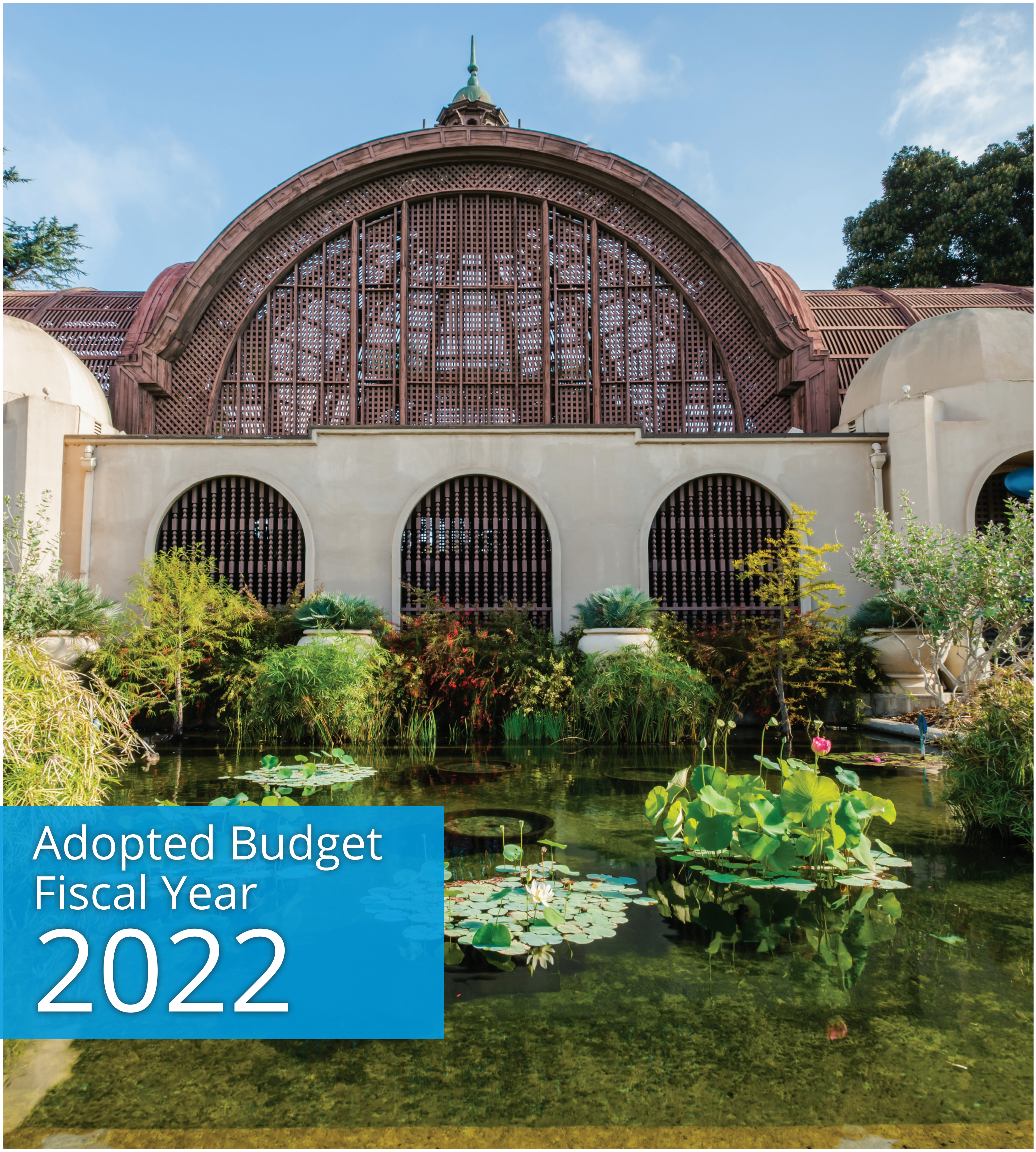

Adopted Budget Fiscal Year 2022

Volume 1

General Fund Revenues

COMMUNITY • DIVERSITY • SUSTAINABILITY • INFRASTRUCTURE

The City of SAN DIEGO

MAYOR TODD GLORIA

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General Fund Revenues

The Fiscal Year 2022 General Fund revenue budget is $1.74 billion, which represents an increase of $122.6 million or 7.6 percent from the Fiscal Year 2021 Adopted Budget. A detailed description of the revenue categories is listed to the right on this page. This section provides background information describing trends, economic factors, and methods of allocation for each revenue source. This information provides insight into the formulation of the Fiscal Year 2022 Adopted Budget for the General Fund revenues, which funds essential City services including police, fire, refuse collection, homeless services, library services, and parks and recreation programs. Volume II of the Budget details the revenues that are generated by departments. The major General Fund revenue projections included in the Fiscal Year 2022 Adopted Budget are based on the Fiscal Year 2021 Third Quarter Budget Monitoring Report (Third Quarter Report) projections, recently released economic data, and the most current information available on the COVID-19 pandemic at the time the Adopted Budget was developed.

Table 1: Fiscal Year 2022 General Fund Revenue Change illustrates the components of the projected $122.6 million, or 7.6 percent increase, in General Fund revenues from the Fiscal Year 2021 Adopted Budget.

Table 1: Fiscal Year 2022 General Fund Revenue Change

	Percent Change from FY 2021 Adopted Budget	Change (in millions)
Major Revenues	9.6%	$ 103.6
Other Revenue Sources	3.5%	19.0
Total	**7.6%**	**$ 122.6**

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 67.0 percent of the City's General Fund revenue in the Fiscal Year 2022 Adopted Budget and are projected to increase by $103.6 million, or 9.6 percent, from the Fiscal Year 2021 Adopted Budget. The increases in the major General Fund revenues is primarily based on the accelerated economic recovery from the COVID-19 pandemic, which is discussed in further detail in the following sections. In addition to the increase in the major General Fund revenues is an increase of $19.1 million in other revenue sources. The increase includes the following changes, will be discussed in more detail later in this report:

- $149.3 million in Coronavirus State and Local Fiscal Recovery Funds. The relief funds are provided through the American Rescue Plan Act of 2021 (ARP), a bill passed by the federal government on March 11, 2021. The American Rescue Plan Act provides additional relief to address the continued impact of COVID-19 and aid to states and local governments for direct and flexible relief. The bill expands on the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 that was enacted on December 27, 2020 and provided economic state and local aid.
- $10.5 million for the recently approved franchise fee agreement minimum bid payment.
- $7.7 million in use of available fund balance in Pension Payment Stabilization fund.

These increases are primarily offset with a reduction of one-time resources from the COVID-19 State and Federal Relief Funds of $146.1 million received in Fiscal Year 2021.

Table 2: Fiscal Year 2022 General Fund Revenues displays each of the revenue categories in the General Fund and includes Fiscal Year 2020 actual amounts, as well the Fiscal Year 2021 Adopted Budget.

Table 2: Fiscal Year 2022 General Fund Revenues (in millions)

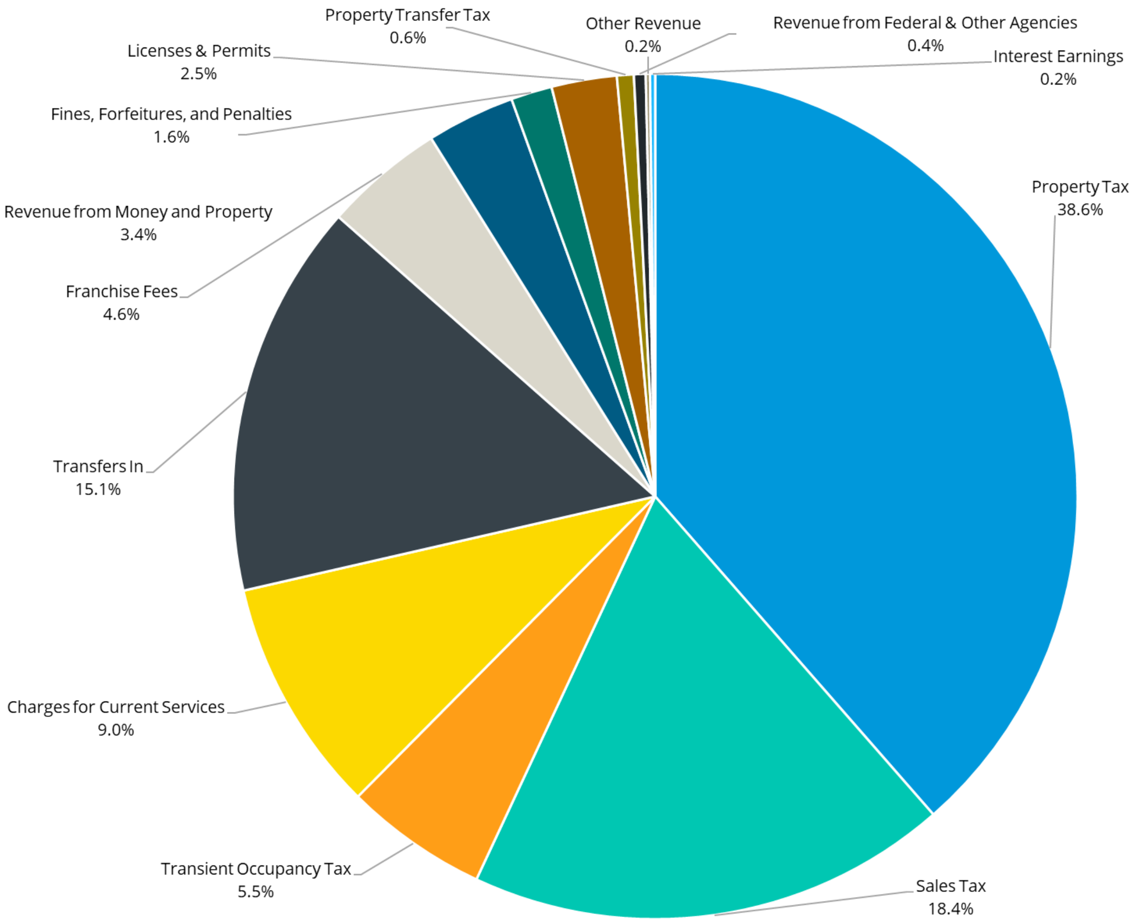
Revenue Category	FY 2020 Actual	FY 2021 Adopted Budget	FY 2022 Adopted Budget	FY 2021 - FY 2022 Change	Percent Change[1]	% of Total General Fund Revenue
Property Tax	$ 609.3	$ 630.6	$ 672.2	$ 41.6	6.6%	38.6 %
Sales Tax	282.8	274.4	320.8	46.4	16.9%	18.4 %
Transient Occupancy Tax	95.2	90.5	95.5	5.0	5.5%	5.5 %
Licenses & Permits	37.8	40.7	43.5	2.9	7.1%	2.5 %
Fines, Forfeitures, and Penalties	25.9	29.7	27.5	(2.2)	(7.5%)	1.6 %
Revenue from Money and Property	61.6	64.5	62.3	(2.2)	(3.4%)	3.6 %
Revenue from Federal Agencies	0.5	146.1	1.4	(144.7)	(99.1%)	0.1 %
Revenue from Other Agencies	7.5	6.6	6.5	(0.1)	(2.1%)	0.4 %
Charges for Current Services	143.3	149.5	156.8	7.3	4.9%	9.0 %
Transfers In	181.5	104.6	263.1	158.5	151.5%	15.1 %
Other Revenue	5.7	3.2	2.8	(0.4)	(12.4%)	0.2 %
Franchise	77.4	69.3	80.0	10.7	15.4%	4.6 %
Property Transfer Taxes	10.1	11.3	11.2	(0.1)	(0.7%)	0.6 %
Negligent Impound	0.0	0.0	0.1	0.1	0.0%	0.0 %
Total	**$ 1,538.5**	**$ 1,620.9**	**$ 1,743.5**	**$ 122.6**	**7.6%**	**100.0 %**

Numbers may not foot due to rounding.

