 2014 Adopted Budget. The four major General Fund revenue sources: property tax, sales tax, transient occupancy tax (TOT), and franchise fees account for 73.0 percent of the City's General Fund revenue in the Fiscal Year 2015 Adopted Budget and are projected to increase by \$39.8 million from Fiscal Year 2014 year-end projections. Of the projected growth in the four major General Fund revenues, more than 50.0 percent is being directed toward funding street and neighborhood infrastructure repairs throughout San Diego communities.

- Economic Environment
- Property Tax
- Sales Tax
- Safety Sales Taxes
- General Fund Transient Occupancy Tax (TOT)
- Property Transfer Tax
- Franchise Fees
- Licenses and Permits
- Fines, Forfeitures, and Penalties
- Revenue from Money and Property
  - Rents and Concessions
  - Interest Earnings
- Revenue from Other Agencies
  - Motor Vehicle License Fees
  - Revenue from Federal & Other Agencies
- Charges for Current Services
- Other Financial Sources & Uses
- Other Revenue
- State of California Budget Impacts
- Annual Tax Appropriations Limit (Gann Limit)

# General Fund Revenues

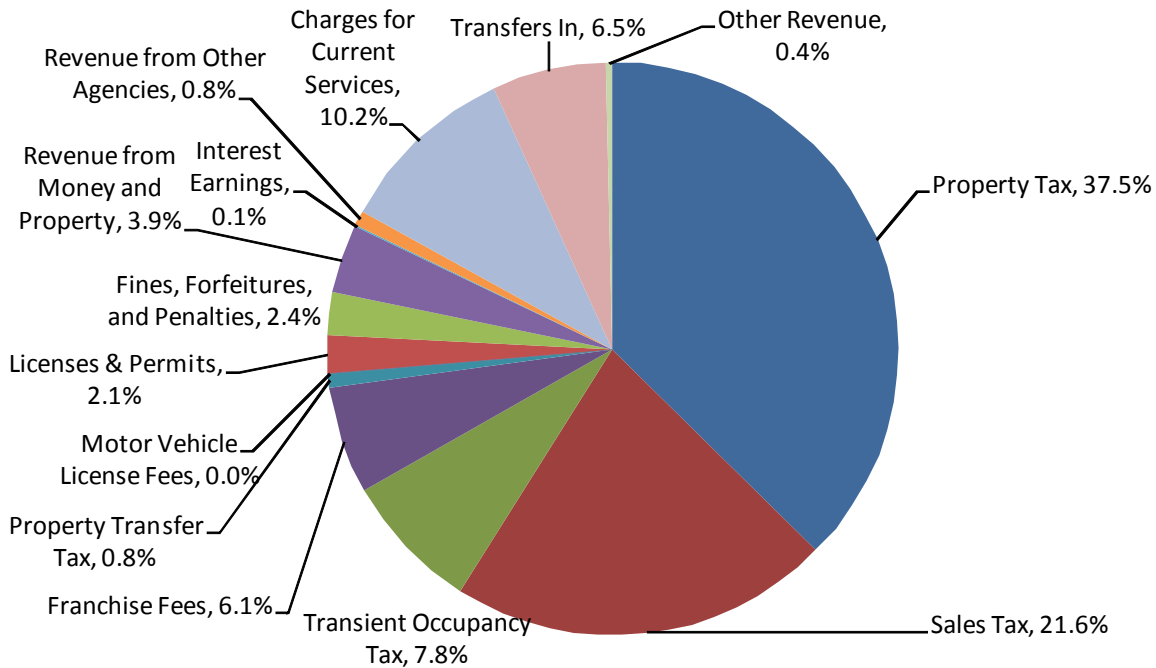
**Table 2: Fiscal Year 2015 General Fund Revenues - \$1.19 Billion (in millions)**

Revenue Category	FY 2013 Actual	FY 2014 Adopted Budget	FY 2015 Adopted Budget	FY 2014 - FY 2015 Change	Percent Change	% of Total General Fund Revenue
Property Tax	\$ 412.2	\$ 408.0	\$ 445.4	\$ 37.4	9.2%	37.5%
Sales Tax	232.9	248.1	257.1	9.0	3.6%	21.6%
Transient Occupancy Tax	83.9	87.9	92.3	4.5	5.1%	7.8%
Franchise Fees	67.7	68.4	72.0	3.6	5.3%	6.1%
Property Transfer Tax	7.0	7.0	9.2	2.1	30.6%	0.8%
Safety Sales Tax	0.0	0.0	0.0	0.0	NA	0.0%
Motor Vehicle License Fees	0.7	0.0	0.0	0.0	NA	0.0%
Licenses & Permits	32.8	31.8	24.5	(7.4)	(23.1)%	2.1%
Fines, Forfeitures, and Penalties	29.4	29.3	28.9	(0.4)	(1.4)%	2.4%
Revenue from Money and Property	49.0	44.1	45.9	1.8	4.2%	3.9%
Interest Earnings	2.1	0.9	1.4	0.6	64.6%	0.1%
Revenue from Other Agencies	11.6	8.8	9.5	0.6	7.3%	0.8%
Charges for Current Services	158.9	176.8	120.7	(56.0)	(31.7)%	10.2%
Transfers In	87.6	87.1	77.1	(10.0)	(11.5)%	6.5%
Other Revenue	5.9	4.7	4.4	(0.3)	(6.9)%	0.4%
<b>Total</b>	<b>\$ 1,181.7</b>	<b>\$ 1,203.0</b>	<b>\$ 1,188.6</b>	<b>\$ (14.5)</b>	<b>(1.2)%</b>	<b>100.0%</b>

The major General Fund revenue projections included in the Fiscal Year 2015 Adopted Budget are based on Fiscal Year 2014 year-end projections and economic data through May 2014, the most recent information available at the time the adopted budget was developed. Changes in the local, State, and national economies can impact each of the four major General Fund revenue sources, and the possible effects on the City's finances in Fiscal Year 2015 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, the restructuring of an existing department, or the implementation of a new policy.

# General Fund Revenues

**Figure 1: Fiscal Year 2015 General Fund Revenues - \$1.19 Billion**



## San Diego's Economic Environment<sup>1</sup>

Development of the Fiscal Year 2015 Adopted Budget incorporated an improved economic outlook when compared to prior annual budgets based on the continuing trend of increases in median home prices, home sales, consumer spending, tourism and business travel, and decreases in unemployment. The City first began seeing improvement within these areas in Fiscal Years 2011 and 2012, and the trend has continued throughout Fiscal Year 2014.

The nationwide recession dramatically impacted State and local revenues due to the unprecedented pace and scope of declines in economic drivers such as employment, housing, and consumer confidence. Although local economic indicators modestly improved throughout Fiscal Year 2014, the rate of improvement in several local indicators has begun to slow. This trend is anticipated to continue during Fiscal Year 2015. This overall expectation and projection for the City's revenues is consistent with information received from the City's sales tax consultant, the San Diego Tourism Authority, and the UCLA Anderson Forecast.

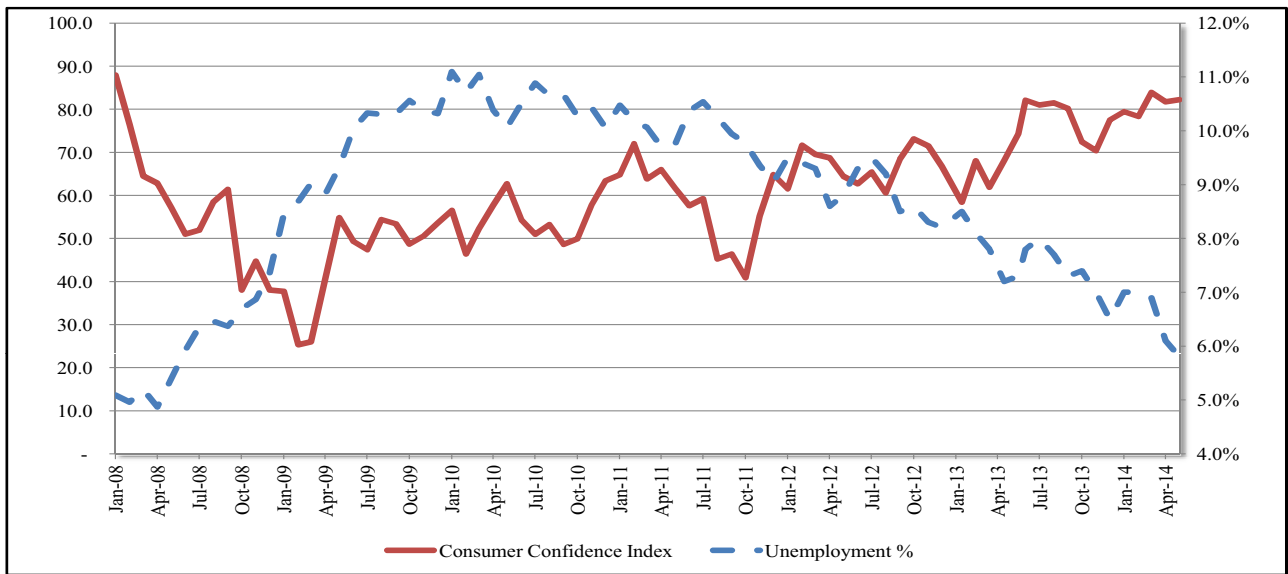
While the local economy has improved from its lowest point during the recession, many economic indicators have not returned to pre-recession levels. The main economic drivers that led to the General Fund revenue decreases during the recession were the decline in consumer discretionary spending and the overall decline in the housing market (home sales and prices). Consumer discretionary spending is greatly influenced by levels of unemployment and consumer confidence. At

<sup>1</sup> 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, S&P Dow Jones Indices LLC, Moody's Investor Services.

