The City of SAN DIEGO

FISCAL YEAR
2026

DRAFT BUDGET

MAYOR TODD GLORIA

VOLUME 1
General Fund Revenues

HOUSING | PROTECT & ENRICH | INFRASTRUCTURE | SUSTAINABILITY | PROSPERITY

General Fund Revenues

The Fiscal Year 2026 Draft General Fund revenue budget is $2.15 billion, which represents an increase of $72.1 million, or 3.5 percent, from the Fiscal Year 2025 Adopted Budget. General Fund revenues are comprised of four major revenue sources, and a series of other revenue sources, which are primarily generated by departments. These revenue sources are categorized and listed on the right side of this page and are described in further detail throughout this section of the budget document. Details include background information describing historical trends, economic factors, and methods of development for each revenue source. This information provides insight into the formulation of the Fiscal Year 2026 Draft Budget (Draft Budget) for General Fund revenues, which fund essential City services including police, fire-rescue, homelessness services, library services, transportation, and parks and recreation programs. Volume II of the budget document further details revenues that are generated by departments.

San Diego's Economic Environment

Property Tax

Sales Tax

General Fund Transient Occupancy Tax (TOT)

Franchise Fees

Property Transfer Tax

Licenses and Permits

Fines, Forfeitures, and Penalties

Revenue from Money and Property

Revenue from Federal & Other Agencies

Charges for Current Services

Transfers In

Other Revenue

State of California Budget Impacts

Annual Tax Appropriations Limit (Gann Limit)

Table 1 - Fiscal Year 2026 General Fund Revenue Change illustrates the components of the projected $72.1 million, or 3.5 percent, increase in General Fund revenues from the Fiscal Year 2025 Adopted Budget.

Table 1 - Fiscal Year 2026 General Fund Revenue Change

	Percent Change from FY 2025 Adopted Budget	Change (in millions)
Major Revenues	(0.5%)	$ (7.2)
Other Revenue Sources	13.7%	79.3
Total	**3.5%**	**$ 72.1**

Numbers may not foot due to rounding.

The City's four major General Fund revenue sources are property taxes, sales taxes, transient occupancy taxes (TOT), and franchise fees. These sources account for a total of $1,491.7 million or 69.4 percent of the Fiscal Year 2026 Draft Budget General Fund revenues and are projected to decrease by $7.2 million, or 0.5 percent, from the Fiscal Year 2025 Adopted Budget and represents a decrease of $42.6 million from the $1,534.3 million previously forecasted in the FY 2026-2030 Five-Year Financial Outlook (Outlook). The decrease in major General Fund revenues from the Fiscal Year 2025 Adopted Budget is primarily due to decreases in sales tax revenue of $26.2 million and franchise fee revenue of $17.9 million, partially offset with an increase in property tax revenue of $34.6 million. Fiscal Year 2026 Draft Budget revenues are based on projections included in the Fiscal Year 2025 Mid-Year Budget Monitoring Report (Mid-Year Report), and the most recent economic data available at the time of development.

In addition to increases in the major General Fund revenues, other revenue sources reflect a net increase of $79.3 million, or 13.7 percent. The increase in other revenues is associated with a $33.8 million in revised revenue for homelessness services as a result of the Transient Occupancy Tax (TOT) tax rate increases associated with Measure C; $18.4 million in revised revenue due to parking meter enforcement and new parking meter regulations; $11.3 million increase in parking citation revenue primarily in the Police Department; $11.2 million in a transfer from the Fire/Emergency Medical Services Transport Fund; $11.0

million in new revenue associated with proposed parking fees generated in Balboa Park; $9.1 million in one-time reimbursement revenue to support street resurfacing activities; and $8.1 million in one-time funding from California's Office of Emergency Services. These increases are primarily offset by a decrease of $19.4 million in one-time Fiscal Year 2025 transfers to the General Fund from various non-General Funds and a one-time removal of $6.3 million for the Short-Term Residential Occupancy (STRO) Program budgeted in Fiscal Year 2025, where licenses are valid for two years with fees due at the beginning of January, every two years after applications are submitted and a lottery on those applications occurs. These adjustments are addressed in more detail later in this section.

Table 2 - Fiscal Year 2026 General Fund Revenues displays the Draft Budget for each of the revenue categories in the General Fund, in addition to Fiscal Year 2024 actual revenues and the Fiscal Year 2025 Adopted Budget.

Table 2 - Fiscal Year 2026 General Fund Revenues (in millions)

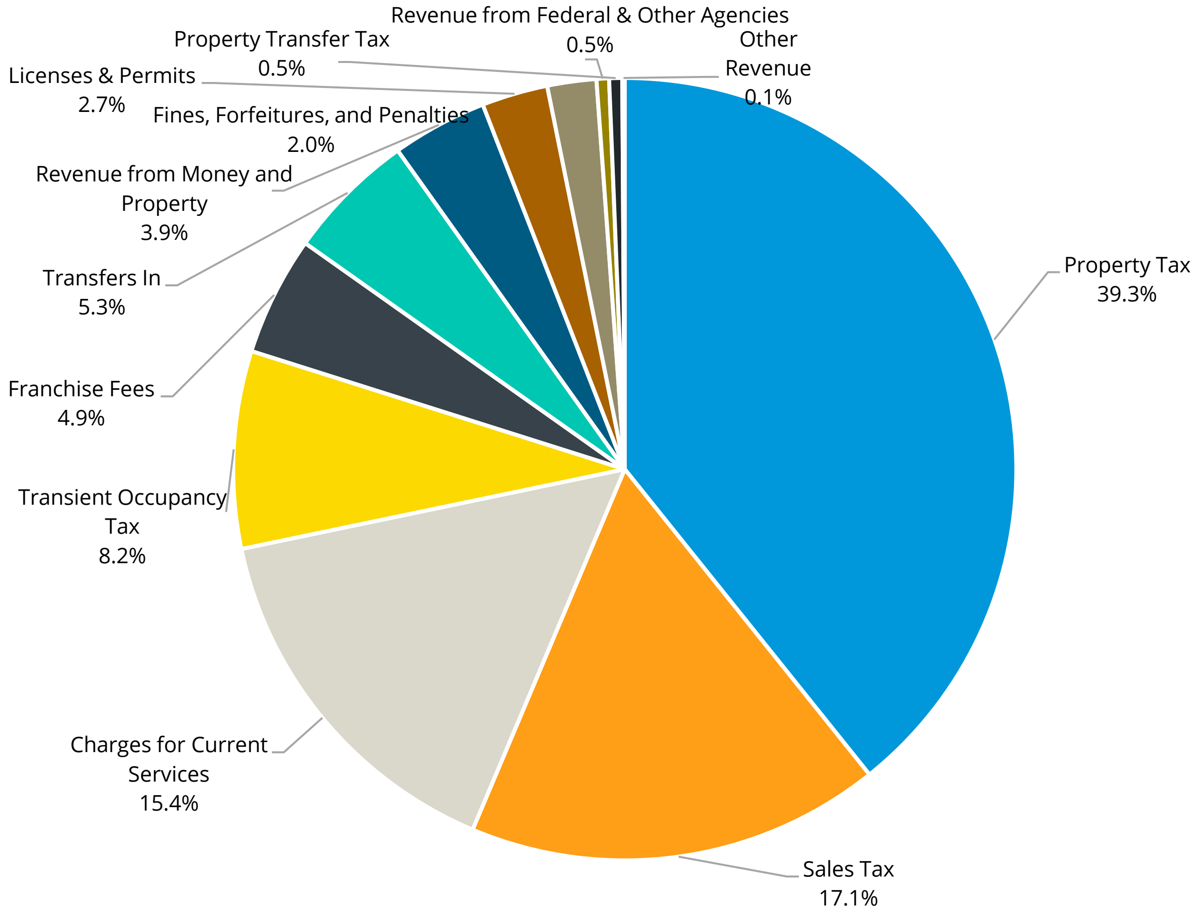
Revenue Category	FY 2024 Actual	FY 2025 Adopted Budget	FY 2026 Draft Budget	FY 2025 - FY 2026 Change	Percent Change[1]	% of Total General Fund Revenue
Property Tax	$ 770.8	$ 808.9	$ 843.4	$ 34.6	4.3%	39.3%
Sales Tax	377.0	393.5	367.3	(26.2)	(6.7%)	17.1%
Transient Occupancy Tax	163.8	172.8	175.2	2.4	1.4%	8.2%
Licenses & Permits	39.3	47.4	58.6	11.2	23.7%	2.7%
Fines, Forfeitures, and Penalties	46.2	31.1	43.4	12.3	39.6%	2.0%
Revenue from Money and Property	75.3	81.8	84.6	2.8	3.4%	3.9%
Revenue from Federal Agencies	0.5	3.5	0.5	(3.0)	(85.0%)	0.0%
Revenue from Other Agencies	11.2	8.7	10.6	1.9	21.9%	0.5%
Charges for Current Services	257.7	281.7	330.4	48.7	17.3%	15.4%
Transfers In	156.7	111.6	114.9	3.3	3.0%	5.3%
Other Revenue	4.3	1.6	2.2	0.5	31.4%	0.1%
Franchise	118.4	123.7	105.8	(17.9)	(14.5%)	4.9%
Property Transfer Taxes	9.6	10.1	11.6	1.5	14.6%	0.5%
Negligent Impound	0.0	0.1	0.0	(0.1)	(100.0%)	0.0%
Total	**$ 2,030.8**	**$ 2,076.5**	**$ 2,148.6**	**$ 72.1**	**3.5%**	**100.0%**

Numbers may not foot due to rounding.

[1] Percent change represents the change from the Fiscal Year 2025 Adopted Budget to the Fiscal Year 2026 Draft Budget. Budgeted growth rates for revenues may differ, as Fiscal Year 2026 Draft Budget amounts are based on updated Fiscal Year 2025 projections.

Changes in local, State, and national economies can impact each of the General Fund revenue sources, and the possible effects on the City's finances in Fiscal Year 2026 are further outlined throughout this section of the budget document. The Department of Finance will continue to monitor economic and financial conditions, incorporate changes as needed, and report significant changes in the Fiscal Year 2026 quarterly budget monitoring reports.

Figure 1 - Fiscal Year 2026 General Fund Revenues - $2.15 Billion



San Diego's Economic Environment[1]

The Fiscal Year 2026 Draft Budget incorporates a stable yet slowing economic outlook that balances the continuing trend of stable key economic indicators, with the uncertainties of future economic policy decisions. Uncertainty in inflation, interest rates, economic policies, and geopolitical conflict results in the slower-paced growth anticipated in Fiscal Year 2026. The Fiscal Year 2026 Draft Budget projects local economic indicators will remain stable with flat growth through Fiscal Year 2026. The overall expectation and projection for the City's revenues, which is further discussed in the sections below, is consistent with information received from the City's consultants at the time the Fiscal Year 2026 Draft Budget was developed, including the City's sales tax consultant, Avenu insights and Analytics; the City's property tax consultant, HdL Coren & Cone; the San Diego Tourism Authority; Tourism Economics—an Oxford Economics Company; the San Diego Tourism and Marketing District; and the UCLA Anderson Forecast.

Compared to the Fiscal Year 2025 Adopted Budget, the Fiscal Year 2026 Draft Budget includes positive, yet slowing growth in two of the four major General Fund revenues—property tax and transient occupancy tax—based on softening local economic indicators. The Draft Budget for property tax assumes a 3.81

[1]The following sources were used in this section: California Employment Development Department, United States Bureau of Labor Statistics, California State Board of Equalization, CoreLogic ®, San Diego County Assessor / Recorder / Clerk's Office, San Diego Association of Governments, United States Bureau of Labor Statistics, S&P Dow Jones Indices LLC, UCLA Anderson Forecast, Tourism Economics, San Diego Tourism Authority, and The Conference Board.

percent growth rate. This projected increase is supported by continued elevated median home prices and stable unemployment rates but is tempered by moderate to low home sales activity and continued elevated interest rates. The Draft Budget for TOT assumes a 3.0 percent growth rate based on a tempered demand for leisure and business travel. In the previous forecasts, business travel was assumed to gradually return to pre-pandemic levels; however, with the anticipation of new federal policies being implemented, forecasted growth for business-related travel has nearly diminished. The Draft Budget for sales tax assumes a negative growth of 0.70 percent. Concerns over inflation persist, causing consumer confidence to shift downwards over the last two consecutive months; although employment and consumer income remain stable. Sales tax revenue has a greater level of uncertainty than the other major revenues. There continues to be a growing concern over the impacts of tariffs implemented by the current presidential administration and the impact to prices on consumer goods. Per the UCLA Anderson Forecast from Spring 2025, inflation is projected to increase over the next year based on the tariffs. The Draft Budget balances these factors with a slightly negative projected growth as consumer spending patterns adjust to inflation. The Draft Budget for Franchise Fee revenues is based on updated Fiscal Year 2025 projections and incorporates no growth rate due to the uncertainty and volatility of electric and gas usage rates and customer demand. SDG&E filed a General Rate Case (GRC) in 2022 for both electricity and gas. After several revisions and additional public forums, the CPUC adopted a decision on the proposed rate increases on December 19, 2024. The decision adopts the revenue requirements for SDG&E for service operation years for 2024 through 2027, with new rates effective February 1, 2025. The development of all four General Fund major revenues, including assumptions, are discussed in further detail later in this section.