[1] Percent change represents the change from the Fiscal Year 2021 Adopted Budget to the Fiscal Year 2022 Adopted Budget. Budgeted growth rates for revenues may differ, as Fiscal Year 2022 Adopted Budget amounts are based on updated Fiscal Year 2021 projections.

There are continuous improvements as the economy reopens and recovers; however, the rate of economic recovery may vary and the potential rise in other coronavirus variants may impact the recovery. The Department of Finance will continue to monitor the situation closely and will incorporate these changes as needed and report significant changes in quarterly budget monitoring reports. 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 2022 are outlined below.

Figure 1: Fiscal Year 2022 General Fund Revenues - $1.74 Billion



San Diego's Economic Environment[17]

Development of the Fiscal Year 2022 Adopted Budget reflects a steady recovery growth in revenues from the economic recession. Local economic indicators are expected to continue to improve in Fiscal Year 2022; however, not yet reaching full economic recovery in sectors such as tourism. City revenues have declined significantly through Fiscal Year 2021 since the start of the COVID-19 pandemic and economic recession. There have been many fiscal challenges attributed to the COVID-19 pandemic, including a GDP decline of 3.5 percent through calendar year 2020, historic increases in unemployment claims in the region, travel and special event restrictions and an initial decline in consumer spending resulting from temporary business closures and changes in the way goods and services are sold to consumers. Although there is

[17] 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, 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, Beacon Economics, San Diego Tourism Authority, Colliers International, and The Conference Board.

evidence the economy is recovering more quickly than economists originally thought, based on an economic forecast from Tourism Economics—an Oxford Economics Company released in April 2021, it still is projected to take five years for tourism to fully recover to previous recession levels. In addition, despite a current high unemployment rate of 6.2 percent, the UCLA Anderson Forecast states the U.S. unemployment rate may reach pre-pandemic levels by 2023. Prior to the pandemic, the unemployment rate averaged between 3.0 percent to 4.0 percent. 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, Tourism Economics—an Oxford Economics Company, the San Diego Tourism and Marketing District, the UCLA Anderson Forecast, and California independent research firm Beacon Economics at the time the Adopted Budget was developed.

In comparison to the Fiscal Year 2021 Adopted Budget, the Fiscal Year 2022 Adopted Budget includes projected increases to all four major General Fund revenues—property tax, sales tax, transient occupancy tax, and franchise fees—primarily based on the projected beginnings of the economic recovery from the pandemic induced recession.

Included in the projections for the four major General Fund revenues at the time of the preparation of the Adopted Budget are the following key assumptions:

Property Tax

- Collection rate of 98.9 percent due to improved economic conditions
- Growth rate is 4.5 percent based on increasing home prices and home sales

Sales Tax

- Projected to reach pre-pandemic levels in Fiscal Year 2022
- Growth rate is 13.16 percent to account for the accelerated rate of improvement in the economy
- Continued decline in COVID-19 infection rates
- Vaccination rates progressing to goal as outlined by the County of San Diego
- Significant recovery in most impacted business sectors, including restaurants and retail industry

Transient Occupancy Tax

- Vaccine widely available by summer 2021
- Group Travel resumes fall/winter month with restrictions and limited attendance for mega events
- Group travel projected to reach 80.0 percent of 2019 levels by the 4th quarter of Fiscal Year 2022
- No additional COVID-19 restrictions on businesses anticipated in Fiscal Year 2022

Franchise Fees

- No impact on franchise fee revenue from the COVID-19 pandemic according to our analysis

The Fiscal Year 2022 Adopted Budget base property tax assumes that the City will experience 4.50 percent growth based on increasing home prices and home sales. The property tax growth rate is in line with current San Diego County estimates and includes a slight increase in collection rates from Fiscal Year 2021 Adopted Budget, as a result of the continued improvement in the economy.

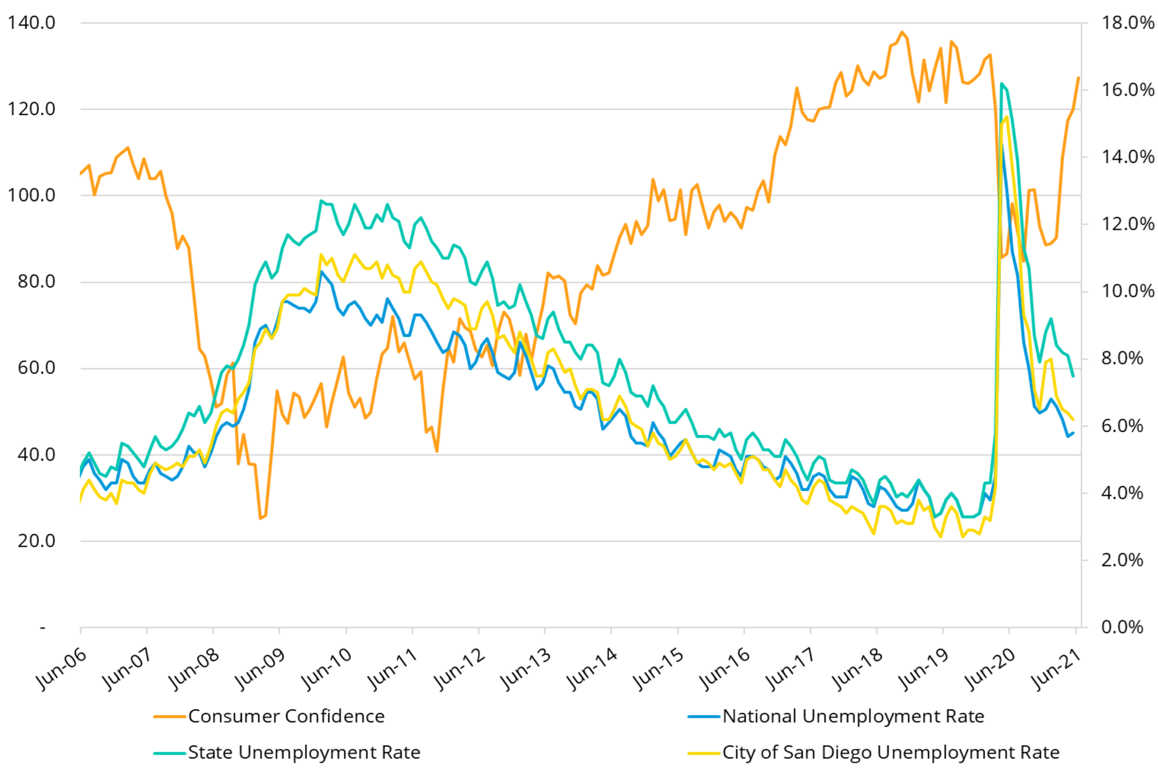
The Fiscal Year 2022 Adopted Budget for sales tax assumes a 13.16 percent growth rate in Fiscal Year 2022, which represents a significant recovery in projected sales tax receipts as a result of an accelerated economic recovery and vaccine distribution, and positive impacts from the approved American Rescue Plan Act. The sales tax growth rate is consistent with the City’s sales consultant’s recovery forecast at the time of the preparation of the Adopted Budget.

The Fiscal Year 2022 Adopted Budget projected growth rate for TOT is 62.54 percent. The tourism industry was most impacted industry in Fiscal Year 2021 from the COVID-19 pandemic due to the cancelation of major events and conferences, and restrictions on public gatherings and social distancing measures. On

August 30, 2020, the State of California implemented the Blueprint for a Safer Economy to reduce the spread of COVID-19 throughout the State. Each County within the State was assigned a tier based on positive test results, case rates and vaccine equity among the County. Each tier had various restrictions to help combat the spread of the virus. These restrictions had significant impacts on retail, restaurants and popular tourist attractions. As of June 15, 2021, the State of California, retired the Blueprint for a Safer Economy and fully reopened the economy. Although restrictions have been lifted and leisure travel is improving, the tourism industry is projected to take a longer time to reach pre-pandemic levels based on limitations in business travel and current restrictions around capacity and vaccination or testing requirements for conventions and mega group events, which require many months of pre-planning.

The Fiscal Year 2022 Adopted Budget for Franchise fee revenues are based on updated Fiscal Year 2021 projections. Although total franchise fee revenue is higher in Fiscal Year 2022, this still accounts for a continued slight decrease in cable franchise fee revenue. The SDG&E franchise fee revenue incorporates a projected 1.91 percent growth which includes stable energy consumption levels based on historical recession recovery data. In June 2021, City Council approved a new 10-year agreement with SDG&E, the details and impacts of the new agreement are further described in the Franchise Fee section of this General Fund Revenues document. The four General Fund major revenues are discussed in further detail in the following sections.

Figure 2: Consumer Confidence and Unemployment



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

In forecasting the major General Fund revenues, the movement of key economic indicators help inform the growth or contraction and are used in the analyses to determine growth rates. The economic indicators discussed in the following sections, reflect the key data used at the time of the Adopted Budget. The main economic drivers of the Fiscal Year 2022 Adopted Budget General Fund revenues include consumer discretionary spending and housing market indicators, such as home sales and prices. Consumer discretionary spending is greatly influenced by employment levels and consumer confidence. Consumer confidence has increased steadily over the last ten years since its historic low of 26.0 in March 2009. However, as a result of the COVID-19 pandemic, consumer confidence decreased significantly throughout the first twelve months of the pandemic. Since then, consumer confidence was been gradually increasing, which signifies the start of the recovery from the COVID-19 pandemic. In May 2021, when the Fiscal Year 2022 Adopted Budget was finalized, consumer confidence had reached 117.2, an increase of 35.3 percent when compared to 86.6 in May 2020. It is anticipated that consumer confidence will continue to gradually increase month over month as the number of vaccinations increase and COVID-19 cases continues to decrease and stabilize.

