FY: 2017

General Fund Revenues

CITY OF SAN DIEGO

PROPOSED BUDGET

MAYOR KEVIN L. FAULCONER

General Fund Revenues

The Fiscal Year 2017 General Fund revenue budget is $1.3 billion, which represents an increase of $44.3 million or 3.5 percent from the Fiscal Year 2016 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 2017 Proposed Budget for the General Fund revenues which fund 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 budgeted 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.

Table 1: Fiscal Year 2017 General Fund Revenue Change illustrates the components of the projected $44.3 million or 3.5 percent increase in General Fund revenues from the Fiscal Year 2016 Adopted Budget.

Table 1: Fiscal Year 2017 General Fund Revenue Change

	Percent Change from FY 2016 Adopted Budget	Change (in millions)
Major Revenues	3.2%	$ 29.6
Other Revenue Sources	4.3%	14.7
Total	**3.5%**	**$ 44.3**

Table 2: Fiscal Year 2017 General Fund Revenues displays each of the revenue categories in the General Fund and includes Fiscal Year 2015 actual amounts, as well the Fiscal Year 2016 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 2017 Proposed Budget and are projected to increase by $29.6 million from Fiscal Year 2016 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 per Mayor Faulconer’s pledge.

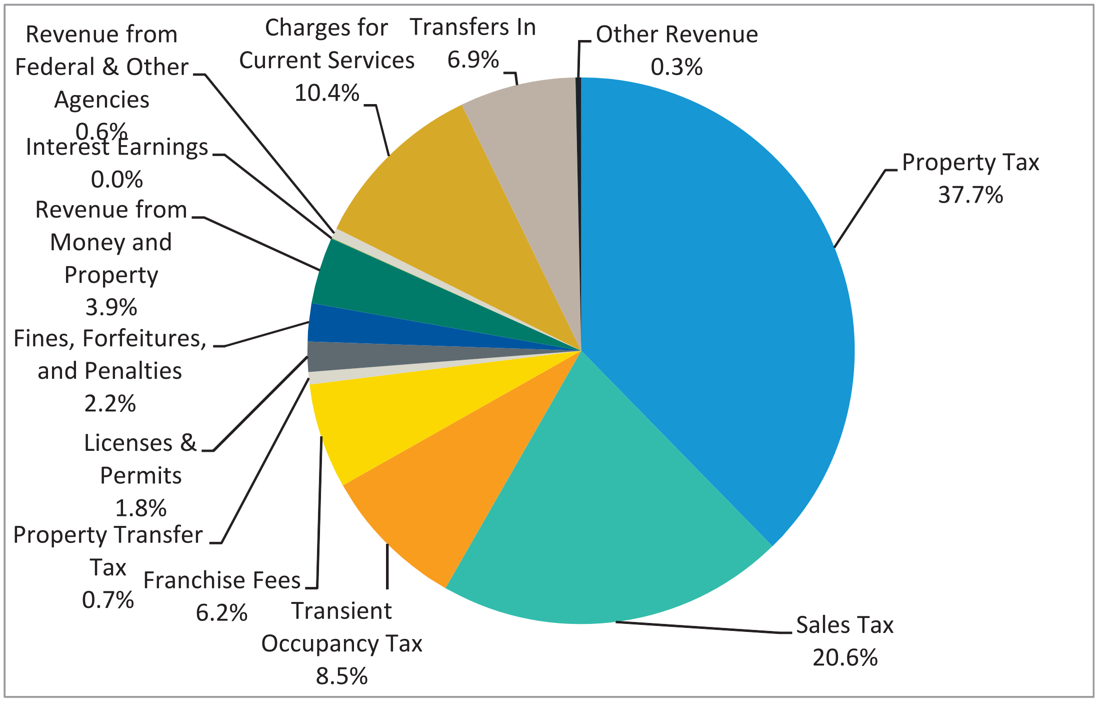
General Fund Revenues

Table 2: Fiscal Year 2017 General Fund Revenues - $1.3 Billion (in millions)

Revenue Category	FY 2015 Actual	FY 2016 Adopted Budget	FY 2017 Proposed Budget	FY 2016 - FY 2017 Change	Percent Change	% of Total General Fund Revenue
Property Tax	$ 449.2	$ 470.1	$ 499.7	$ 29.6	6.3%	37.7%
Sales Tax	256.5	285.8	272.8	(13.0)	(4.5)%	20.6%
Transient Occupancy Tax	98.1	102.2	113.4	11.2	11.0%	8.5%
Franchise Fees	81.3	80.8	82.6	1.8	2.2%	6.2%
Property Transfer Tax	8.7	8.4	9.6	1.2	14.7%	0.7%
Licenses & Permits	24.7	24.1	23.9	(0.2)	(0.9)%	1.8%
Fines, Forfeitures, and Penalties	30.2	29.7	29.8	0.1	0.4%	2.2%
Revenue from Money and Property	50.7	45.8	52.2	6.4	14.0%	3.9%
Interest Earnings	0.6	0.5	0.6	0.1	27.4%	0.0%
Revenue from Federal & Other Agencies	12.0	6.9	8.1	1.3	18.3%	0.6%
Charges for Current Services	120.9	129.6	138.3	8.8	6.8%	10.4%
Transfers In	76.7	93.6	91.0	(2.7)	(2.9)%	6.9%
Other Revenue	11.5	4.6	4.3	(0.3)	(7.5)%	0.3%
Total	**$ 1,221.2**	**$ 1,281.9**	**$ 1,326.2**	**$ 44.3**	**3.5%**	**100.0%**

The major General Fund revenue projections included in the Fiscal Year 2017 Proposed Budget are based on Fiscal Year 2016 year-end projections and economic data through February 2016, the most recent information available at the time the proposed budget was developed. Changes in the local, State, and national economies can impact each of the General Fund revenue sources, and the possible effects on the City's finances in Fiscal Year 2017 are outlined below. As such, the City ensures its strong financial position by developing conservative but sound estimates, adhering to prudent reserve policies and close monitoring. Revenue projections will be updated in the May Revision.

Figure 1: Fiscal Year 2017 General Fund Revenues - $1.3 Billion



San Diego's Economic Environment[1]

Development of the Fiscal Year 2017 Proposed Budget incorporates a positive, yet disciplined, economic outlook that balances the continuing trend of increasing key economic factors with uncertainty associated with the stock market and a slowly growing economy.

Although local economic indicators have modestly improved throughout Fiscal Year 2016, the rate of improvement in several local indicators has slowed when compared to the past two fiscal years. This trend of moderate improvement in local economic indicators is anticipated to continue throughout Fiscal Year 2017. The overall expectation and projection for the City's revenues is consistent with information received from the City's sales tax consultant, the San Diego Tourism Authority, and the UCLA Anderson Forecast.

The Fiscal Year 2017 Proposed Budget includes projected increases in three of the four General Fund major revenues - property tax, TOT, and franchise fees - based on the continuing improvement in local economic indicators. The Fiscal Year 2017 Proposed Budget for property tax assumes that the City will experience 5.25 percent growth in the assessed valuation based on improvement in the local real estate market. The Fiscal Year 2017 Proposed Budget for TOT is projected to increase by 6.0 percent based on anticipated growth in local tourism and business travel. Lastly, Franchise fees are projected to increase in the Fiscal Year 2017 Proposed Budget primarily due to an assumed growth rate of 2.0 percent in San Diego Gas & Electric (SDG&E) franchise fee payments to the City while cable franchise fee payments are projected to be flat.