To help forecast the major General Fund revenues, the City tracks key economic indicators and uses them to project anticipated growth or contraction and determine growth rates for each revenue source. The main economic drivers that influenced the development of the Fiscal Year 2026 Draft Budget for General Fund revenues include: consumer spending, which is greatly influenced by employment levels and inflation; consumer confidence; and housing market indicators, such as home sales and median home prices.

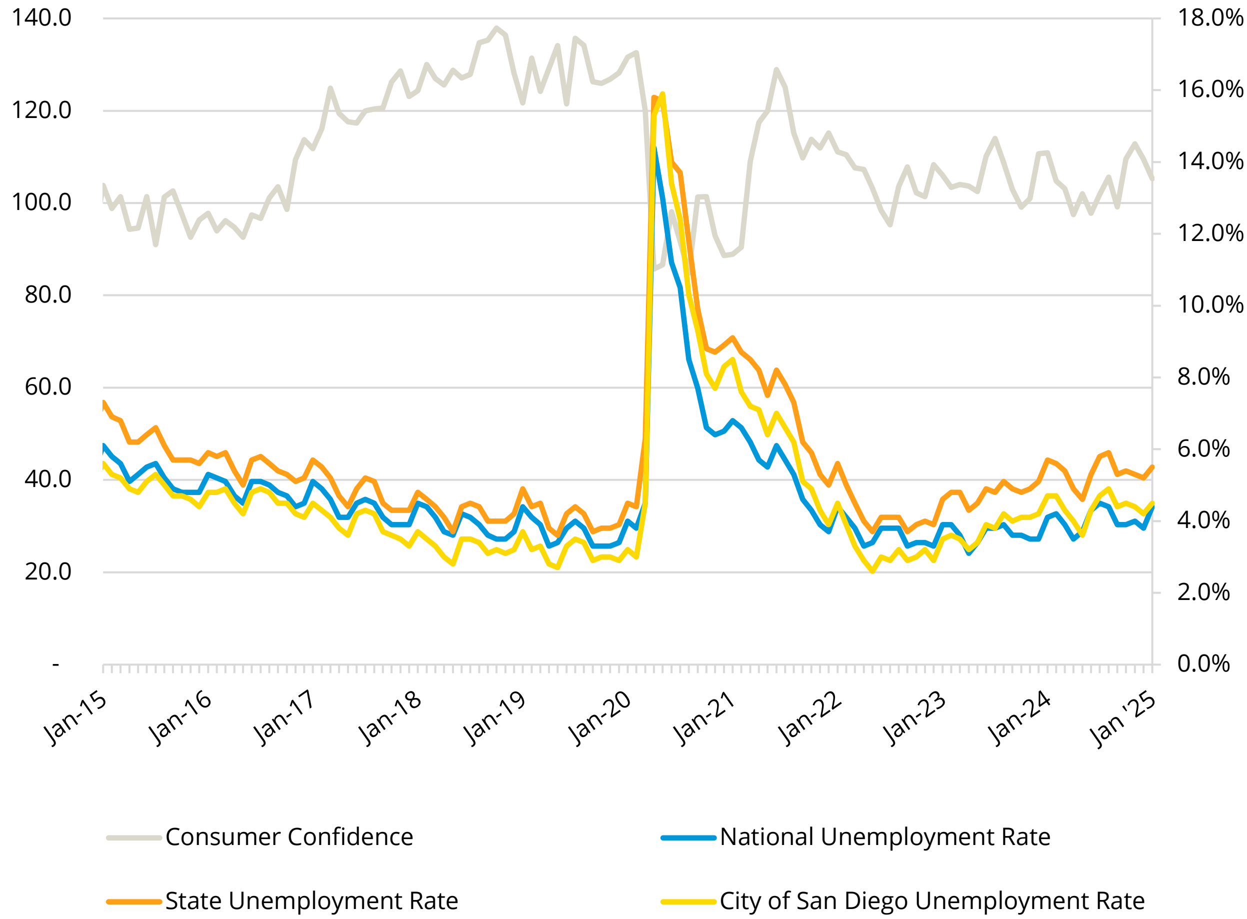
Consumer confidence, a measurement of consumers' willingness to spend, has experienced month-to-month fluctuations. The fluctuations were mainly due to elevated inflation, concerns over a potential recession, and current geopolitical events—all attributing to the pull-back in consumer spending. As of January 2025, consumer confidence was recorded at 105.3, which is a decrease of 5.0 percent from the consumer confidence recorded in January 2024 at 110.9; and a decrease of 3.8 percent from the previous month’s December 2024 consumer confidence, which was recorded at 109.5. Consumer confidence has fluctuated throughout the year, with a more recent consecutive downturn in the last three months.

The unemployment rate for the City of San Diego has remained relatively stable at 4.5 percent in January 2025, which is a decrease of 0.2 percent from the January 2024 unemployment rate of 4.7 percent. The current 4.5 percent unemployment rate continues to reflect a stable job market, which supports the current stable economic forecast. This is consistent with the UCLA Anderson Forecast, which projects the national unemployment rate to “...hit 4.5 percent by the first quarter of 2026 and gradually recover afterwards to 4.0 in 2027."[2]

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

[2] The UCLA Anderson Forecast for the Nation and California. UCLA Anderson Forecast. March 2025. page 15.

Figure 2 - Consumer Confidence and Unemployment

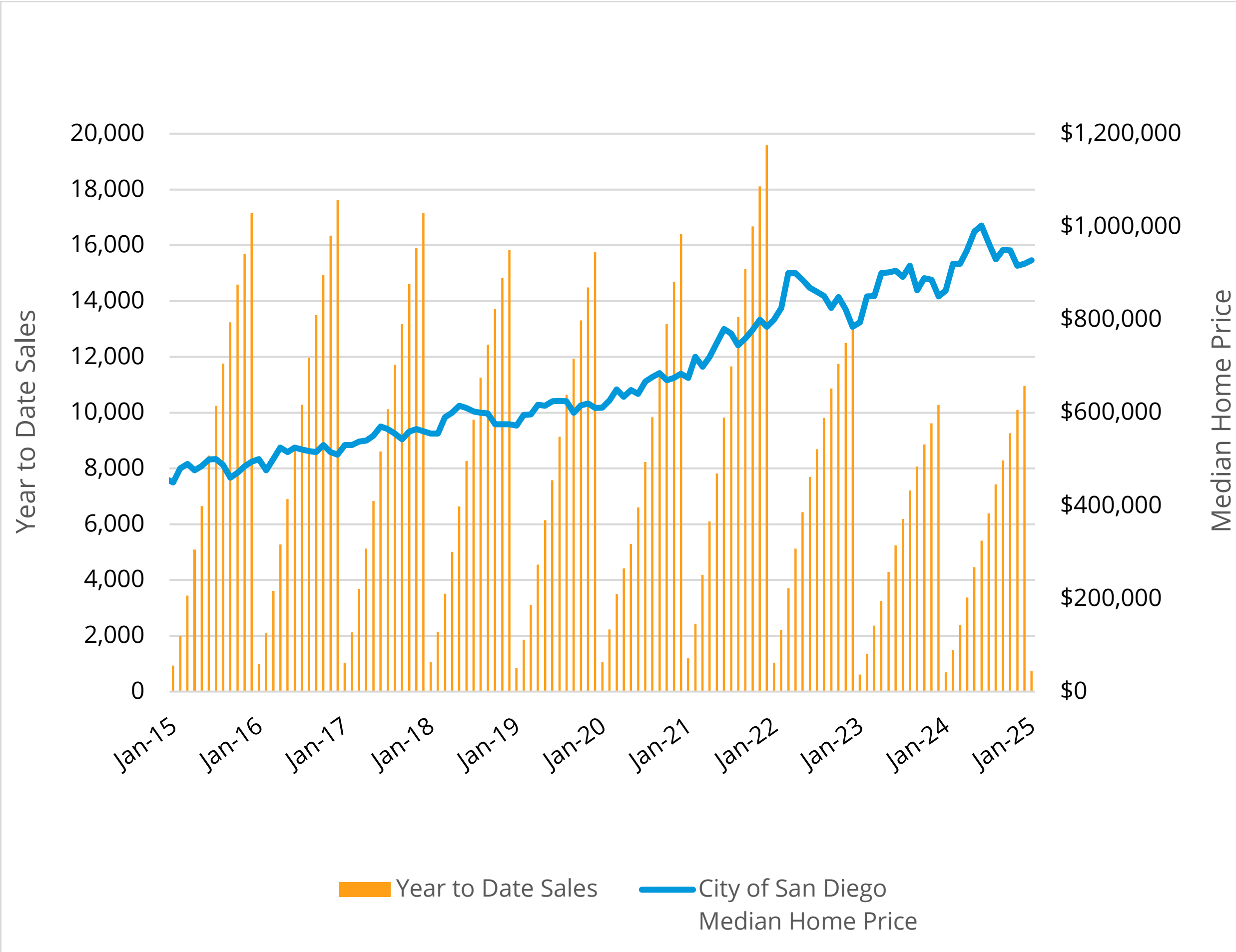


Source: Conference Board, Bureau of Labor Statistics, California Employment Development Department.

The housing market has experienced a slowdown in the number of home sales over the last two years, primarily impacted by mortgage rate increases and low inventory. This activity is expected to impact property tax revenues in Fiscal Year 2026. The slowing in the number of home sales, coupled with sustained elevated median home prices is reflected in the Fiscal Year 2026 Draft Budget. As depicted in **Figure 3 - City of San Diego Monthly Median Home Price and Home Sales** and **Figure 4 - City of San Diego S&P/Case-Shiller Home Price Non-Seasonally Adjusted Index**, citywide median home prices continue to remain elevated. The average 12-month median home price for the period of January 2024 through December 2024 reached $939,521, an increase of 7.4 percent when compared to $874,813 from calendar year 2023. Additionally, the number of home sales in calendar year 2024 was recorded at 10,959, which represents an increase of 6.75 percent when compared to the total home sales of 10,266 in calendar year 2023.

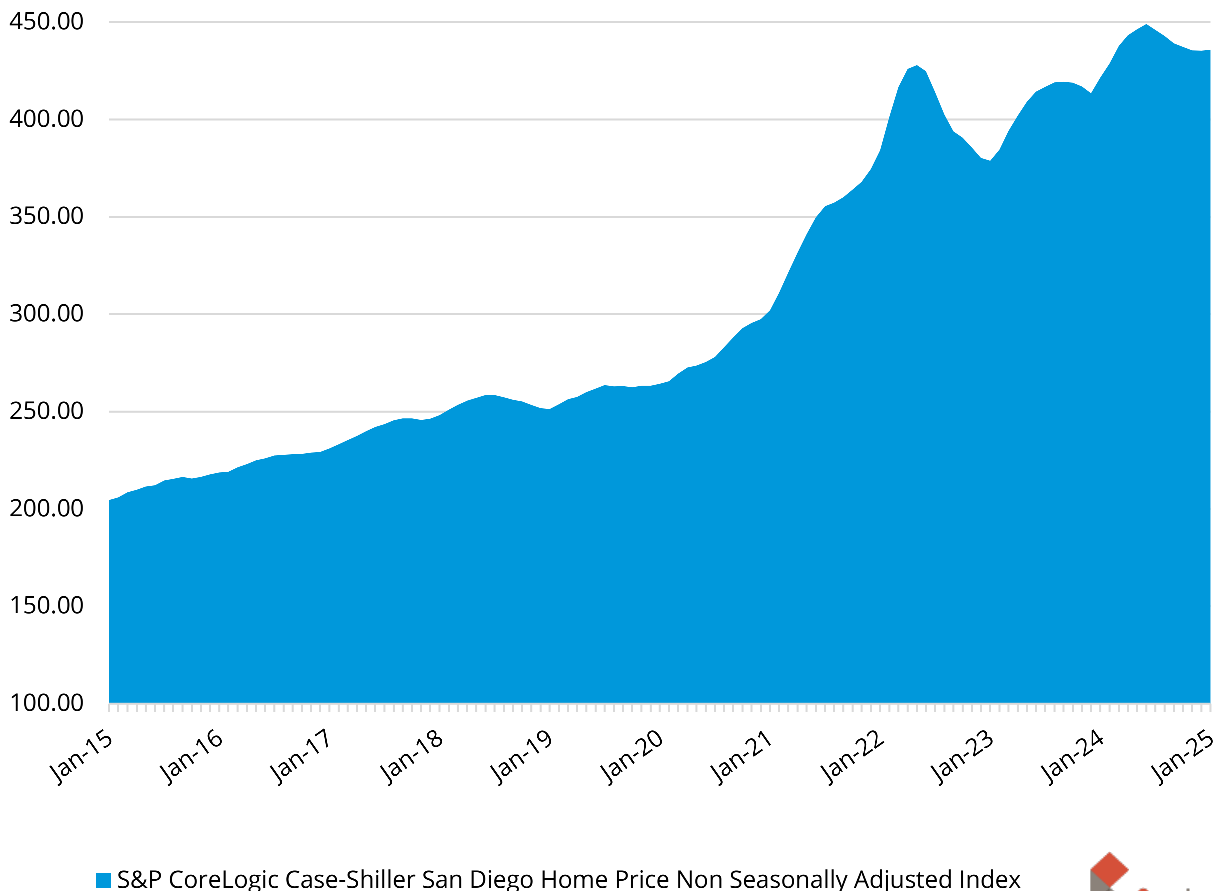
As of the last Federal Open Market Committee (FOMC) meeting held on March 19, 2025, the Federal Reserve decided to hold interest rates steady, at the current 4.25 percent to 4.5 percent range signaling it may be too soon to forecast how the current Presidential administration's trade and fiscal policies will impact the economy. The Department of Finance will continue to monitor these economic indicators and the decisions made by the Federal Reserve to determine the impact to future property tax revenues.