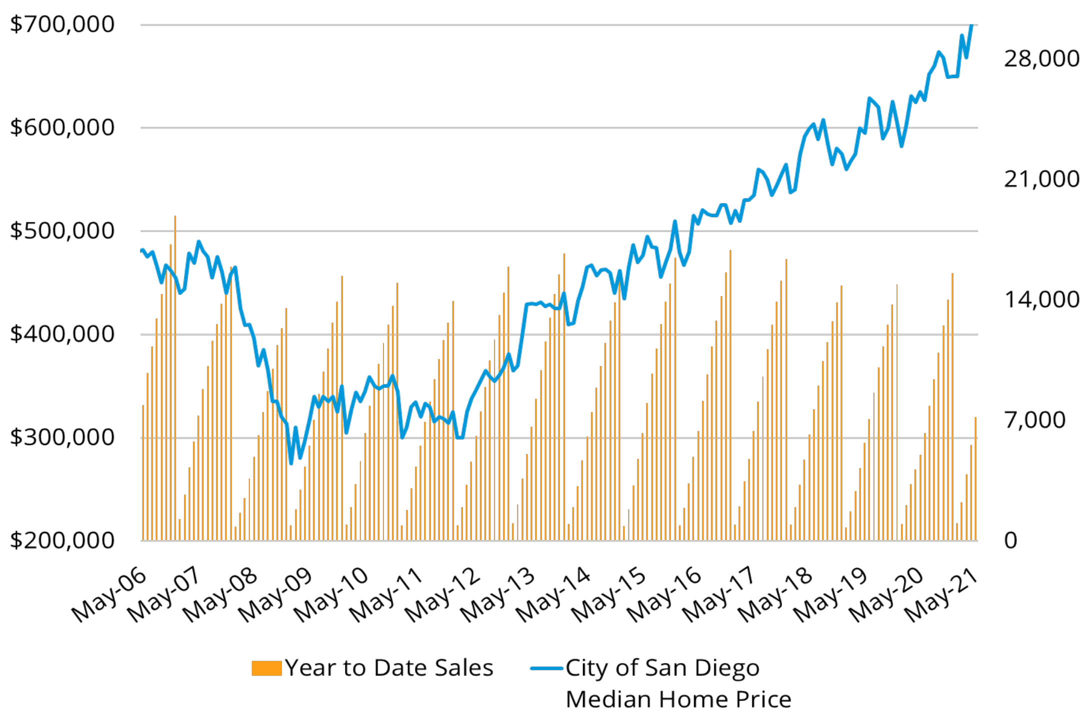
The unemployment rate for the City of San Diego was significantly impacted the first 12 months of the COVID-19 pandemic, reaching a record high unemployment rate of 14.9 percent in May 2020, at the start of the pandemic. Since then, the unemployment rate has fluctuated as various restrictions have been lifted and then re-implemented across the region. In May 2021, when the Fiscal Year 2022 Adopted Budget was finalized, unemployment rate was at 6.2 percent. This represents a decrease of 8.7 percent when compared to the peak 14.9 percent unemployment rate. Due to the COVID-19 pandemic, many restaurants, retail stores and other non-essential businesses had temporary operating restrictions in place to prevent the spread of COVID-19, thus leaving many people without work. As mentioned earlier, the State of California, retired the Blueprint for a Safer Economy and fully reopened the economy which is expected to improve the unemployment rates. The number of jobs available is anticipated to increase further as more businesses begin to re-open or expand.

In addition to the reopening of businesses, the San Diego Convention Center, which provides an estimated 12,500 jobs within the City, has now reopened and is scheduled to host its first group event in August 2021 with some continued restrictions and limited attendance for mega events. Currently, the Convention Center has booked 18 conventions at the San Diego Convention Center during the months of August 2021 through December 2021, with an estimated total attendance of 168,280 attendees and 280,387 blocked room nights. [18] This is an improvement resulting from the resumption of group travel happening earlier than the previously expected in the fall/winter of 2021. Additionally, the City of San Diego anticipates a gradual improvement in large group events throughout the first three quarters of the fiscal year and to reach about 80.0 percent of 2019 group event levels by the fourth quarter of Fiscal Year 2022. During the COVID-19 pandemic, the convention center had been temporarily closed for group events and was used as a temporary homeless shelter, and then as temporary housing unaccompanied migrant children seeking asylum. The reopening of the Convention Center will help drive an increase in employment opportunities within the City and help generate additional TOT revenue associated with group events that have been postponed, cancelled, or moved to a virtual platform over the last 18 months. For example, in Fiscal Year 2020, the Convention Center generated nearly $31.4 million in revenue and had a $977.4 million economic impact on the region, making it one of the City's biggest drivers of sales, lodging, and tourism revenue. Every year, the Convention Center typically hosts several large events and conventions, but the most well-known is Comic Con International, which is historically the largest economic generator for the Convention Center and one of the largest for the City. In the spring of 2021, Comic Con International announced it will host a Comic Con @Home event in July 2021, and a second in-person event, Comic Con Special Edition, slated for Thanksgiving weekend in November 2021. [19]Mortgage rates remain historically low, which supports a healthy real estate market; this has prompted a strong growth in homebuilding permits over the next few years. Based on the latest UCLA Anderson Forecast, home prices will likely slow as more homes come on the market due to increased supply. In May 2021, when the Fiscal Year 2022 Adopted Budget was

[18] San Diego Tourism Authority TE San Diego Lodging Forecast. Update July 27, 2021.
[19] Fiscal Year 2020 San Diego Convention Center Corporation Annual Report. July 27, 2021.

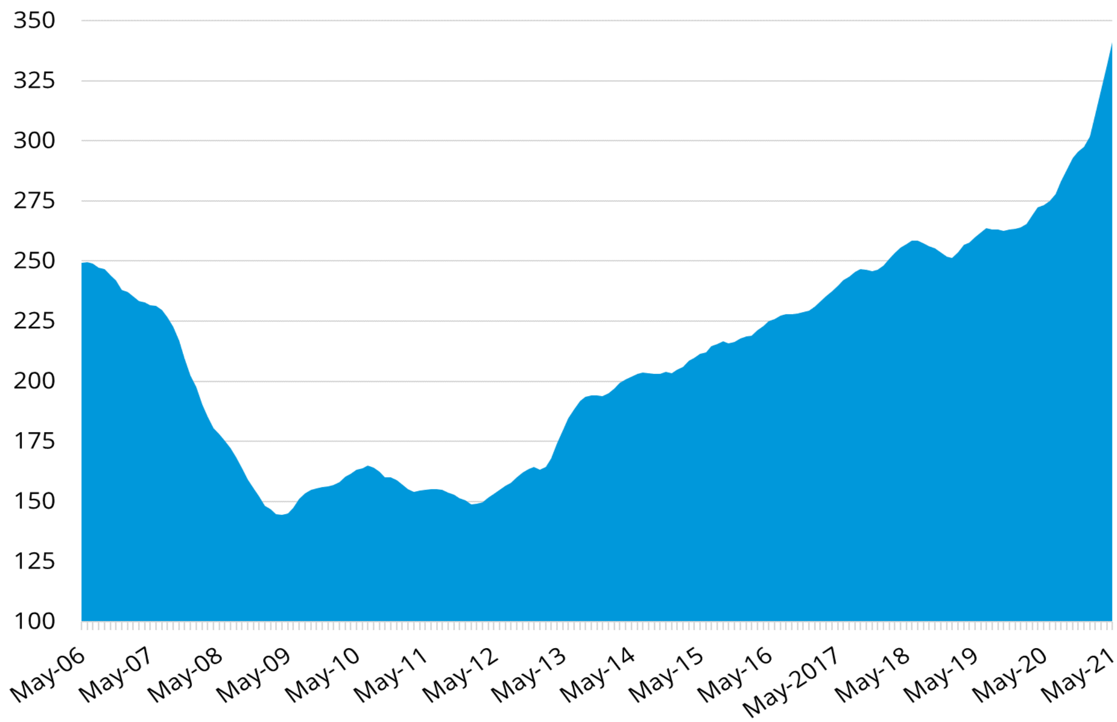
finalized, the City of San Diego median home prices for the period of June 2020 through May 2021 was $667,913, representing an increase of 8.77 percent when compared to June 2019 through May 2020. The number of home sales for the same period, rose to 17,787 a 38.44 percent increase. As reported by CoreLogic, a data and analytics company, the S&P/Case-Shiller San Diego Home Price Non-Seasonally Adjusted Index reached new highs in Calendar Year 2020. Additionally, the May 2021 home price index released in July 2021 was 341.05 which is a 24.87 percent increase over the May 2020 index of 273.12. The index provides historical data on the change in home prices for the San Diego Metro area.

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



Source: CoreLogic ®

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



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

Development of the Fiscal Year 2022 General Fund revenue budget incorporates a wide variety of economic data to forecast revenue amounts. The following are economic indicators and assumptions that were used in the preparation of the Fiscal Year 2022 Adopted Budget.

Table 3: Key Economic Indicators

Economic Indicator	May 2020	May 2021
City of San Diego 12-month Home Sales (Source: CoreLogic ®)	14,242	17,787
City of San Diego 12-month Median Home Price (Source: CoreLogic ®)	$614,083	$667,917
S&P/CoreLogic Case-Shiller Home Price NSA Index for the City of San Diego (Source: S&P Dow Jones Indices / CoreLogic ® Case-Shiller)	273.12	341.05
Countywide Foreclosures (12 month) (Source: County of San Diego)	449	177
Countywide Notices of Default (12 month) (Source: County of San Diego)	2,547	857
City of San Diego Unemployment Rates (Source: State of California Economic Development Department)	14.9%	6.2%
Consumer Confidence (Source: Conference Board)	86.6	117.2

The COVID-19 pandemic brought on a sharp and sudden economic decline to the region in the last year; however, the UCLA Anderson Forecast data projects "the next three years will feature strong GDP growth, a robust employment recovery…". The Fiscal Year 2022 Adopted Budget includes the beginning of the recovery from the recession. The Department of Finance will continue to monitor economic indicators and expert reports to assess and review the continued economic growth and the timing of reaching full economic recovery and report significant changes in quarterly budget monitoring reports.

American Rescue Plan Act

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

In accordance with the ARP Act language, funds may be used to: Provide government services to the extent of reduction in revenue due to COVID-19 relative to revenues collected in the most recent full fiscal year prior to the emergency; Respond to COVID-19 or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality; Provide premium pay up to $13.00 an hour to eligible municipal or county workers performing essential services to respond to COVID-19. This provision is capped at a maximum benefit of $25,000 per eligible worker; and make necessary investments in water, sewer, or broadband infrastructure. The funds cannot be used for offsetting tax cuts or for pension liabilities, contributions to reserve funds, or debt service. On June 21, 2021, the United States Department of the Treasury issued formal responses to Frequently Asked Questions (FAQ) and updated the FAQs with additional guidance as of July 19, 2021. The Interim Final Rule and FAQs provide the guidelines and requirements for the use of the Coronavirus State and Local Fiscal Recovery Funds, in which the City will ensure that the funds allocated continue to adhere to federal guidelines. The document includes clarification on the definition of "general revenue", the formula for calculating the total reduction in revenue, specific revenues that should be excluded or included in the calculation, reporting requirements in relation to the eligible use of reduction in revenue, and that fund can only be used for expenditures incurred after March 3, 2021. The funds to City will be provided in two tranches. The first tranche was deposited within 60 days of ARP Act, March 11, 2021; and, the second tranche will be provided no sooner than one year after the first deposit was made. The ARP Act allows funds provided by this legislation to be used through December 31, 2024.