# General Fund Revenues

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. Following the end of the recession, the unemployment rate for the City of San Diego has improved steadily, decreasing to 5.8 percent as of May 2014, which is the lowest rate in approximately six years. 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 59.0 percent to an index level of 82.2 as of May 2014.

**Figure 2: San Diego Consumer Confidence and Unemployment**

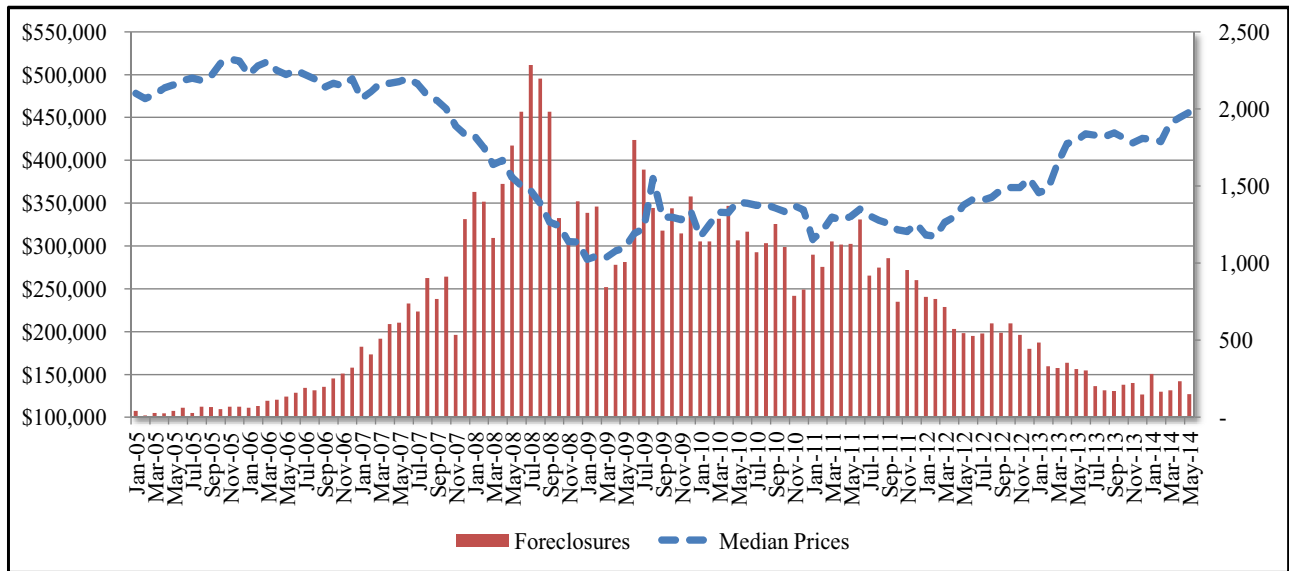


Source: California Employment Development Department, USD Index of Leading Economic Indicators

Countywide median home prices have increased from low levels in Fiscal Year 2009 and after stabilizing for several months have increased 7.9 percent from June 2013 to May 2014. The San Diego median home price as of December 2006 was \$495,000, which decreased to a low of \$284,435 in January 2009, and has subsequently increased to \$456,077 as of May 2014. In addition, the S&P/Case-Shiller Home Price Index also remains below the market peak of 250.34 in November 2005. The home price index is currently 201.85 as of May 2014, a 12.4 percent increase over the May 2013 index of 179.56.

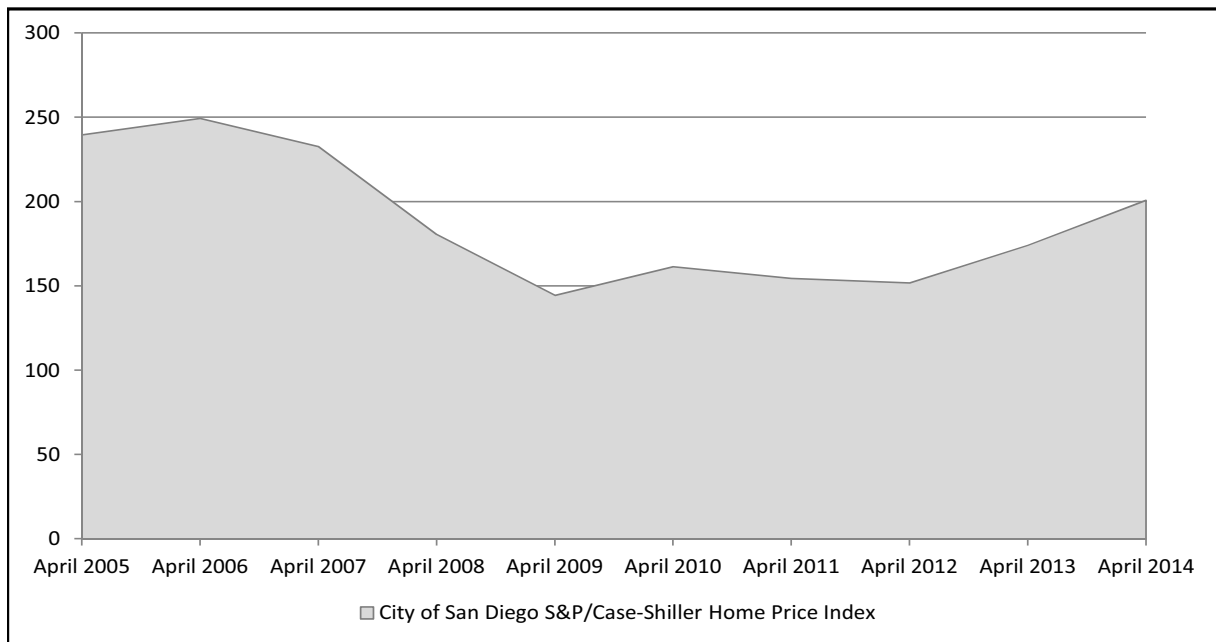
# General Fund Revenues

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



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

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



Source: S&P Dow Jones Indices LLC

Development of the Fiscal Year 2015 General Fund revenue budget incorporates a wide variety of economic data to forecast revenue amounts. The following are some of the economic indicators and assumptions that were used in the preparation of the Fiscal Year 2015 Adopted Budget. In most cases, the indicators used to prepare the Fiscal Year 2015 Adopted Budget were as of May 2014.

# General Fund Revenues

Updated indicators are presented below as available:

- San Diego's unemployment rate was 5.8 percent as of May 2014, a decrease of 1.5 percent from the 7.3 percent unemployment rate as of May 2013.
- Home sales in San Diego for the twelve month period (June 2013 - May 2014) totaled 40,750, which is a decrease of 4.6 percent from the 42,164 home sales from the prior twelve month period (June 2012 - May 2013) (San Diego County Assessor/Recorder/Clerk's Office).
- The median countywide home price as of May 2014 was \$456,077 which is an increase of 7.9 percent from the May 2013 median home price of \$422,578 (DataQuick Information Systems).
- The S&P/Case-Shiller Home Price Index for the City of San Diego was 201.85 as of May 2014, a 12.4 percent increase over the May 2013 index of 179.56.
- Countywide foreclosures for the twelve month period (June 2013 - May 2014) totaled 2,440 which is a decline of 56.5 percent from the previous twelve month period (June 2012 - May 2013) total of 5,618. Notices of default, an indicator of potential future foreclosure levels, totaled 6,656 for the twelve month period (June 2013 - May 2014), a decline of 45.8 percent from the 12,277 experienced in the previous twelve month period (June 2012 - May 2013) (San Diego County Assessor/Recorder/Clerk's Office). Consumer spending in the City of San Diego on taxable items for the prior twelve months, as of June 2014, increased 4.1 percent when compared to the prior year (HdL Companies).
- The Index of Leading Economic Indicators for San Diego County increased 4.0 percent during calendar year 2013 from an index level of 123.2 to 128.1 (University of San Diego, Index of Leading Economic Indicators).
- The City's median income is forecasted to grow 12.2 percent from approximately \$50,000 to \$56,100 from calendar year 2010 to 2020 (San Diego Association of Governments).
- The State of California Consumer Price Index (CPI) used for Fiscal Year 2015 assessed property valuation was 0.5 percent (California Department of Finance).

## Property Tax

### Background

Property tax revenue is the City's largest revenue source, representing 37.5 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 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.