Figure 3 - City of San Diego Monthly Median Home Price and Home Sales



Source: HDLCC ®

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



CoreLogic®

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

Table 3 - Key Economic Indicators reflects economic indicators and assumptions that were used in the preparation of the Fiscal Year 2026 Draft Budget.

Table 3 - Key Economic Indicators

Economic Indicator	January 2024	January 2025
City of San Diego Annual Home Sales[1] (Source: CoreLogic ®)	10,266	10,959
City of San Diego Average Annual Median Home Price[1] (Source: CoreLogic ®)	$874,813	$939,521
S&P/CoreLogic Case-Shiller Home Price NSA Index for the City of San Diego (Source: S&P Dow Jones Indices / CoreLogic ® Case-Shiller)	421.53	435.83
Countywide Foreclosures (12-month) (Source: County of San Diego)	225	258

Countywide Notices of Default (12-month) (Source: County of San Diego)	2,149	1,847
City of San Diego Unemployment Rates (Source: State of California Economic Development Department)	4.7%	4.5%
Consumer Confidence (Source: Conference Board)	110.9	105.3

[1]Represents calendar year 2023 and calendar year 2024 data from January through December.

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

The December 2024 San Diego Travel Forecast, prepared by Tourism Economics for the San Diego Tourism Authority, projects modest growth in the number of visitors to San Diego and room demand associated with continued moderate growth in leisure travel. The Forecast also assumes business travel to slow through calendar year 2025 and remain below pre-pandemic levels and group travel to reach near pre-pandemic levels in calendar year 2026.

According to the Spring 2025 UCLA Anderson Forecast for the Nation, there is still very much uncertainty regarding the future of the economy "as it relates to trade, fiscal policy and geopolitical risks"[3]. Although GDP growth is forecasted to remain stable, the unemployment rate is expected to rise in calendar year 2025, before recovering in calendar year 2027; this is largely associated with the planned mass deportations, which "will raise the prices for the goods that rely on their labor"[4]. The deportation plans can have significant economic consequences in key sectors like agriculture, construction, hospitality, and retail. Much of the economic forecast is dependent on future tariff and economic policies implemented by the current presidential administration. The impact of future tariffs on imported goods, and elevated inflation are projected to restrain economic growth through calendar year 2026.

The Fiscal Year 2026 General Fund Revenues reflect the assumption that economic growth will slow or retract slightly; however, it does not assume there will be a recession in the coming fiscal year. In line with these assumptions, the overall growth rates in the General Fund Revenues reflect a stable yet restrained growth from the prior year. The Department of Finance will continue to monitor economic indicators and expert reports to assess and review the continued economic growth and recovery and will implement necessary revisions to General Fund revenues and report significant changes in the Fiscal Year 2026 quarterly budget monitoring reports.

Property Tax

General Fund Revenue
$843.4 million

Percent of General Fund Revenues
39.5 percent

Background

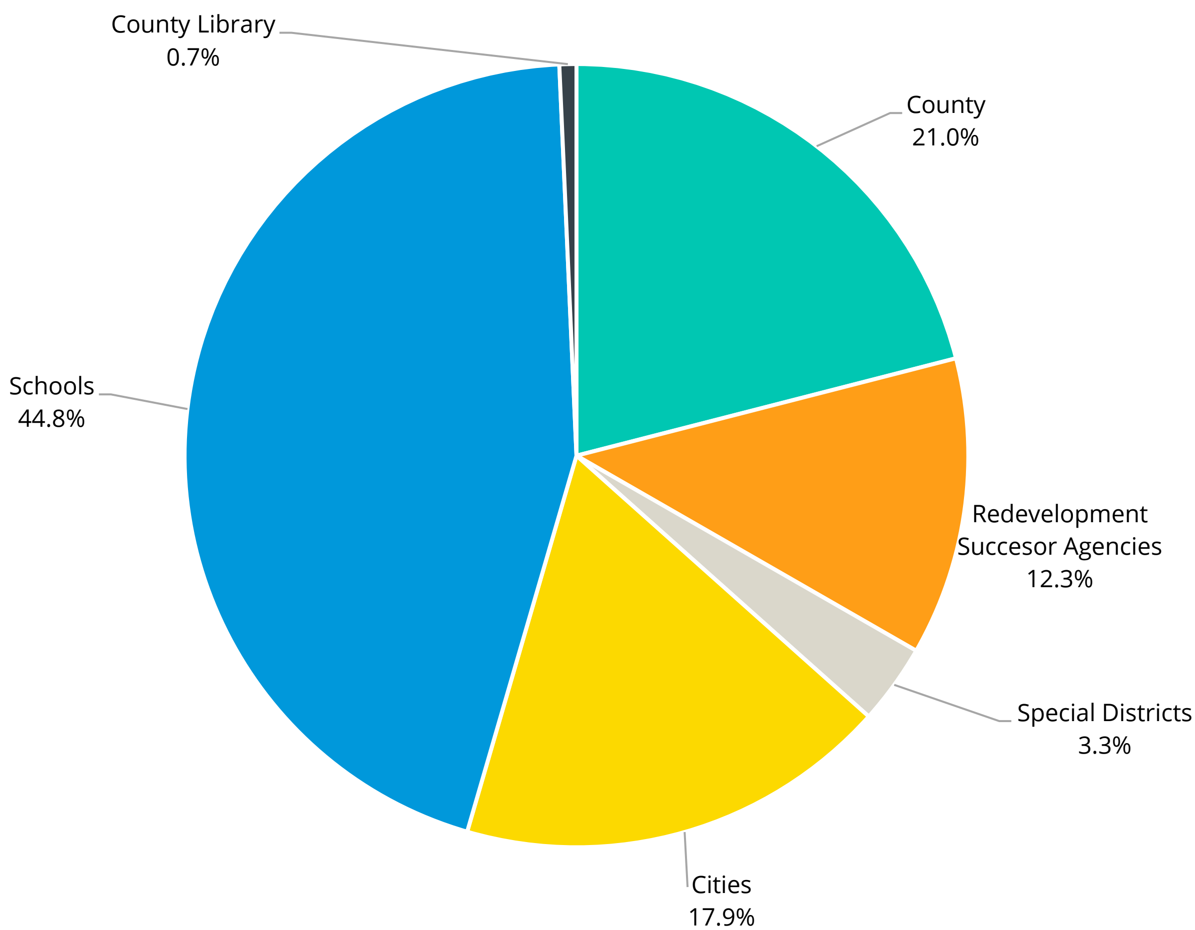
Property tax revenue is the City's largest revenue source, representing 39.5 percent of total General Fund revenue. Property tax revenue is collected by the San Diego County Tax Collector from a 1.0 percent levy on the assessed value of all real property. Proposition 13, passed by voters in 1979, specifies that a property's assessed value may increase at the rate of the California Consumer Price Index but cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value. The 1.0 percent property tax levy is collected and distributed to several agencies including the County, the City, school districts, and special districts. **Figure 5 - Fiscal Year 2025 Countywide Property Tax Distribution** depicts the respective distribution.

[3] The UCLA Anderson Forecast for the Nation. UCLA Anderson Forecast. March 2025. Page 13.
[4] The UCLA Anderson Forecast for the Nation. UCLA Anderson Forecast. March 2025. Page 15.

According to the County of San Diego Assessor's Office, for every $100 collected, the average allocation to cities within San Diego County totals $17.90. Additionally, per City Charter requirement, a special tax levy, held separate from the General Fund, of $0.005 per $100 of assessed value is collected for funding the maintenance of zoological exhibits in Balboa Park.

Moreover, as a result of the dissolution of redevelopment agencies in Fiscal Year 2012, funding for continuing obligations as approved by the State of California Department of Finance is distributed to the City as Successor Agency from the Redevelopment Property Tax Trust Fund (RPTTF) after the Recognized Obligations Payment Schedule (ROPS) is met. These residual funds in the RPTTF are distributed to the local taxing entities per their individual allocation formulas at a rate ranging from 17.0 to 22.0 percent.

Figure 5 - Fiscal Year 2025 Countywide Property Tax Distribution



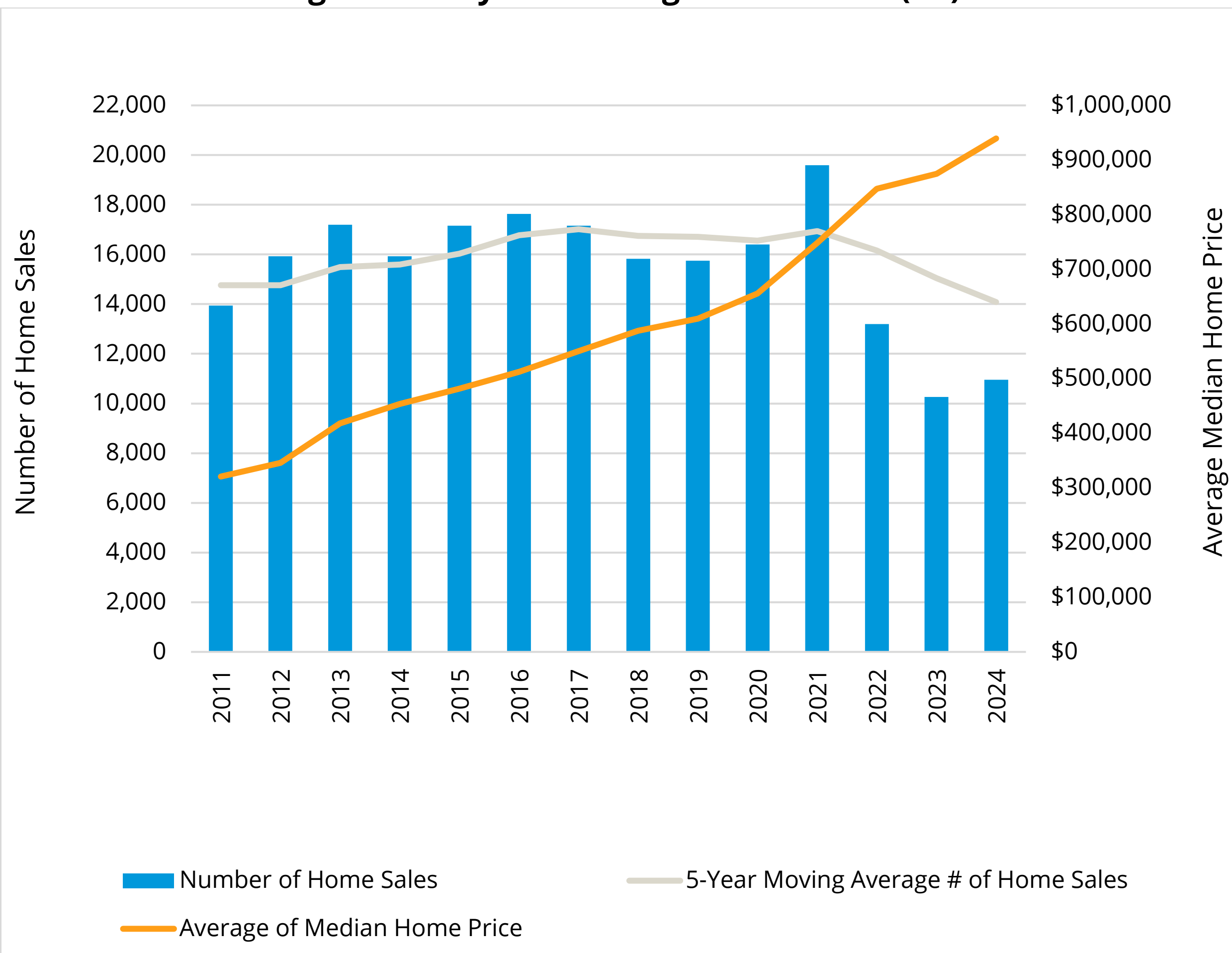
Source: San Diego County Property Tax Services

Economic Trends

Property Tax growth for the Fiscal Year 2026 Draft Budget is based on real estate activity through calendar year 2024. This is due to a lag between the time assessed valuation is set by the County Assessor's Office and the time that property tax revenue is received by the City. The assessed value of each property is determined as of January 1 each year; however, the resulting property tax payments based on this assessed valuation are not due from property owners until December of the respective year and April of the following year, which is a delay of 12 to 18 months. Due to this delay, property tax revenue projections do not fully reflect recent market activity. The local real estate market continues to see elevated home values and a continued restrained growth in the number of home sales when compared to the previous year.