The Fiscal Year 2022 Adopted Budget includes the use of $149.3 million in Coronavirus State and Local Fiscal Recovery Funds. These funds will be used as revenue replacement for lost revenue resulting from the COVID-19 pandemic. These additional funds in the General Fund will allow the City to use unrestricted General Fund revenue to maintain current services and add critical expenditures in response to the negative economic impacts in our communities from the COVID-19 pandemic. For additional information on the allocation of the ARP Act funds please refer to the Citywide Budget Overview Section of Volume I.

Property Tax

Background

General Fund Revenue
$672.2 million

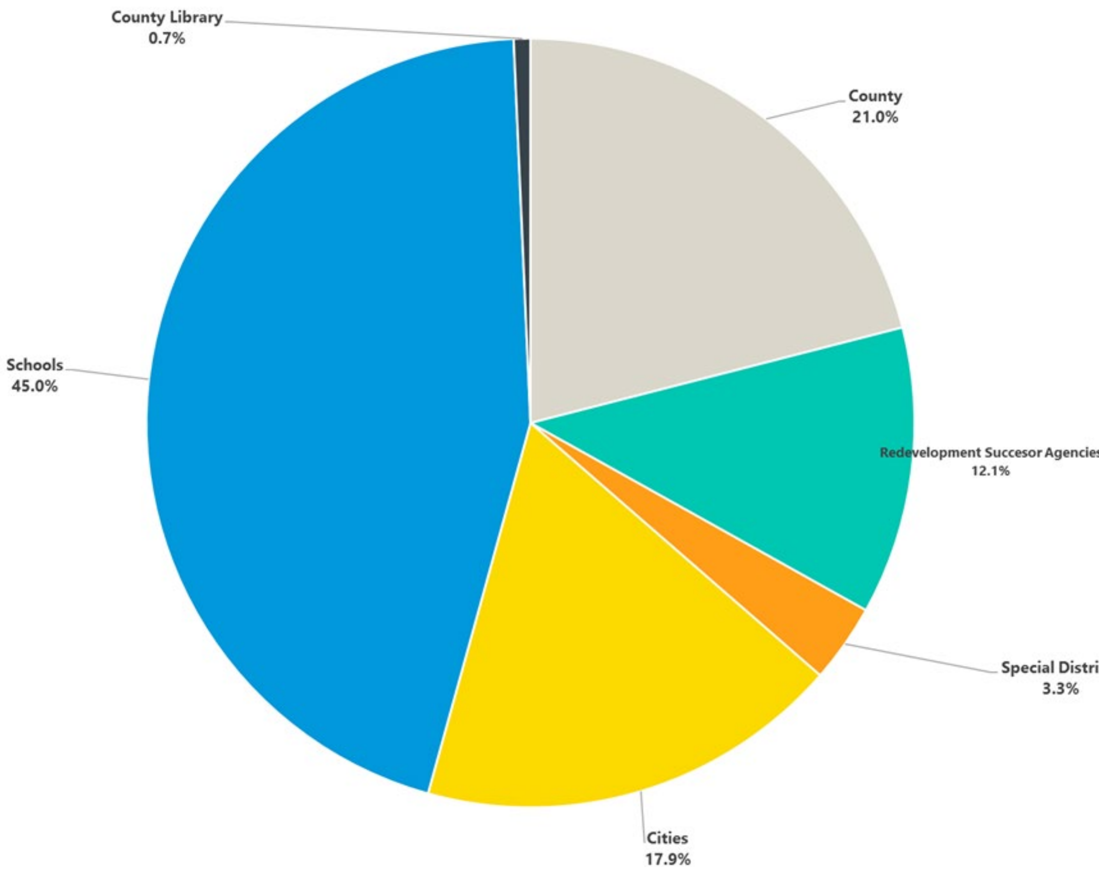
Percent of General Fund Revenues
38.6 percent

Property tax revenue is the City's largest revenue source, representing 38.6 percent of total General Fund revenue. Property tax revenue is collected by the San Diego County Tax Collector from a 1.0 percent levy on the assessed value of all real property. Proposition 13, passed by voters in 1979, specifies that a property's assessed value may increase at the rate of the California

Consumer Price Index but cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value. The 1.0 percent property tax levy is collected and distributed to a number of agencies including the County, the City, school districts, and special districts. According to the County of San Diego Assessor's Office, for every $100 collected in Fiscal Year 2021, the average allocation to cities within San Diego County totals $18.00. 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 exclusively for funding the maintenance of zoological exhibits in Balboa Park.

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

Figure 5: Fiscal Year 2021 Countywide Property Tax Distribution

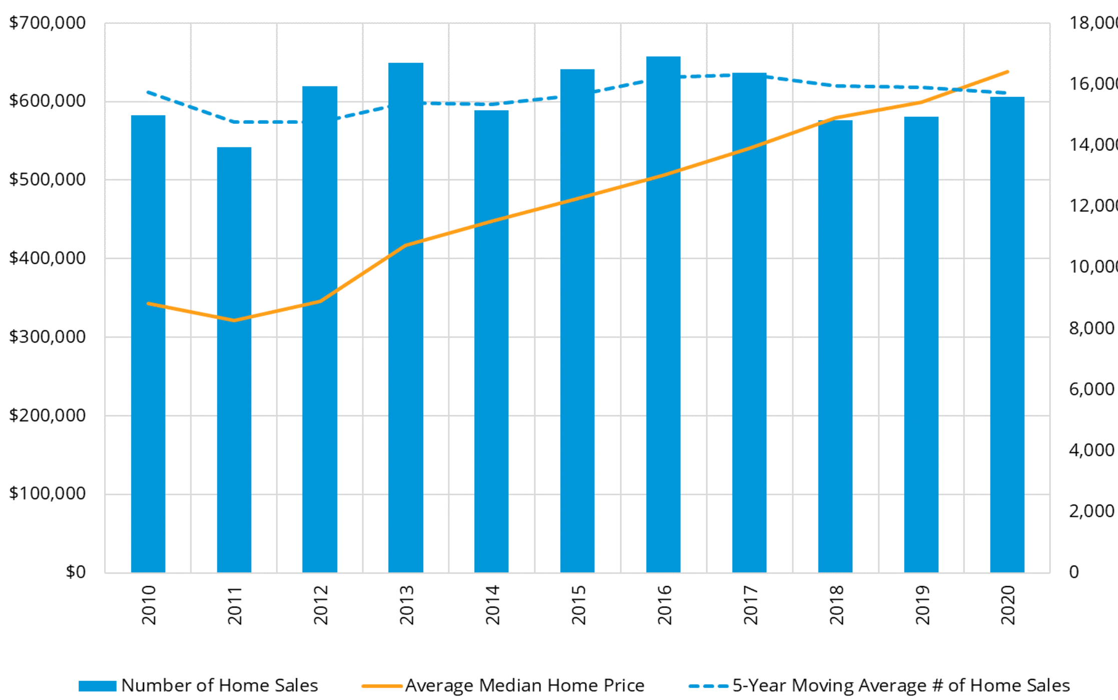


Source: San Diego County Property Tax Services

Economic Trends

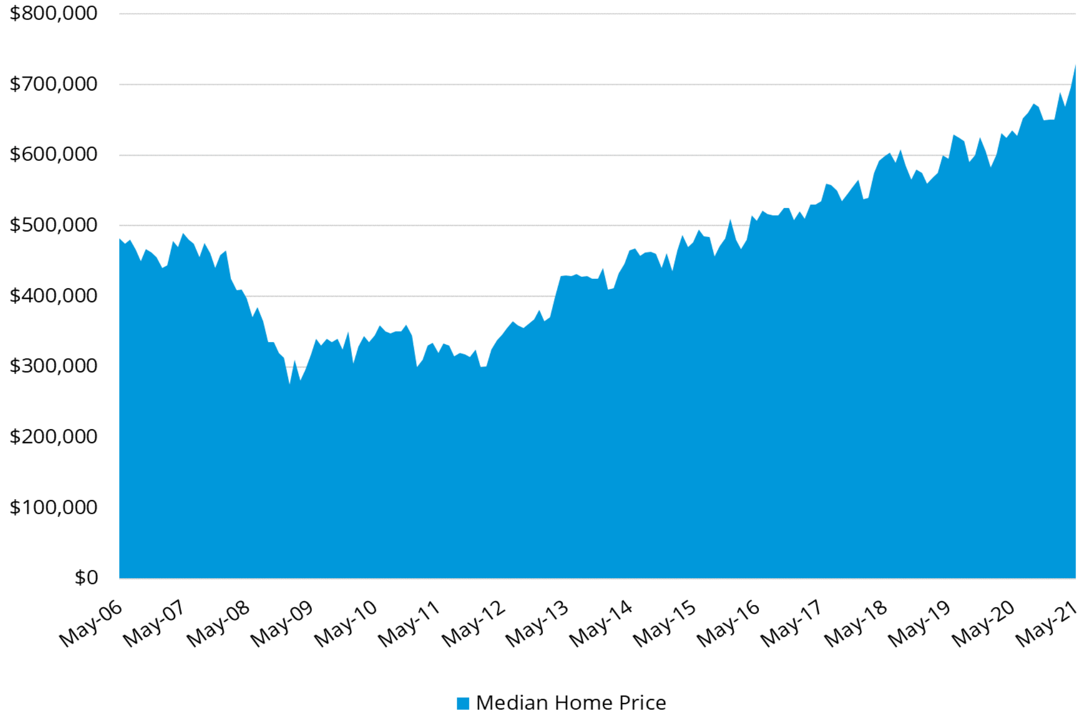
Property Tax growth for Fiscal Year 2022 Adopted Budget is based on real estate activity through Calendar Year 2020. This is due to a lag between the time assessed valuation is set by the County Assessor's Office and property tax revenue is received by the City. The assessed value of each property is determined as of January 1st each year; however, the resulting property tax payments based on this assessed valuation 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 local real estate market continues to see increasing home values and, the number of home sales has increased when compared to the previous year. In recent months, both foreclosures and notices of defaults continue to decline, which is attributed to the State Executive Orders regulating evictions and post-foreclosure evictions across the State as a result of a reduction in household income or increase in household expenses. Assembly Bill 2501 provides further protections to borrowers affected by the COVID-19 pandemic during the covered period as defined by the bill.