**Total City Budget  
\$472.0 million**

**General Fund Budget  
\$445.4 million**

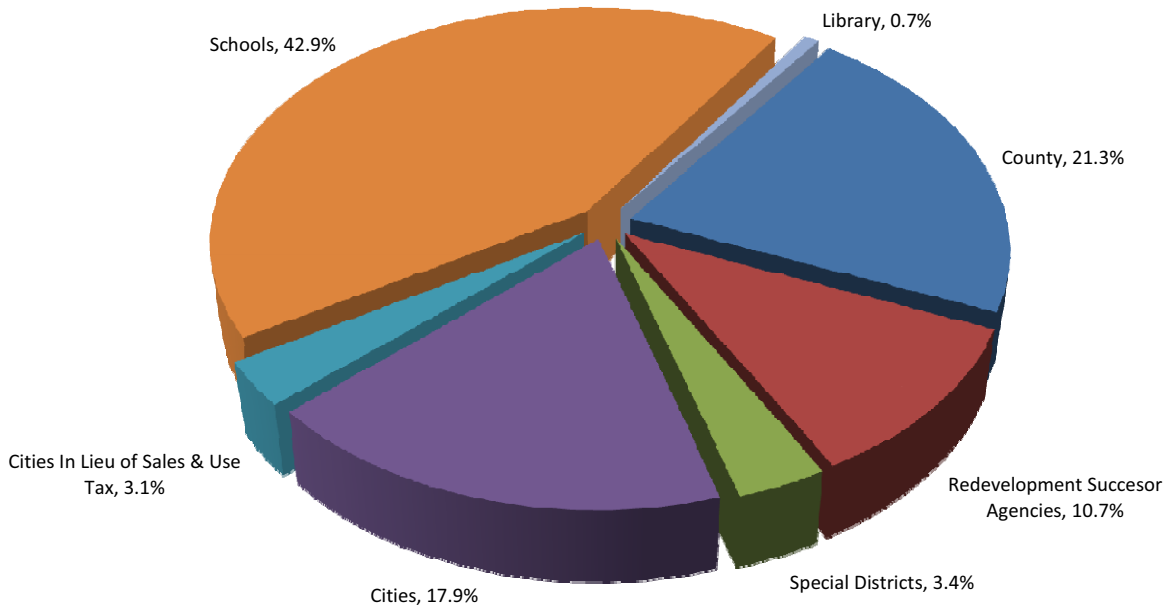
**Percent of General Fund  
37.5 percent**

The 1.0 percent property tax levy is collected and distributed to a number of agencies, including the County, the City, school districts, and special districts. For every \$100 collected, the allocation to the cities in San Diego County total \$17.90 (with an additional \$3.10 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. Additionally, per City Charter requirement, a special tax levy of \$0.005 per \$100 of assessed value is collected for funding the maintenance of zoological exhibits in Balboa Park.



# General Fund Revenues

**Figure 5: Fiscal Year 2015 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 2015, the property tax administration fee for the City is estimated to be \$3.8 million, which is the same amount as the Fiscal Year 2014 Adopted Budget.
- Beginning in Fiscal Year 2005, the Motor Vehicle License Fee (MVLFF) 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.
- 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. 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 distributed to the City as Successor Agency from the Redevelopment Property Tax Trust Fund (RPTTF).

# General Fund Revenues

Residual funds remaining in the RPTTF after the successor agency's enforceable obligations are met are distributed to the local taxing entities per appropriate allocation formulas. The City's residual tax sharing amount is estimated to be \$12.9 million in Fiscal Year 2015.

## Economic Trends

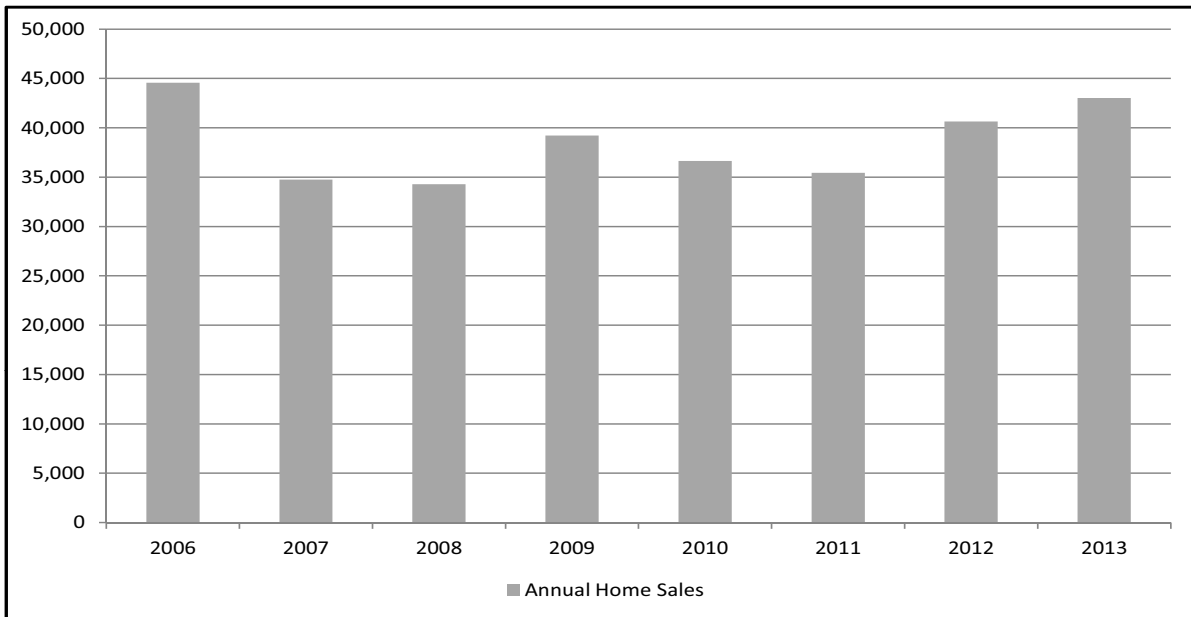
While the local residential housing market continued to experience improvement in Fiscal Year 2014, the growth rate for the Fiscal Year 2015 Adopted Budget is based on the entire calendar year 2013 of market activity due to a lag between the time assessed valuation is set by the County Assessor's Office and property tax revenue is received by the City. Due to this delay, property tax revenue does not fully reflect recent market activity.

The economic recession that began late in calendar year 2007 had a significant negative impact on the median home price, home sales, and foreclosures leading to a decline in property tax revenue. However, following the recession, all of these indicators have improved. Countywide foreclosures in calendar year 2013 totaled 3,236, a decline of 55.0 percent over the prior twelve month period total of 7,195. Notices of default totaled 7,614 over the same time period, a decline of 54.1 percent from 16,597, indicating that future foreclosure levels are expected to be lower in Fiscal Year 2015, which would increase property tax revenue collection rates. Home sales in San Diego County increased in calendar year 2013, as the County recorded 43,031 sales, a 5.9 percent increase over the calendar year 2012 home sales total of 40,644. 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. The median countywide home price for calendar year 2013 was \$413,198, which is an increase of 18.7 percent from the calendar year 2012 median home price of \$348,202. It is anticipated that the median home price in the City of San Diego will continue to improve during Fiscal Year 2015 as the number of foreclosed properties continues to decrease.

The California Consumer Price Index (CCPI) plays an important part in the assessed valuation of properties that do not sell within a given year. As previously stated, 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 CCPI as of October 2013 was 242.633, a 0.5 percent increase over the October 2012 CCPI of 241.537. Although the increase in October 2013 CCPI is under the maximum allowable 2.0 percent growth, the 5.9 percent increase in home sales and the 18.7 percent in median home price is anticipated to drive the growth in assessed valuation, leading to the projected increase in the Fiscal Year 2015 property tax budget.