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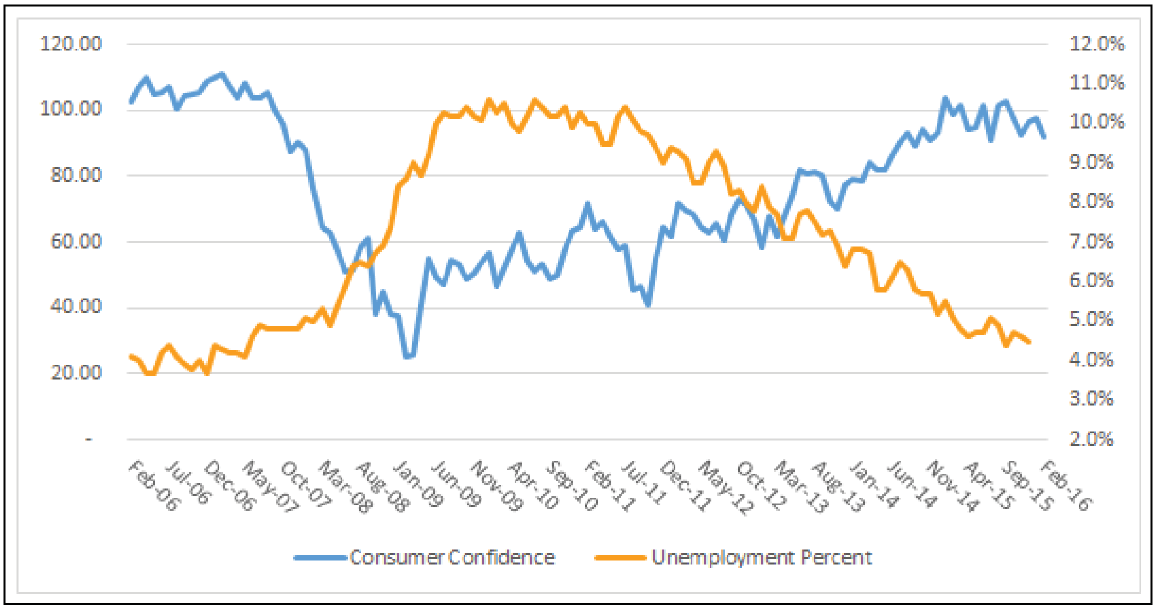
[1] The following sources were used in this section: National Bureau of Economic Research, California Employment Development Department, United States Bureau of Labor Statistics, California State Board of Equalization, University of San Diego Index of Leading Economic Indicators, HdL Companies, San Diego County Assessor / Recorder / Clerk's Office, San Diego Association of Governments, United States Bureau of Labor Statistics, S&P Dow Jones Indices LLC, and Moody's Investor Services, UCLA Anderson Forecast, San Diego Tourism Authority, and The Conference Board.

General Fund Revenues

However, the projected growth of 3.5 percent in sales tax reflects a decrease of 0.5 percent in the growth rate previously utilized in the Fiscal Year 2017-2021 Five-Year Financial Outlook, primarily due to lower fuel prices and relatively flat spending growth in general consumer goods. Although point of sales transactions are anticipated to grow in Fiscal Year 2017, the proposed budget for Sales Tax is decreasing from the Fiscal Year 2016 Adopted Budget due to the removal of one-time revenues accounted for in Fiscal Year 2016, which is described further in the Sales Tax section. The four General Fund major revenues are discussed in further detail in the following sections.

Main economic drivers of General Fund revenues include consumer discretionary spending and housing market indicators, such as home sales and prices. Consumer discretionary spending is greatly influenced by levels of unemployment and consumer confidence. Since the end of the recession, the unemployment rate for the City of San Diego has continued to improve steadily. As of December 2015, the unemployment rate has decreased to 4.5 percent which is lower than the unemployment rate prior to the recession in December 2007. Likewise, consumer confidence has increased 78.3 percent from index level low of 51.7 in March 2009 to 92.2 as of February 2016.

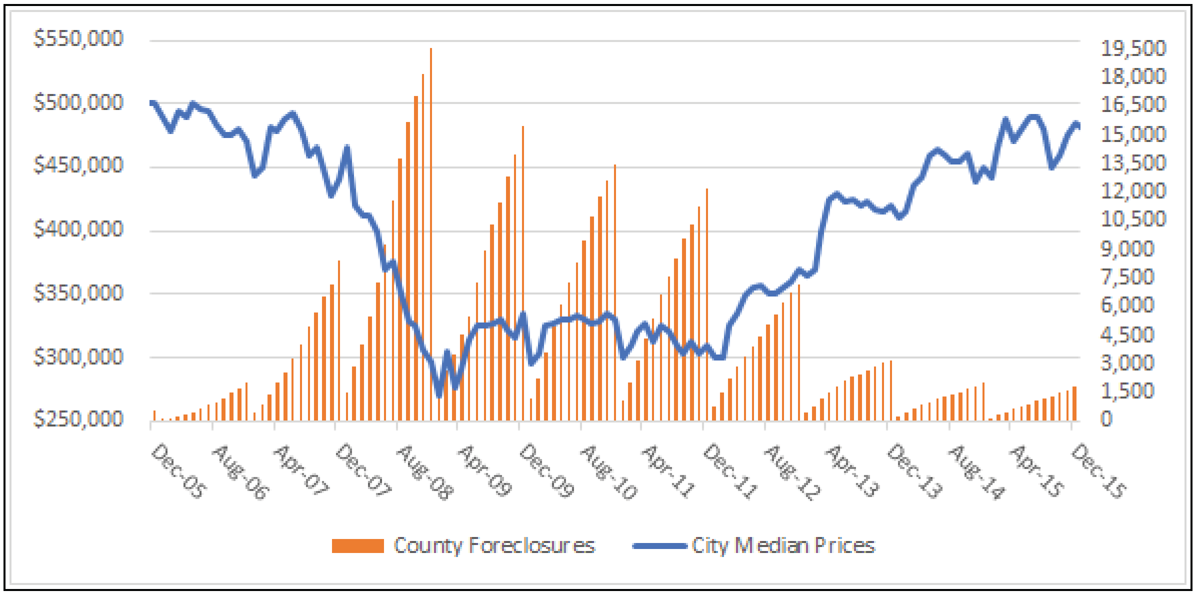
Figure 2: San Diego Consumer Confidence and Unemployment



Source: The Conference Board, California Employment Development Department

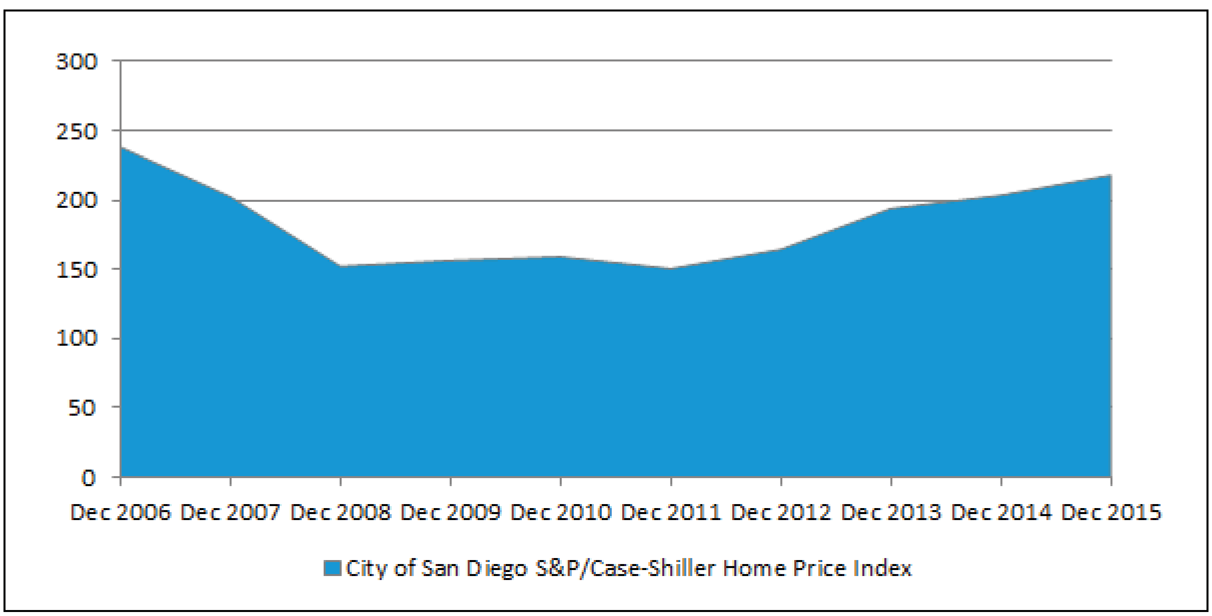
Citywide median home prices have increased from low levels in Fiscal Year 2009. The San Diego median home price as of December 2006 was $495,000, which decreased to a low of $284,435 in January 2009, and has subsequently increased to $480,000 as of January 2016. In addition, the S&P/Case-Shiller Home Price Index also remains below the market peak of 250.34 in November 2005. The home price index as of December 2015 was 218.0, a 7.1 percent increase over the December 2014 index of 203.46.

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



Source: HdL Companies, 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

General Fund Revenues

Development of the Fiscal Year 2017 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 2017 Proposed Budget.

