FISCAL YEAR
2025

Volume 1
General Fund Revenues

PROPOSED BUDGET

The City of
SAN DIEGO
MAYOR TODD GLORIA

HOUSING | PROTECT & ENRICH | INFRASTRUCTURE | SUSTAINABILITY | PROSPERITY

General Fund Revenues

The Fiscal Year 2025 Proposed General Fund revenue budget is $2.08 billion, which represents an increase of $61.2 million, or 3.0 percent, from the Fiscal Year 2024 Adopted Budget. General Fund revenues are comprised of four major revenue sources, and a series of other revenue sources, which are primarily generated by departments. These revenue sources are categorized and listed on the right side of this page and are described in further detail throughout this section of the budget document. Details include background information describing historical trends, economic factors, and methods of development for each revenue source. This information provides insight into the formulation of the Fiscal Year 2025 Proposed Budget (Proposed Budget) for General Fund revenues, which fund essential City services including police, fire-rescue, refuse collection, homelessness services, library services, transportation, and parks and recreation programs. Volume II of the budget document further details revenues that are generated by departments.

Table 1 - Fiscal Year 2025 General Fund Revenue Change illustrates the components of the projected $61.2 million, or 3.0 percent, increase in General Fund revenues from the Fiscal Year 2024 Adopted Budget.

Table 1 - Fiscal Year 2025 General Fund Revenue Change

	Percent Change from FY 2024 Adopted Budget	Change (in millions)
Major Revenues	3.6%	$ 52.6
Other Revenue Sources	1.5%	8.6
Total	**3.0%**	**$ 61.2**

Numbers may not foot due to rounding.

The City's four major General Fund revenue sources are property taxes, sales taxes, transient occupancy taxes (TOT), and franchise fees. These sources account for 72.0 percent of the Fiscal Year 2025 Proposed Budget General Fund revenues and are projected to increase by $54.6 million, or 3.8 percent, from the Fiscal Year 2024 Adopted Budget. The increases in major General Fund revenues are primarily in property tax revenue of $48.8 million and franchise fee revenue of $13.4 million. Fiscal Year 2025 Proposed Budget revenues are based on projections included in the Fiscal Year 2024 Mid-Year Budget Monitoring Report (Mid-Year Report), and the most recent economic data available at the time of development.

In addition to increases in the major General Fund revenues, other revenue sources reflect a net increase of $6.6 million, or 1.1 percent. The increase in other revenues is associated with $13.5 million in transfers to the General Fund from the Concourse and Parking Garages Operating Fund, Community Equity Fund, Energy Independence Fund, Civil Penalties Fund, and Central Stores Fund; a $12.7 million increase in reimbursements from the Environmental Growth Funds to support eligible expenditures; $4.5 million in reimbursements for Employ and Empower Interns; $4.3 million from rents and concessions due to additional activity and rent revenue at Mission Bay hotels, Sea World, and City Pueblo Lands; and $3.3 million in additional TransNet and Gas Tax revenues. These increases are offset by a decrease of $52.1

million related to the use of one-time American Rescue Plan Act (ARPA) funds in Fiscal Year 2024. These adjustments are addressed in more detail later in this section.

Table 2 - Fiscal Year 2025 General Fund Revenues displays the Proposed Budget for each of the revenue categories in the General Fund, in addition to Fiscal Year 2023 actual revenues and the Fiscal Year 2024 Adopted Budget.

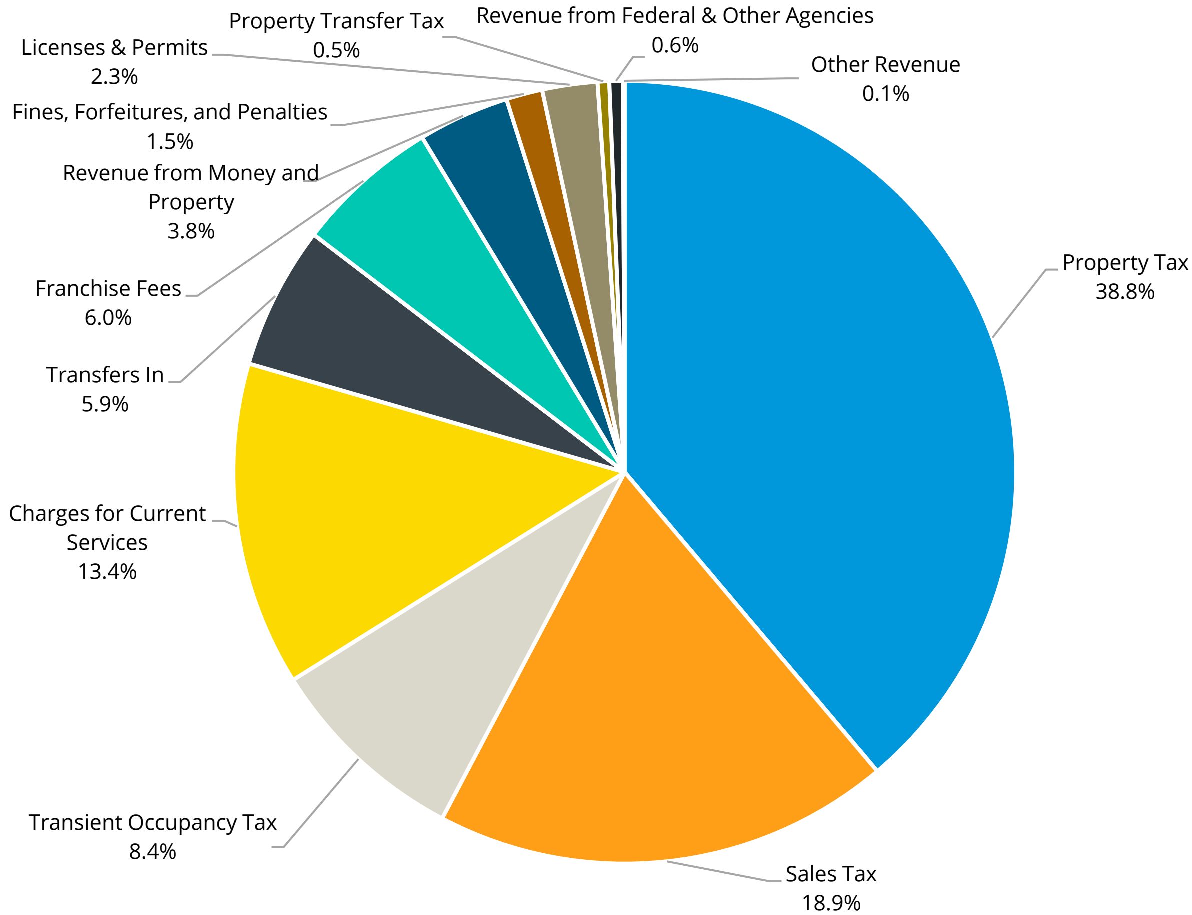
Table 2 - Fiscal Year 2025 General Fund Revenues (in millions)

Revenue Category	FY 2023 Actual	FY 2024 Adopted Budget	FY 2025 Proposed Budget	FY 2024 - FY 2025 Change	Percent Change[1]	% of Total General Fund Revenue
Property Tax	$ 721.4	$ 758.6	$ 807.4	$ 48.8	6.4%	38.8%
Sales Tax	384.7	401.7	392.7	(9.0)	(2.2%)	18.9%
Transient Occupancy Tax	161.8	172.6	173.9	1.3	0.8%	8.4%
Licenses & Permits	46.5	44.9	47.3	2.5	5.5%	2.3%
Fines, Forfeitures, and Penalties	43.6	32.6	31.1	(1.5)	(4.6%)	1.5%
Revenue from Money and Property	76.6	72.7	78.5	5.8	8.0%	3.8%
Revenue from Federal Agencies and Other Agencies	7.2	10.3	11.5	1.2	11.5%	0.6%
Charges for Current Services	201.1	243.4	278.2	34.8	14.3%	13.4%
Transfers In	240.4	156.6	122.8	(33.8)	(21.6%)	5.9%
Other Revenue	3.4	2.0	1.6	(0.4)	(17.7%)	0.1%
Franchise	113.1	110.3	123.7	13.4	12.2%	6.0%
Property Transfer Taxes	12.0	12.0	10.0	(2.0)	(16.5%)	0.5%
Total	**$ 2,012.0**	**$ 2,017.8**	**$ 2,079.0**	**$ 61.2**	**3.0%**	**100.0%**

Numbers may not foot due to rounding.
[1] Percent change represents the change from the Fiscal Year 2024 Adopted Budget to the Fiscal Year 2025 Proposed Budget. Budgeted growth rates for revenues may differ, as Fiscal Year 2025 Proposed Budget amounts are based on updated Fiscal Year 2024 projections.

Changes in local, State, and national economies can impact each of the General Fund revenue sources—the possible effects on the City's finances in Fiscal Year 2025 are further outlined throughout this section of the budget document. The Department of Finance will continue to monitor economic and financial conditions and will incorporate changes as needed, as well as report significant changes in the Fiscal Year 2025 quarterly budget monitoring reports.