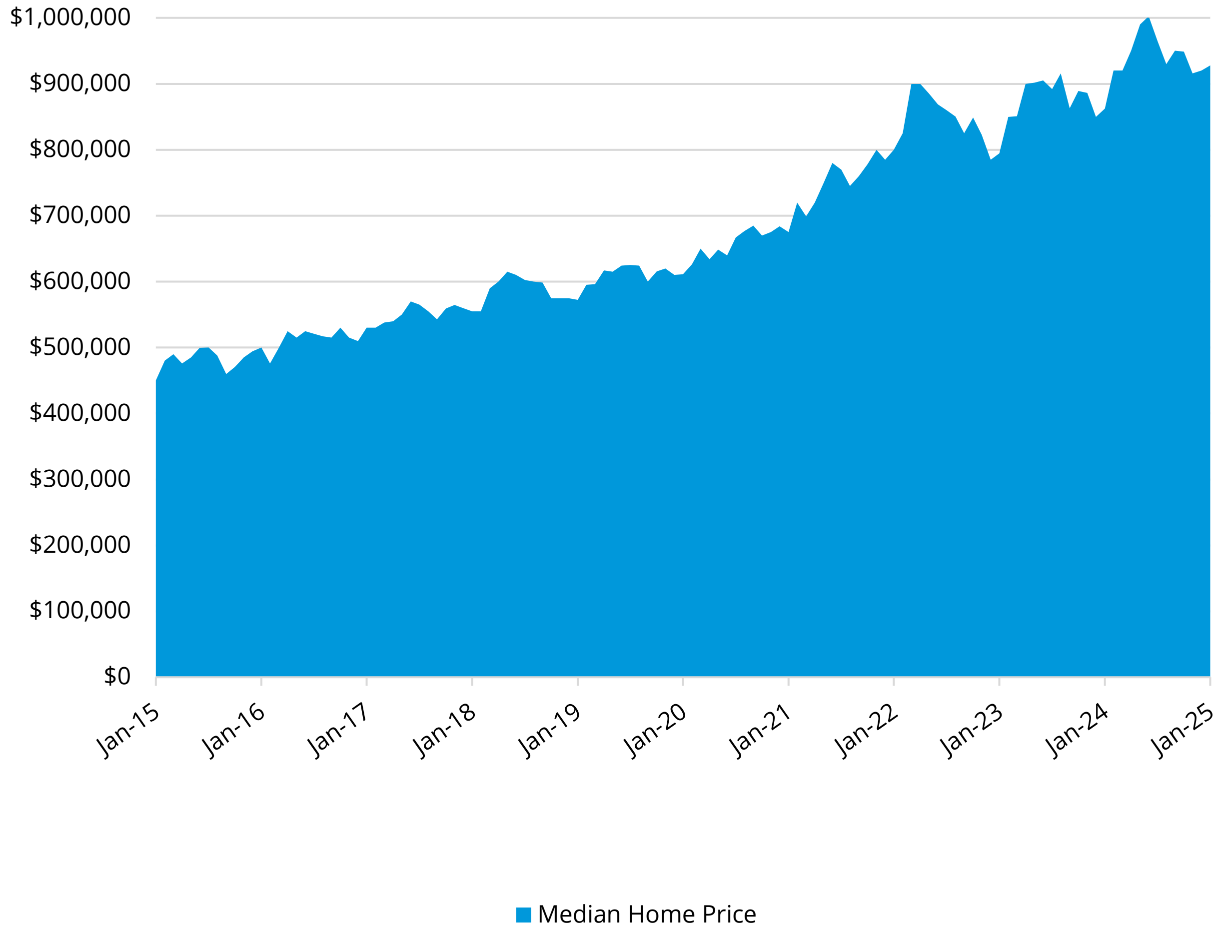
As depicted in **Figure 6 - City of San Diego Home Sales (CY)**, the City recorded 10,959 sales in calendar year 2024, which is a 6.8 percent increase from the calendar year 2023 home sales total of 10,266. The median home sales price reached a new, all-time high of $1,002,500 as of June 2024, representing an increase of 10.77 percent when compared to the June 2023 median home price of $905,000. **Figure 7 - City of San Diego Annual Median Home Price** depicts the trend in median home prices over time.

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



Source: HDLCC ®

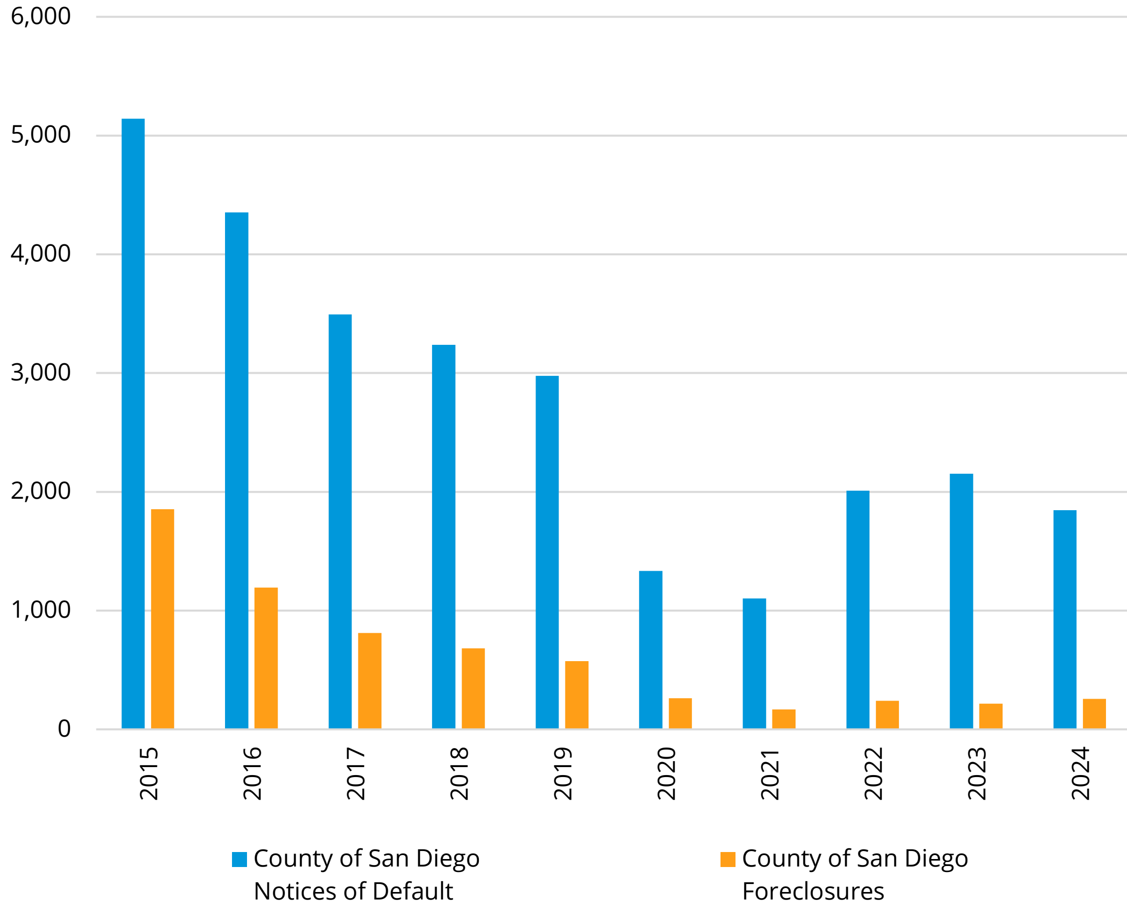
Figure 7 - City of San Diego Annual Median Home Price



Source: HDLCC ®

The year-over-year data depicted in **Figure 8 - San Diego County Home Foreclosures (CY)** reflects a normalized growth in both home foreclosures and notices of defaults after consecutive years of decline during the pandemic, which reached historic lows in spring of 2021. The rate is expected to continue to moderately increase, but with economic factors such as stable unemployment, the increase is expected to be minimal in the near term.

Figure 8 - San Diego County Home Foreclosures (CY)



Source: San Diego County Assessor/Recorder/County Clerk / CoreLogic ®

The California Consumer Price Index (CCPI) plays an important part in the assessed valuation of properties that do not sell or are not improved within a given year. Revenue and Taxation Code section 51 provides that a property's value may increase at the rate of the October CCPI; however, it cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value. The CCPI as of October 2024 was 343.575, which reflects a 2.5 percent increase over the October 2023 CCPI of 335.150. Therefore, the assessed value for those properties, not otherwise sold or improved, will increase by the maximum 2.0 percent.

The City of San Diego's unemployment rate as of January 2025 is 4.5 percent, which reflects a decrease of 0.20 percent from the January 2024 unemployment rate of 4.7 percent. The current 4.5 percent unemployment rate continues to reflect a stable job market, which supports the real estate market. This is consistent with the UCLA Anderson Forecast, which forecasts the national unemployment rate "to rise and hit 4.5 percent by the first quarter of 2026 and gradually recover afterwards to 4.0 in 2027."[5] Additionally, according to the UCLA Anderson Forecast, other factors that can impact the real estate market are the combined effects of the recent implementation and continued plans to raise tariffs and the mass deportations of undocumented immigrants. New policies recently implemented by the current presidential

[5] The UCLA Anderson Forecast for the Nation and California. UCLA Anderson Forecast. March 2025. page 15.

administration to increase tariffs are anticipated to have a direct impact on goods, particularly building materials, potentially making it less profitable for real estate developers and less affordable for home buyers. Additionally, deportations can lead to a worse effect on the labor market and have an adverse effect on unemployment rates by causing a labor shortage in specific key sectors like construction.

Mortgage interest rates have continued to remain relatively high in calendar year 2024 due to continued persistent inflation and the Federal Reserve's decision to maintain the federal funds rate steady for the majority of the year, followed by three consecutive rate decreases towards the end of the year. This strategy was used as a way to help fight inflation; however, the higher rates was a deterrent for buyers and sellers of real estate property, which will likely result in a slow real estate economy in calendar year 2025. The FOMC has continued to hold the target range for the federal funds rate at the current rate since the last decrease in December 2024.

> In their March 19, 2025 press release, the FOMC "decided to maintain the target range for the federal funds rate at 4-1/4 to 4-1/2 percent. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective".[6] According to the Committee, uncertainty around the economic outlook has increased.

The UCLA Anderson Forecast does not predict any decreases to the federal funds rate at this time: "We also do not expect rate cuts in subsequent years as there is a real risk of interest rates having to rise in response to the inflationary policies going forward.[7] However, any changes in the federal funds rate during Fiscal Year 2026 are not expected to impact Fiscal Year 2026 property tax revenues due to the delay of property tax payments as previously noted, in which property tax receipts reflect real estate market trends from 12 to 18 months prior.

Fiscal Year 2026 Draft Budget

The Fiscal Year 2026 Draft Budget for property tax is $843.4 million, or 39.5 percent, of the General Fund Budget. This represents an increase of $34.6 million, or 4.3 percent, from the Fiscal Year 2025 Adopted Budget. The Draft Budget for property tax reflects a 3.81 percent growth from the base. The Draft Budget for property tax represents a decrease of $914,000 from the $844.4 million previously forecasted in the Outlook. The overall property tax receipts are expected to stabilize in Fiscal Year 2026. This projected increase is supported by elevated median home prices, the October 2024 CCPI being higher than 2.0 percent, stable unemployment rates, and continued demand for limited housing stock. The median home prices in San Diego remained elevated throughout calendar year 2024, with slight fluctuations month-to-month, and are expected to remain moderately elevated through calendar year 2025. These assumptions are consistent with the forecast prepared by the City's property tax consultant, HdL Coren & Cone. Supported by recent economic conditions, the Draft Budget assumes a collection rate of 98.8 percent, which is consistent with Fiscal Year 2025 levels. The growth projected in property tax revenue is relatively consistent with the growth forecasted in the Outlook, as projected market conditions remain relatively unchanged.

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

The $843.4 million property tax budget consists of an estimated $574.4 million in base property tax, $212.1 million "in-lieu of motor vehicle license fee" payments, $43.8 million in anticipated residual property tax

[6] Federal Reserve issues FOMC Statement. Press Release. March 19, 2025.

[7] The UCLA Anderson Forecast for the Nation and California. UCLA Anderson Forecast. March 2025. page 16.

payments and $13.2 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA). **Table 4 - Fiscal Year 2026 Draft Property Tax Budget** reflects this breakdown.

When compared to the Fiscal Year 2025 Adopted Budget, the residual property tax shows a decrease of $5.8 million in one-time total tax sharing from the Residual Property Tax Trust Fund (RPTTF) associated with the sale of Tailgate Park. The sale was previously projected to occur in Fiscal Year 2025; however, it has been delayed beyond Fiscal Year 2026 due to pending litigation.