Updated indicators are presented below as available:

- The Index of Leading Economic Indicators for San Diego County as of January 2016 was 139.6, which is an increase of 4.0 percent from the January 2015 index level of 134.2 (University of San Diego Index of Leading Economic Indicators).
- Home sales in the City of San Diego for the twelve month period from March 2015 to February 2016 totaled 16,386 which is an increase of 7.8 percent from the 15,200 home sales from the prior twelve month period from March 2014 to February 2015 (HdL Companies).
- As of January 2016, the citywide median home price was $480,000 which is an 8.5 percent increase from the January 2015 median home price of $442,500 (HdL Companies).
- The S&P/Case-Shiller Home Price Index for the City of San Diego was 218.00 as of December 2015, a 7.1 percent increase over the December 2014 index of 203.46.
- Countywide foreclosures for the twelve month period from March 2015 to February 2016 totaled 1,750 which is a decline of 8.3 percent from the previous twelve month period from March 2014 to February 2015 total of 1,908. Notices of default, an indicator of potential future foreclosure levels, totaled 5,135 for the twelve month period from March 2015 to February 2016, a decline of 10.2 percent from the 5,720 experienced in the previous twelve month period from March 2014 to February 2015 (County of San Diego Assessor/Recorder/Clerk's Office).
- The City of San Diego's unemployment rate was 4.5 percent as of January 2016, a decrease of 1.0 percent from the 5.5 percent unemployment rate as of January 2015 (State of California Employment Development Department).
- As of February 2016, the National Consumer Confidence Index was 92.2, which is a decrease of 6.7 percent from the February 2015 index of 98.8 (The Conference Board).

Property Tax

Background

Total City Budget
$528.3 million

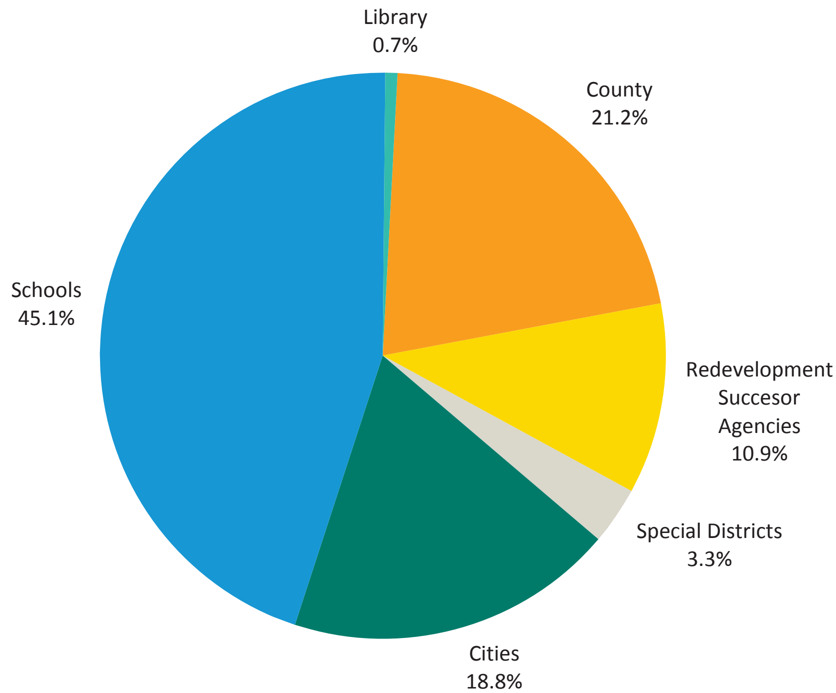
General Fund Budget
$499.7 million

Percent of General Fund
37.7 percent

Property tax revenue is the City's largest revenue source, representing 37.7 percent of total General Fund revenue. Property tax revenue is collected by the San Diego County Tax Collector from a 1.0 percent levy on the assessed value of all real property. Proposition 13, passed by voters in 1979, specifies that a property's assessed value may increase at the rate of the California Consumer Price Index, but cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value.

The 1.0 percent property tax levy is collected and distributed to a number of agencies, including the County, the City, school districts, and special districts. For every $100 collected, the allocation to the cities in San Diego County total $18.80, 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.

Figure 5: Fiscal Year 2017 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 2017, the property tax administration fee for the City is estimated to be $4.4 million, an increase of $0.2 million over the FY 2016 Adopted Budget of $4.2 million.
- Beginning in Fiscal Year 2005, the Motor Vehicle License Fee (MVLF) rate was reduced from 2.0 percent to 0.65 percent resulting in less revenue received by the City, which was replaced dollar-for-dollar with property tax, resulting in a property tax revenue increase.
- As a 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). 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 $13.6 million in Fiscal Year 2017, a decrease of $0.2 million from the FY 2016 Adopted Budget of $13.8 million.

- During Fiscal Year 2015, the San Diego County Auditor-Controller implemented a court decision in a lawsuit between Los Angeles Unified School District and the County of Los Angeles regarding the calculation of residual RPTTF distributions. As a result of the lawsuit, the ERAF will be included in the calculation of the property tax allocation base of the local school districts. The share of the school districts in statutory tax-sharing payments and residual balance distribution from the RPTTF will increase by multiple percentage points, and the share of all other local taxing entities, including the City, will decrease collectively by a corresponding number of percentage points. The City’s share will range from 17.0 to 22.0 percent.
- Approved in September 2015, Senate Bill 107 (SB 107) allowed the City to resubmit previously denied enforceable obligations for reconsideration by the Department of Finance (DOF). As part of Recognized Obligation Payment Schedule (ROPS) 10, several previously denied items have been approved by the DOF as enforceable obligations. This increase in approved enforceable obligations increases the amount of RPTTF funding to the City as the Successor Agency; however, decreases projected residual tax sharing payments to the General Fund.

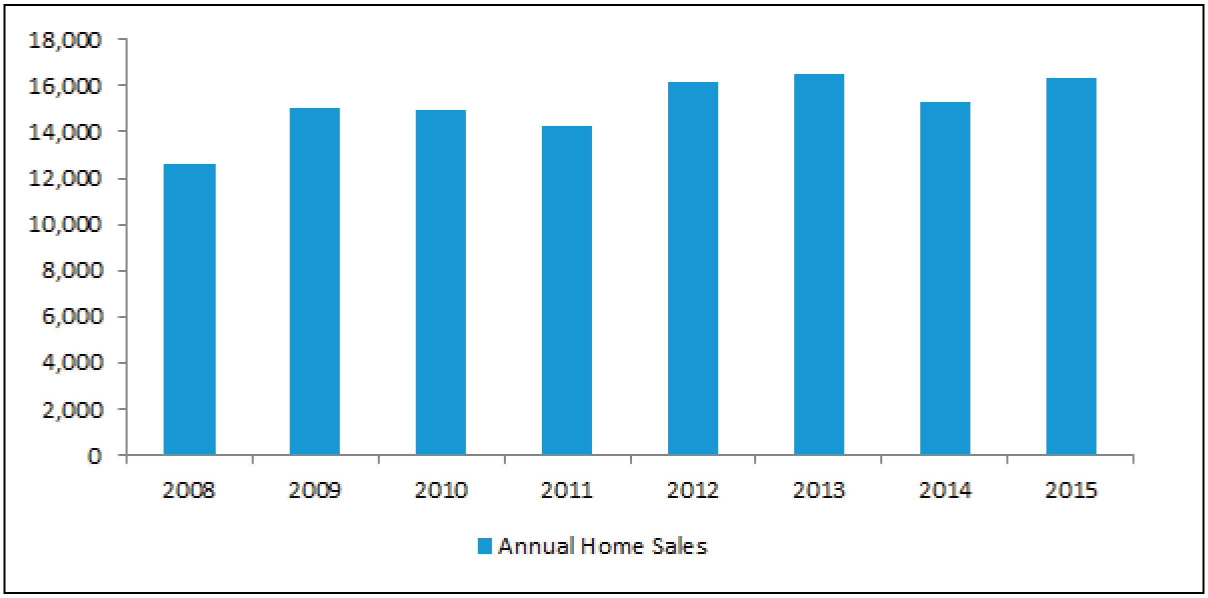
Economic Trends

While the local residential housing market continued to experience improvement in Fiscal Year 2016, the growth rate for the Fiscal Year 2017 Proposed Budget is based on the entire calendar year 2015 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. The assessed value of each property is determined as of January 1st each year; however, the resulting property tax payments based on this assessed valution are not due from property owners until December and April of the following year. Due to this delay, property tax revenue projections do not fully reflect recent market activity.