Figure 1 - Fiscal Year 2025 General Fund Revenues - $2.08 Billion



San Diego's Economic Environment[19]

The Fiscal Year 2025 Proposed Budget incorporates a slightly positive yet slowing economic outlook that balances the continuing trend of stable key economic indicators, with corresponding growth in property tax, sales tax, and transient occupancy tax, when compared to the latest Fiscal Year 2024 projections. The Fiscal Year 2025 Proposed Budget projects local economic indicators to remain stable and reach more normalized levels in Fiscal Year 2025, following the robust improvements experienced in previous years. Uncertainty in inflation, interest rates, economic policies and geopolitical conflict results in the slower paced growth anticipated in Fiscal Year 2025. The overall expectation and projection for the City's revenues, which is further discussed in the sections below, is consistent with information received from the City's sales tax consultant, Avenu insights and Analytics; the City's property tax consultant, HdL Coren & Cone; the San Diego Tourism Authority; Tourism Economics—an Oxford Economics Company; the San Diego Tourism and Marketing District; and the UCLA Anderson Forecast, at the time that the Proposed Budget was developed.

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

Compared to the Fiscal Year 2024 Adopted Budget, the Fiscal Year 2025 Proposed Budget includes moderate increases for all four major General Fund revenues—property tax, sales tax, transient occupancy tax, and franchise fees—based on softening local economic indicators. The Proposed Budget for property tax assumes a 4.37 percent growth rate. This projected increase is supported by continued elevated median home prices, moderate to low home sales activity, and continued low unemployment rates. The Proposed Budget for sales tax assumes a growth of 4.6 percent. While some concerns over inflation persist, employment and consumer income remain strong. The Proposed Budget balances these factors with slower projected growth as consumer spending patterns adjust to inflation and Federal Reserve policy changes. The Proposed Budget for TOT assumes a 5.9 percent growth rate based on historical year-over-year growth trends prior to the pandemic. This assumption is supported by continued demand for leisure travel and the gradual return of group and business travel. The Proposed Budget for Franchise Fee revenues is based on updated Fiscal Year 2024 projections. The growth rate of 4.62 percent incorporates the proposed rate increases projected from SDG&E's General Rate Case (GRC) filed in July 2023 for both electric and gas. If approved by the CPUC, rate increases could take effect as early as November 2024. The development of all four General Fund major revenues, including assumptions, are discussed in further detail later in this section of the Proposed Budget.

In forecasting the major General Fund revenues, the movement of key economic indicators help inform anticipated growth or contraction and are used to determine growth rates for each revenue source. The main economic drivers that influenced the development of the Fiscal Year 2025 Proposed Budget for General Fund revenues include: consumer spending, which is greatly influenced by employment levels; consumer confidence; and housing market indicators, such as home sales and median home prices.

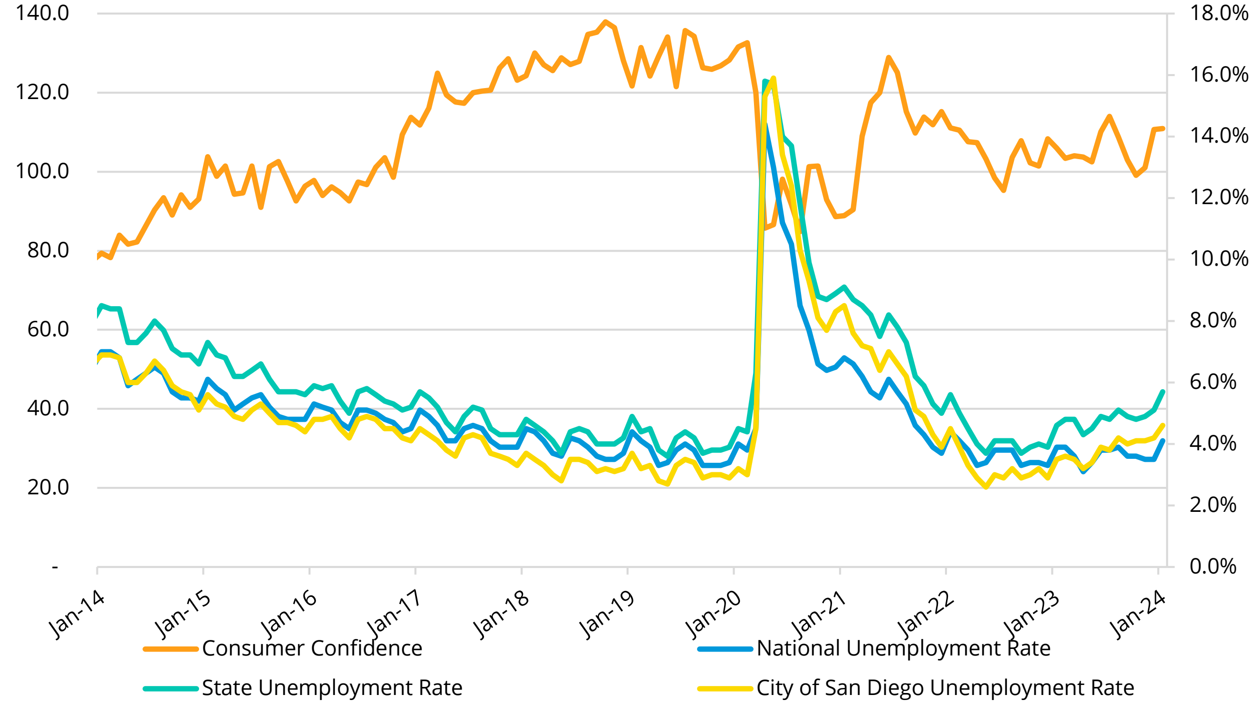
Consumer confidence, a measurement of consumers' willingness to spend, has experienced month-to-month fluctuations post-pandemic. The fluctuations were mainly due to elevated inflation, concerns over a potential recession, and current geopolitical events—all attributing to the pull-back in consumer spending. As of January 2024, consumer confidence is recorded at 110.9, which is an improvement of 4.6 percent from the consumer confidence recorded in January 2023 at 106.0. Despite the fluctuation, it is anticipated that consumer confidence will remain moderately stable as inflation continues to decline and employment and income remain strong.

The unemployment rate for the City of San Diego has remained relatively stable post-pandemic. The City of San Diego's unemployment rate was recorded at 4.6 percent in January 2024, which is an increase of 1.1 percent from the January 2023 unemployment rate of 3.5 percent. The increase may be the result of a tight labor market; the City of San Diego's labor force decreased slightly, by 0.1 percent from January 2023 to January 2024, resulting in a net decline in jobs added within the City. Per the UCLA Anderson Forecast, the "labor force decline is attributable to retirements, migration out-of-state, and individuals choosing to spend their time in non-market activities such as child raising."[20]

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

[20] The UCLA Anderson Forecast for the Nation and California, UCLA Anderson Forecast, March 2024, page 37.

Figure 2 - Consumer Confidence and Unemployment

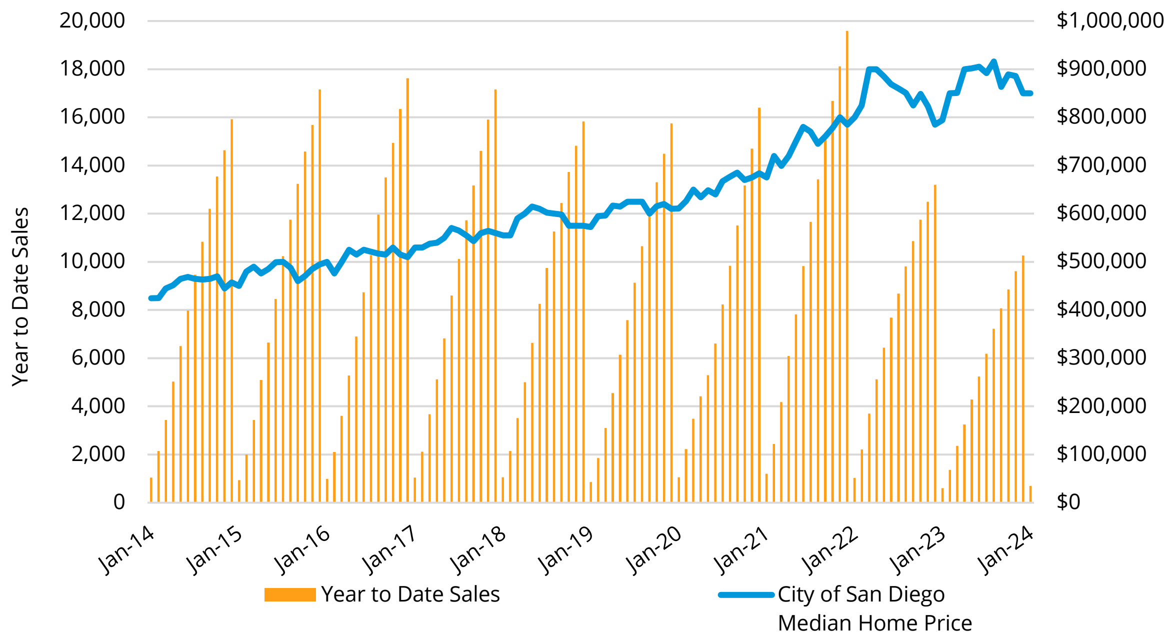


Source: Conference Board, Bureau of Labor Statistics, California Employment Development Department.