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



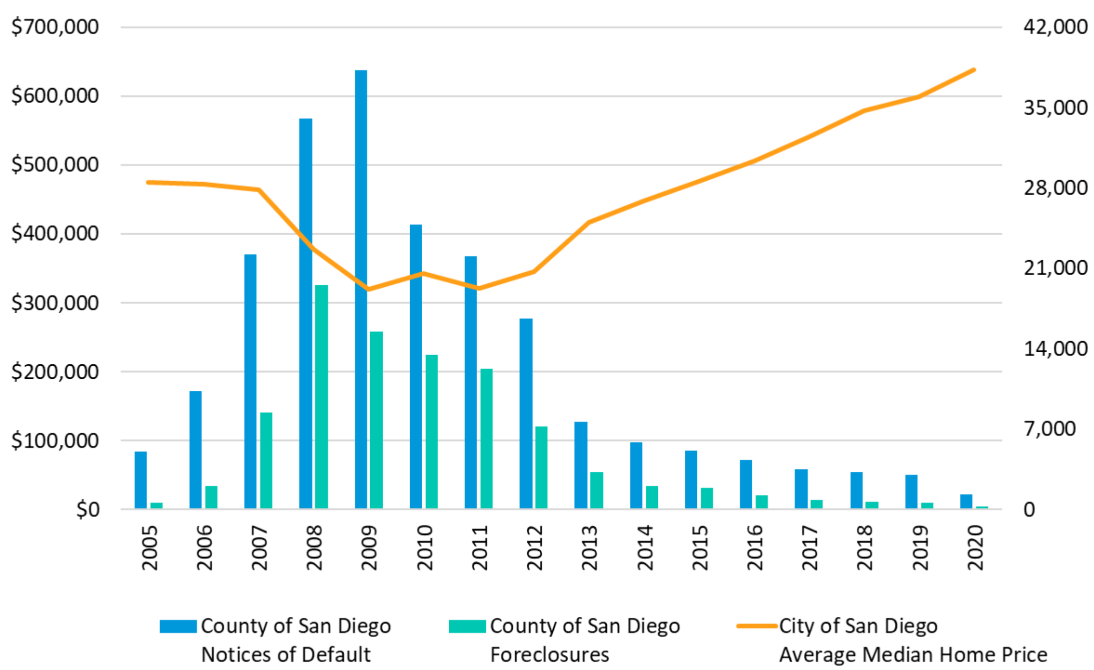
Source: CoreLogic ®

Figure 7: City of San Diego Annual Median Home Price



Source: CoreLogic®

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, cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value. The latest CCPI data as of April 2021 was 294.274, which is a 4.0 percent increase over the April 2020 CCPI of 283.006. Therefore, assessed value for those properties, not otherwise sold or improved, will increase by CCPI of 2.0 percent. The City of San Diego's unemployment rate as of May 2021 was 6.2 percent, steadily decreasing from an all-time high of 14.9 percent in May 2020. The continued high unemployment levels have not hindered growth in the real estate market, with home prices reaching an all-time high during the COVID-19 pandemic. This has resulted in property tax revenue collections being minimally impacted in Fiscal Year 2021. With the easing of COVID-19 restrictions across the City and many people returning to work, the City anticipates a continued growth in property tax revenue collections in Fiscal Year 2022. This assumption is included in the Fiscal Year 2022 Adopted Budget.

Lastly, as of June 2021, the Federal Open Market Committee (FOMC) has decided to maintain the target range for the federal funds rate at between 0 and 1/4 percent. As of a recent statement from the federal reserve, "the Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time" (as noted in the Federal Reserve's June 16, 2021 press release). Based on the Federal Reserve's updated economic projections, the federal funds rate is not expected to increase until 2023. The continued low rates may result in continued favorable lending conditions for home buyers and continued growth in property tax revenues.

Fiscal Year 2022 Adopted Budget

The Fiscal Year 2022 Adopted Budget for property tax is $672.2 million, which assumes 4.50 percent growth for the base property tax (which is covered by Proposition 13) and a projected increase in "in-lieu of motor vehicle license fee" payments. The property tax in lieu of motor vehicle license fee is property tax from the State of California that is provided to the City to replace the Motor Vehicle License fee (MVLF) that was repealed in 2004. The Fiscal Year 2022 Adopted Budget estimates an increase of 1.3 percent in collection rates, at a collection rate of 98.9 percent. The increase in collection rates assumes that improved economic conditions will result in an increase in property tax revenue collections in Fiscal Year 2022.

The $672.2 million property tax budget consists of an estimated $460.4 million in base property tax, $170.6 million "in-lieu of motor vehicle license fee" payment, $10.4 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA), and $30.9 million in anticipated residual property tax payments.

Table 4: Fiscal Year 2022 Adopted Property Tax Budget

Property Tax Segments	Revenue (In Millions)
Base Property Tax	$ 460.4
Property Tax "In-Lieu" of MVLF	170.6
Residual Tax Sharing	30.9
Property Tax Segments	**Revenue (In Millions)**
Tax Sharing Distribution	10.4
Total Property Tax	**$ 672.2**

Sales Tax

Background

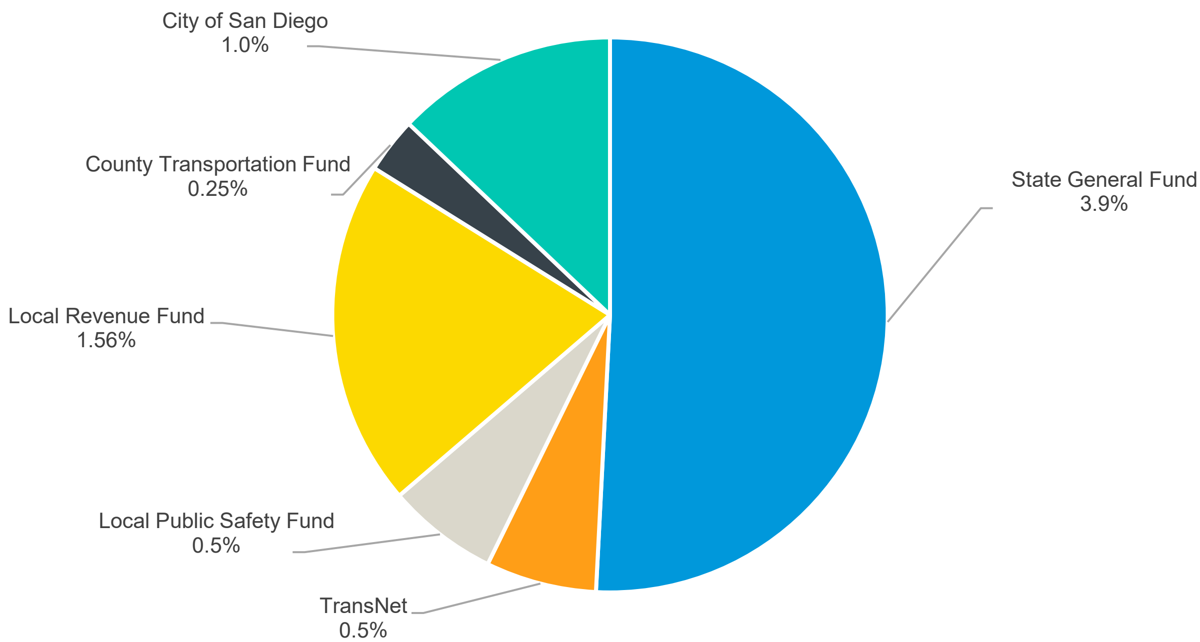
General Fund Revenues
$320.8 million

Percent of General Fund Revenues
18.4 percent

Sales tax is the second largest General Fund revenue source, representing 18.4 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.

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

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



Source: California Department of Tax and Fee Administration

Economic Trends

Economic indicators that drive spending and growth in sales tax receipts include unemployment rate, total number of persons employed, and consumer confidence. While impacts from the COVID-19 pandemic have resulted in uncertainty and volatility within the last year, recent month-over-month data for economic indicators, reflect positive growth.

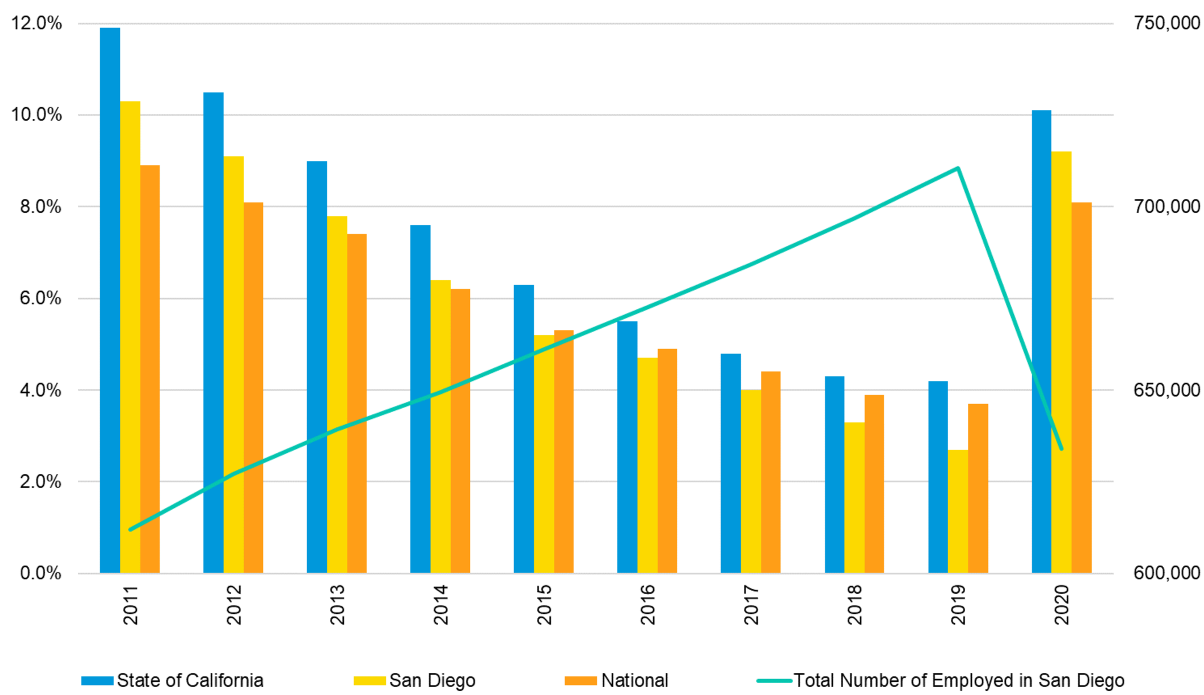
At the height of the COVID-19 pandemic, in May 2020, the unemployment rate reached a peak of 14.9 percent and the number of persons employed at 596,600. In May 2021, when the Fiscal Year 2022 Adopted Budget was finalized, the City of San Diego recorded 645,600 persons employed and an unemployment rate of 6.2 percent. Figure 10 depicts each full calendar year as of May data. The impacts to unemployment in calendar year 2020 are largely contributed to federal, state and local restrictions including Stay-at-Home orders, limitations on gatherings and closures of non-essential businesses, followed by the gradual improvement as restrictions lessened.

Moreover, consumer confidence, which is highly correlated with sales tax, also reflects recent growth. At the inception of the COVID-19 pandemic, consumer confidence decreased to 86.6 in May 2020. In May 2021, when the Fiscal Year 2022 Adopted Budget was finalized, consumer confidence measured at 117.2, which is a 35.3 percent increase since the start of the COVID-19 pandemic in May 2020. Consumer spending, a major driver of sales tax is dependent on the level of employment and consumer confidence.

In May 2021, when the Fiscal Year 2022 Adopted Budget was finalized, San Diego Consumer Price Index had increased by 5.3 percent year-over-year from 301.317 in May 2020 to 317.141 leading to higher prices of goods like lumber, automobiles and groceries, and therefore sales tax.