The economic recession that began late in calendar year 2007 had a significant negative impact on 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 2015 totaled 1,853, a decline of 9.0 percent over the prior twelve month period total of 2,036. Notices of default totaled 5,142 over the same time period, a decline of 12.2 percent from the calendar year 2014 count of 5,855. Less foreclosure activity strengthens the local real estate market as there are less homes selling as short sales, at auction, or as bank owned properties. Typically, short sales, auctions, or bank owned properties sell at a lower price, and as a result, bring down the market’s median home price. With fewer foreclosures on the market, homes are able to sell at full market value, thus supporting the market’s median home price, and strengthening the local real estate market.

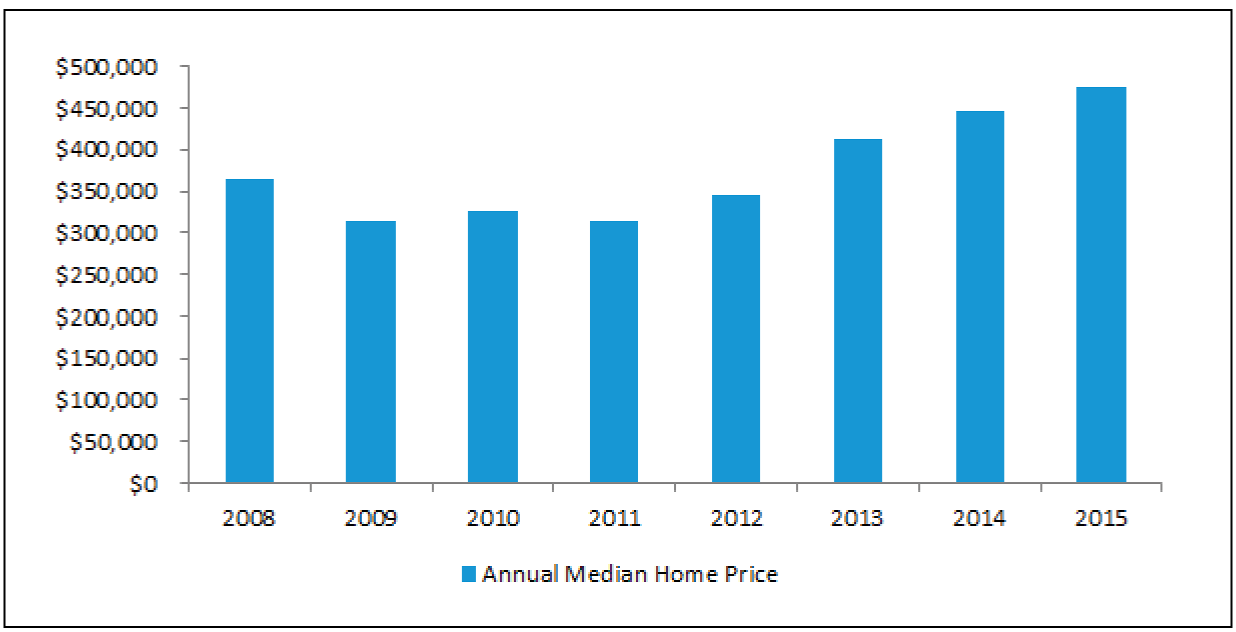
Home sales in the City of San Diego increased in calendar year 2015, as the City recorded 16,355 sales, a 6.6 percent increase over the calendar year 2014 home sales total of 15,337. This is 4.0 percent greater than, or 633 home sales above, the 5-year average home sales count of 15,722. In addition to the increase in total home sales, the median home sales price also showed signs of improvement during calendar year 2015. The median citywide home price for calendar year 2016 was $475,000, which is an increase of 6.3 percent from the calendar year 2014 median home price of $446,750. It is anticipated that the median home price in the City of San Diego will continue to improve during Fiscal Year 2017 as the number of foreclosed properties continues to decrease and homes inventories stay low.

Figure 6: City of San Diego Home Sales (calendar year)



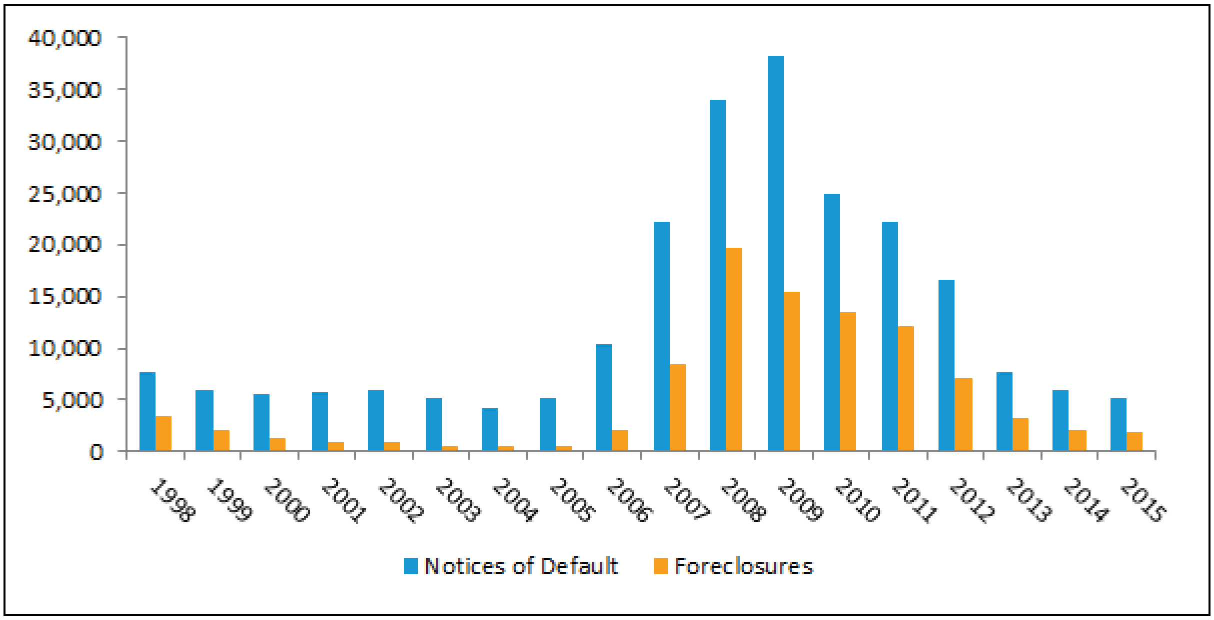
Source: HdL Companies

Figure 7: City of San Diego Annual Median Home Price (calendar year)



Source: HdL Companies

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



Source: San Diego County Assessor/Recorder/County Clerk

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 December 2015 was 250.711, a 2.4 percent increase over the December 2014 CCPI of 244.812. The increase in the December 2015 CCPI, along with the 6.1 percent increase in the median home price is anticipated to drive the growth in assessed valuation, leading to the projected increase in the Fiscal Year 2017 property tax budget.

In addition to the continued steady growth of the local residential real estate market, the local commercial real estate market is showing signs of strengthening as well. According to a recent annual ranking of commercial real estate investment markets by Coldwell Banker Commercial, San Diego ranked seventh out of 80 U.S. markets. In addition, at a recent commercial real estate conference presented by the University of San Diego’s Burnham-Moores Center for Real Estate, it was noted that San Diego has the potential to outperform the overall U.S. market in 2016, primarily due to the life sciences and technology industries. Notable commercial sales in the City include the sale of the Qualcomm building for $105.0 million, Sorrento Mesa Campus for $85.5 million and Towne Centre Technology Park for $83.8 million.

Improvements to the labor market has lowered unemployment rates to near historic averages, and is contributing to the growth in the local real estate market. The City of San Diego's unemployment rate decreased to 4.5 percent as of January 2016, an improvement of 100 basis points from the January 2015 unemployment rate of 5.5 percent. The State of California's unemployment rate was 5.8 percent as of January 2016.

Fiscal Year 2017 Proposed Budget

The Fiscal Year 2017 Proposed Budget for property tax is $499.7 million, which assumes 5.25 percent growth for the base property tax (Proposition 13) and "in-lieu of motor vehicle license fee" payment. The $499.7 million property tax budget consists of an estimated $352.6 million in base property tax (Proposition 13), $128.4 million "in-lieu of motor vehicle license fee" payment, $5.1 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA), and $13.6 million in anticipated residual property tax payments. As a result of the dissolution of the RDA, the tax sharing pass-through payments will be received as part of the Recognized Obligations Payment Schedule (ROPS) and therefore will be recognized as property tax revenue. The residual property tax payments are the City's proportionate share of funds remaining in the Redevelopment Property Tax Trust Fund (RPTTF) after ROPS requirements have been met.