The housing market has experienced a slowdown in the number of home sales over the last year, primarily impacted by rate increases and low inventory. This activity is expected to impact property tax revenues in Fiscal Year 2025. The slowing in home sales, coupled with sustained median home prices is reflected in the Fiscal Year 2025 Proposed Budget. As depicted in **Figure 3 - City of San Diego Monthly Median Home Price and Home Sales** and **Figure 4 - City of San Diego S&P/Case-Shiller Home Price Non-Seasonally Adjusted Index**, citywide median home prices continue to remain stable. The average 12-month median home price for the period of January 2023 through December 2023 reached $874,813, an increase of 3.2 percent when compared to $847,563 from January 2022 through December 2022. The number of home sales is recorded at 10,266 for the period of January 2023 through December 2023, which represents a decrease of 22.2 percent when compared to the period of January 2022 through December 2022 total home sales of 13,198.

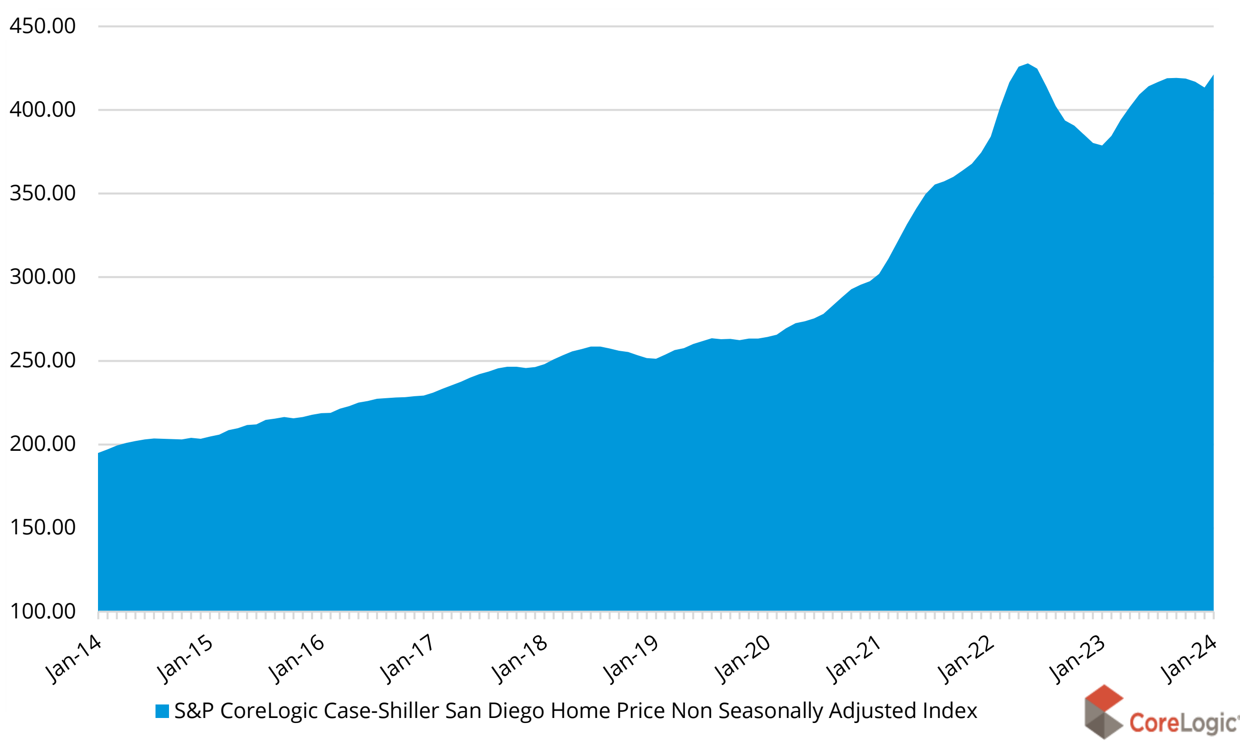
The Department of Finance will continue to monitor these economic indicators and the decisions made by the Federal Reserve to determine the impact to future property tax revenues.

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



Source: 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

Table 3 - Key Economic Indicators reflects economic indicators and assumptions that were used in the preparation of the Fiscal Year 2024 Adopted Budget.

Table 3 - Key Economic Indicators

Economic Indicator	January 2023	January 2024
City of San Diego 12-month Home Sales (Source: CoreLogic ®)	13,198	10,266
City of San Diego 12-month Median Home Price (Source: CoreLogic ®)	$847,563	$874,813
S&P/CoreLogic Case-Shiller Home Price NSA Index for the City of San Diego (Source: S&P Dow Jones Indices / CoreLogic ® Case-Shiller)	378.83	421.34
Countywide Foreclosures (12-month) (Source: County of San Diego)	249	225
Countywide Notices of Default (12-month) (Source: County of San Diego)	2,074	2,151
City of San Diego Unemployment Rates (Source: State of California Economic Development Department)	3.5%	4.6%
Consumer Confidence (Source: Conference Board)	106.0	110.9

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

The January 2024 San Diego Travel Forecast, prepared by Tourism Economics for the San Diego Tourism Authority, projects stable growth in the number of visitors to San Diego and room demand associated with continued moderate growth in leisure travel, and the continued recovery for business and group travel.

According to the UCLA Anderson Forecast for the Nation and California March 2024 Reports, there is still some uncertainty regarding the future of the economy. Current economic indicators point to more stable yet restrained economic growth. Although consumer sentiment is stable, the impact of continued high interest rates and inflation is projected to restrain growth through calendar year 2024. Though it is expected for the Federal Open Market Committee (FOMC) to begin to lower rates in 2024, and GDP is forecasted to grow moderately at 2.0 percent in 2024, other risks to the economic outlook continue to exist. These risks include geopolitical events, uncertainty with the upcoming election and future economic policies, and the potential of a government shutdown.[21]

The Fiscal Year 2024 General Fund Revenues reflect economic growth to continue but at a more moderate pace and does not include any assumptions of a potential recession in the coming fiscal year. In line with these assumptions, the overall growth rates in the General Fund Revenues reflect a normalized growth from prior year. The Department of Finance will continue to monitor economic indicators and expert reports to assess and review the continued economic growth and recovery and will implement necessary revisions to General Fund revenues and report significant changes in the Fiscal Year 2025 quarterly budget monitoring reports.

[21] The UCLA Anderson Forecast for the Nation and California, UCLA Anderson Forecast, March 2024, Page 13, 16, and 20.

Property Tax

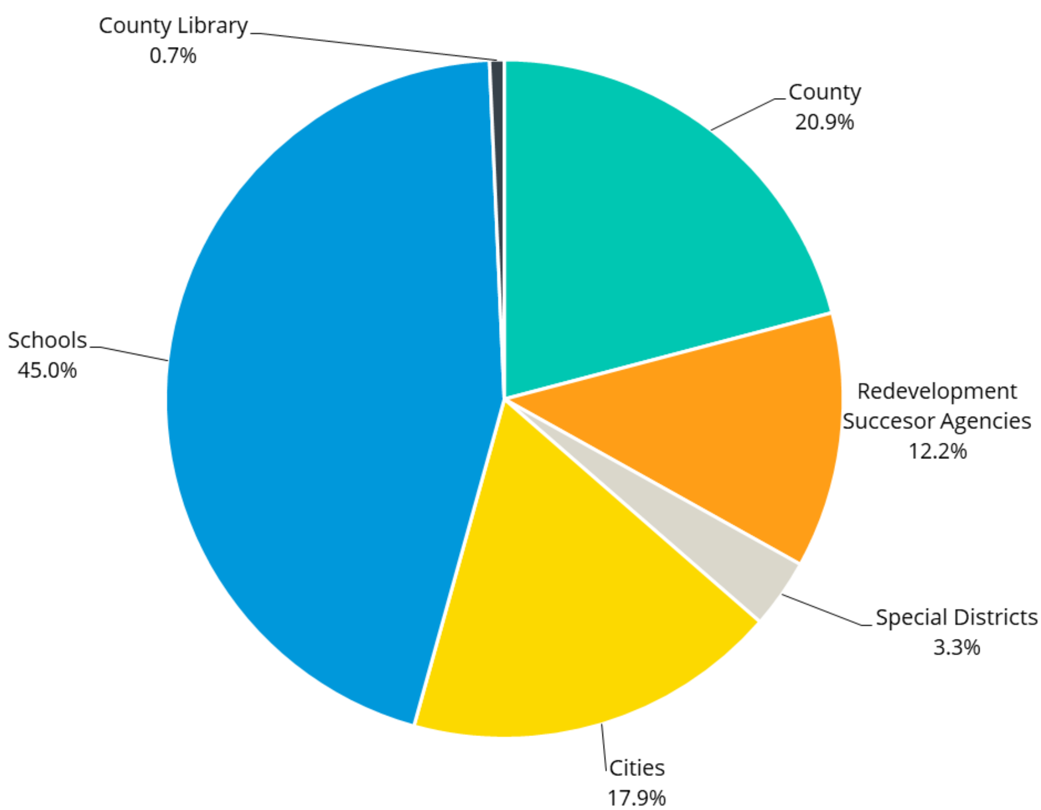
General Fund Revenue $807.4 million
Percent of General Fund Revenues 38.8 percent

Background

Property tax revenue is the City's largest revenue source, representing 38.8 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. **Figure 5 - Fiscal Year 2024 Countywide Property Tax Distribution** depicts the respective distribution. According to the County of San Diego Assessor's Office, for every $100 collected, the average allocation to cities within San Diego County totals $17.90. Additionally, per City Charter requirement, a special tax levy, held separate from the General Fund, of $0.005 per $100 of assessed value is collected for funding the maintenance of zoological exhibits in Balboa Park.