In alignment with the positive growth recorded in the leading sales tax indicators, the Fiscal Year 2022 Adopted Budget reflects a projected increase in sales tax revenue; and assumes a projected economic recovery from the COVID-19 pandemic in Fiscal Year 2022. Consistent with these assumptions, as of June 15, 2021, the State of California retired the Blueprint for A Safer Economy and lifted nearly all restrictions, with the exception of mega events, and fully reopened the economy. The City continues to monitor the metrics and will closely monitor revenue changes, additional modifications will be made during the Fiscal Year 2022 budget monitoring process.

Figure 10: Unemployment Rates by Calendar Year



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

Fiscal Year 2022 Adopted Budget

The Fiscal Year 2022 Adopted Budget for sales tax is $320.8 million with a growth rate of 13.16 percent. This is a significant increase from the positive 5.80 percent growth rate forecasted in the Outlook since the growth now includes the projected full recovery in sales tax revenue due to the accelerated rate of improvement in the economy.

The proposed increase in sales tax revenue is primarily attributed to current assumptions that are anticipated to positively impact taxable sales. In May 2021, when the Fiscal Year 2022 Adopted Budget was finalized, assumptions included safe and effective vaccines becoming widely available by summer 2021, positive effects from the recently approved American Rescue Plan Act, and the easing of restrictions as California counties move into less restrictive tiers and the economy begins to reopen. Accordingly, the recent events and most current data confirm these assumptions are on track. As of June 15, 2021, the State of California rescinded the Blueprint for a Safer Economy and lifted nearly all restrictions and fully reopened the economy. Additionally, according to the County of San Diego's latest data, vaccines are now widely available to all eligible persons and as of July 7, 2021, 67.6 percent of San Diego County residents are fully vaccinated.

While the negative impact on economic indicators from the COVID-19 pandemic are evident when comparing year-over-year, recent month-over-month data reflects positive growth and exhibit a continued recovery from the COVID-19 pandemic; which is consistent with the City's sales tax consultant's forecast. This is the result of reshaped consumer behavior and a shift in business models adapting to COVID-19 guidelines. Consistent with the previous assumptions presented by the City's sales tax consultant, Avenu Insights and Analytics, the optimistic forecast is due to current vaccination rates progressing as planned, coupled with the continued decline in COVID-19 infection rates over the recent months. The City continues to see increases in the County pool activity, which includes online sales, as well as construction and business to business sectors, with retail and the food industry experiencing a negative impact during the pandemic. The Fiscal Year 2022 Adopted Budget includes a significant recovery of these negatively impacted business sectors based on the recently approved American Rescue Plan Act and the reopening of the economy, in which additional disposable income is projected and COVID-19 related restrictions begin to ease.

General Fund Transient Occupancy Tax (TOT)

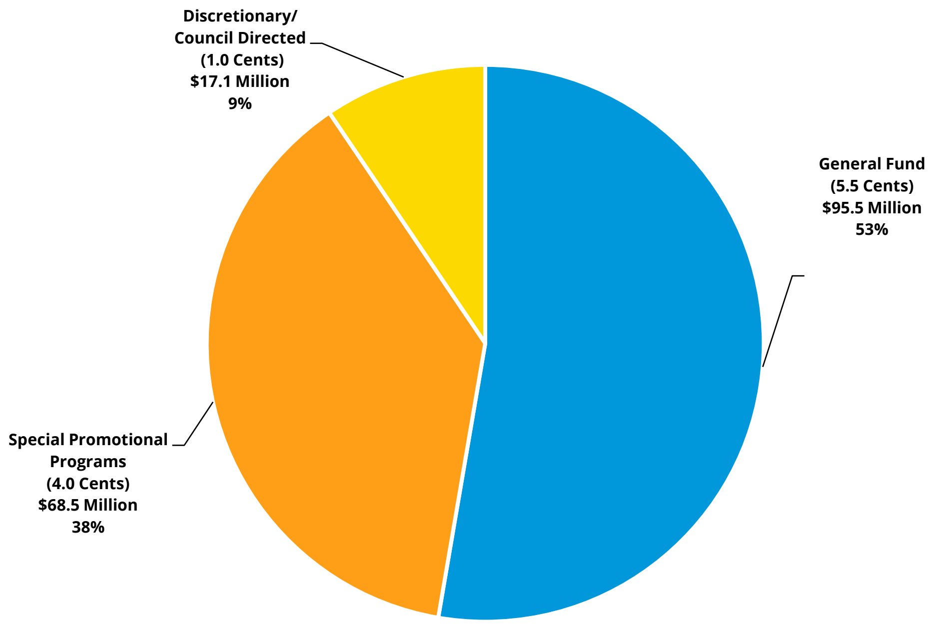
Background

General Fund Revenues
$95.5 million

Percent of General Fund Revenues
5.5 percent

Transient Occupancy Tax makes up 5.5 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. In the Fiscal Year 2022 Adopted Budget, TOT totals $181.1 million of which $95.5 million is applied directly to the General Fund and associated with the 5.5 cents that is designated for general government purposes.

Figure 11: City of San Diego Transient Occupancy Tax Allocation



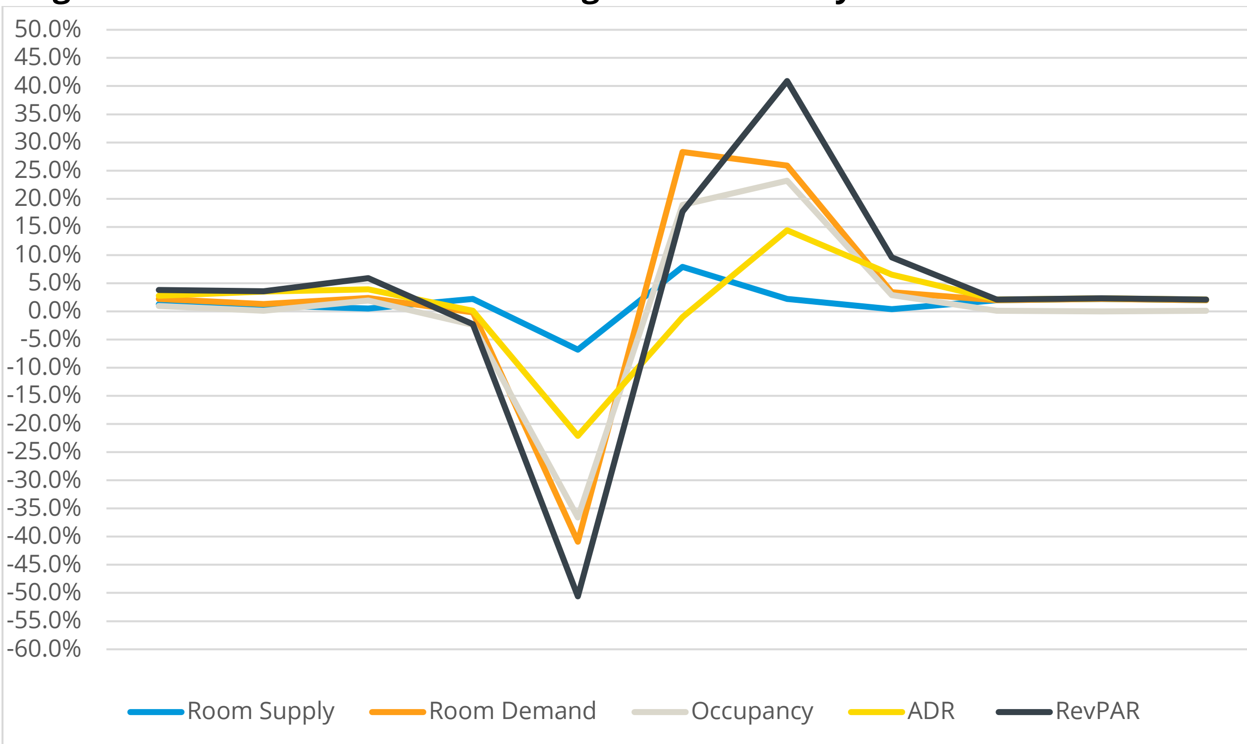
Economic Indicators

The primary economic indicators of transient occupancy tax include room rates, occupancy, and room demand growth. While the State and County of San Diego mandates, implemented in response to the COVID-19 pandemic, have reduced tourism in the region, TOT economic indicators are projected to see growth in Fiscal Year 2022. The San Diego Tourism Authority and San Diego Tourism and Marketing District (SDTMD) forecast the gradual easing of restrictions resulting in increased tourism in the region. At the time of the SDTMD forecast, the announcement to lift restrictions and reopen the economy as of June 15, 2021 was not public, however the assumptions do include a gradual improvement in tourism regardless. As previously mentioned, the continued progress in vaccination rates and the continued decline in COVID-19 infection rates will lead to a significant economic improvement as restrictions begin to ease across the region and the resumption of large group events begin in August 2021.

In May 2021, the Fiscal Year 2022 Adopted Budget was finalized. As a result, the Fiscal Year 2022 Adopted Budget reflects the April 2021 Travel Forecast prepared by Tourism Economics. The Forecast projected average hotel occupancy rate in Calendar Year 2022 to average 71.1 percent, which represents an increase from the prior year hotel occupancy rate of 57.7 percent. These indicators drive the projected increase in room demand in Calendar Year 2022 by 25.9 percent. The supply of rooms is projected to increase by 2.2 percent in Calendar Year 2022.

Lastly, the Average Daily Rate (ADR) and the revenue per available room (RevPAR) are also projected to show increased growth. As seen in the table below, the ADR is projected to increase an average of 14.4 percent in Calendar Year 2022; while the RevPAR is projected to increase by 40.9 percent.

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



	CY 2018	CY 2019	CY 2020	CY 2021[1]	CY 2022[1]	CY 2023[1]
Hotel Sector						
Avg. Occupancy	78.5%	76.6%	48.5%	57.7%	71.1%	73.2%
Avg. Daily Rate	$ 165.7	$ 166.0	$ 129.3	$ 128.0	$ 146.4	$ 155.9
Rev PAR[2]	$ 130.1	$ 127.1	$ 62.8	$ 73.9	$ 104.2	$ 114.1
Room Demand (growth)	2.4%	-0.2%	-40.9%	28.3%	25.9%	3.4%

Source: San Diego Tourism Authority and Tourism Economics
[1] Forecast - Tourism Economics, April 2021
[2] Revenue Per Available Room (Average Occupancy multiplied by Average Daily Rate)

Consistent with the positive growth recorded in the leading economic indicators, the Fiscal Year 2022 Adopted Budget reflects significant growth in TOT revenue. The City continues to monitor the metrics and will closely monitor revenue changes in Fiscal Year 2022 and report significant variances during the Fiscal Year 2022 Budget Monitoring Process.