The 5.25 percent growth rate projected for Property Tax in Fiscal Year 2017 is based on increases in the median home price, a positive 1.525 percent increase in California CPI, along with less foreclosures. This positive growth rate is also attributed to 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 2016.

Table 3: Fiscal Year 2017 Proposed Property Tax Budget

		(in millions)
Base Property Tax	$	352.6
Property Tax "In-Lieu" of MVLF		128.4
Tax Sharing Distribution		5.1
Residual Tax Sharing		13.6
Total Property Tax	**$**	**499.7**

Sales Tax

Background

Total City Budget
$314.3 million

General Fund Budget
$272.8 million

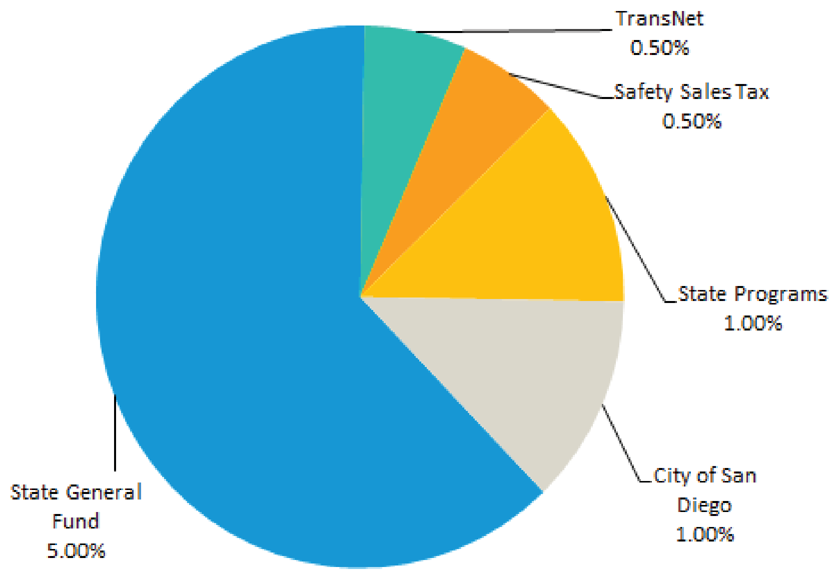
Percent of General Fund
20.6 percent

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

The total citywide sales tax rate in San Diego is 8.0 percent. Included in the 8.0 percent sales tax rate are three voter approved supplemental sales tax add-ons: TransNet Extension Ordinance and Expenditure Plan (TransNet); safety sales tax; and Proposition 30, 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.

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



Economic Trends

The City of San Diego has experienced slight growth in Sales Tax Revenue through three quarters of Fiscal Year 2016 but at a slower rate than anticipated. **Table 4**: City of San Diego Calendar Year Sales Tax Revenue displays revenue for quarters one through three of Calendar Year 2015 compared to quarters one through three of Calendar Year 2014. As shown below, the Transportation category experienced a decline primarily due to significantly lower fuel prices which were partially offset by growth in auto sales. It was anticipated that due to the drop in fuel prices, growth in 2015 general consumer goods would increase; however, there was only marginal growth in this category. In conjunction with positive tourism trends, above average growth is noted in the Food Products category reflecting strong receipts in hotels and fine dining.

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

Economic Category	Calendar Year 2014	Calendar Year 2015	% Change
General Retail	$ 43.4	$ 43.7	0.7%
Food Products	$ 40.5	$ 43.5	7.4%
Transportation	$ 42.8	$ 40.5	-5.4%
Business to Business	$ 27.8	$ 28.7	3.1%
Construction	$ 12.7	$ 13.0	3.0%

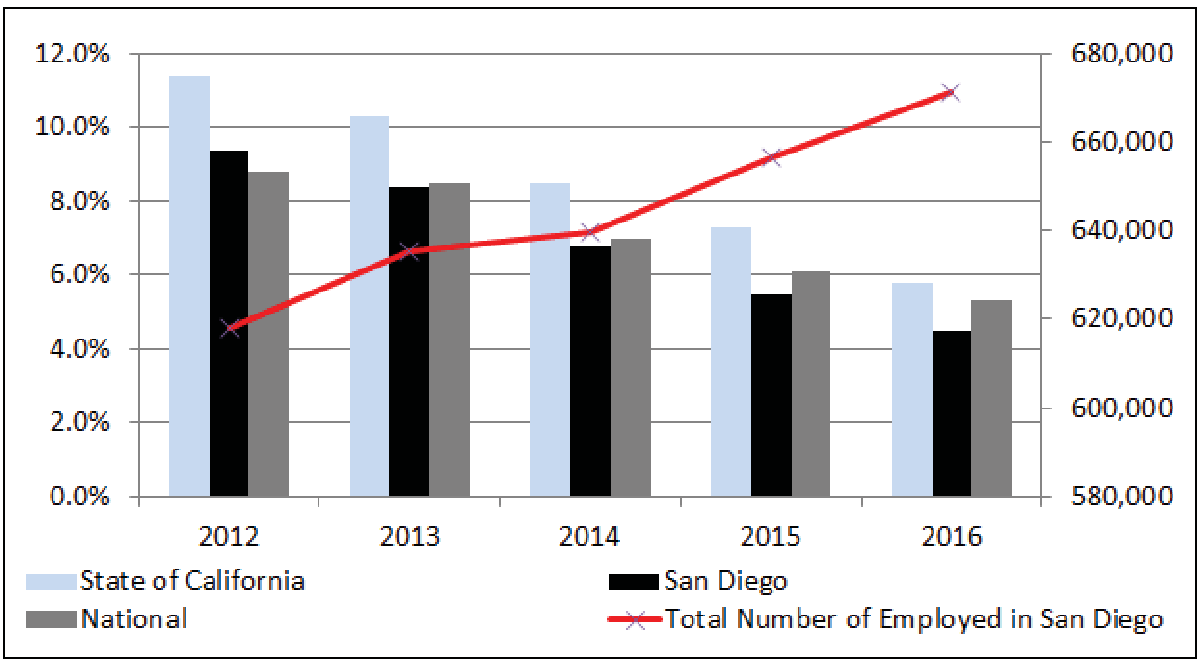
Source: Source: HdL Companies

According to the most recent forecast (January 2016) from the State Board of Equalization, statewide taxable sales are forecasted to have an average growth rate of 5.3 for Fiscal Year 2017. The UCLA Anderson Forecast (December 2015) projects growth of 4.3 percent in taxable sales for California in calendar year 2017; a slight decrease from the calendar year 2016 growth of 4.6. Additionally, the report notes the current marginal upward trend in sales tax will continue due to projected increases in consumption and a gradual increase in residential construction.

According to the University of San Diego Index of Leading Economic Indicators, consumer confidence has grown from calendar year 2015 and into calendar year 2016 as unemployment rates continue to improve.

In January 2016, the California Employment Development Department reported San Diego's unemployment rate at 4.5 percent and the State of California's unemployment rate at 5.8 percent, as shown in **Figure 10**. In addition to being lower than the State's unemployment rate, the City of San Diego's unemployment rate is also lower than the national unemployment rate of 5.3 percent as of January 2016.

Figure 10: Unemployment Rates (January 2016)



Source: State of California, Employment Development Department

Fiscal Year 2017 Proposed Budget

The Fiscal Year 2017 Proposed Budget for sales tax of $272.8 million is based on the Fiscal Year 2016 year-end projection and assumes 3.5 percent growth for Fiscal Year 2017.

The Fiscal Year 2017 Proposed Budget assumes a continuation of strong sales in the hotel/ restaurant industry, a slight improvement in construction spending, and some growth in fuel. Unemployment rates, consumer spending, other economic indicators will continue to be monitored and have been factored into the moderate 3.5 percent growth rate assumed in the Fiscal Year 2017 Proposed Budget.

In addition, as of January 1, 2016, the City has reverted back to receiving the full one-cent Bradley Burns Tax rate due to the end of the "triple-flip", which was enacted by the State of California in Fiscal Year 2005 to pay economic recovery bonds. Due to the City's accrual practices, Fiscal Year 2016 recognized one-time revenue of $12.7 million. The Fiscal Year 2017 Proposed Budget reflects a reduction of this one-time revenue.