Additionally, as a result of the dissolution of redevelopment agencies in Fiscal Year 2012, funding for continuing obligations as approved by the State of California Department of Finance 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 2024 Countywide Property Tax Distribution



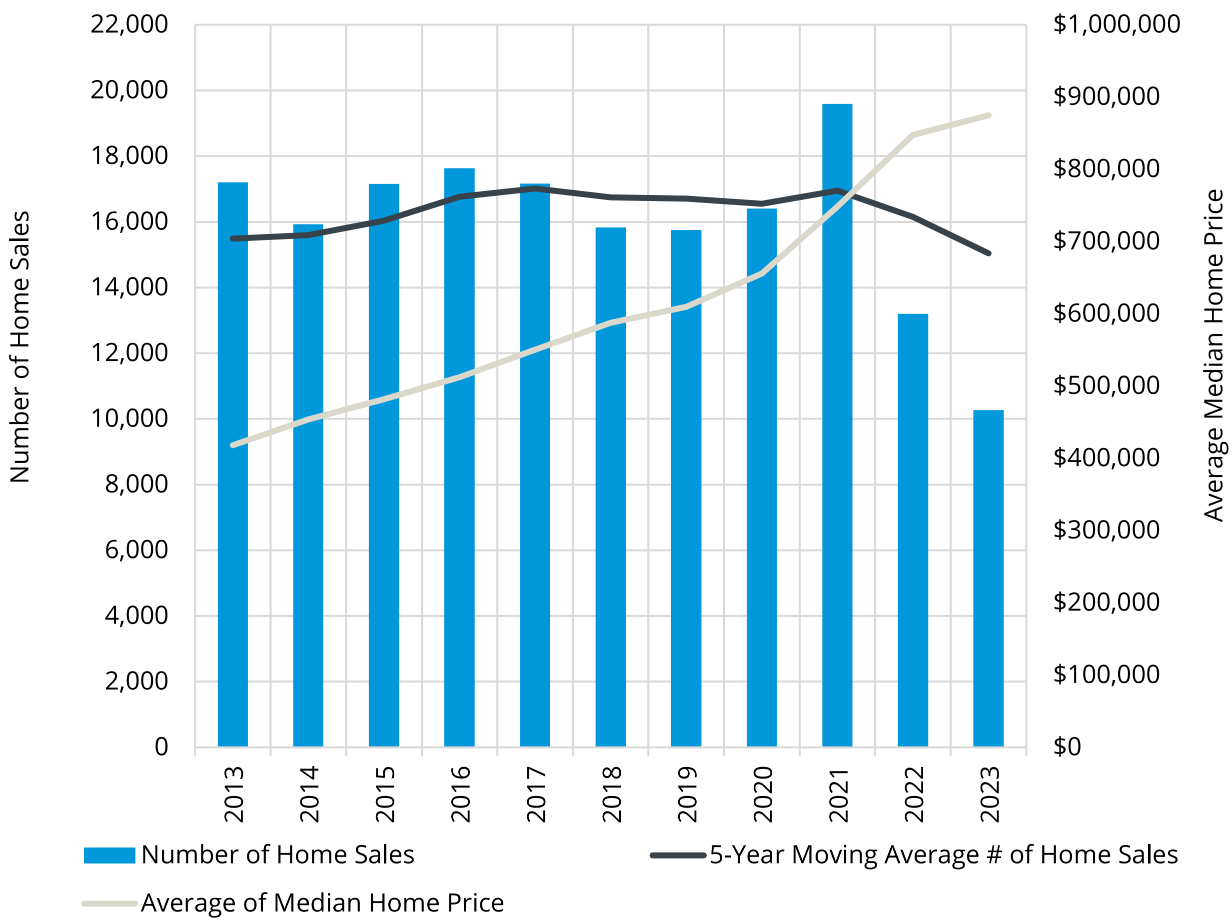
Source: San Diego County Property Tax Services

Economic Trends

Property Tax growth for the Fiscal Year 2025 Proposed Budget is based on real estate activity through calendar year 2023. This is due to a lag between the time assessed valuation is set by the County Assessor's Office and the time that property tax revenue is received by the City. The assessed value of each property is determined as of January 1 each year; however, the resulting property tax payments based on this assessed valuation are not due from property owners until December of the respective year and April of the following year; a delay of 12 to 18 months. Due to this delay, property tax revenue projections do not fully reflect recent market activity. The local real estate market continues to see elevated home values and a continued restrained growth in the number of home sales when compared to the previous year.

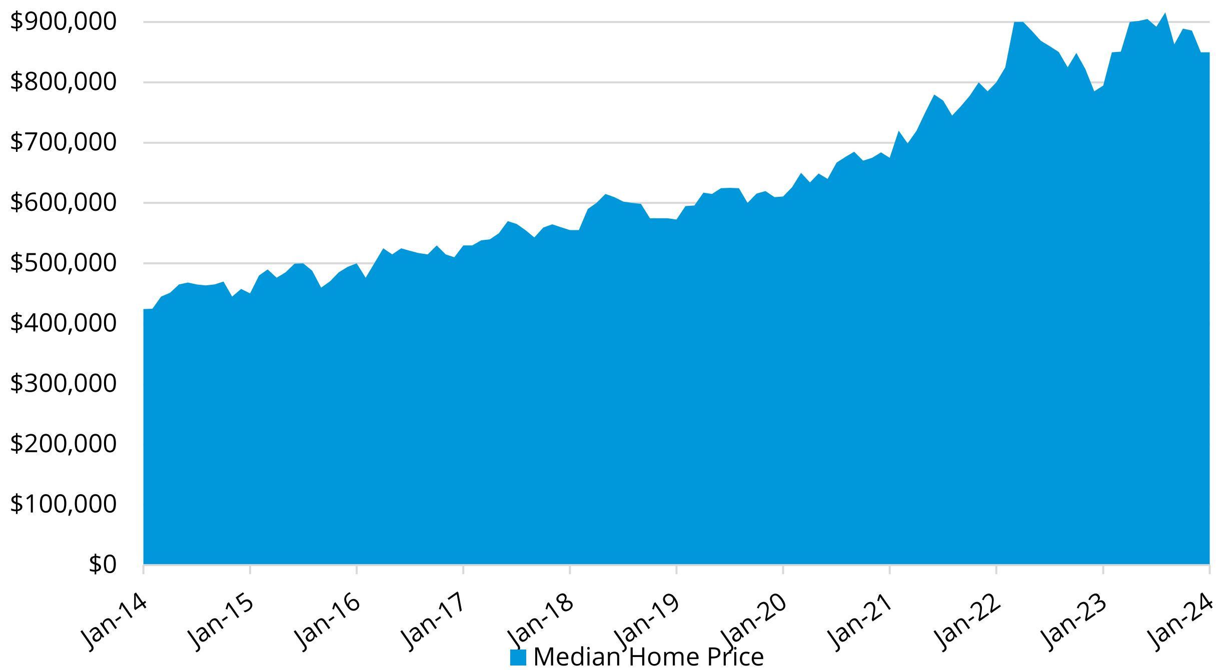
As depicted in **Figure 6 - City of San Diego Home Sales (CY)**, the City recorded 10,266 sales in calendar year 2023, which is a 22.2 percent decrease from calendar year 2022 home sales total of 13,198. The median home sales price reached a new, all-time high, at $916,000 in August 2023, and sustained elevated levels for most of the calendar year before decreasing to $850,000 in December 2023. **Figure 7 - City of San Diego Annual Median Home Price** depicts the trend in median home price after reaching an all-time high in August 2023.