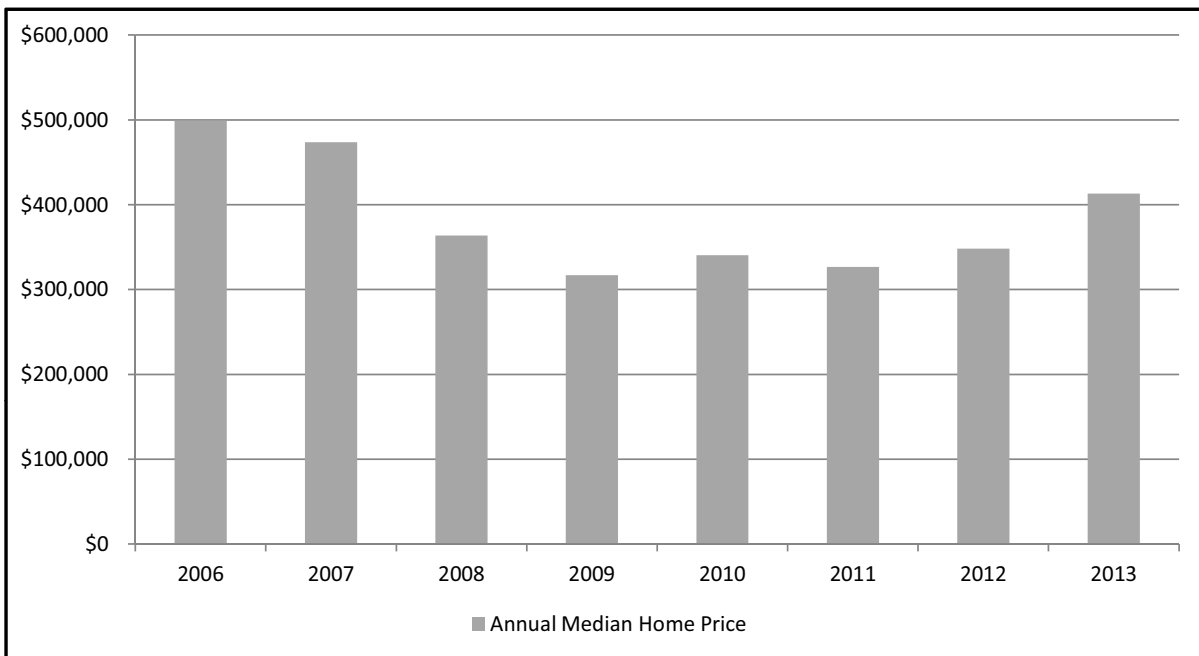
# General Fund Revenues

**Figure 6: San Diego County Home Sales (calendar year)**



Source: DataQuick Information Systems

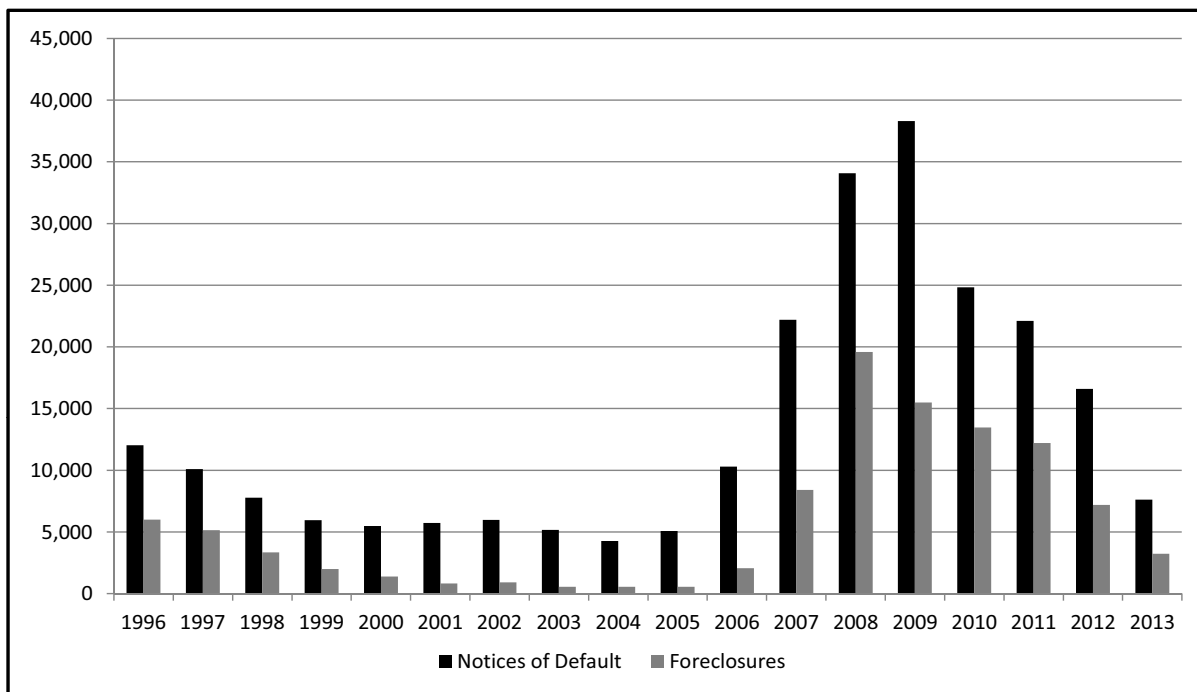
**Figure 7: San Diego County Annual Median Home Price (calendar year)**



Source: DataQuick Information Systems

# General Fund Revenues

**Figure 8: San Diego Home Foreclosures (calendar year)**



Source: San Diego County Assessor/Recorder/County Clerk

In addition to the continued steady growth of the local residential real estate market, the local commercial real estate market is showing signs of improvement as well. According to CB Richard Ellis, average leasing rates in the San Diego office market increased for the sixth time in the last eight quarters from \$2.30 per sq. ft. in fourth quarter 2013 to \$2.39 per sq. ft. in first quarter 2014. The industrial market vacancy rate continues to decrease from the high of 11.7 percent in first quarter 2011 and is currently 7.4 percent in first quarter 2014. San Diego's retail market is also showing improvement as well with the average leasing rate at \$1.80 per sq. ft. in first quarter 2014, up from \$1.75 per sq. ft. in fourth quarter 2013. The vacancy rate in the retail market decreased from 6.9 percent in fourth quarter 2013 to 6.6 percent in first quarter 2014.

While unemployment levels remain above historical levels, there has been modest improvement, which has contributed to the growth in the local real estate market. San Diego's unemployment rate decreased to 5.8 percent as of May 2014, an improvement of 5.1 percent from the January 2010 high of 10.9 percent. The State of California's unemployment rate was 7.1 percent as of May 2014.

## Fiscal Year 2015 Adopted Budget

The Fiscal Year 2015 Adopted Budget for property tax is \$445.4 million, which assumes 5.1 percent growth for the base property tax (Proposition 13) and "in-lieu of motor vehicle license fee" payment. The \$445.4 million property tax budget consists of an estimated \$314.3 million in base property tax (Proposition 13), \$114.0 million "in-lieu of motor vehicle license fee" payment, \$4.2 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA), and \$12.9 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

# General Fund Revenues

share of funds remaining in the Redevelopment Property Tax Trust Fund (RPTTF) after ROPS requirements have been met.

The 5.1 percent growth rate projected for Property Tax in Fiscal Year 2015 is based on strong home sales, increases in the median home price, a positive 0.5 percent increase in California CPI in calendar year 2013, and less foreclosures. This positive growth rate is also attributed an increase in Proposition 8 assessed valuation restorations and a projected decrease in property tax refunds related to an anticipated reduction in the number of property value reassessments during Fiscal Year 2015.

**Table 3: Fiscal Year 2015 Adopted Property Tax Budget**

	(in millions)	
Base Property Tax	\$	314.3
Property Tax "In-Lieu" of MVLFF		114.0
Tax Sharing Distribution		4.2
Residual Tax Sharing		12.9
<b>Total Property Tax</b>	<b>\$</b>	<b>445.4</b>

## Sales Tax

### Background

Sales tax is the City's second largest General Fund revenue source, representing 21.6 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.

**Total City Budget**  
**\$287.1 million**

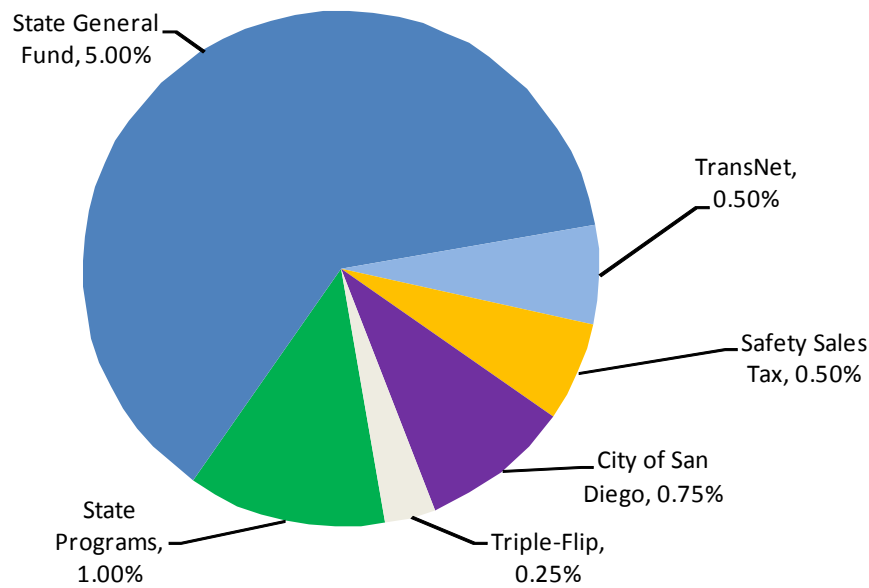
**General Fund Budget**  
**\$257.1 million**

**Percent of General Fund**  
**21.6 percent**

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, Temporary Taxes to Fund Education. TransNet was implemented in 1987 to fund the San Diego Transportation Improvement Program for the maintenance, construction, and expansion of roads and bridges. The TransNet Extension Ordinance and Expenditure Plan, which went into effect April 2008, renewed the half-cent obligation for an additional 40-year term. Additionally, the total citywide sales tax rate includes a half-cent tax approved by California voters in 1993 for the purpose of funding local public safety expenditures. The revenue from this half-cent sales tax, known as the safety sales tax, is discussed in the following section. 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.