General Fund Transient Occupancy Tax (TOT)

Background

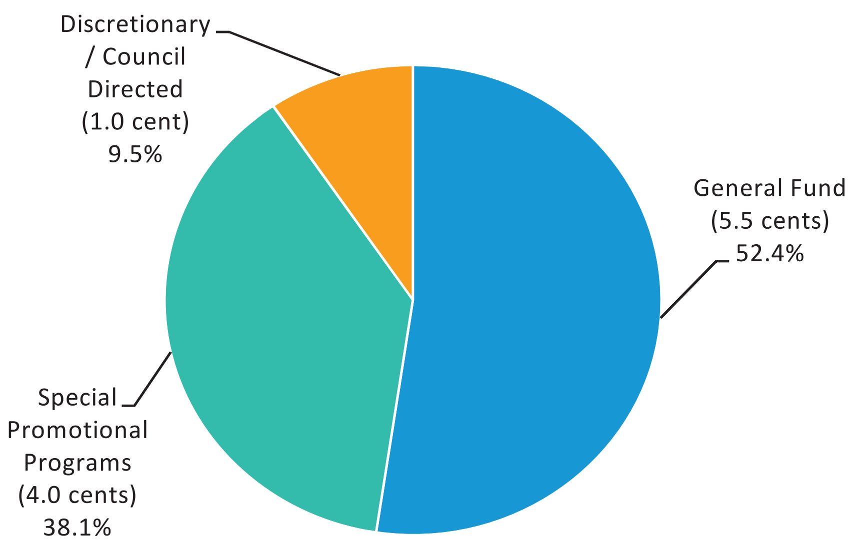
Transient occupancy tax (TOT) makes up 8.5 percent of the General Fund revenue budget and is levied at 10.5 cents per dollar of the daily room price of hotels, motels, and vacation rentals in which the transients stay is less than one month. The use of TOT is guided by the City's Municipal Code which 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.

Total City Budget
$216.5 million

General Fund Budget
$113.4 million

Percent of General Fund
8.5 percent

Figure 11: City of San Diego Transient Occupancy Tax Allocation



Economic Trends

Locally, tourism and overnight visitor growth in Fiscal Year 2016 performed stronger in Fiscal Year 2016 than anticipated. Visitor trends are expected to continue to grow throughout the remainder of calendar year 2016 and into 2017; however, at a slightly slower pace according to the December 2015 Bi-annual Travel Forecast from the San Diego Tourism Authority (SDTA).

Overall, visitor growth in the San Diego region during calendar years 2016 and 2017 is projected at 2.3 percent and 2.0 percent, respectively, with overnight visitor growth of 2.3 percent and 2.3 percent during the same periods. Growth in room demand is projected to be 2.6 percent and 2.1 percent for calendar years 2016 and 2017, respectively.

San Diego hotels total approximately 309 with nearly 43,379 hotel rooms of which 41,198 are part of the TMD. Approximately 1,258 new hotel rooms are expected to be added within the City limits by the end of calendar year 2016.

Table 5 illustrates hotel performance in San Diego since calendar year 2013 and projections for calendar years 2016 and 2017.

Table 5: 2013 - 2017 San Diego County Tourism

San Diego County Visitor Industry						
	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016[1]	CY 2017[1]
Visitors						
Total Visits (millions)	32.3	33.1	33.8	34.2	35.0	35.7
Overnight Visits (millions)	16.1	16.4	16.9	17.1	17.5	17.9
Hotel Sector						
Avg. Occupancy	70.5%	71.6%	74.6%	76.6%	77.0%	77.5%
Avg. Daily Rate	$ 131.22	$ 134.94	$ 141.38	$ 149.70	$ 157.76	$ 164.70
Rev PAR[2]	$ 92.56	$ 96.61	$ 105.48	$ 114.70	$ 121.40	$ 127.68
Room Demand (growth)	2.8%	2.4%	6.4%	3.8%	2.6%	2.1%

Source: San Diego Tourism Authority and Tourism Economics

[1] Forecast - Tourism Economics, December 2015

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

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 supply is holding up as projects in the pipeline are expected to increase room supply. The overall hotel occupancy rate is anticipated to increase to 77.0 percent in calendar year 2016 from 76.6 percent in calendar year 2015. Total occupancy is projected to increase to 77.5 percent in calendar year 2017.

The average daily rate (ADR) is expected to reach $157.76 for calendar year 2016, a 5.4 percent increase over calendar year 2015, and $164.70 in calendar year 2017, an increase of 4.4 percent over calendar year 2016 projections. **Figure 12** illustrates hotel Average Daily Rates in San Diego since calendar year 2012 and projections for calendar years 2016 and 2017. The high average daily rate in 2016 along with the projected increase in visitor growth will contribute to the upcoming TOT growth in 2017.

General Fund Revenues

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

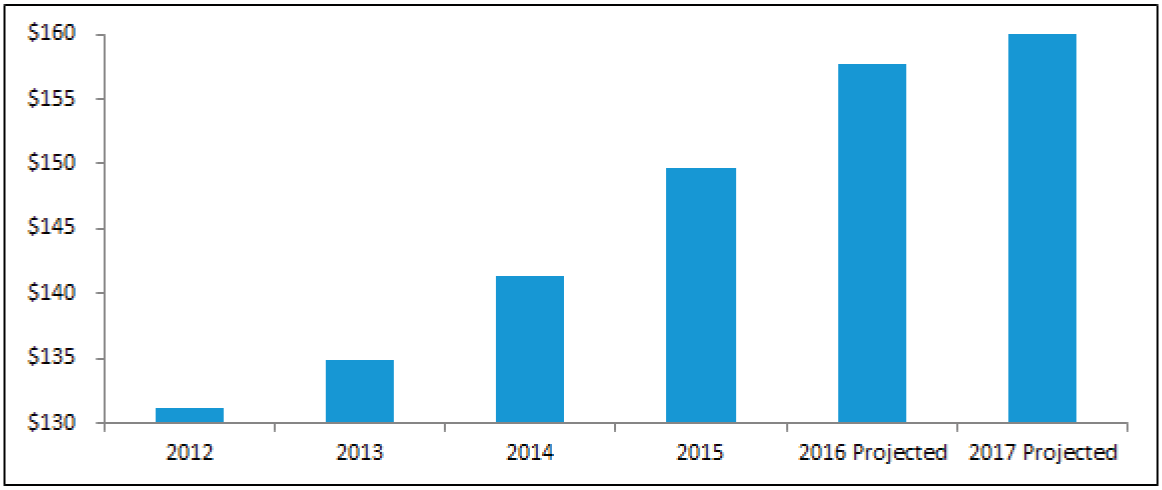
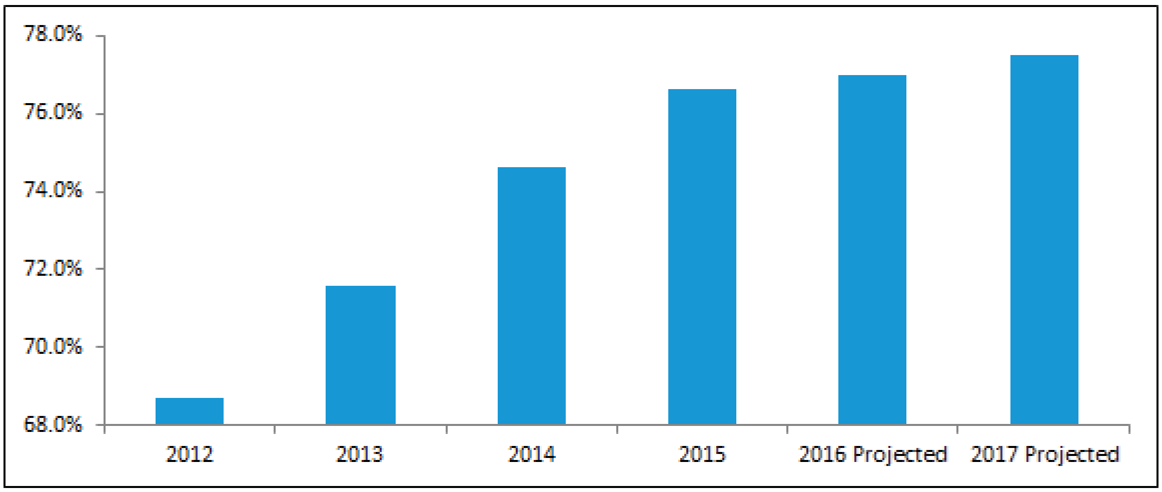


Figure 13: San Diego Hotel Occupancy Rate (calendar year)



Fiscal Year 2017 Proposed Budget

The Fiscal Year 2017 total Transient Occupancy Tax budget for the City of San Diego is $216.5 million, which incorporates a 6.0 percent growth rate over the Fiscal Year 2016 year-end projection. For Fiscal Year 2016, the adopted budget assumed a growth rate of 6.0 percent; for the Mid-Year Budget Monitoring Report the growth rate was increased to 7.0 percent and in preparation for the Year-End Budget Monitoring Report, the growth rate was further increased to 8.0 percent. The increases in the growth rate during Fiscal Year 2016 reflects the hotel industry in San Diego out pacing occupancy rates and prices compared to both California and the United States, especially during the winter months. Although growth in TOT receipts is expected to continue through the remainder of calendar year 2016 and into 2017, it is expected to be at a slower pace, supporting the 6.0 percent growth rate for Fiscal Year 2017. This is also consistent with the Tourism Marketing District's (TMD) projected growth rate.