Table 4 - Fiscal Year 2026 Draft Property Tax Budget

Property Tax Segments		Revenue (In Millions)
Base Property Tax	$	574.4
Property Tax "In-Lieu" of MVLF		212.1
Residual Tax Sharing		43.8
Tax Sharing Distribution		13.2
Total Property Tax	**$**	**843.4**

Sales Tax

Background

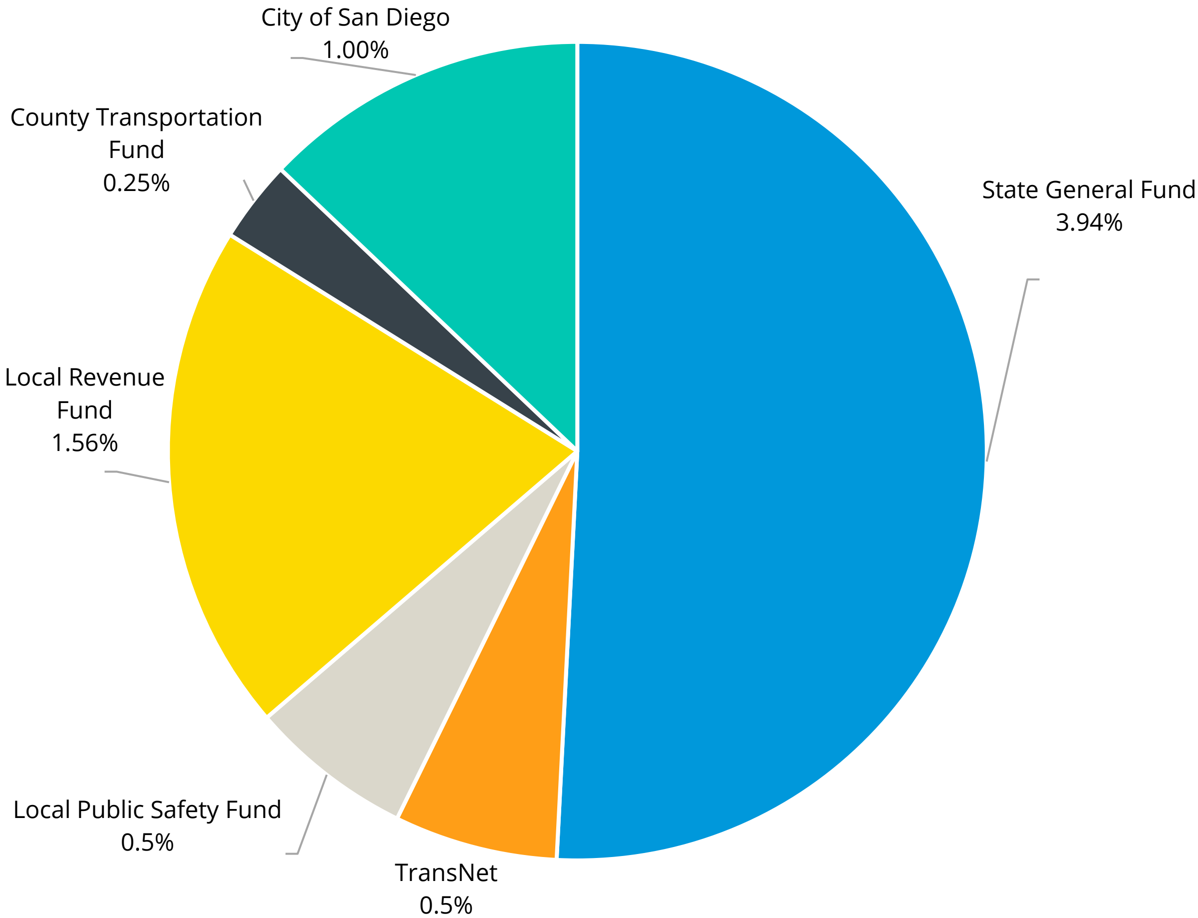
General Fund Revenues
$367.3 million

Percent of General Fund Revenues
17.2 percent

Sales tax is the second largest General Fund revenue source, representing 17.2 percent of the total General Fund revenue. Collected at the point of sale, sales tax receipts are remitted to the California Department of Tax and Fee Administration, which allocates tax revenue owed to the City in monthly payments. According to the Bradley-Burns Sales and Use Tax law, the City is to receive one cent of the total statewide sales tax levied on each dollar of taxable sales.

As depicted in **Figure 9 - City of San Diego Sales Tax Rate (7.75 percent)**, the total citywide sales tax rate in San Diego is 7.75 percent. Included in the 7.75 percent sales tax rate are two voter-approved supplemental sales tax add-ons: TransNet Extension Ordinance and Expenditure Plan (TransNet) and safety sales tax. TransNet was implemented in 1987 to fund the San Diego Transportation Improvement Program for the maintenance, construction, and expansion of roads and bridges. The TransNet Extension Ordinance and Expenditure Plan, which went into effect in April 2008, renewed the half-cent obligation for an additional 40-year term. Additionally, the total citywide sales tax rate includes a half-cent tax approved by California voters in 1993 for the purpose of funding local public safety expenditures.

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



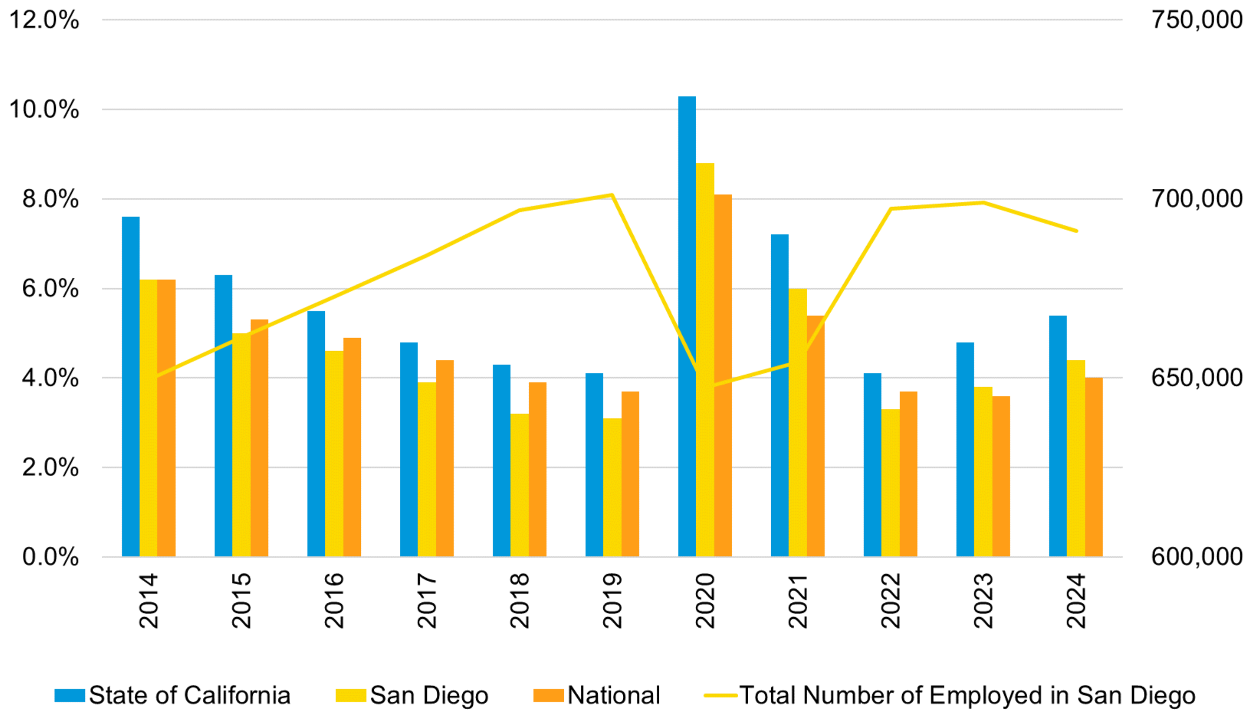
Source: California Department of Tax and Fee Administration.

Economic Trends

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

In January 2025, the City of San Diego recorded 713,100 persons employed and an unemployment rate of 4.5 percent. **Figure 10 - Unemployment Rates by Calendar Year** depicts the total number of employed and the unemployment rate for the City of San Diego by full calendar year as of December 2024 data.

Figure 10 - Unemployment Rates by Calendar Year



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

Consumer confidence, which correlates with sales tax receipts, was recorded at 105.3 in January 2025, which represents a decrease of 5.0 percent when compared to 110.9 in January 2024. This marks a second consecutive month of declines in consumer confidence. Consumer confidence continues to fluctuate as consumers respond to reservations regarding inflation, employment, impacts on future economic policies and geopolitical events. Additionally, there is a growing concern over the impacts of tariffs implemented by the current presidential administration and the impact to prices on consumer goods. Such uncertainty can lead to more cautious and limited spending, with consumers prioritizing essential purchases and reducing spending on discretionary items.

The San Diego Consumer Price Index (CPI) has increased by 3.8 percent year-over-year from 367.917 in January 2024 to 381.952 in January 2025. The increase in CPI is primarily attributed to continued moderate inflation, which has yet to reach the Federal Reserve's target rate of 2.0 percent, signaling ongoing inflationary pressures that can affect consumers' willingness to spend, particularly in the context of persistent inflation. Notably, prices remain high in many non-taxable areas, such as housing, healthcare, and food, which prevents additional spending of disposable income on taxable goods. Per the UCLA Anderson Forecast released in Spring 2025, inflation is anticipated to remain elevated through calendar years 2025 and 2026, measuring 2.7 percent in the first quarter of calendar year 2025 and falling slightly to 2.6 percent in the fourth quarter of calendar year 2026, as measured by Core Personal Consumption Expenditure (PCE)[8]. This will ultimately depend on the implementation of the tariffs, which began in phases

[8] The UCLA Anderson Forecast for the Nation and California. UCLA Anderson Forecast. June 2024. Page 25.

starting in March and April of 2025[9]. Real consumer spending on services, which are generally not subject to sales tax, is also projected to outpace spending on goods through calendar year 2027 per the UCLA Anderson Forecast.

Fiscal Year 2026 Draft Budget

The Fiscal Year 2026 Draft Budget for sales tax is $367.3 million, or 17.2 percent of the General Fund revenue budget. This represents a decrease of $26.2 million, or 6.7 percent, from the Fiscal Year 2025 Adopted Budget. The Draft Budget for sales tax represents a decrease of $25.5 million from the $392.8 million previously forecasted in the Outlook. The Fiscal Year 2026 projected growth rate included in the Outlook was 2.8 percent, but that growth rate has been revised to a negative 0.7 percent primarily to account for the downward trend in sales tax receipts collected, which has persisted since Fiscal Year 2024. Inflationary pressures, fluctuating consumer behavior, and general economic uncertainty, partially driven by the recent tariff policies have led to a decline in sales tax receipts. The growth rate is consistent with the most recent quarterly projection report received in December 2024 from the City's Sales Tax consultant, Avenu Insights and Analytics.

Actual local sales tax growth rates could be impacted by potential federal interest rate changes, continued inflation impacts, higher unemployment, and changes in consumer spending. All of these factors could impact consumer confidence and/or business-to-business growth. Any potential increase or decrease in local taxable sales performance will directly impact the City's sales tax projection and will be monitored throughout Fiscal Year 2026. The Fiscal Year 2026 Draft Budget balances these factors with a slightly negative projected growth as consumer spending patterns adjust to the overall economic uncertainty.

Per the voter-approved Proposition H, the City is required to dedicate specific sources of revenue to fund General Fund infrastructure. The calculation to fund the Infrastructure Fund is based on two specific components. One of the components of funding is through the incremental growth in sales tax revenue. Based on current sales tax projections, a contribution to the Infrastructure Fund is not anticipated in Fiscal Year 2026. Additional information regarding the Infrastructure Fund calculation can be found in the Infrastructure Fund (Charter Section 77.1) section in the Citywide Budget Overview section in Volume I.