# General Fund Revenues

**Figure 9: City of San Diego Sales Tax Rate (8.0 percent)**



Source: State Board of Equalization

## Economic Trends

The City of San Diego recognized a steady increase in sales tax revenue throughout Fiscal Year 2013 and this continued through the third quarter of Fiscal Year 2014. As shown in Table 4: City of San Diego Calendar Year Sales Tax Revenue, which displays revenue for the first quarter of Calendar Year 2014 compared to the first quarter of Calendar Year 2013, moderate growth in the auto and transportation, building and construction, business and industry, and restaurants and hotels sectors offsets slight declines in the food and drugs, fuel and service stations, and general consumer goods sectors indicating overall positive growth in consumer spending.

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

Economic Category	First Quarter 2013	First Quarter 2014	% Change
Autos and Transportation	\$ 7.0	\$ 7.5	7.4%
Building and Construction	\$ 3.4	\$ 3.7	7.5%
Business and Industry	\$ 8.1	\$ 8.3	2.5%
Food and Drugs	\$ 2.9	\$ 2.9	-0.3%
Fuel and Service Stations	\$ 5.9	\$ 5.8	-1.3%
General Consumer Goods	\$ 13.5	\$ 13.3	-1.4%
Restaurants and Hotel	\$ 9.0	\$ 9.5	5.7%

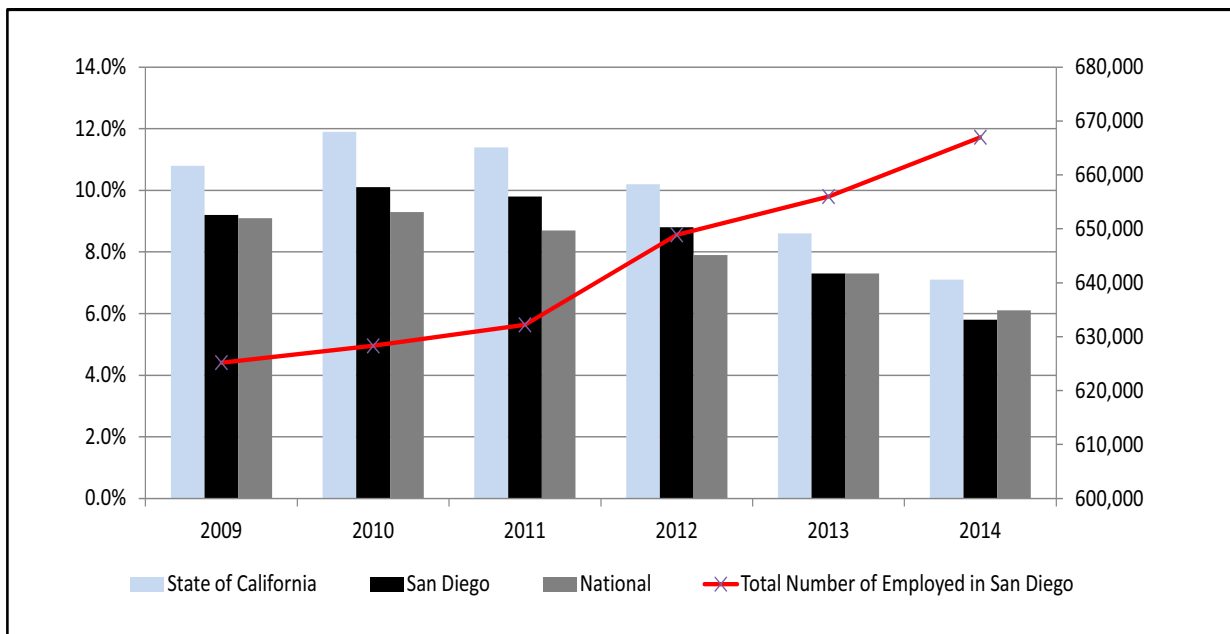
Source: HdL Companies

The City's sales tax consultant indicated consumer spending increased from the previous quarters which stimulated the economy and resulted in moderate growth in the third quarter of Fiscal Year 2014. Based on current trends, it is projected that spending will continue to grow into Fiscal Year 2015 with taxable sales increasing in the areas of new auto sales and construction.

# General Fund Revenues

According to the most recent forecast (May 2014) from the State Board of Equalization, statewide taxable sales were forecasted to have an average growth rate of 5.5 percent in the last quarter of Fiscal Year 2014. The UCLA Anderson Forecast projects average growth of 4.8 percent in taxable sales for California in Fiscal Year 2015. The National Retail Federation forecasts a 4.1 percent increase in retail sales for calendar year 2014, taking into account the effect of job growth, income growth, and modest recovery in home prices on the economy. Despite the State's and UCLA Anderson's forecasts of statewide taxable sales, the City is forecasting a moderate 4.5 percent growth rate for Fiscal Year 2015 based on a recent stabilizing in the growth of income and employment. In May 2014, the California Employment Development Department reported San Diego's unemployment rate at 5.8 percent and the State of California's unemployment rate at 7.1 percent, as shown in **Figure 10: Unemployment Rates (May 2014)**. The City of San Diego's unemployment rate is slightly better than the national unemployment rate of 6.1 percent as of May 2014.

**Figure 10: Unemployment Rates (May 2014)**



Source: State of California, Employment Development Department

## Fiscal Year 2015 Adopted Budget

The Fiscal Year 2015 adopted sales tax budget of \$257.1 million is based on the Fiscal Year 2014 year-end projection and assumes 4.5 percent growth for Fiscal Year 2015. The Fiscal Year 2015 Adopted Budget for sales tax revenue also includes the property tax reimbursement that the City receives as a result of the triple-flip (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 the end of Fiscal Year 2015.

# General Fund Revenues

**Table 5: Fiscal Year 2015 Adopted Sales Tax Budget**

	(in millions)	
Sales Tax Revenue		190.4
Triple Flip Property Tax Reimbursement		66.7
<b>Total Sales Tax</b>	<b>\$</b>	<b>257.1</b>

According to the University of San Diego Index of Leading Economic Indicators, consumer confidence has grown throughout the economic recovery and remained steady during calendar year 2013 despite weak growth in income and employment. In order to continue to generate increased sales tax revenues in the future, there must be continued improvement in job growth which in turn will support further increases in consumer confidence. This is another indicator being monitored and factored into the moderate 4.5 percent growth rate assumed in the Fiscal Year 2015 Adopted Budget.

## Safety Sales Taxes

### Background

Safety sales tax revenue is derived from a half-cent sales tax resulting from the enactment of Proposition 172 in 1993. 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. California Government Code Section 30051 requires each County Auditor to allocate the revenues in each County's Public Safety Augmentation Fund to the county and each city in that county based on their proportionate share of net property tax loss due to the Educational Augmentation Revenue Funds (ERAF). The City of San Diego receives approximately 3.2 percent from the San Diego County's Public Safety Augmentation Fund on a monthly basis. Neighboring jurisdictions within the County of San Diego collectively receive approximately 2.5 percent, and the remaining 94.4 percent is retained by the County to support region-wide public safety services provided by the County Sheriff, the District Attorney, and Probation.

**Total City Budget  
\$8.7 million**

**General Fund Budget  
\$7.3 million**

**Percent of General Fund  
0.6 percent**

In an effort to increase transparency, the City created the Public Safety Needs and Debt Service Fund 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 2015 Adopted Budget

Safety sales tax revenue is budgeted and collected in the special revenue fund, Public Safety Needs and Debt Service. The Fiscal Year 2015 Adopted Budget for safety sales tax of \$8.7 million is based



# General Fund Revenues

on the Fiscal Year 2014 year-end projection and assumes a 4.5 percent growth rate for Fiscal Year 2015. In Fiscal Year 2015, approximately \$1.4 million will be allocated to the Fire and Lifeguard Facilities Fund for debt service payments on facility improvements, while the remaining \$7.3 million will be equally distributed between the Police and Fire-Rescue Departments' budgets to support public safety needs.

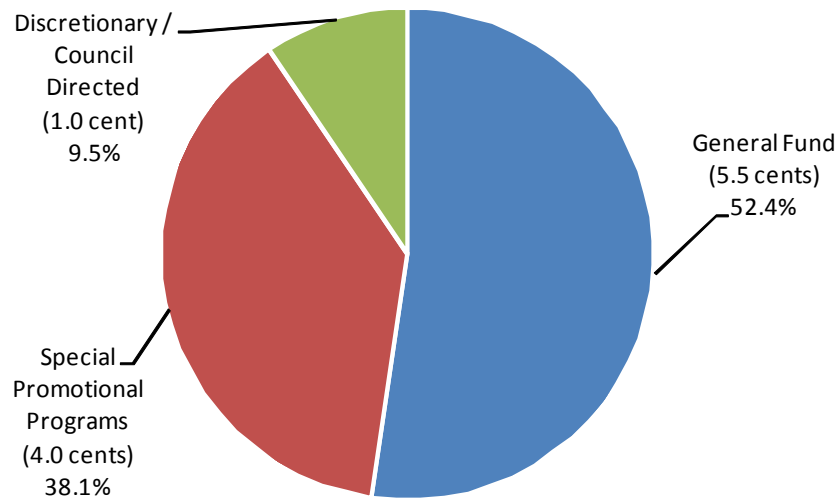
## General Fund Transient Occupancy Tax (TOT)

### Background

Transient occupancy tax (TOT) makes up 7.8 percent of the General Fund revenue budget and is levied at 10.5 cents per dollar of the daily room price of hotels, motels, and vacation rentals in which the transient's stay is 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 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.