Of the $216.5 million, $113.4 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.

Franchise Fees

Background

Total City Budget
$163.4 million

General Fund Budget
$82.6 million

Percent of General Fund
6.2 percent

Franchise fee revenue makes up 6.2 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, cable companies, and Cal AM is based on a percentage of gross sales while the revenue received from refuse haulers is based on tonnage.

SDG&E, 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%) and the Environmental Growth Funds (25.0%), according to the City Charter. In addition, the City receives a 3.53 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. Revenue received from franchise fees on cable providers are generated by collecting 5.0 percent of gross revenues from Cox Communications, Time Warner Cable, and AT&T.

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

Fiscal Year 2017 Proposed Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2017 Proposed Budget for SDG&E franchise fee revenue of $65.6 million is based on the Fiscal Year 2016 year-end projection and assumes a 2.0 percent growth rate for Fiscal Year 2017. The projected growth rate of 2.0 percent is based on the average growth of actual receipts in previous years.

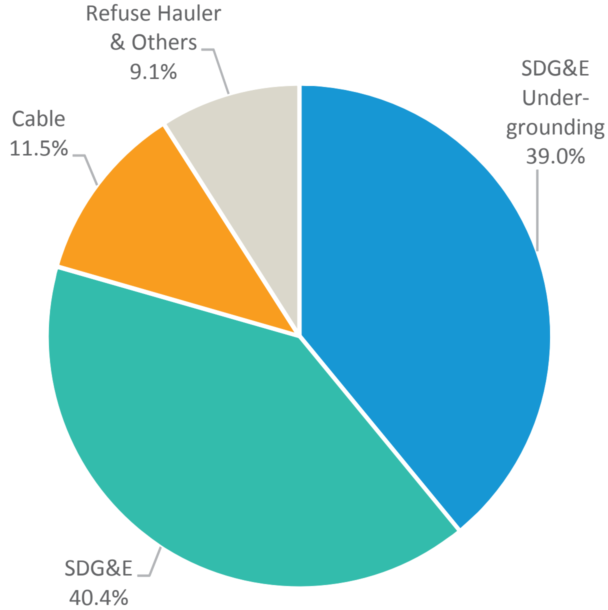
In accordance with the City Charter, 25.0 percent of revenue received from SDG&E, or $16.5 million, is to be deposited into the Environmental Growth Funds (EGF). One-third of the EGF is used to fund the maintenance of parks; the remaining two-thirds are designated for parkland maintenance and debt service payments for open space acquisitions. With no debt currently outstanding in the EGF, all funds will be utilized for park and open space maintenance in Fiscal Year 2017. The remaining revenue balance of approximately $49.2 million received from SDG&E franchise fees is allocated to the General Fund.

CABLE COMPANIES. The Fiscal Year 2017 Proposed Budget for cable franchise fee revenue of $18.7 million is based on the Fiscal Year 2016 year-end revenue projection and assumes a 0.0 percent growth rate for Fiscal Year 2017. The projected growth rate of 0.0 percent is based on the average growth of actual receipts in previous years.

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2017 Proposed Budget for refuse hauler franchise fee revenue from private refuse haulers is $10.5 million and is based on the Fiscal Year 2016 year-end revenue projection. The City also anticipates an additional $1.7 million in franchise fees from the EDCO and Sycamore Landfill facilities, $1.5 million in revenue related to the Police Department vehicle tow program, and $1.1 million from other franchise fee sources.

UNDERGROUNDING UTILITY FEE. The Fiscal Year 2017 Proposed Budget for SDG&E undergrounding utility fee revenue of $63.2 million is based on the current Fiscal Year 2016 year-end revenue projection. This revenue is budgeted in the Underground Surcharge Fund.

Figure 14: Franchise Fee Revenue Breakdown



Property Transfer Tax

Background

Total City Budget **$9.6 million**
General Fund Budget **$9.6 million**
Percent of General Fund **0.7 percent**

Property transfer tax makes up 0.7 percent of the General Fund revenue budget and is levied on the sale of real property. The County of San Diego collects $1.10 per $1,000 of the sale price when any real property is sold. The City is credited $0.55 per $1,000 against the County's charge, giving both the County and City each $0.55 per $1,000 of the sale price. The funds are collected by the County upon a sale of real property within City limits and transferred to the City on a monthly basis.

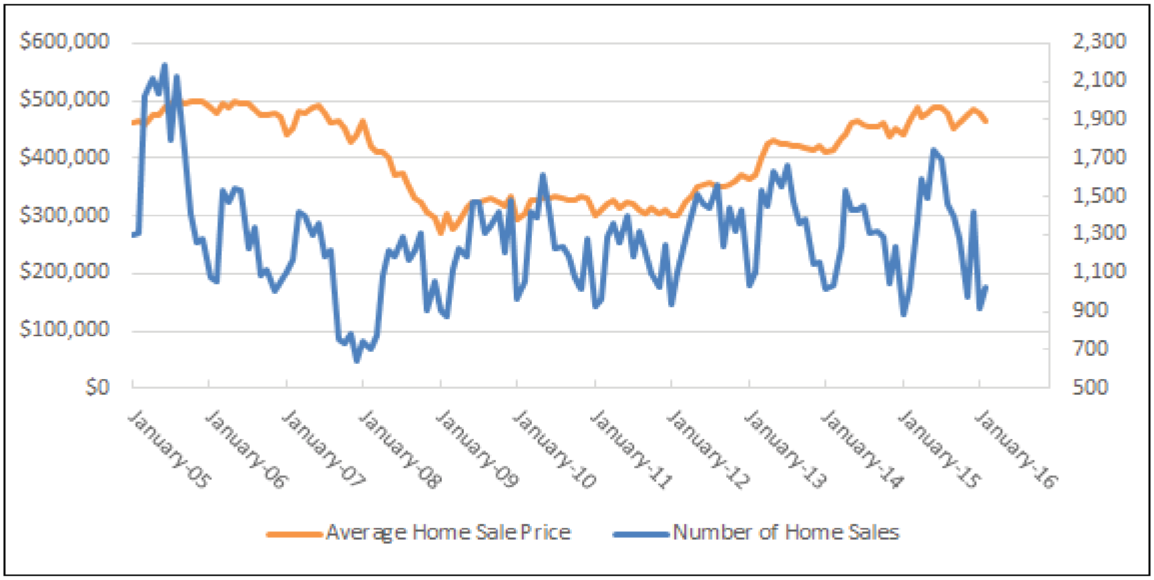
Economic Trends

Unlike property tax revenue, property transfer tax revenue reflects changes to current economic conditions since it does not experience a time lag as with property tax. The economic factors that primarily affect property transfer tax revenue are home sales and prices and both indicators show positive growth trends. Home sales in San Diego from March 2015 to February 2016 totaled 16,386 which is an increase of 7.8 percent from the prior twelve month period total of 15,200. The citywide median home price for January 2016 was $480,000 which is an increase of 8.5 percent from last January's home price of $442,500. In addition, foreclosure activity has declined from 143 in February 2015 to 109 in February 2016, which is a 23.8 percent decrease. Overall, economic conditions demonstrate year-to-date positive improvements.

Fiscal Year 2017 Proposed Budget

The Fiscal Year 2017 proposed property transfer tax budget of $9.6 million is based on Fiscal Year 2016 projections which assumes a 3.0 percent growth for Fiscal Year 2017. The positive growth rate is based on anticipated continued growth in median home prices projected to occur during Fiscal Year 2017.