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



Source: CoreLogic ®

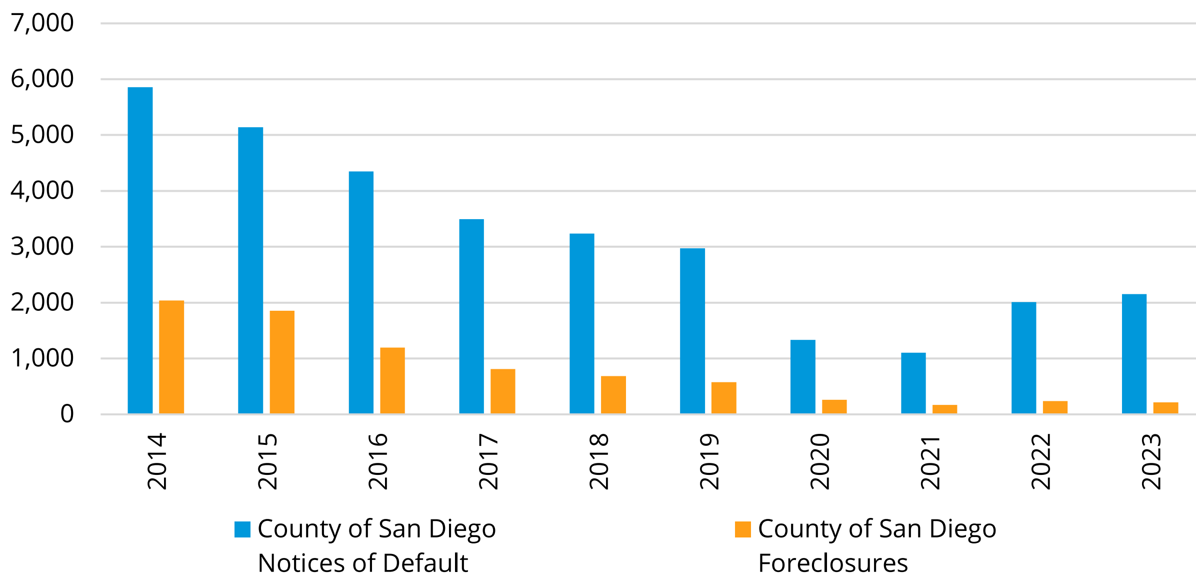
Figure 7 - City of San Diego Annual Median Home Price



Source: CoreLogic®

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

Figure 8 - San Diego County Home Foreclosures (CY)



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

The California Consumer Price Index (CCPI) plays an important part in the assessed valuation of properties that do not sell or are not improved within a given year. Revenue and Taxation Code section 51 provides that a property's value may increase at the rate of the October CCPI; however, it cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed value. The CCPI as of October 2023 was 335.150, which reflects a 3.2 percent increase over the October 2022 CCPI of 324.819. Therefore, the assessed value for those properties, not otherwise sold or improved, will increase by the maximum 2.0 percent.

The City of San Diego's unemployment rate as of January 2024 is 4.6 percent, which is an increase from the January 2023 unemployment rate of 3.5 percent. Although higher than last year's rate, the current 4.6 percent unemployment rate continues to reflect a stable job market, which supports the real estate market. Per the UCLA Anderson Forecast, the "decline in employment over and above the decline in the labor force decline is attributable to retirements, migration out-of-state, and individuals choosing to spend their time in non-market activities such as child raising."[22]

Mortgage interest rates continued to steadily increase in the first half of calendar year 2023 and have remained relatively high since then, which will likely result in a slow real estate economy in calendar year 2024. The FOMC has continued to hold the target range for the federal funds rate steady since the last increase in July 2023. In their March 20, 2024, press release, the FOMC "decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2.0 percent."[23] Along with the decision to maintain target rates, FOMC officials forecast three cuts in rates by the end of calendar year 2024. However, any changes in the federal funds rate during Fiscal Year 2025 are not expected to impact Fiscal Year 2025 property tax revenues due to the delay of property tax payments as previously noted, in which property tax receipts reflect real estate market trends from 12 to 18 months prior.

[22] The UCLA Anderson Forecast for the Nation and California, UCLA Anderson Forecast, March 2024, page 37.
[23] Federal Reserve issues FOMC Statement. Press Release. March 20, 2024.

Fiscal Year 2025 Proposed Budget

The Fiscal Year 2025 Proposed Budget for property tax is $807.4 million, or 38.8 percent, of the General Fund Budget. This represents an increase of $48.8 million, or 6.4 percent, from the Fiscal Year 2024 Adopted Budget. The Proposed Budget for property tax reflects a 4.37 percent growth from the base. The overall property tax receipts are expected to stabilize in Fiscal Year 2025. This projected increase is supported by elevated median home prices, the October 2023 CCPI being higher than the 2.0 percent, stable unemployment rates, and continued demand for limited housing stock. The median home prices in San Diego have remained elevated throughout calendar year 2023, with some slight fluctuations when compared month-to-month and is expected to remain moderately elevated through calendar year 2024. These assumptions are consistent with the forecast prepared by the City's property tax consultant, HdL Coren & Cone. Supported by recent economic conditions, the Proposed Budget assumes a collection rate of 98.9 percent, which is consistent with Fiscal Year 2024 levels. The growth projected in property tax revenue is relatively consistent with the growth forecasted in the Outlook, as projected market conditions remain relatively unchanged.

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

The $807.4 million property tax budget consists of an estimated $548.6 million in base property tax, $203.9 million "in-lieu of motor vehicle license fee" payments, $42.6 million in anticipated residual property tax payments and $12.3 million in tax sharing pass-through payments from the former Redevelopment Agency (RDA). Residual property tax includes $5.8 million in one-time total tax sharing from the Residual Property Tax Trust Fund (RPTTF) associated with the sale of Tailgate Park. The sale was previously projected to occur in Fiscal Year 2024; however, was delayed due to pending litigation. The Fiscal Year 2024 Adopted budget planned to transfer the $5.8 million to support the Bridge to Home Program; however, the Fiscal Year 2025 Proposed Budget no longer projects to make that transfer, and instead proposes the use of it to help balance the General Fund. **Table 4 - Fiscal Year 2025 Proposed Property Tax Budget** reflects this breakdown.

Table 4 - Fiscal Year 2025 Proposed Property Tax Budget

Property Tax Segments	Revenue (In Millions)
Base Property Tax	$ 548.6
Property Tax "In-Lieu" of MVLF	203.9
Residual Tax Sharing	42.6
Tax Sharing Distribution	12.3
Total Property Tax	**$ 807.4**

Sales Tax

Background

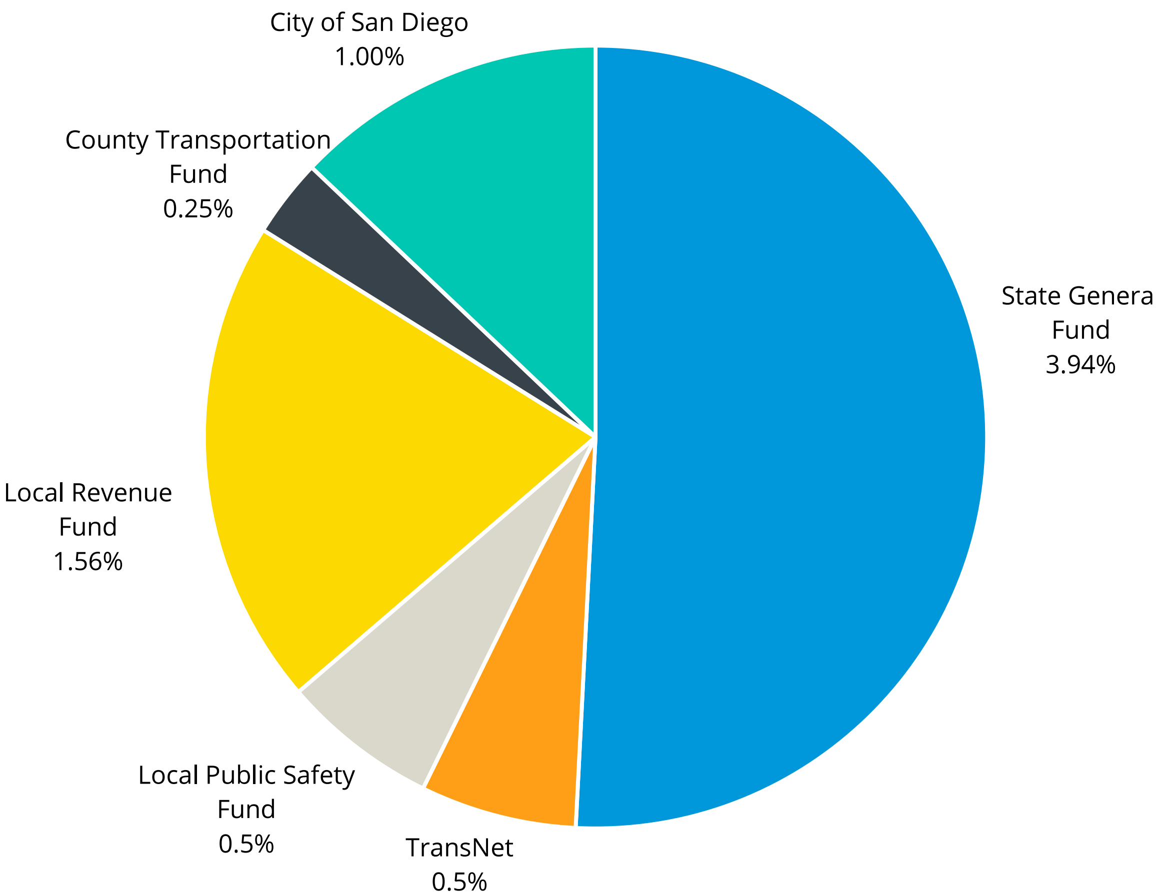
Sales tax is the second largest General Fund revenue source, representing 18.9 percent of the total General Fund revenue. Collected at the point of sale, sales tax receipts are remitted to the California Department of Tax and Fee Administration, which allocates tax revenue owed to the City in monthly 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.