<b>Total City Budget</b> \$176.3 million
<b>General Fund Budget</b> \$92.3 million
<b>Percent of General Fund</b> 7.8 percent

**Figure 11: City of San Diego Transient Occupancy Tax Allocation**



### Economic Trends

Locally, tourism has performed well in Fiscal Year 2014, however growth in overnight visits to San Diego slowed in the first half of Fiscal Year 2014 when compared to the same period in Fiscal Year 2013. Although visitor trends are expected to continue growing through calendar years 2014 and 2015, the increase is projected at a slower pace, according to the December 2013 Quarterly Travel Forecast from the San Diego Tourism Authority (SDTA). In addition, San Diego tourism growth in the second half of Fiscal Year 2014 exceeded expectations indicating a stronger peak season which is projected to carry onto the first quarter of Fiscal Year 2015. Reinstatement of Tourism Marketing District (TMD) funds to the SDTA for promoting San Diego occurred in December of 2013.

Overall, visitor growth in the San Diego region during calendar years 2014 and 2015 is projected at 1.6 percent and 2.1 percent, respectively, with overnight visitor growth of 2.1 percent and 1.7 percent

## General Fund Revenues

during the same periods. Growth in room demand is projected to be 2.8 percent and 2.3 percent for calendar years 2014 and 2015, respectively. Very little expansion in room supply occurred during the economic 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 \$140.36 for calendar year 2014, a 4.0 percent increase over calendar year 2013, and \$146.38 in calendar year 2015, an increase of 4.3 percent over calendar year 2014 projections. The overall hotel occupancy rate is anticipated to increase to 72.4 percent in calendar year 2014 from 71.5 percent in calendar year 2013. Total occupancy is projected to increase to 73.6 percent in calendar year 2015.

San Diego hotels total approximately 464 with nearly 56,629 hotel rooms of which 40,125 are part of the TMD. Approximately 995 new hotel rooms are expected to be added within the City limits by the end of calendar year 2015. This includes four and five star hotels with 269 rooms to be completed in 2014 and an additional 726 rooms to be completed in 2015. In addition to expansion in hotel rooms, the planned Convention Center Phase III expansion project is anticipated to generate additional TOT and sales tax revenue upon completion in Fiscal Year 2019.

**Table 6** illustrates hotel performance in San Diego since calendar year 2011 and projections for calendar years 2014 and 2015.

**Table 6: 2011 - 2015 San Diego County Tourism**

<b>San Diego County Visitor Industry</b>					
	<b>CY 2011</b>	<b>CY 2012</b>	<b>CY 2013</b>	<b>CY 2014<sup>1</sup></b>	<b>CY 2015<sup>1</sup></b>
<b>Visitors</b>					
Total Visits (millions)	31.1	32.3	33.0	33.5	34.2
Overnight Visits (millions)	15.8	16.1	16.4	16.8	17.1
<b>Hotel Sector</b>					
Avg. Occupancy	68.7%	70.5%	71.5%	72.4%	73.6%
Avg. Daily Rate	\$ 125.59	\$131.22	\$ 135.02	\$140.36	\$ 146.38
Rev PAR <sup>2</sup>	\$ 86.27	\$ 92.56	\$ 96.50	\$101.68	\$ 107.69
Room Demand (growth)	3.7%	2.9%	2.2%	2.8%	2.3%

Source: San Diego Tourism Authority and Tourism Economics

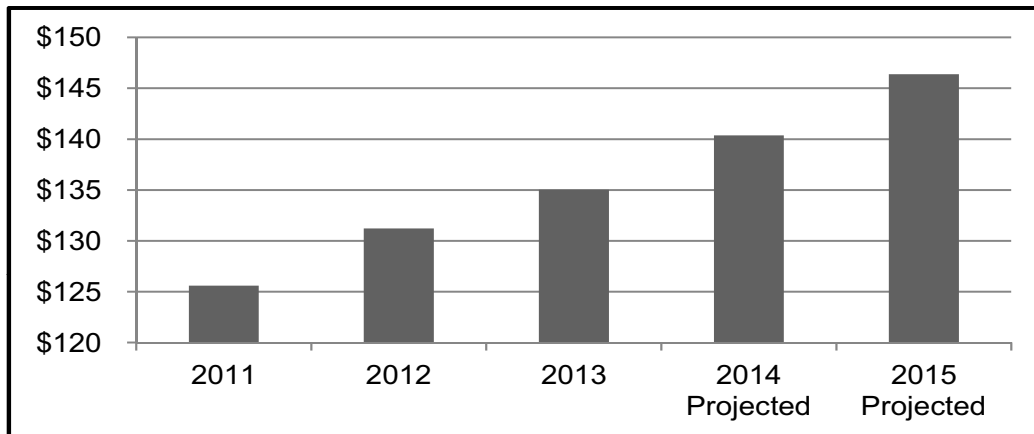
<sup>1</sup> Forecast - Tourism Economics, December 2013

<sup>2</sup> Revenue Per Available Room (Average Occupancy multiplied by Average Daily Rate)

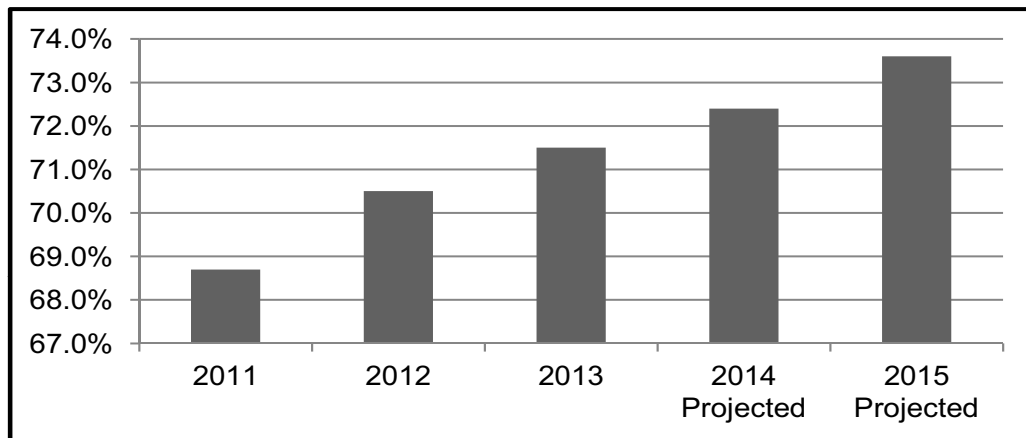
**Figure 11 and Figure 12** illustrate hotel Average Daily Rates and hotel Occupancy rates, respectively, in San Diego since calendar year 2011 and projections for calendar years 2014 and 2015.

# General Fund Revenues

**Figure 12: San Diego Hotel Average Daily Rate (calendar year)**



**Figure 13: San Diego Hotel Occupancy Rate (calendar year)**



## Fiscal Year 2015 Adopted Budget

The Fiscal Year 2015 total transient occupancy tax budget for the City of San Diego is \$176.3 million, which incorporates a 5.5 percent growth rate over the Fiscal Year 2014 year-end projection. Of the \$176.3 million, \$92.3 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 2014 and into 2015.

# General Fund Revenues

## Property Transfer Tax

### Background

Property transfer tax makes up 0.8 percent of the General Fund revenue budget and is levied on the sale of real property. The County of San Diego collects \$1.10 per \$1,000 of the sale price when any real property is sold. The City is credited \$0.55 per \$1,000 against the County's charge, giving both the County and City each \$0.55 per \$1,000 of the sale price. The funds are collected by the County upon a sale of real property within City limits and transferred to the City on a monthly basis.

<b>Total City Budget</b> <b>\$9.2 million</b>
<b>General Fund Budget</b> <b>\$9.2 million</b>
<b>Percent of General Fund</b> <b>0.8 percent</b>

### Economic Trends

The Fiscal Year 2015 Adopted Budget for property transfer tax reflects the market conditions and trends from the most recently available economic data. In the twelve month period ending May 2014, home sales in San Diego totaled 40,750 which is a decrease of 4.4 percent from the prior twelve month period total of 42,614. The median countywide home price for May 2014 was \$456,077 which is an increase of 7.93 percent from the May 2013 home price of \$422,578.<sup>1</sup> Foreclosure activity has also decreased 52.1 percent in the twelve month period ending May 2014. The current volume of home sales and home prices greatly influence property transfer tax revenue, therefore, unlike property tax revenue, property transfer tax reflects current economic conditions without a lag time.