Figure 15: City of San Diego Home Sales



Source: HdL Companies

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.

Total City Budget
$79.5 million

General Fund Budget
$23.9 million

Percent of General Fund
1.8 percent

Fiscal Year 2017 Proposed Budget

The Fiscal Year 2017 Proposed Budget for licenses and permits is $23.9 million or 1.8 percent of the General Fund revenue budget. This represents a decrease of $0.2 million or 0.9 percent from the Fiscal Year 2016 Adopted Budget. The primary reason for the variance in revenue is a $0.3 million decrease in the Planning Department. Specifically, a decline in Inspection Fees and Permits, Historical Nomination Fees, and Mills Act Application Fee Plan. This decrease is offset by an increase in Refuse Collector Business Tax revenue.

General Fund Revenues

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.

Total City Budget
$30.8 million

General Fund Budget
$29.8 million

Percent of General Fund
2.2 percent

Fiscal Year 2017 Proposed Budget

The Fiscal Year 2017 Proposed Budget for fines, forfeitures, and penalties revenue is $29.8 million or 2.2 percent of the General Fund revenue budget. The Fiscal Year 2017 Proposed budget is $0.1 million or 0.4 percent greater than the Fiscal Year 2016 Adopted Budget. The increase for fines, forfeitures, and penalties is primarily due to a projected increase in litigation awards, attributed to the City Attorney’s Office.

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 rentals and concessions, the majority of which is generated from leases with Sea World, the Marina Village, and the hotels and marinas within Mission Bay Park. Another significant contributing component in the rents and concessions category is revenue from leases for City Pueblo lands.

Total City Budget
$77.0 million

General Fund Budget
$52.2 million

Percent of General Fund
3.9 percent

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 was reduced from $23.0 million and set at $20.0 million by the City Charter beginning in Fiscal Year 2015. 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 2017 Proposed Budget

The Fiscal Year 2017 Proposed Budget for rents and concessions revenue is $52.2 million or 3.9 percent of the General Fund revenue budget. This represents a $6.4 million or 14.0 percent increase from the Fiscal Year 2016 Adopted Budget. The increases can primarily be attributed to a $3.6 million received from City real estate assets, specifically anticipated growth in Mission Bay Park hotel leases and concession rentals. Furthermore, the City is expected to receive an additional $2.6 million in lease revenue from Pueblo Lands, Belmont Park and the Midway/Frontier area properties.

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.

Fiscal Year 2017 Proposed Budget

The Fiscal Year 2017 Proposed Budget for interest earnings revenue is $0.6 million, which represents a $0.1 million or 27.4 percent increase from the Fiscal Year 2016 Adopted Budget. Interest rates have remained historically low since the financial crisis of 2008, however the Federal Reserve has recently embarked on the process of normalization. At the December 16, 2015 Federal Open Market Committee (FOMC) meeting, the Committee raised the Federal Funds target rate from its range of 0-0.25 percent to 0.25-0.50 percent and stated that “economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate.” The Summary of Economic Projections that accompanied the formal statement implied that there could be up to four additional rate increases in 2016, with continued gradual increases in 2017.

Interest Earnings Outlook

When the FOMC embarks upon a rate normalization cycle, interest earnings for Fiscal Year 2017 and beyond should begin a slow and steady rise. 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 this outlook. Markets can be extremely volatile, especially at the beginning of a rate hike cycle, which may result in significant deviation from the current estimate. As the level of interest rates and potential interest rates vary with time, we may adjust rate scenarios with future revisions.

Revenue from Federal & Other Agencies

Total City Budget
$115.5 million

General Fund Budget
$8.1 million

Percent of General Fund
0.6 percent

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 2017 Proposed Budget

The Fiscal Year 2017 Proposed Budget for revenue from federal and other agencies is $8.1 million or 0.6 percent of the General Fund revenue budget. This represents an approximate $1.3 million or 18.3 percent increase from the Fiscal Year 2016 Adopted Budget. The increase from the Fiscal Year 2016 Adopted Budget is attributable to an additional $0.2 million reimbursement from the State for mandated programs, $0.2 million reimbursement to the Economic Development Department from the City's successor agency, and $0.7 million primarily for strike team deployment reimbursements from the State.

Charges for Current Services

Background

Total City Budget
$1,341.4 million

General Fund Budget
$138.3 million

Percent of General Fund
10.4 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, City Comptroller, City Attorney, City Clerk, and Financial Management to all City departments by means of a rate based on the General Government Services Billing (GGSB) standard. The amounts allocated to non-general fund departments are billed and received into the General Fund as revenue to offset the cost of the services provided by these central service departments.

Fiscal Year 2017 Proposed Budget

The Fiscal Year 2017 Proposed Budget charges for current services revenue is $138.3 million or 10.4 percent of the General Fund revenue budget. This represents a net increase of $8.8 million or 6.8 percent increase from the Fiscal Year 2016 Adopted Budget. The Park and Recreation Department is anticipated to receive an increase of $9.5 million in TOT support of tourism related activities. Additionally, this increase is offset by $1.1 million reduction in GGSB rates.

Transfers In

Background

Total City Budget
$157.0 million

General Fund Budget
$91.0 million

Percent of General Fund
6.9 percent

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

Fiscal Year 2017 Proposed Budget

The Fiscal Year 2017 Proposed Budget for Transfers In is $91.0 million or 6.9 percent of the General Fund revenue budget. This represents an approximate $2.7 million or 2.9 percent decrease from the Fiscal Year 2016 Adopted Budget. The primary reason for the decrease is a $7.1 million reduction due to the elimination of the transfer to the San Diego Police Department from the Police Decentralization Fund as a result of its closure in Fiscal Year 2016. In addition, $0.6 million will be transferred from the Automated Container Fund to reimburse the General Fund for seed money provided in Fiscal Years 2008 and 2009 and $5.0 million is anticipated to be transferred into the General Fund from the Bayside Fire Station Capital Improvement Project. Funding was identified in Fiscal Year 2016 but has since been replaced with other eligible cash.

Other Revenue

Total City Budget
$20.8 million

General Fund Budget
$4.3 million

Percent of General Fund
0.3 percent

Fiscal Year 2017 Proposed Budget

Other revenue is composed of library donations, ambulance fuel reimbursements, corporate sponsorships, recovery from damages to City property and other miscellaneous revenues. The Fiscal Year 2017 Proposed Budget for other revenue is $4.3 million or 0.3 percent of the General Fund revenue budget. This represents an approximate $0.3 million or a 7.5 percent decrease from the Fiscal Year 2016 Adopted Budget. The primary reason is less reimbursable revenue for ambulance fuel in the Fire and Rescue Department as a result of lower fuel costs.

State of California Budget Impacts

On January 7, 2016, Governor Brown released the 2016-2017 Proposed Budget appropriating $170.7 billion, including $122.6 billion in the General Fund. In the Governor's Proposed Budget, the primary focuses of spending increases were education, reserves and infrastructure. The 2016-2017 Governor's Budget 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. In accordance with Proposition 2 which sets a goal of having 10 percent of tax revenues to save for the next recession, the budget proposal would provide additional funding to achieve 65 percent of the Rainy Day Fund target. In addition to building reserves in preparation for the next economic downturn, the Governor's budget will increase infrastructure spending for maintenance, repair, and construction to address the State's estimated deferred maintenance of $77 billion. This includes $36 billion over the next decade to improve the maintenance of highways and roads, expand public transit, and improve critical trade routes; an $879 million commitment from the State's general fund to accelerate the repayment of loans to transportation projects; $807 million for critical deferred maintenance at levees, state parks, universities, community colleges, prisons, state hospitals, and other state facilities.

Annual Tax Appropriations Limit (Gann Limit)

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

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

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

The San Diego City Council adopted a resolution in June 2015 that established the Tax Appropriations Limit for Fiscal Year 2016 at $2,101,916,808. Using the Fiscal Year 2016 Proposed Budget and Fiscal Year 2016 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 $946.4 million, which was $1.2 billion lower than the Gann Limit.

The Fiscal Year 2017 Gann Limit calculation will be presented to City Council in June 2016. Adjustment factors used for the computation are released by the California Department of Finance in late May 2016. Therefore, the Fiscal Year 2017 Gann Limit will not be established before the release of the Fiscal Year 2017 Proposed Budget.