Fiscal Year 2022 Adopted Budget

The Fiscal Year 2022 Adopted Budget for total Transient Occupancy Tax (TOT) revenue the City of San Diego is $181.1 million which reflects a 62.54 percent growth rate; this is an increase from the 59.80 percent growth rate reported in the Outlook. Consistent with assumptions and data reported by the San Diego Tourism Authority and San Diego Tourism and Marketing District, the Fiscal Year 2022 Adopted Budget is developed assuming COVID-19 infection rates will remain low throughout the fiscal year; and there will be a gradual easing of restrictions that impact local tourism, including leisure and group travel. With the ease of restrictions, it is anticipated that leisure travel will improve ahead of Calendar Year 2019 levels in the summer months. The projections include the assumption that group demand will gradually resume in the fall and winter months with restrictions and limited attendance for mega events. With the recension of the Blueprint for A Safer Economy on June 15, 2021, this has allowed the opportunity for group travel to resume earlier than forecasted, starting in August 2021. Many challenges continue to lie ahead for group travel, including minimal guidelines for group events, and the anticipated lead time it takes to plan events, which are typically planned at least six months in advance. Tourism Economics projects a longer recovery for group travel, projecting to reach 80.0 percent of group travel by the 4th quarter of Fiscal Year 2022.

The easing of restrictions will result in a gradual resumption of tourism in the region; visitor growth and increase in demand will result in increased occupancy levels, average daily room rates, and revenue per available room. The positive impacts to TOT economic indicators will gradually increase the TOT revenue collected by the City.

Of the $181.1 million of total TOT, $95.5 million represents the 5.5 cents allocable to the general government purposes, will be recognized in 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 other TOT allocated for reimbursement of General Fund tourism-related expenditures and reflected in other revenue categories.

Franchise Fees

Background

General Fund Revenues
$80.0 million

Percent of General Fund Revenues
4.6 percent

The Fiscal Year 2022 Adopted Budget total for Franchise Fee revenue is $80.0 million which represents 4.6 percent of the General Fund revenue budget; this is an increase of $10.7 million or 15.4 percent from the Fiscal Year 2021 Adopted Budget. Franchise fee revenue is generated from agreements with private utility companies in exchange for use of the City's rights-of-way. The largest of the franchise fee payers in the City are San Diego Gas and Electric (SDG&E), Cox Communications, Spectrum TV, AT&T U-verse, and California American Water (Cal AM). In addition, the City collects franchise fees from private refuse haulers that conduct business within the City limits. The revenue received from the agreements with SDG&E, cable companies, and Cal AM is based on a percentage of gross sales while the revenue received from refuse haulers is based on tonnage. SDG&E is the single largest generator of franchise fee revenue in the General Fund and remits 3.0 percent of the gross sales of gas and electricity within the City of San Diego. Revenue from SDG&E is split between the General Fund (75.0 percent) and the Environmental Growth Funds (25.0 percent) based on the City Charter. Cable providers, which are the second largest contributors to franchise fees, remit 5.0 percent of gross revenues.

Fiscal Year 2022 Adopted Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2022 Adopted Budget for total SDG&E franchise fee revenue of $68.2 million is based on updated Fiscal Year 2021 projections and an additional $2.0 million that SDG&E will be contributing to the City's Climate Equity Fund. The SDG&E franchise fee revenue assumes a 1.91 percent growth rate for Fiscal Year 2022. The projected growth rate includes historical recoveries in commercial energy consumption levels comparative to past post-recession periods.

In accordance with the City Charter, 75.0 percent of the revenue from SDG&E, or $49.7 million, is allocated to the General Fund of which 10.0 percent, or $4.97 million, in addition to the $2.0 million contribution that will be transferred to the newly created Climate Equity Fund, in accordance with the resolution establishing the fund. The remaining received 25.0 percent of revenue received from SDG&E, or $16.6 million, is 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. This will provide funding for park and open space maintenance in

Fiscal Year 2022. The impacts of more revenue deposits in EGF have been reflected in the Fiscal Year 2022 Adopted Budget.

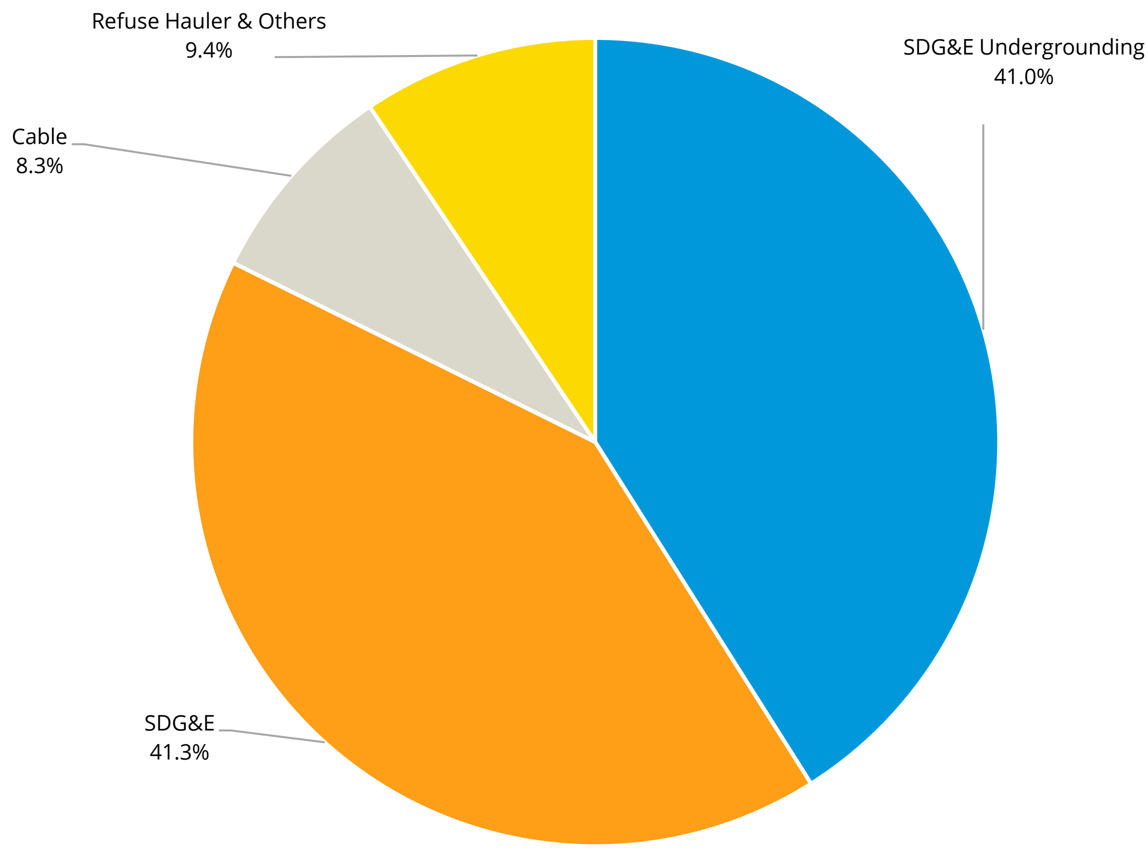
SDG&E previously operated under a 50-year City Franchise that was granted in 1970. The contract was set to expire in January 2021. However, the City Council approved an extension to the contract. In June 2021, the City Council agreed to a new 10-year agreement with SDG&E, with the option of extending it another 10 years. For the last 100 years, these rights have been granted to SDG&E through two separate 50-year agreements. The deal includes $80.0 million for the gas and electric franchise agreements and an additional $20.0 million to advance the city's climate equity goals. The franchise agreements each have a separate payment plan. The gas franchise bid will be paid in equal installment payments of $500,000 over the entire 20 years covered by the agreement. If the agreement is terminated at any time, the remaining payments will be voided. The electric franchise bid will pay $10.0 million annually for the first five-years, while the final two $10.0 million payments will be delayed until years 10 and 11 (2030 and 2031) of the agreement. The payment in 2031 will only occur if the contract is renewed for another 10 years following the initial 10-year term. The install payments are subject to an annual interest rate of 3.38 percent. Originally, the contributions to the Climate Equity Fund were not required until the years 2037-2040, which would have been in $5.0 million installments. However, per City Council modifications, the revised agreement will have SDG&E contribute $2.0 million for the first five years of the agreement that will be transferred to the Climate Equity Fund.

The City also receives an undergrounding utility franchise fee from SDG&E. The Fiscal Year 2022 Adopted Budget for SDG&E undergrounding utility fee revenue of $65.8 million. This revenue is budgeted in the Underground Surcharge Fund.

CABLE COMPANIES. The Fiscal Year 2022 Adopted Budget for cable franchise fee revenue of $13.2 million is based on updated Fiscal Year 2021 projections and assumes a negative 4.60 percent growth rate for Fiscal Year 2022. The projected growth rate is based on four years of historical actuals reflecting a trend of declining revenues from traditional cable providers.

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2022 Adopted Budget for refuse hauler and other franchise fee revenues is $15.1 million and is based on updated Fiscal Year 2021 projections. The City anticipates $12.8 million from refuse collection fees, $1.5 million in revenue related to the Police Department vehicle tow program, $172,000 in franchise fees from the EDCO facilities, and $600,000 from other franchise fee sources.

Figure 13: Franchise Fee Revenue Breakdown



Property Transfer Tax

Background

Property transfer tax makes up 0.60 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.

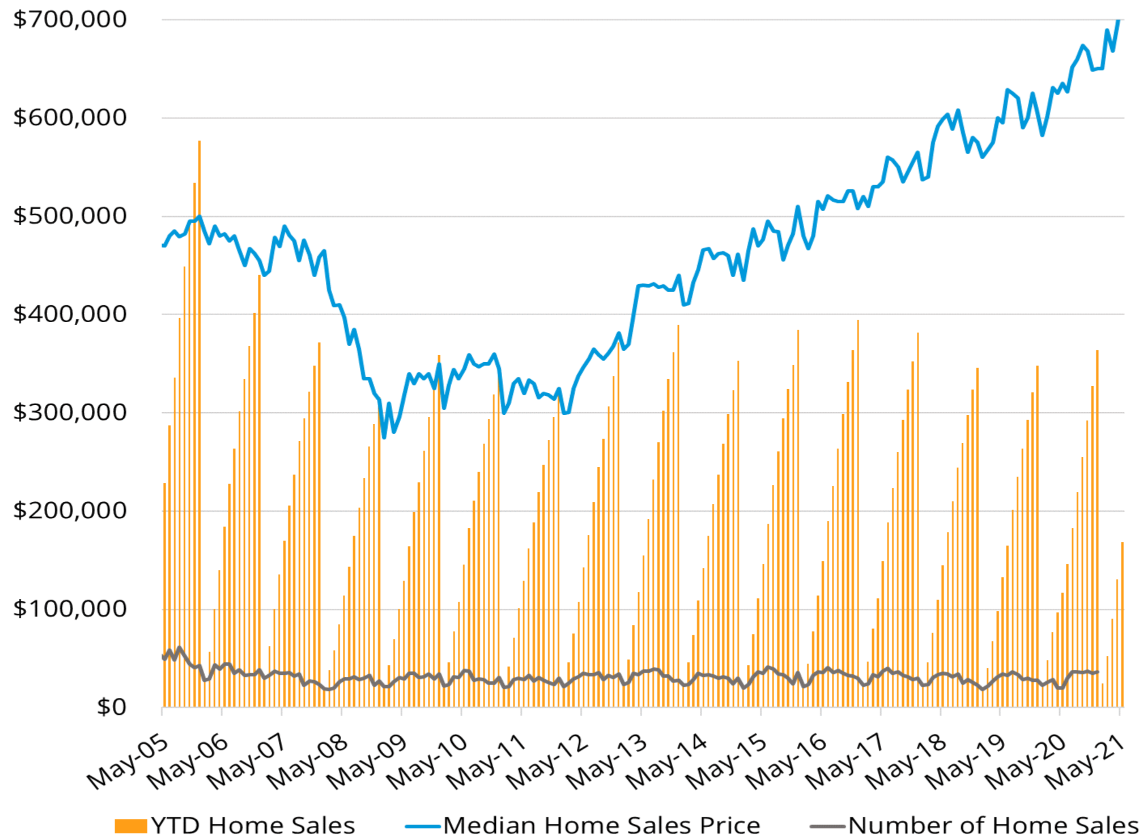
General Fund Revenues
$11.2 million

Percent of General Fund Revenues
0.6 percent

Economic Trends

The economic factors that primarily affect property transfer tax revenue are home sales and prices. These factors are discussed in detail in the earlier property tax section and are summarized in the figure below.