### Fiscal Year 2015 Adopted Budget

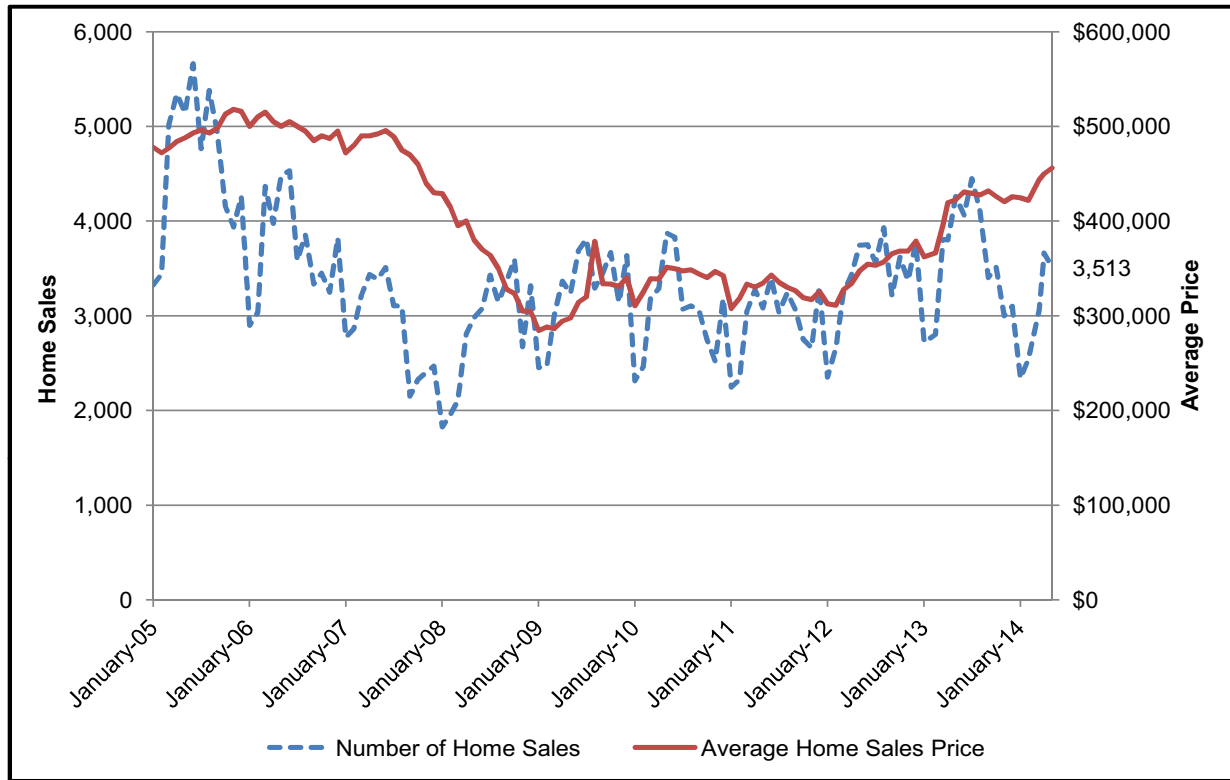
The Fiscal Year 2015 adopted property transfer tax budget of \$9.2 million is based on the Fiscal Year 2014 year-end projection and assumes 11.0 percent growth for Fiscal Year 2015. The positive growth rate is based on anticipated growth in home sales and median home prices.

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<sup>1</sup> DataQuick Information Systems

# General Fund Revenues

Figure 14: San Diego County Home Sales



Source: DataQuick Information Systems

## Franchise Fees

### Background

Franchise fee revenue makes up 6.1 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 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 and cable companies is based on a percentage of gross sales while the revenue received from refuse haulers is based on tonnage.

<b>Total City Budget</b>	<b>\$135.8 million</b>
<b>General Fund Budget</b>	<b>\$72.0 million</b>
<b>Percent of General Fund</b>	<b>6.1 percent</b>

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 as 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.

# General Fund Revenues

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 2015 Adopted Budget

**SAN DIEGO GAS & ELECTRIC.** The Fiscal Year 2015 Adopted Budget for SDG&E franchise fee revenue of \$53.4 million is based on the Fiscal Year 2014 year-end projection and assumes a 2.0 percent growth rate for Fiscal Year 2015. The projected growth rate of 2.0 percent is based on the average growth of actual receipts in previous years.

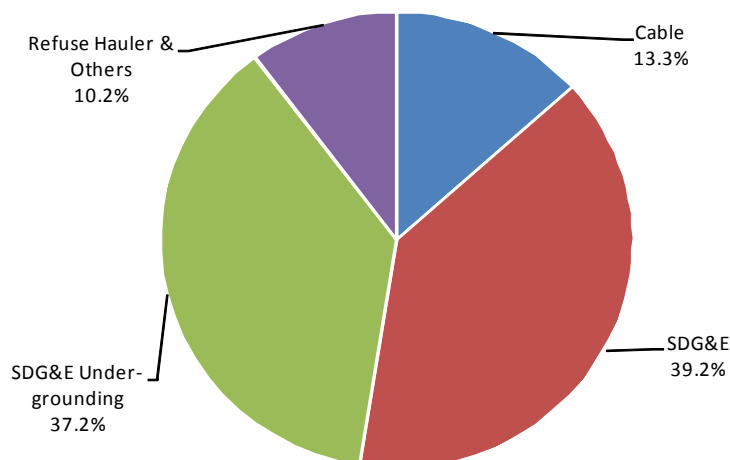
In accordance with the City Charter, 25.0 percent of revenue received from SDG&E, or \$13.3 million, is to be deposited into the Environmental Growth Funds (EGF). One-third of the EGF is used to fund the maintenance of parks; the remaining two-thirds are designated for parkland maintenance and debt service payments for open space acquisitions. With no debt currently outstanding in the EGF, all funds will be utilized for maintenance in Fiscal Year 2015. The remaining revenue balance of approximately \$40.0 million received from SDG&E franchise fees is allocated to the General Fund.

**CABLE COMPANIES.** The Fiscal Year 2015 Adopted Budget for cable franchise fee revenue of \$18.1 million is based on the Fiscal Year 2014 year-end revenue projection and assumes a 3.5 percent growth rate for Fiscal Year 2015. The projected growth rate of 3.5 percent is based on the average growth of actual receipts in previous years.

**REFUSE HAULERS AND OTHER FRANCHISES.** The Fiscal Year 2015 Adopted Budget for refuse hauler franchise fee revenue from private refuse haulers is \$9.5 million, an increase of \$0.1 million over the Fiscal Year 2014 year-end revenue projection. The City also anticipates an additional \$3.0 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 2015 Adopted Budget for SDG&E undergrounding utility fee revenue of \$50.7 million is based on the current Fiscal Year 2014 year-end revenue projection and assumes a 2.0 percent growth rate for Fiscal Year 2015. This revenue is budgeted in the Underground Surcharge Fund.

**Figure 15: Franchise Fee Revenue Breakdown**



# General Fund Revenues

## Licenses and Permits

### Background

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

### Fiscal Year 2015 Adopted Budget

The Fiscal Year 2015 Adopted Budget for licenses and permits is \$24.5 million or 2.1 percent of the General Fund revenue budget. The Fiscal Year 2015 Adopted Budget is also \$7.4 million or 23.1 percent less than the Fiscal Year 2014 Adopted Budget. The primary reason for the decrease in revenue is an \$8.4 million decrease related to the restructure of the Parking Meter Operations out of the General Fund and into a special revenue fund. The decrease is offset by a \$0.3 million increase in rental tax as a result of increased compliance and improved billing, and a \$0.4 million increase to General Plan Maintenance Fee revenue.

**Total City Budget**  
**\$65.6 million**

**General Fund Budget**  
**\$24.5 million**

**Percent of General Fund**  
**2.1 percent**

## Fines, Forfeitures, and Penalties

### Background

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

### Fiscal Year 2015 Adopted Budget

The Fiscal Year 2015 Adopted Budget for fines, forfeitures, and penalties revenue is \$28.9 million or 2.4 percent of the General Fund revenue budget. The adopted budget is also \$0.4 million or 1.4 percent less than the Fiscal Year 2014 Adopted Budget.

**Total City Budget**  
**\$30.7 million**

**General Fund Budget**  
**\$28.9 million**

**Percent of General Fund**  
**2.4 percent**

The decrease in the Fiscal Year 2015 Adopted Budget for fines, forfeitures, and penalties is primarily due to a \$1.4 million decrease in projected civil litigation award revenue and a \$0.8 million decrease in red light citation revenue as a result of the discontinuation of the City's red light camera program. The decrease is offset by a \$1.5 million increase to Police and Transportation & Storm Water parking citation revenue to match Fiscal Year 2014 trends and a \$0.4 million increase in collection referral revenue due to the implementation of the DMV/Collection Referral Fee project.

# General Fund Revenues

## Revenue from Money and Property

### Rents and Concessions

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.

<b>Total City Budget</b> <b>\$67.9 million</b>
<b>General Fund Budget</b> <b>\$45.9 million</b>
<b>Percent of General Fund</b> <b>3.9 percent</b>

The threshold amount of Mission Bay rents and concession revenues that is to be placed into the General Fund for use in any municipal purpose without restriction is set by the City Charter at \$20.0 million in Fiscal Year 2015. Per the City Charter, this threshold amount was reduced from \$23.0 million starting this fiscal year. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Park Improvements Fund and the Mission Bay Improvements Fund. The San Diego Regional Park Improvements Fund is to receive 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 2015 Adopted Budget

The Fiscal Year 2015 Adopted Budget for rents and concessions revenue is \$45.9 million or 3.9 percent of the General Fund revenue budget. This represents a \$1.8 million or 4.2 percent increase from the Fiscal Year 2014 Adopted Budget. The positive increase in revenue is primarily attributable to increased revenue generated from rents and concessions from Mission Bay Park of \$1.4 million.