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

General Fund Transient Occupancy Tax (TOT)

Background

General Fund Revenues
$175.2 million

Percent of General Fund Revenues
8.2 percent

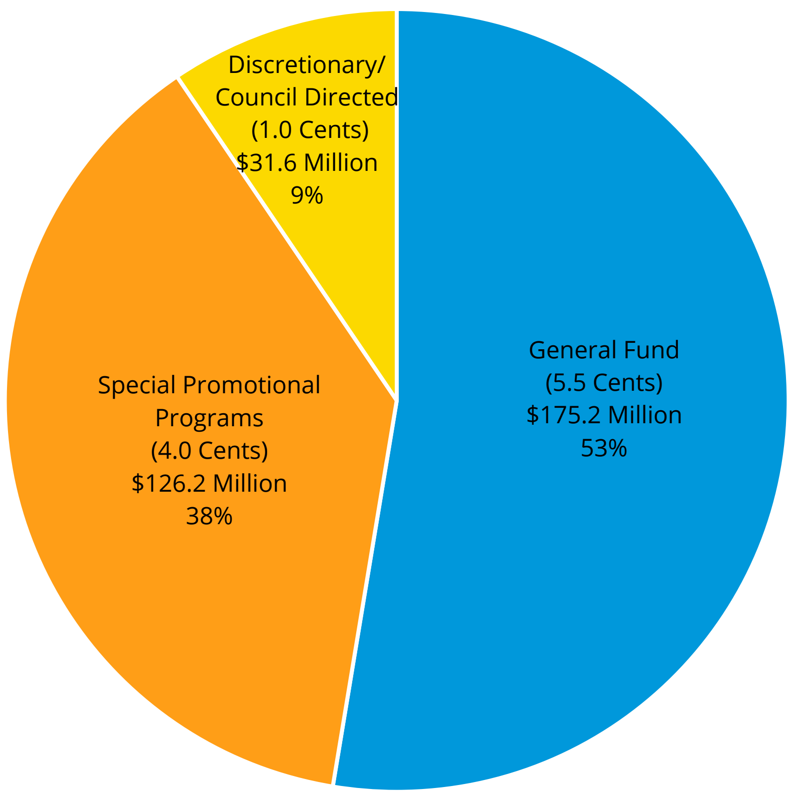
Transient Occupancy Tax makes up 8.2 percent of the City's General Fund revenue budget. TOT is levied at 10.5 cents per dollar on taxable rent for a transient's stay of less than one month. The use of TOT is guided by the City's Municipal Code which stipulates that of the 10.5 cents of collected TOT, 5.5 cents is to be applied toward general government purposes, 4.0 cents towards promoting the City as a tourist destination, and the remaining 1.0 cent towards any purposes approved by the City Council. This breakdown is depicted in **Figure 11 - City of San Diego Transient Occupancy Tax Allocation**. In the Fiscal Year 2026 Draft Budget, total TOT revenue equals $333.0 million, of which $175.2 million is applied directly to the General Fund and represents the 5.5 cents designated for general government purposes. The remaining 5.0 cents, or $157.8 million, includes the 4.0 cents allocated to

[9] The UCLA Anderson Forecast for the Nation and California. UCLA Anderson Forecast. March 2025. Page 23.

programs that promote the City as a tourist destination—including reimbursements to the General Fund for the safety and maintenance of visitor-related facilities—and the 1.0 cent City Council Discretionary allocation.

This section does not include projected revenue associated with Measure C, an initiative passed in 2020 to increase the City of San Diego's current 10.5 percent hotel visitor tax. Details on the revenue associated with Measure C is included in both the Charges for Current Services narrative later in this section and the Transient Occupancy Tax Fund department budget page in Volume II. The new Measure includes increases to the current TOT tax rate of 10.5 percent to 11.75 percent, 12.75 percent and 13.75 percent, where each tax rate would depend on a hotel's location in one of three geographic zones. The revenue from the additional taxes is to be allocated to convention center expansion and modernization, homelessness services and street repairs, of which the latter two would be reimbursements to the General Fund. Additional information on the Measure can be found in the Citywide Budget Overview section in Volume I.

Figure 11 - City of San Diego Transient Occupancy Tax Allocation



Economic Indicators

The primary economic indicators of transient occupancy tax include room rates, occupancy, and room demand growth. Assumptions in the December 2024 San Diego County Lodging Forecast, prepared for the San Diego Tourism Authority by Tourism Economics, include tempered growth in Fiscal Year 2026 for room demand, occupancy, and room rates. This assumption is supported by a continued moderate demand for leisure travel, and the projected slowing of growth in group and business travel in calendar year 2026[10]. In previous forecasts, business travel was assumed to gradually return to pre-pandemic levels; however, with general economic uncertainty and the anticipation of new economic policies being implemented in the coming months, business travel demand remains below pre-pandemic levels. According to the December 2024 San Diego County Lodging Forecast, leisure travel continues to experience softened demand as concerns over the overall economy persist[11].

The December 2024 San Diego County Lodging Forecast projected moderate growth in its primary indicators. The average hotel occupancy rate is forecasted at 75.7 percent in calendar year 2026, which represents a slight increase from the prior year rate of 74.8 percent. Room demand is forecasted to grow by 3.6 percent in calendar year 2026, while the supply of rooms is projected to increase by 2.4 percent in calendar year 2026. Moreover, the Average Daily Rate (ADR) is projected to increase an average of 0.5 percent in calendar year 2026, while the revenue per available room (RevPAR) is projected to increase by 1.6 percent. Room revenue is projected to increase 4.1 percent in calendar year 2026. **Figure 12 - Year-Over-Year Percentage Growth in Key Hotel Sector Indicators** depicts the projected growth of these indicators.

The San Diego Convention Center is a 2.6 million square foot facility located along the waterfront of downtown San Diego. The San Diego Convention Center is host to many large conferences and events in San Diego, bringing in many tourists to the City. One of the largest events hosted by the San Diego Convention Center is San Diego Comic-Con International, which was rated as one of the top ten entertainment conventions in America in 2025[12]. With the City's convention center ranking among the nation's top destinations due to its proximity to the San Diego International airport, and the City's great weather, this continuously brings in more group events to the City and contributes to the local economy by increasing hotel stays and promoting additional spending on dining and leisure activities.

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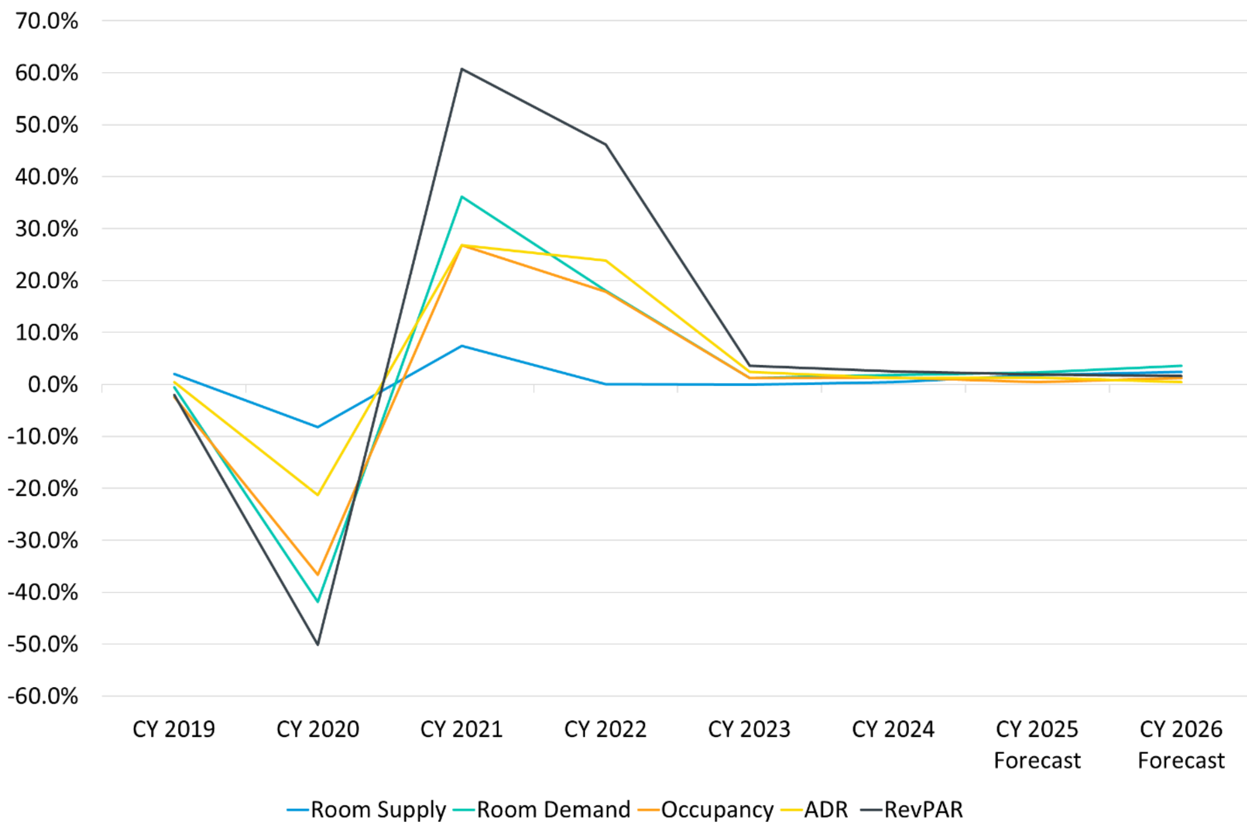
[10] San Diego County Lodging Forecast. Tourism Economics. December 2024. Page 24.

[11] San Diego County Lodging Forecast. Tourism Economics. December 2024. Page 28.

[12] Selena Starla. "Top 10 Must-Attend Entertainment Conventions in America 2025". www.whereisthebuzz.com. January 1, 2025.

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



Source: San Diego Tourism Authority; Tourism Economics San Diego County Lodging Forecast, December 2024.

	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025[1]	CY 2026[1]
Hotel Sector							
Avg. Occupancy	48.5%	61.5%	72.6%	73.4%	74.4%	74.8%	75.7%
Avg. Daily Rate	$ 130.51	$ 165.46	$ 205.05	$ 210.00	$ 212.53	$ 215.36	$ 216.34
Rev PAR[2]	$ 63.31	$ 101.80	$ 148.80	$ 154.22	$ 158.14	$ 161.08	$ 163.70
Room Demand (growth)	-41.8%	36.2%	18.1%	1.2%	1.8%	2.3%	3.6%

Source: San Diego Tourism Authority; Tourism Economics San Diego County Lodging Forecast, December 2024

[1] Forecast - Tourism Economics, December 2024

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

Fiscal Year 2026 Draft Budget

The Fiscal Year 2026 Draft Budget for total Transient Occupancy Tax (TOT) revenue is $333.0 million, of which $175.2 million is allocated to the General Fund. TOT revenue constitutes 8.2 percent of the General Fund revenue budget. The General Fund allocation represents an increase of $2.4 million, or 1.4 percent, from the Fiscal Year 2025 Adopted Budget. The Draft Budget for TOT represents a slight decrease of $1.2 million from the $176.4 million previously forecasted in the Outlook. The Draft Budget for TOT assumes a 3.0 percent growth rate based on a tempered demand for leisure and business travel. These assumptions are consistent with assumptions and data reported by Tourism Economics in the December 2024 San Diego Lodging Forecast. The growth rate is a decline from the 5.0 percent previously included in the Outlook due to continued tempered growth.

As noted earlier in this section, of the total 10.5 cents of TOT revenue, 5.5 cents is budgeted in the General Fund and is allocated for general government purposes; the remaining 4.0 cents is allocated to Special Promotional Programs, which can be used for eligible programs that promote the City as a tourist destination including reimbursements to the General Fund for safety and maintenance of visitor-related facilities, and the 1.0 cent City Council Discretionary allocation. For additional information regarding the remaining 5.0 cents of TOT, reference the Special Promotional Programs department budget page in Volume II. The Department of Finance continues to monitor economic indicators and updates to revenues and will report significant changes in the Fiscal Year 2026 quarterly budget monitoring reports.

Franchise Fees

Background

General Fund Revenues
$105.8 million

Percent of General Fund Revenues
4.9 percent

The Fiscal Year 2026 Draft Budget for Franchise Fee revenue is $105.8 million which represents 4.9 percent of the General Fund revenue budget; this is a decrease of $17.9 million, or 14.5 percent, from the Fiscal Year 2025 Adopted Budget. The Draft Budget for franchise fee revenue represents a decrease of $15.0 million from the $120.8 million previously forecasted in the Outlook. Franchise fee revenue is generated from agreements with private utility companies in exchange for the use of the City's rights-of-way. The largest of the franchise fee payers in the City are San Diego Gas and Electric (SDG&E), Cox Communications, Spectrum TV, AT&T U-verse, and California American Water (Cal AM). In addition, the City collects franchise fees from private refuse haulers that conduct business within the City limits. The revenue received from the agreements with SDG&E, cable companies, and Cal AM is based on a percentage of gross sales, while the revenue received from refuse haulers is based on tonnage collected. SDG&E is the single largest generator of franchise fee revenue in the General Fund and remits 3.0 percent of the gross sales of gas and electricity within the City of San Diego. Revenue from SDG&E is split between the General Fund (75.0 percent) and the Environmental Growth Funds (25.0 percent) based on the City Charter. Cable providers remit 5.0 percent of gross revenues.

Fiscal Year 2026 Draft Budget

SAN DIEGO GAS & ELECTRIC: The Fiscal Year 2026 Draft Budget for SDG&E franchise fee revenue is $88.4 million and assumes no growth for calendar year 2025. The SDG&E franchise fee revenue is based on the calendar year 2024 statement, and accounts for the recent significant fluctuations in gas and electric franchise fee revenues. There were many factors affecting the gas and electric franchise fee revenues over the last few years, including continuous fluctuations in rate pricing, changes in weather, customer usage and unanticipated pipe repairs by SDG&E. The City and SDG&E are committed to working together to establish more accurate franchise fee revenue projections and SDG&E has agreed to provide the City with quarterly statements on actual usage, versus waiting a year in arrears to determine the final franchise fee revenue. Due to this change in reporting by SDG&E, revenues will be reassessed during the Fiscal Year 2026 Budget Monitoring process once the actual quarterly data is received from SDG&E to prepare a more accurate revenue projection.