General Fund Revenues
$392.7 million

Percent of General Fund Revenues
18.9 percent

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

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



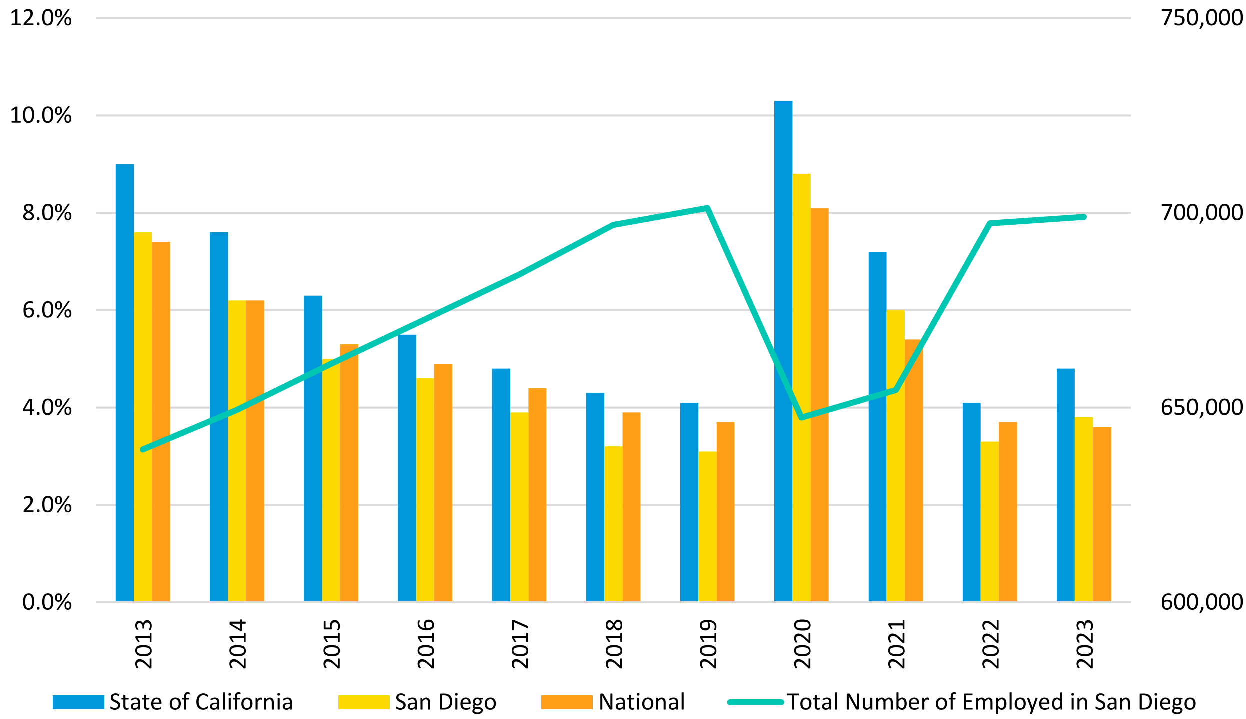
Source: California Department of Tax and Fee Administration.

Economic Trends

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

In January 2024, the City of San Diego recorded 691,400 persons employed and an unemployment rate of 4.6 percent. **Figure 10 - Unemployment Rates by Calendar Year** depicts the total number of employed and unemployment rate for the City of San Diego by full calendar year as of December 2023 data.

Figure 10 - Unemployment Rates by Calendar Year



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

Consumer confidence, which correlates with sales tax receipts, was recorded at 110.9 in January 2024, which represents an increase of 4.6 percent when compared to 106.0 in January 2023. Consumer confidence continues to fluctuate month-over-month as consumers respond to reservations regarding inflation, lingering supply chain pressures, and geopolitical events.

The San Diego Consumer Price Index (CPI) has increased by 3.8 percent year-over-year from 354.453 in January 2023 to 367.917 in January 2024. The increase in CPI is primarily attributed to continued elevated inflation resulting from inflated residential rents and automobile repair costs. Per the recent UCLA Anderson Forecast released in March 2024, inflation is anticipated to drop, from 4.6 percent in the first quarter of calendar year 2023, to 2.5 percent in the third quarter of calendar year 2024, as measured by Core Personal Consumption Expenditure (PCE)[24]. This will ultimately depend on the Federal Reserve's future monetary policy decisions, as efforts to combat elevated inflation continue.

[24] The UCLA Anderson Forecast for the Nation and California, UCLA Anderson Forecast, March 2024, Page 18.

Fiscal Year 2025 Proposed Budget

The Fiscal Year 2025 Proposed Budget for sales tax is $392.7 million, or 18.9 percent of the General Fund revenue budget. This represents a decrease of $9.0 million, or 2.2 percent, from the Fiscal Year 2024 Adopted Budget. The Proposed Budget for sales tax represents a decrease of $5.6 million from the $398.3 million previously forecasted in the Outlook. The Fiscal Year 2025 projected growth rate included in the Outlook was 3.4 percent, but that growth rate has been revised to 4.6 percent primarily to account for a one-time reduction that occurred in Fiscal Year 2024, which is artificially lowering the base budget for Sales Tax and forms the basis for the Proposed Budget's projections for Fiscal Year 2025. This revision is consistent with the City's sales tax consultant's quarterly report, which was released in January 2024.

The projected Sales Tax revenue is supported by continued stable unemployment rates and consumer confidence indicators—which are both primary economic indicators used to forecast sales tax revenue. Actual local sales tax growth rates could be impacted by potential federal interest rate changes, continued inflation impacts, higher unemployment, and changes in consumer spending. All of these factors could impact consumer confidence and/or business-to-business growth. Any potential increase or decrease in local taxable sales performance will directly impact the City's sales tax projection. While concerns over inflation and the general economic uncertainty persist, the Fiscal Year 2025 Proposed Budget balances these factors with slower projected growth as consumer spending patterns adjust to inflation and Federal Reserve policy changes.

Per the voter-approved Proposition H, the City is required to dedicate specific sources of revenue to fund General Fund infrastructure. The calculation to fund the Infrastructure Fund is based on two specific components. One of the components of funding is through the incremental growth in sales tax revenue. Based on current sales tax projections, the incremental growth in sales tax is expected to result in additional contributions to the Infrastructure Fund.

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

General Fund Transient Occupancy Tax (TOT)