Mission Bay Park rents and concessions are projected to generate \$30.0 million in Fiscal Year 2015, as compared to the Fiscal Year 2014 Adopted Budget of \$28.6 million, which is an increase of \$1.4 million. In Fiscal Year 2015, pursuant to the City Charter, the excess above the threshold of \$20.0 million will be budgeted in the San Diego Regional Park Improvements Fund and Mission Bay Improvements Fund in the amounts of \$2.5 million and \$7.5 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 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 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 strengthened.



# General Fund Revenues

The Federal Open Market Committee (FOMC) has stated; "In determining how long to maintain the current 0 to 1/4 percent target range for the federal funds rate, the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation."

Federal Reserve Chairperson, Janet Yellen, has remained committed to continuing a highly accommodative monetary policy, which means shorter-term interest rates should remain low through much of Fiscal Year 2015. However, the Federal Reserve has been reducing its bond purchases and is on pace to stop completely by the Fall of 2014, which may lead to higher interest rates, at least on the longer end of the yield curve.

## Interest Earnings Outlook

Continued easy monetary policy and low inflation should result in low interest earnings for Fiscal Year 2015 before gradually rising in future fiscal years. 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.

## Motor Vehicle License Fees

### Background

Motor vehicle license fees (MVLFF) 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 2015 Adopted Budget

The Fiscal Year 2015 Adopted Budget does not include a budget for motor vehicle license fees due to the elimination of MVLFF allocations to cities as the result of the adoption of State Bill 89 passed in June 2011; however, the City has continued to receive excess MVLFF revenue generated from penalties and interest on passed due motor vehicle license fees.

**Total City Budget**  
**\$0.0 million**

**General Fund Budget**  
**\$0.0 million**

**Percent of General Fund**  
**0.0 percent**

## Revenue from Federal & Other Agencies

### Background

Revenue from federal and other agencies includes federal grants and reimbursements for City services such as court crime lab revenue, urban search and rescue, service level agreements, and unbudgeted cost reimbursements.

### Fiscal Year 2015 Adopted Budget

The Fiscal Year 2015 Adopted Budget for revenue from federal and other agencies is \$9.5 million or 0.8 percent of the General Fund revenue budget. This represents an approximate \$0.6 million or 7.3 percent increase from the Fiscal Year 2014 Adopted Budget. The net revenue increase from the Fiscal Year 2014 Adopted Budget to the Fiscal Year 2015 Adopted Budget is primarily attributable to an increase of \$0.3 million in reimbursement revenue to the Fire-Rescue Department for Urban Search and Rescue, and an increase of \$0.2 million due to the redistribution of revenue within the City Attorney's Office.

**Total City Budget**  
**\$54.1 million**

**General Fund Budget**  
**\$9.5 million**

**Percent of General Fund**  
**0.8 percent**

# General Fund Revenues

## Charges for Current Services

### Background

Charges for current services revenue is generated by payments for services provided to the public and other City funds. The City's General Fund pays for basic City services such as public safety, parks, and libraries. In addition, the City allocates the costs associated with central service departments, such as the City Auditor, 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.

<b>Total City Budget</b> <b>\$1,218.7 million</b>
<b>General Fund Budget</b> <b>\$120.7 million</b>
<b>Percent of General Fund</b> <b>10.2 percent</b>

### Fiscal Year 2015 Adopted Budget

The Fiscal Year 2015 Adopted Budget for charges for current services revenue is \$120.7 million or 10.2 percent of the General Fund revenue budget. This represents a net decrease of \$56.0 million or 31.7 percent from the Fiscal Year 2014 Adopted Budget primarily due to a decrease of \$56.5 million related to a restructure of the Engineering and Capital Projects Department out of the General Fund and into an internal service fund.

## Other Financial Sources & Uses

### Background

The Other Financial Sources & Uses revenue category includes revenues received by the General Fund from other non-general funds such as the transient occupancy tax (TOT) 1.0 cent transfer, safety sales tax transfer, and gas tax revenue.

<b>Total City Budget</b> <b>\$187.6 million</b>
<b>General Fund Budget</b> <b>\$77.1 million</b>
<b>Percent of General Fund</b> <b>6.5 percent</b>

### Fiscal Year 2015 Adopted Budget

The Fiscal Year 2015 Adopted Budget for other financial sources & uses revenue is \$77.1 million or 6.5 percent of the General Fund revenue budget. This represents an approximate \$10.0 million or 11.5 percent decrease from the Fiscal Year 2014 Adopted Budget. Other financial sources & uses revenue category is mainly generated from the transfers from other funds. The decrease in transfers from other funds is due to the elimination of one-time revenues consisting of \$12.9 million related to the SDG&E wildfire settlement, and \$4.4 million from tobacco securitized revenue. Partially offsetting the one-time revenue decreases is an increase of \$5.3 million attributed to a re-categorization of revenue in the Emergency Medical Services (EMS) transfer to the General Fund and a \$2.2 million increase in Office of Homeland Security (OHS) disaster recovery revenue. Additionally, there is a \$0.5 million increase within the Park & Recreation Department primarily due to a one-time revenue transfer of fund balance from the Antenna Lease Fund. Lastly, the Fiscal Year 2015 Adopted Budget includes \$0.5 million in reimbursements from Convention Center Phase III CIP bond proceeds.

# General Fund Revenues

## Other Revenue

### Fiscal Year 2015 Adopted Budget

The Fiscal Year 2015 Adopted Budget for other revenue is \$4.4 million or 0.4 percent of the General Fund revenue budget. This represents an approximate \$0.3 million or a 6.9 percent decrease from the Fiscal Year 2014 Adopted Budget. Other revenue is composed of library donations, ambulance fuel reimbursements, corporate sponsorships, recovery from damages to City property and other miscellaneous revenues. The decrease in revenue is mainly attributable to anticipated decreases in revenue generated from library donations, reimbursements, and refunds.

<b>Total City Budget</b> <b>\$19.8 million</b>
<b>General Fund Budget</b> <b>\$4.4 million</b>
<b>Percent of General Fund</b> <b>0.4 percent</b>

## State of California Budget Impacts

On June 20, 2014, Governor Brown signed the 2014-2015 Budget Act appropriating \$156.4 billion, including \$108.0 million in the General Fund. The enacted budget is the largest in the State's history and marks the fourth year in a row that the Legislature passed an on-time and balanced budget. In the Governor's Proposed Budget, the primary focuses of spending increases were education and health and human services. As in the 2014-2015 Governor's Proposed Budget, the 2014-2015 Budget Act increases education spending as a result of increases in Proposition 30 revenues, which implemented temporary increases in personal income and sales taxes to fund the State's Proposition 98 funding requirements for education. Health care is demonstrated as a continued priority by an increase in appropriations to fund expansion of Medi-Cal benefits. No fiscal impact to the City is expected from these State budget actions. Other actions in the 2014-15 Budget Act that will impact the City are described below.

### **Gasoline Taxes**

The Fiscal Year 2015 Adopted Budget includes \$14.4 million to be received in Proposition 42 'replacement revenue'<sup>1</sup> and \$20.1 million in Highway Users Tax Account (HUTA) gas tax. These amounts are projected to decrease by approximately \$4.8 million from Fiscal Year 2014 due to the 3.5 cent reduction in the per gallon excise 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 2014-15 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 potential effects on General Fund revenues and expected cash flows. If necessary, changes to projected revenues included in the Fiscal Year 2015 Adopted Budget due to actions taken by the State will be addressed during the Fiscal Year 2015 budget monitoring process.

### **Abandoned Vehicle Abatement Program**

The Abandoned Vehicle Abatement Program is a State program funded by a \$1 fee collected through annual vehicle registrations. Funds are used for abatement, removal, and disposal of abandoned, wrecked, dismantled, and inoperative vehicles and vehicle parts from private and public property. The program is locally administered by the San Diego Abandoned Vehicle Abatement

<sup>1</sup> Generated from flat per gallon tax, which replaced the 6.0 percent tax that generated Proposition 42 revenue prior to Fiscal Year 2011.

## General Fund Revenues

(SDAVA) Service Authority, which was established by the County Board of Supervisors and a majority of the incorporated cities within the region. Authority for imposition of the \$1 fee is renewed on a ten-year basis, and collection from San Diego County was scheduled to sunset on April 30, 2012. The SDAVA Service Authority was supportive of a renewal, however SDAVA legal counsel determined that the fee would also require a supermajority voter approval as a result of 2010 Proposition 26. The SDAVA Service Authority decided not to bring the \$1 fee to a vote of the people, and notified the State DMV to discontinue collection. At that time there remained a balance of SDAVA funds that was sufficient to continue support of City of San Diego operations through Fiscal Year 2013. The residual fund balance will be monitored and any remaining funds may be available for use in Fiscal Year 2015.

### ***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 2015 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 XIII B 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 XIII B. 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 XIII B. 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 2014 that established the Tax Appropriations Limit for Fiscal Year 2015 at \$1,929,603,239. Using the Fiscal Year 2015 Proposed Budget and Fiscal Year 2015 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 \$879.0 million, which was \$1,050.6 million lower than the Gann Limit.