Figure 14: City of San Diego Home Sales



Source: CoreLogic®

While the number of homes sold has increased and the expected mortgage rate is projected to stabilize, home appreciation is expected to slow, all of which continue to provide sustained levels of property transfer tax. The Department of Finance will continue to closely monitor Property Transfer Tax and adjust projections as necessary.

Fiscal Year 2022 Adopted Budget

The Fiscal Year 2022 property transfer tax Adopted Budget of $11.2 million is based on the Fiscal Year 2021 year-end projections. This represents a slight decrease of $100,000, or 0.7 percent from the Fiscal Year 2021 Adopted Budget. The property transfer tax budget is projected at no growth in Fiscal Year 2022 based on the projected steady growth in home sales and median home prices.

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.

General Fund Revenues
$43.5 million

Percent of General Fund Revenues
2.5 percent

Fiscal Year 2022 Adopted Budget

The Fiscal Year 2022 Adopted Budget for licenses and permits is $43.5 million or 2.5 percent of the General Fund revenue budget. This represents an increase of $2.9 million or 7.1 percent from the Fiscal Year 2021 Adopted Budget. The increase is primarily attributed to an increase in cannabis business tax due to the opening of additional outlets and production facilities as the City issues cannabis outlet and production facility Conditional Use Permits.

Fines, Forfeitures, and Penalties

General Fund Revenues
$27.5 million

Percent of General Fund Revenues
1.6 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 2022 Adopted Budget

The Fiscal Year 2022 Adopted Budget for fines, forfeitures, and penalties revenue is $27.5 million or 1.6 percent of the General Fund revenue budget. The Fiscal Year 2022 Adopted Budget for fines, forfeitures, and penalties revenue is $2.2 million or 7.5 percent lower than in the Fiscal Year 2021 Adopted Budget. The decrease for fines, forfeitures, and penalties is primarily due to a projected decrease of $1.6 million in one-time parking citation revenue; $500,000 in one-time revenue for collection referral fees associated with the suspension of parking enforcement in the City; and $370,000 in one-time Municipal Court fines associated with a decrease in vehicle code violations, traffic school fees and ordinance violations. These reductions are partially offset with a $400,000 increase to support the parking enforcement of street sweeping routes.

Revenue from Money and Property

General Fund Revenues
$58.9 million

Percent of General Fund Revenues
3.4 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. 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 Midway/Frontier property and City Pueblo lands.

Per City Charter Section 55.2, the threshold amount of $20.0 million of Mission Bay rents and concessions will remain in the General Fund. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Park Improvements Fund and the Mission Bay Improvements Fund. The San Diego Regional Park 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 Improvements Fund.

Fiscal Year 2022 Adopted Budget

The Fiscal Year 2022 Adopted Budget for revenue from rents and concessions is $58.9 million or 3.4 percent of the General Fund revenue budget. This represents a decrease of $2.2 million or 3.6 percent from the Fiscal Year 2021 Adopted Budget.

The decrease is primarily attributed to the anticipated decrease in rents and concessions of city owned property such as Sea World and various Mission Bay hotels impacted by the COVID-19 pandemic. The City will continue to monitor these revenues and update as assumptions change throughout the fiscal year.

Interest and Dividends

Background

General Fund Revenues
$3.4 million

Percent of General Fund Revenues
0.2 percent

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

Fiscal Year 2022 Adopted Budget

The Fiscal Year 2022 Adopted Budget for interest earnings revenue is $3.4 million, due to the assumed interest rates on the City’s pooled investments. This represents a decrease of $88,000 or 2.6 percent from the Fiscal Year 2021 Adopted Budget.

Revenue from Federal & Other Agencies

Background

General Fund Revenues
$7.9 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, service level agreements, and unbudgeted cost reimbursements.

Fiscal Year 2022 Adopted Budget

The Fiscal Year 2022 Adopted Budget for revenue from federal and other agencies is $7.9 million or 0.5 percent of the General Fund revenue budget. This represents a decrease of $144.8 million or 95.0 percent from the Fiscal Year 2021 Adopted Budget. On March 27, 2020, the federal government passed the Coronavirus Aid, relief and Economic Security (CARES) Act to provide emergency assistance and health care response for individuals, families, and businesses affected by the COVID-19 pandemic. The CARES funding was budgeted as a one-time revenue in the Fiscal Year 2021 Adopted Budget. Subsequently, on March 10, 2021, the federal government passed the American Rescue Plan (ARP) Act to provide assistance from the continued impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses. The funds associated with the ARP Act are budgeted in the Transfers In category.

Charges for Current Services

Background

General Fund Revenues
$156.8 million

Percent of General Fund Revenues
9.0 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 into the General Fund as revenue to offset the cost of the services provided by these central service departments. Transient Occupancy Tax (TOT) revenue is allocated to several departments for General Fund reimbursable expenditures for the safety and maintenance of visitor related facilities.

Fiscal Year 2022 Adopted Budget

The Fiscal Year 2022 Adopted Budget for charges for current services revenue is $156.8 million or 9.0 percent of the General Fund revenue budget. This represents a net increase of $7.3 million or 4.9 percent from the Fiscal Year 2021 Adopted Budget. Most notably, the revenue increase is attributed to an increase of $3.4 million from reimbursements from the Environmental Growth Funds; $1.6 million in TOT revenues to support the safety and maintenance of visitor related facilities; an additional $1.7 million to support the addition of a pipe repair crew in the Storm Water Department; and $1.0 million in additional revenue associated with annual increases in contract services for firefighting and dispatch services provided by the Fire-Rescue Department. These increases are partially offset with projected decrease of $1.3 million in revenue related to the new ambulance contract in the Fire-Rescue Department; and $3.1 million due to impacts from COVID-19, including reduction in inspection services in the Fire-Rescue Department due to the closure of businesses and cancellation of special events; and reduction in revenue for special events reimbursable overtime, parking citation revenue and municipal court fee revenue in the Police Department.

Transfers In

Background

General Fund Revenues
$263.1 million

Percent of General Fund Revenues
15.1 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 2022 Adopted Budget

The Fiscal Year 2022 Adopted Budget for transfers in is $263.1 million or 15.1 percent of the General Fund revenue budget. This represents an increase of $158.5 million or 151.5 percent from the Fiscal Year 2021 Adopted budget. The change is primarily attributed the use of $149.3 million in one-time Coronavirus State and Local Fiscal Recovery Funds from the ARP Act; $9.0 million from a legal settlement; $10.5 million in anticipated funds from the new energy and gas franchise fee agreement minimum bid; $7.9 million in a one-time transfer from the Pension Payment Stabilization Reserve Fund and $3.0 million from an anticipated refund from the County of San Diego Registrar of Voters. These increases are partially offset by a $21.5 million decrease in one-time fund balance from the Fleet Services Operating Fund used in Fiscal Year 2021.

Other Revenue

Fiscal Year 2022 Adopted Budget

Other revenue is composed of library donations, ambulance fuel reimbursements, corporate sponsorships, recovery from damages to City property and other miscellaneous revenues. The Fiscal Year 2022 Adopted Budget for other revenue is $2.8 million or 0.2 percent of the General Fund revenue budget. This represents a decrease of $400,000, or 12.4 percent from the Fiscal Year 2022 Adopted Budget, is due to a decrease in donations to the San Diego Central Library.

General Fund Revenues
$2.8 million

Percent of General Fund Revenues
0.2 percent

State of California Budget Impacts

On June 28, 2021, the California Legislature passed the 2021-2022 Budget appropriating $262.6 billion, including $196.4 billion in the State's General Fund. With the State entering the COVID-19 recession on a strong fiscal foundation, multiple rounds of federal stimulus, and the consequent reopening of the economy, the state is poised for a rapid expansion and continued growth. Improved economic activity has enabled the state to accelerate the state's recovery from the pandemic and address persistent challenges.

The State budget includes a $100.0 billion California Comeback Plan (SB 129), which invests in California's economic recovery by providing relief to working class families and small businesses most affected by the pandemic; and addressing the state's most persistent challenges. This investment includes $600 stimulus checks for nearly two of every three Californians, with qualifying families receiving an additional $500; $5.2 billion to assist low-income renters and landlords; and $4.0 billion in direct grants to small businesses. The budget also includes significant new strategies to reduce the impacts of climate change, with $3.9 billion in focused investments to support the state's zero-emission vehicle goals; and an additional $2.0 billion to address a comprehensive wildfire and forest resilience strategy.

Under Proposition 98, the budget's improved revenue estimate results in more funding for schools at the highest funding level ever at $93.7 billion. The budget directs a significant portion of funding to paying down a majority of the deferral payments implemented last year. The significant growth in capital gains and revenue have resulted in a deposit of $4.6 billion into the Public-School System Stabilization Account.

The City of San Diego is poised to receive directly approximately $74.0 million for assorted infrastructure and community priorities, including $50.0 million for Pure Water, $8.4 million for the Ocean Beach Pier, and $3.1 million for water quality projects related to Chollas Creek, among many others. The City is also estimated to receive direct allocations of $27.3 million for homelessness related activities for both Fiscal Year 2022 and Fiscal Year 2023, $19.0 million for youth workforce development, and the City's share of costs from $18.0 million related to the San Vicente Energy Storage Facility project being developed in partnership with the San Diego County Water Authority. The City will see additional benefits to its facilities and services available to its residents through funding allocations going to foundations and other community and institutional partners. The Government Affairs Department will work closely with the City's executive management team, Department of Finance, and City Departments to best position the City to compete for additional funding as the state finalizes additional budget negotiations through the end of this legislative session, and programs and funding opportunities are developed in areas ranging from homelessness and housing, climate adaptation and resiliency, infrastructure, broadband, drought, wildfire prevention, and libraries.

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 Gann Limit was based on actual appropriations during the Fiscal Years 1978-1979 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 Gann 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 2021 that established the City's Tax Appropriations Limit for Fiscal Year 2022 at $4,105,007,376. Using the Fiscal Year 2022 Adopted Budget, the appropriations subject to the limit (i.e., proceeds of taxes, excluding debt service on voter-approved debt, of which the City has none, and qualified capital outlays) were calculated to be $1.20 billion, which was $2.91 billion lower than the Gann Limit.

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