Aside from weather, usage, and energy market conditions, SDG&E energy rates are impacted by regulatory proceedings at the California Public Utilities Commission (CPUC). In July 2023, SDG&E submitted a General Rate Case (GRC) application seeking that their authorized revenue requirement be revised in order to increase electricity and gas base rates. As of the release of the Draft Budget, the CPUC voted to adopt

SDG&E's General Rate Case. The proposed revenue requirements (rate raises) for SDG&E were partially approved from what SDG&E had originally proposed; however, still reflect an increase of 7.5 percent when comparing calendar year 2023 current combined revenue requirements to calendar year 2024's adopted combined operation's revenue requirements. As a result of the adopted increased revenue requirements, new rates are effective February 1, 2025.[13]

In accordance with the City Charter, 75.0 percent of the revenue from SDG&E, or $66.3 million, is allocated to the General Fund; the remaining 25.0 percent of revenue received from SDG&E, or $22.1 million, is deposited into the Environmental Growth Funds (EGF). Additionally, per City Council Resolution 313454, through the annual budget process, the Mayor shall consider making allocations to the Climate Equity Fund, including 10.0 percent of the 75.0 percent allocated to the General Fund. However, the Resolution also allows the Mayor to seek City Council approval to temporarily suspend compliance for the upcoming fiscal year if the Mayor determines that anticipated revenues in any fiscal year will be insufficient to maintain existing City services. To limit additional reductions to City services, the Fiscal Year 2026 Draft Budget suspends the allocation of $6.6 million for the Climate Equity Fund, which allows this revenue to remain in the General Fund to support existing City services.

Of the revenues transferred to the EGF, one-third is used to fund the maintenance of parks, and two-thirds is designated for parkland maintenance and debt service payments for open space acquisitions. The Fiscal Year 2026 Draft Budget includes the additional revenue deposits in the EGF and provides funding for park and open space maintenance, as well as stormwater mitigation.

In June 2021, the City Council agreed to a 10-year gas and electric franchise agreement with SDG&E, with the option of extending the agreement an additional 10 years. In addition to remitting the 3.0 percent of the gross sales of gas and electricity, the franchise agreement included $80.0 million for the gas and electric franchise and an additional $20.0 million to advance the City's climate equity goals. The franchise agreements each have a separate payment plan. The gas franchise bid will be paid in equal installment payments of $500,000 over the entire 20 years covered by the agreement. If the agreement is terminated at any time, the remaining payments will be voided. The electric franchise bid will pay $10.0 million annually for the first five years (2022-2026), while the final two payments will be delayed until years 10 and 11 (2030 and 2031) of the agreement. The installment payments are subject to an annual interest rate of 3.38 percent. The payment in 2031 will only occur if the contract is renewed for another 10 years following the initial 10-year term. Additionally, SDG&E is required to contribute $2.0 million for the first five years of the agreement (2022-2026) to further the City's climate action and equity goals—of which $1.5 million is allocated to the Climate Equity Fund and $500,000 is allocated to the EGF. Consistent with the terms of this agreement, the Fiscal Year 2026 Draft Budget includes $11.9 million in a gas & electric franchise bid payment, reflecting the annual interest rate of 3.38 percent.

On May 3, 2022, the City Council established the Energy Independence Fund (EIF) and approved the allocation of a minimum of 20.0 percent of the Bid amount each year for the EIF, unless waived by the City Council. From the 20.0 percent allocation to the EIF, the revenue is then split between EIF and EGF, where 75.0 percent of the contribution remains in the EIF and the remaining 25.0 percent is deposited into the EGF. City Council Resolution 314076, which created the EIF, allows the Mayor to seek City Council approval to temporarily suspend compliance for the upcoming fiscal year if the Mayor determines that anticipated revenues in any fiscal year will be insufficient to maintain existing City services. The total allocation to the EIF for the 20.0 percent contribution amount is $2.4 million. Similar to the waiving of General Fund contributions to the Climate Equity Fund, the Fiscal Year 2026 Draft Budget includes the suspension of the 75.0 percent portion of the contribution, or $1.8 million, from the General Fund for the EIF, which allows

[13] California Public Utilities Commission - Information Sheet: SoCalGas and SDG&E 2024 General Rate Case. December 19, 2024

this revenue to be deposited in the General Fund to maintain existing City services. The remainder of the franchise bid amount of $3.6 million will be allocated to the EGF funds.

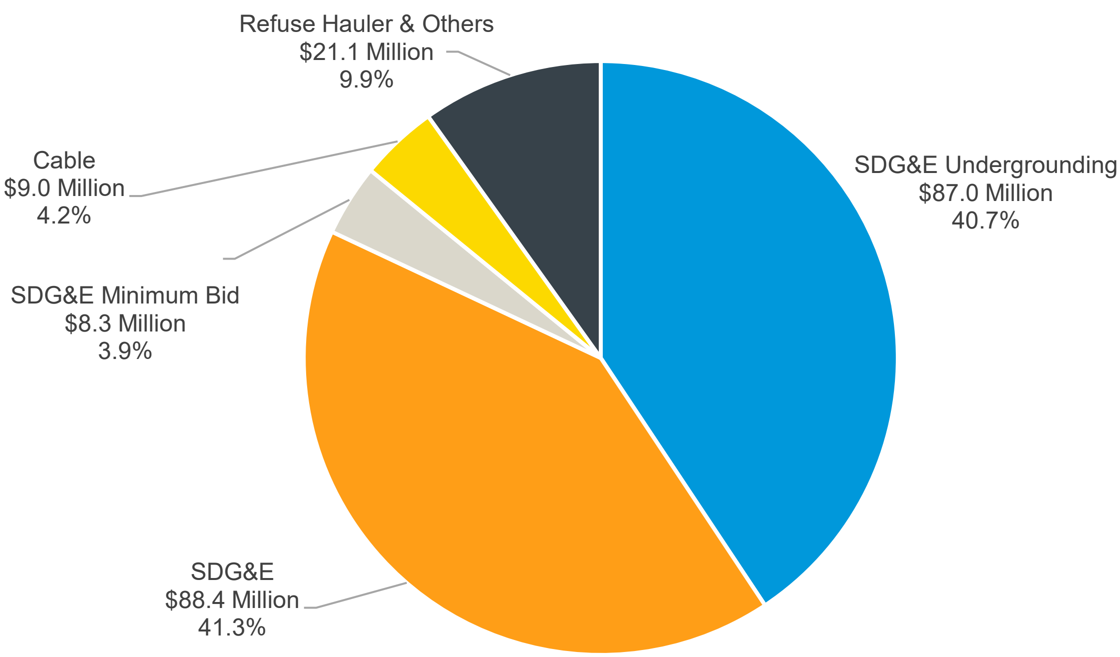
The City also receives an undergrounding utility franchise fee from SDG&E. The Fiscal Year 2026 Draft Budget for SDG&E undergrounding utility fee revenue totals $87.0 million. This revenue is budgeted in the Underground Surcharge Fund to support the undergrounding of electricity distribution infrastructure within the City's right-of-way.

CABLE COMPANIES: The Fiscal Year 2026 Draft Budget for cable franchise fee revenue is $9.1 million and is based on updated Fiscal Year 2025 projections; the budget assumes a negative growth rate of 6.79 percent based on historical actuals and a trend of declining revenues from traditional cable providers.

REFUSE HAULERS AND OTHER FRANCHISES: The Fiscal Year 2026 Draft Budget for refuse haulers and other franchise fee revenues is $21.1 million and is based on updated Fiscal Year 2025 projections. The City anticipates $14.2 million from refuse collection fees, $1.6 million in revenue related to the Police Department's vehicle tow program, $205,000 in revenue from the EDCO facilities, and $785,000 from other franchise fee sources including revenue from California American Water (Cal AM) and Temp Controlled Water. Also, included is a one-time transfer to the General Fund of $4.3 million from the Recycling Fund, associated with the Sycamore Facility franchise fee.

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

Figure 13 - Franchise Fee Revenue Breakdown



Property Transfer Tax

Background

Property Transfer Tax makes up 0.5 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 the sale of real property within City limits and transferred to the City monthly.

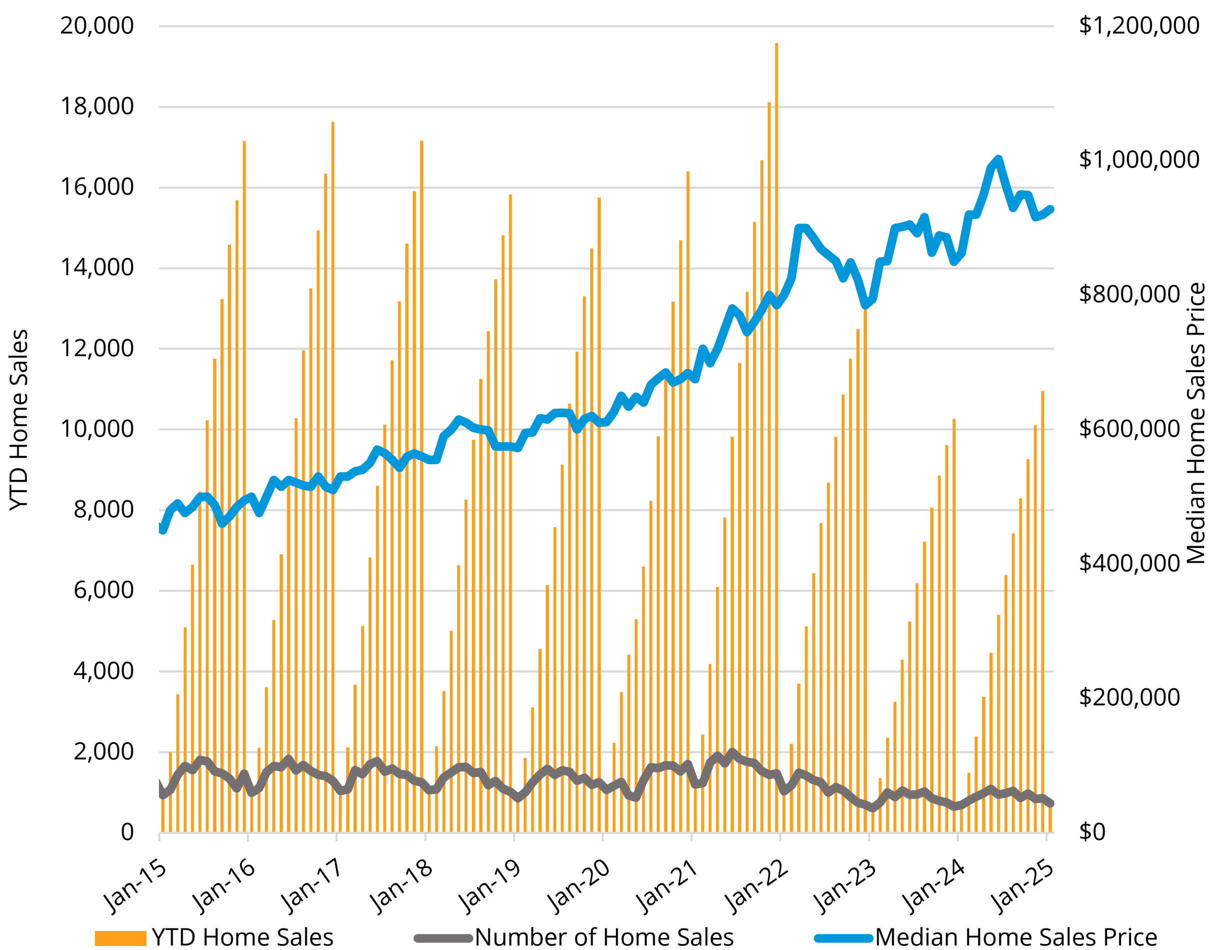
General Fund Revenues
$11.6 million

Percent of General Fund Revenues
0.5 percent

Economic Trends

Unlike property tax revenue, property transfer tax revenue reflects changes to current economic conditions since it does not experience a lag time as with property tax. The economic factors that primarily impact property transfer tax revenue are home sales and prices. These factors are discussed in detail in the earlier property tax section and summarized in **Figure 14 - City of San Diego Home Sales**.

Figure 14 - City of San Diego Home Sales



Source: HDLCC®

Home sales have slightly increased when compared to the previous year as a result of the FOMC's decision to begin cutting rates in the second half of calendar year 2024. However, growth in home sales continues to be restrained as median home prices are anticipated to continue at elevated levels through calendar year 2025. The Department of Finance will continue to closely monitor Property Transfer Tax revenue and adjust projections as necessary.

Fiscal Year 2026 Draft Budget

The Fiscal Year 2026 Draft Budget for property transfer tax is $11.6 million and is based on Fiscal Year 2025 year-end projections. This represents an increase of $1.5 million, or 14.6 percent, from the Fiscal Year 2025 Adopted Budget. The positive growth is based on higher than anticipated actuals in property transfer tax revenue received to date in Fiscal Year 2025. Additionally, this positive trend is anticipated for the remainder of the fiscal year. As noted in the property tax section, during the FOMC meeting held on March 19, 2025, the committee decided to hold interest rates steady, at the current 4.25 to 4.5 percent range.[14] Any changes in the federal funds rate in calendar year 2025 would likely impact property transfer tax; any significant changes will be included in the Fiscal Year 2026 quarterly budget monitoring reports.