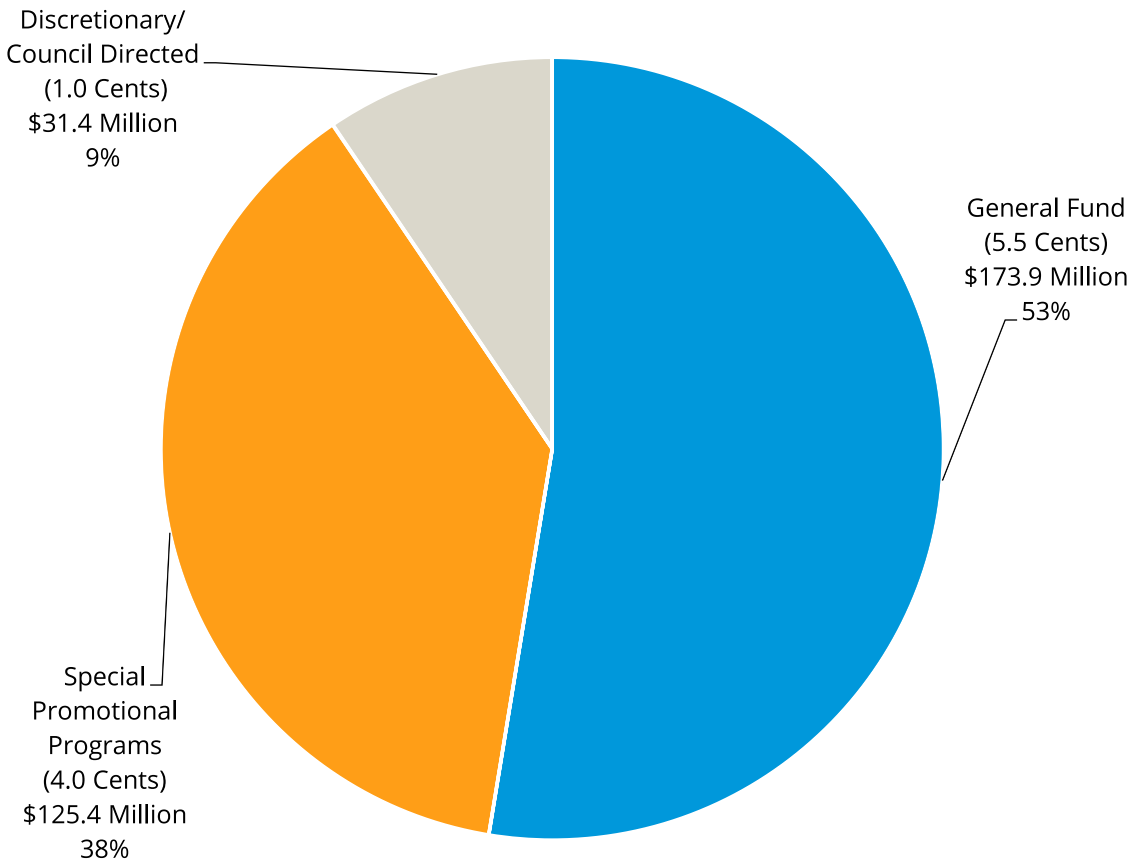
Background

General Fund Revenues
$173.9 million

Percent of General Fund Revenues
8.4 percent

Transient Occupancy Tax makes up 8.4 percent of the City's General Fund revenue budget. TOT is levied at 10.5 cents per dollar on taxable rent for a transient's stay of less than one month. The use of TOT is guided by the City's Municipal Code which stipulates that of the 10.5 cents of collected TOT, 5.5 cents is to be applied toward general government purposes, 4.0 cents towards promoting the City as a tourist destination, and the remaining 1.0 cent towards any purposes approved by the City Council—this breakdown is depicted in **Figure 11 - City of San Diego Transient Occupancy Tax Allocation**. In the Fiscal Year 2025 Proposed Budget, total TOT revenue equals $330.7 million, of which $173.9 million is applied directly to the General Fund and represents the 5.5 cents designated for general government purposes. The remaining 5.0 cents, or $156.8 million, includes the 4.0 cents allocated to programs that promote the City as a tourist destination—including reimbursements to the General Fund for safety and maintenance of visitor-related facilities—and the 1.0 cent Council Discretionary allocation.

Figure 11 - City of San Diego Transient Occupancy Tax Allocation



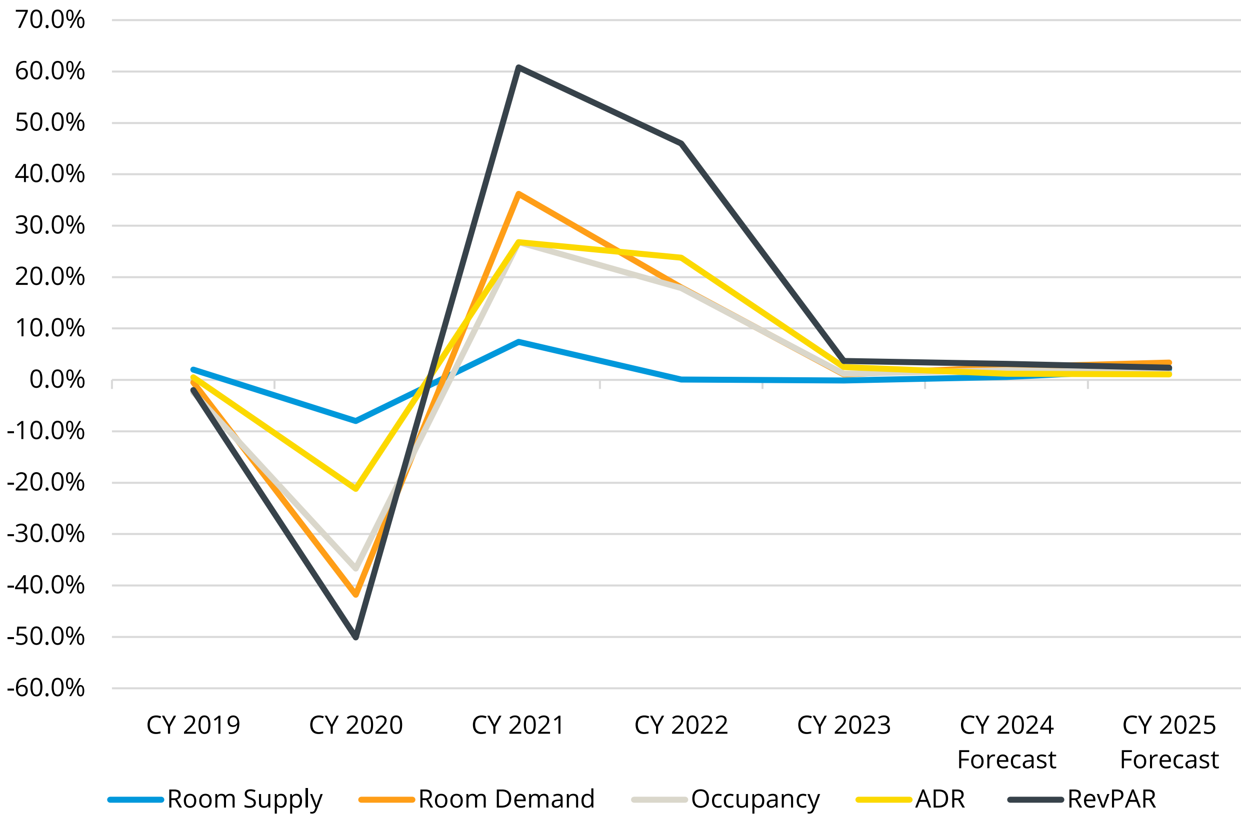
Economic Indicators

The primary economic indicators of transient occupancy tax include room rates, occupancy, and room demand growth, all of which are projected to see growth in Fiscal Year 2025, and reflect continued growth in tourism in the region. This assumption is supported by continued demand for leisure travel, and the gradual improvement of group and business travel. Assumptions in the San Diego County Lodging Forecast, prepared for the San Diego Tourism Authority by Tourism Economics, include moderate group demand growth and less than moderate growth for leisure travel due to an assumed economic slowdown at the beginning of 2024, before gradually increasing to more moderate demand growth in 2025.[25] The San Diego Convention Center, which is host to many large events throughout San Diego, was recently named 2024 center of excellence by EXHIBITOR Magazine.[26] With the City's convention center ranking among the nation's top destinations, this could increase group events and contribute to the local economy by increasing hotel stays and promoting additional spending on dining and leisure activities.

[25] San Diego County Lodging Forecast, Tourism Economics, January 2024, Page 13.
[26] "San Diego Convention Center Named 2024 Center of Excellence by EXHIBITOR Magazine". www.visitsandiego.com. October 20, 2023.

The January 2024 San Diego Lodging Forecast, prepared by Tourism Economics for the San Diego Tourism Authority, includes projected growth for these primary indicators. The average hotel occupancy rate is forecasted at 75.8 percent in calendar year 2025, which represents an increase from the prior year rate of 74.8 percent. Room demand is forecasted to grow by 3.4 percent in calendar year 2025, while the supply of rooms is projected to increase by 2.1 percent in calendar year 2025. Moreover, the Average Daily Rate (ADR) is projected to increase an average of 1.1 percent in calendar year 2025, while the revenue per available room (RevPAR) is projected to increase by 2.4 percent. **Figure 12 - Year-Over-Year Percentage Growth in Key Hotel Sector Indicators** depicts the projected growth of these indicators.

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



	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024[1]	CY 2025[1]
Hotel Sector						
Avg. Occupancy	48.5%	61.5%	72.6%	73.4%	74.8%	75.8%
Avg. Daily Rate	$ 130.51	$ 165.45	$ 204.89	$ 209.91	$ 212.35	$ 214.63
Rev PAR[2]	$ 63.31	$ 101.80	$ 148.65	$ 154.13	$ 158.91	$ 162.65
Room Demand (growth)	-41.8%	36.2%	18.0%	1.1%	2.5%	3.4%

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

[1] Forecast - Tourism Economics, January 2024

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

Fiscal Year 2025 Proposed Budget

The Fiscal Year 2025 Proposed Budget for total Transient Occupancy Tax (TOT) revenue is $330.7 million, of which $173.9 million is allocated to the General Fund and represents 8.4 percent of the General Fund revenue budget. The General Fund allocation represents an increase of $1.3 million, or 0.8 percent, from the Fiscal Year 2024 Adopted Budget. The Fiscal Year 2025 Proposed Budget for TOT represents a $7.4 million decrease from the Outlook. The Proposed Budget for TOT assumes a 5.9 percent growth rate and continued moderate growth in leisure travel based on favorable conditions, including stable unemployment levels and continued progress towards pre-pandemic levels in group and international travel. These assumptions are consistent with assumptions and data reported by Tourism Economics in the January 2024 San Diego Lodging Forecast.

As noted earlier in this section, of the $330.7 million in total TOT revenue, $173.9 million is budgeted in the General Fund and represents the 5.5 cents allocable for general government purposes; the remaining $156.8 million is allocated to Special Promotional Programs, which includes the 4.0 cents allocated to programs that promote the City as a tourist destination and reimbursements to the General Fund for safety and maintenance of visitor-related facilities, and the 1.0 cent City Council Discretionary allocation. The Department of Finance continues to monitor economic indicators and changes to revenues and will implement changes and report significant changes in the Fiscal Year 2025 quarterly budget monitoring reports.