Licenses and Permits

Background

General Fund Revenues
$58.6 million

Percent of General Fund Revenues
2.7 percent

The Licenses and Permits category includes revenue for the purpose of recovering costs associated with regulating activities and other revenues such as business certificate fees, rental unit certificate fees, parking meter collections, alarm permit fees, and special event permits. Recreational Cannabis Business Tax makes up almost half of the licenses and permits revenue category. On November 8, 2016, San Diego voters passed Measure N, which imposes a gross receipts tax on non-medical cannabis businesses that operate or provide services within the City of San Diego. Businesses were initially taxed at a rate of 5.0 percent of monthly gross receipts, then increased to 8.0 percent on July 1, 2019. A subsequent rate increase was recently approved by the City Council to 10.0 percent, effective on May 1, 2025. Effective May 1, 2022, the Cannabis Business Tax rate for Cannabis Production Facilities (Cultivation, Manufacturing, Distribution, and Storage) is 2.0 percent of monthly gross receipts.

Fiscal Year 2026 Draft Budget

The Fiscal Year 2026 Draft Budget for licenses and permits is $58.6 million, or 2.7 percent of the General Fund revenue budget. This represents an increase of $11.2 million, or 23.7 percent, from the Fiscal Year 2025 Adopted Budget. This increase is primarily attributed by the following:

- $11.0 million in new revenue associated with proposed parking fees generated in Balboa Park;
- $2.8 million net increase in Cannabis Business Tax revenue due to a 2.0 percent tax increase from cannabis business outlets;
- $1.2 million in application and licensing revenue for the Short-Term Residential Occupancy (STRO) Program application and licensing fees as mandated by Ordinance O-21305;
- $1.1 million in the addition of various revised user fees as a result of the Fiscal Year 2026 Comprehensive User Fee Analysis;
- $866,000 in Business Tax due to increased compliance efforts; and,
- $765,000 in minimum wage enforcement fee revenue.

The increase is partially offset with a one-time removal of $6.3 million for the Short-Term Residential Occupancy (STRO) Program budgeted in Fiscal Year 2025, where licenses are valid for two years with fees

[14]Federal Reserve issues FOMC Statement. Press Release. March 19, 2024.

due at the beginning of January, every two years after applications are submitted and a lottery on those applications occurs.

Fines, Forfeitures, and Penalties

General Fund Revenues
$43.4 million

Percent of General Fund Revenues
2.0 percent

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 2026 Draft Budget

The Fiscal Year 2026 Draft Budget for fines, forfeitures, and penalties revenue is $43.4 million, or 2.0 percent of the General Fund revenue budget. This represents an increase of $12.3 million, or 39.6 percent, from the Fiscal Year 2025 Adopted Budget.

The increase is primarily attributed to a $11.3 million increase in parking citation revenue, which includes $8.3 million in the Police Department and $3.0 million in the Stormwater Department due to increased citation fine amounts as a result of the Fiscal Year 2026 Comprehensive User Fee Analysis.

Revenue from Money and Property

General Fund Revenues
$84.6 million

Percent of General Fund Revenues
3.9 percent

Rents and Concessions

Revenue from Money and Property is primarily comprised of rents and concessions revenue generated from Mission Bay Park, Balboa Park, City Pueblo Lands, and Torrey Pines Golf Course. Additionally, it includes revenue from interest and dividends. The largest component of this category is revenue from Mission Bay Park rentals and concessions, the majority of which is generated from leases with Sea World, Marina Village, and the hotels and marinas within Mission Bay Park. Another significant contributing component in the rents and concessions category is revenue from leases for the Midway/Frontier property.

Per City Charter Section 55.2, the threshold amount of $20.0 million of Mission Bay rents and concessions will remain in the General Fund. The remainder of funds greater than the threshold amount is allocated to the San Diego Regional Parks Improvements Fund and the Mission Bay Park Improvements Fund. The San Diego Regional Parks Improvements Fund is to receive 35.0 percent of revenues in excess of the threshold amount or $3.5 million, whichever is greater, with 65.0 percent or the remaining amount allocated to the Mission Bay Park Improvements Fund.

Interest and Dividends

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. Except for certain bond funds, all City funds are pooled and invested together in the City Treasurer's Pooled Investment Fund (Fund) to manage the City's cash flow requirements. Fund investments must comply with the City Treasurer's Investment Policy and the State of California Government Code guidelines and restrictions. The maximum maturity of any investment may not exceed five years. Selection of an investment is based on safety, liquidity, risk, interest rate environment, and the cash flow requirements of the City. Deviations in returns from one fiscal year to the next can generally be attributed to changes in market interest rates or the amount invested during the fiscal year. Past interest earnings performance is no guarantee or indicator of future results. Interest earnings are allocated to the participating City funds based on their pro rata share of cash balances.

Fiscal Year 2026 Draft Budget

The Fiscal Year 2026 Draft Budget for revenue from money and property is $84.6 million, or 3.9 percent of the General Fund revenue budget. This represents a net increase of $2.8 million, or 3.4 percent, from the Fiscal Year 2025 Adopted Budget. This is primarily attributed to an increase of $3.4 million in interest earnings revenue from pooled investments and accelerated reimbursement for Capital Improvement Program (CIP) expenditures from bond and commercial paper proceeds. Additionally, the Fiscal Year 2026 Draft Budget includes increases of $1.8 million from rent and concession revenue at Mission Bay hotels, Sea World, and City Pueblo Lands, $321,000 in rent reimbursements to the General Fund from non-General Funds, $272,000 for office space consolidation, and $214,000 for increased parking fees at five library locations. This is offset by the removal of $3.3 million for the one-time transaction fee for the sale of the Hilton La Jolla Torrey Pines budgeted in Fiscal Year 2025.

Revenue from Federal & Other Agencies

Background

General Fund Revenues
$11.1 million

Percent of General Fund Revenues
0.5 percent

Revenue from Federal and Other Agencies includes federal grants and reimbursements for City services such as court crime lab revenue, urban search and rescue, and service level agreements.

Fiscal Year 2026 Draft Budget

The Fiscal Year 2026 Draft Budget for Revenue from Federal and Other Agencies is $11.1 million, or 0.5 percent of the General Fund revenue budget. This represents a net decrease of $1.1 million, or 9.0 percent, from the Fiscal Year 2025 Adopted Budget. This decrease is due to the removal of $1.8 million in one-time grant revenue included in the Fiscal Year 2025 Adopted Budget for homelessness programs and services, which included $701,000 associated with the fifth round of the Homeless Housing, Assistance and Prevention (HHAP) State grant and $197,000 in one-time opioid settlement revenue.

These decreases are partially offset with the following increases:

- $2.1 million in one-time strike team deployment revenue in the Fire-Rescue Department;
- $600,000 in one-time grant funding for Fiscal Years 2026 and 2027 from Caltrans' Active Transportation Planning and Department of Transportation's Safe Streets for All for Bike Master Plan, Slow Streets pilot, and mobility-related support for Transportation projects;
- $300,000 in one-time revenue for the “Ready, Set, Grow San Diego” program, which seeks to address climate action goals and promote tree equity; and
- $190,000 in revenue reimbursement from San Diego Unified School District for shared maintenance agreement of E-3 Civic High School.

Charges for Current Services

Background

General Fund Revenues
$330.4 million

Percent of General Fund Revenues
15.4 percent

Charges for Current Services revenue is generated by payments for services provided to the public and other City funds. The City's General Fund pays for basic City services such as public safety, parks, and libraries. In addition, the City allocates the costs associated with central service departments, such as the City Auditor, Department of Finance, City Attorney, and City Clerk to all City departments by means of a rate based on the General Government Services Billing (GGSB) standard. The amounts allocated to non-general fund departments are billed and received by the General Fund as revenue to offset the cost of the services provided by these central service departments. Additionally, Transient Occupancy Tax (TOT) revenue is allocated to several departments to reimburse expenditures in the General Fund that support the safety and maintenance of visitor-related facilities.

Fiscal Year 2026 Draft Budget

The Fiscal Year 2026 Draft Budget for charges for current services revenue is $330.4 million, or 15.4 percent of the General Fund revenue budget. This represents a net increase of $48.7 million, or 17.3 percent, from the Fiscal Year 2025 Adopted Budget. This increase is primarily attributed to the following:

- $33.8 million in revised revenue for homelessness services as a result of Transient Occupancy Tax (TOT) rate increases associated with Measure C;
- $18.4 million in revised revenue due to parking meter enforcement and new parking meter regulations;
- $9.1 million in one-time reimbursement revenue to support street repair activities;
- $4.9 million in revised General Government Services Billing revenue;
- $3.6 million in revenue for the addition of various reimbursable positions in the City Attorney's Office; and
- $2.3 million in revenue associated with reimbursement from the General Plan Maintenance Fund.

These increases are offset with a $19.5 million decrease in reimbursements from the Environmental Growth Funds to support eligible expenditures due to the one-time removal of $3.9 million from the Fiscal Year 2025 Adopted Budget and a projected decline in franchise fee revenue in Fiscal Year 2026; a net $4.3 million decrease in TOT reimbursements for eligible expenditures in General Fund Departments; the one-time removal of $4.3 million in reimbursement revenue associated with right-of-way maintenance supported by the Infrastructure Fund and the net decrease of $2.3 million in one-time reimbursement for the Employ & Empower Internship Program.

Transfers In

Background

General Fund Revenues
$114.9 million

Percent of General Fund Revenues
5.3 percent

The Transfers In revenue category includes revenues received by the General Fund from other non-general funds and includes the Transient Occupancy Tax (TOT) 1.0 cent transfer, the Safety Sales Tax transfer, and Gas Tax revenue.

Fiscal Year 2026 Draft Budget

The Fiscal Year 2026 Draft Budget for Transfers In is $114.9 million, or 5.3 percent of the General Fund revenue budget. This represents an increase of $3.3 million, or 3.0 percent, from the Fiscal Year 2025 Adopted Budget. This increase is primarily attributed by the following:

- $11.2 million in a transfer from the Fire/Emergency Medical Services Transport Fund;
- $8.1 million in one-time funding from California's Office of Emergency Services;
- $2.3 million in the transfer of Gas Tax and TransNet revenue; and
- $1.1 million in one-time transfers to the General Fund from the Concourse and Parking Garage Operating Fund and Civil Penalties Fund.
- These increases are partially offset with a reduction of $19.4 million in one-time Fiscal Year 2025 transfers to the General Fund from various non-General Funds.

Other Revenue

Background

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

General Fund Revenues
$2.2 million

Percent of General Fund Revenues
0.1 percent

Fiscal Year 2026 Draft Budget

The Fiscal Year 2026 Draft Budget for Other Revenue is $2.2 million, or 0.1 percent of the General Fund revenue budget. This represents an increase of $563,000, or 31.4 percent, from the Fiscal Year 2025 Adopted Budget. This increase is primarily associated with $512,000 in increased revenue for the installation and operation of interactive wayfinding kiosks Downtown.

State of California Budget Impacts[15]

On January 10, 2025, Governor Newsom released the 2025-2026 Governor's Proposed Budget, which would appropriate $322.2 billion in State funds, including $228.9 billion from the General Fund, $86.8 billion from special funds, and $6.5 billion from bond funds.

Per the Governor, the Proposed Budget projects $16.5 billion in additional revenue compared to previous estimates, mainly driven by an increase in projected personal income tax revenue, corporation tax revenue and pooled money interest. The budget also utilizes $7.1 billion from the Budget Stabilization Account (BSA), a reserve fund established to navigate revenue fluctuations and projected budget shortfalls. After the proposed withdrawals, total budgetary reserves in the coming fiscal year are projected to be $17.0 billion.

The budget includes total funding of $137.1 billion for K-12 education programs; $45.1 billion for higher education and the California Student Aid Commission; and $296.1 billion for health and human services programs, including childcare and development.

The budget also proposed a $2.7 billion allocation to implement the $10.0 billion Climate Bond (Proposition 4) authorized by voters in November 2024. The allocation will advance programs and projects for safe drinking water, wildfire resilience and clean air and energy. The Proposed Budget also includes $100.0 million for the Encampment Resolution Grants and $283.6 million in public safety efforts.

[15] Governor's Budget Summary - 2024-25. Budget Summary (ca.gov). Retrieved June 28, 2024

Annual Tax Appropriations Limit (Gann Limit)

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

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

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

The San Diego City Council adopted a resolution on June 24, 2024 that established the City's Tax Appropriations Limit for Fiscal Year 2025 at $5,558,310,498. Using the Fiscal Year 2025 Adopted Budget, the appropriations subject to the limit (i.e., proceeds of taxes, excluding debt service on voter-approved debt, of which the City has none, and qualified capital outlays) was calculated to be $1,590,340,764, which is $3,967,969,734 below the Gann Limit.

In accordance with California Law, Division 9 of the Government Code and Proposition 111 guidelines, the Fiscal Year 2026 Tax Appropriations Limit will be set and adopted before June 30, 2025, and this section will be updated in the Fiscal Year 2026 Adopted Budget