Franchise Fees

Background

General Fund Revenues
$123.7 million

Percent of General Fund Revenues
6.0 percent

The Fiscal Year 2025 Proposed Budget for Franchise Fee revenue is $123.7 million which represents 6.0 percent of the General Fund revenue budget; this is an increase of $13.4 million, or 12.2 percent, from the Fiscal Year 2024 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 collected. SDG&E is the single largest generator of franchise fee revenue in the General Fund and remits 3.0 percent of the gross sales of gas and electricity within the City of San Diego. Revenue from SDG&E is split between the General Fund (75.0 percent) and the Environmental Growth Funds (25.0 percent) based on the City Charter. Cable providers remit 5.0 percent of gross revenues.

Fiscal Year 2025 Proposed Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2025 Proposed Budget for SDG&E franchise fee revenue is $112.9 million and assumes a net 4.62 percent growth rate for calendar year 2024. The SDG&E franchise fee revenue is based on Fiscal Year 2024 year-end projections, while the growth rate accounts for historical trends in energy consumption levels and anticipates new rate increases proposed by SDG&E. Aside from weather, usage, and energy market conditions, SDG&E energy rates are impacted by regulatory proceedings at the California Public Utilities Commission (CPUC). In July 2023, SDG&E submitted a General Rate Case (GRC) Application seeking that their authorized revenue requirement be revised in order to increase electric and gas base rates.

In accordance with the City Charter, 75.0 percent of the revenue from SDG&E, or $84.7 million, is allocated to the General Fund; the remaining 25.0 percent of revenue received from SDG&E, or $28.2 million, is deposited into the Environmental Growth Funds (EGF). Additionally, per City Council Resolution 313454, through the annual budget process, the Mayor shall consider making allocations to the Climate Equity Fund, including 10.0 percent of the 75.0 percent allocated to the General Fund. However, the Resolution also allows the Mayor to seek City Council approval to temporarily suspend compliance for the upcoming fiscal year if the Mayor determines that anticipated revenues in any fiscal year will be insufficient to maintain existing City services. To limit additional reductions to City services, the Fiscal Year 2025 Proposed Budget recommends the suspension of this allocation of $8.5 million for the Climate Equity Fund, which would allow this revenue to remain in the General Fund to support existing City services.

Of the revenues transferred to the EGF, one-third is used to fund the maintenance of parks, and two-thirds is designated for parkland maintenance and debt service payments for open space acquisitions. The Fiscal Year 2025 Proposed Budget includes the additional revenue deposits in the EGF and provides funding for park and open space maintenance.

In June 2021, the City Council agreed to a new 10-year gas and electric franchise agreement with SDG&E, with the option of extending it another 10 years. In addition to remitting the 3.0 percent of the gross sales of gas and electricity, the franchise agreement included $80.0 million for the gas and electric franchise and an additional $20.0 million to advance the City's climate equity goals. The franchise agreements each have a separate payment plan. The gas franchise bid will be paid in equal installment payments of $500,000 over the entire 20 years covered by the agreement. If the agreement is terminated at any time, the remaining payments will be voided. The electric franchise bid will pay $10.0 million annually for the first five-years, while the final two payments will be delayed until years 10 and 11 (2030 and 2031) of the agreement. The installment payments are subject to an annual interest rate of 3.38 percent. The payment in 2031 will only occur if the contract is renewed for another 10 years following the initial 10-year term. Additionally, per City Council modifications, SDG&E is required to contribute $2.0 million for the first five years of the agreement to further the City's climate action and equity goals—of which $1.5 million is allocated to the Climate Equity Fund and $500,000 is allocated to the EGF. Consistent with the terms of this agreement, the Fiscal Year 2025 Proposed Budget includes $11.6 million in a gas & electric franchise bid payment, including the annual interest rate of 3.38 percent.

On May 3, 2022, the City Council established the Energy Independence Fund (EIF) and approved the allocation of a minimum of 20.0 percent of the Bid amount each year for the EIF, unless waived by the City Council. However, City Council Resolution 314076, which created the EIF, also allows the Mayor to seek City Council approval to temporarily suspend compliance for the upcoming fiscal year if the Mayor determines that anticipated revenues in any fiscal year will be insufficient to maintain existing City services. Similar to the proposal to waive General Fund contributions to the Climate Equity Fund, the Fiscal Year 2025 Proposed Budget recommends the suspension of this allocation of $2.3 million for the EIF, which would allow this revenue to be deposited in the General Fund to maintain existing City services. The remainder of the franchise bid amount of $2.9 million will be allocated to the EGF funds.

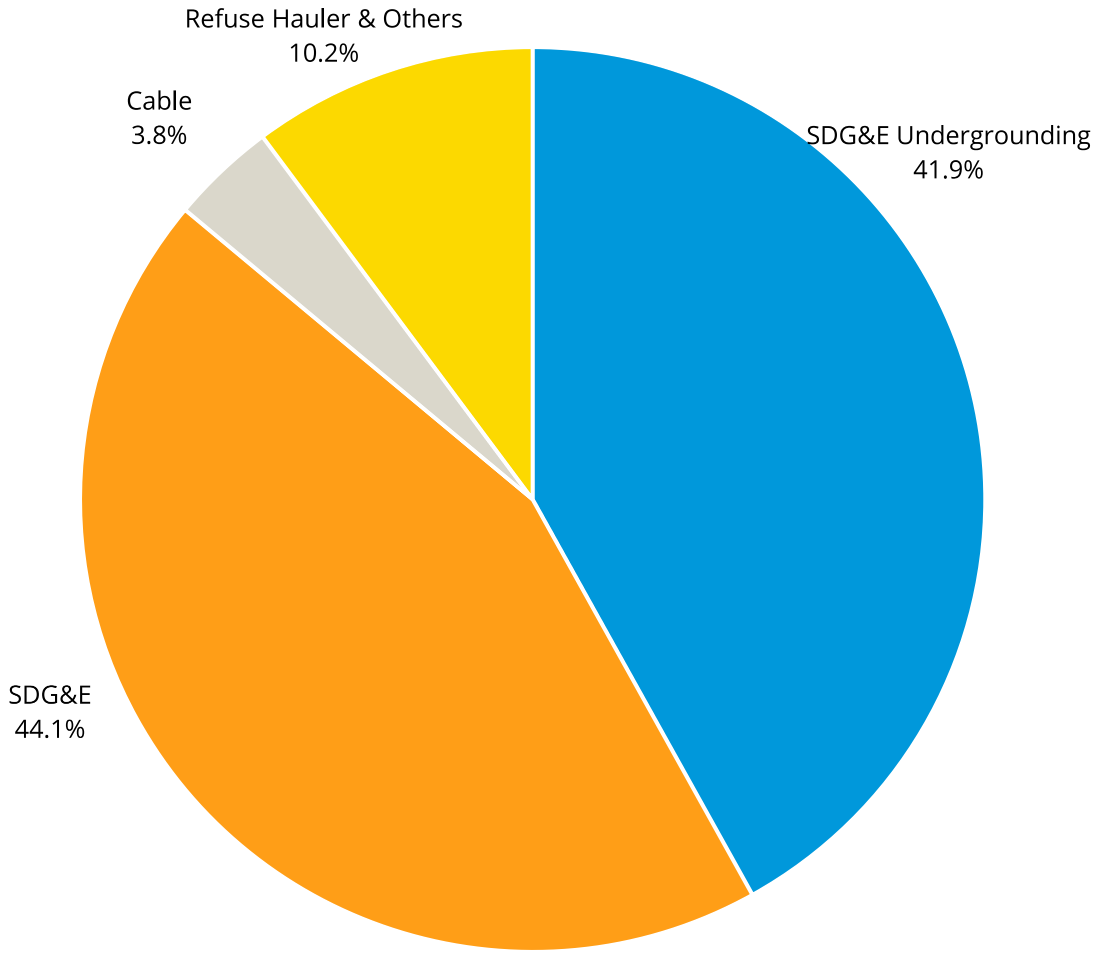
The City also receives an undergrounding utility franchise fee from SDG&E. The Fiscal Year 2025 Proposed Budget for SDG&E undergrounding utility fee revenue totals $110.5 million. This revenue is budgeted in the Underground Surcharge Fund to support the undergrounding of electricity distribution infrastructure within the City's right-of-way.

CABLE COMPANIES. The Fiscal Year 2025 Proposed Budget for cable franchise fee revenue is $9.9 million and is based on updated Fiscal Year 2024 projections; the budget assumes a negative 5.53 percent growth rate based on historical actuals and a trend of declining revenues from traditional cable providers.

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2025 Proposed Budget for refuse hauler and other franchise fee revenues is $20.5 million and is based on updated Fiscal Year 2024 projections. The City anticipates $13.5 million from refuse collection fees, $1.7 million in revenue related to the Police Department's vehicle tow program, $179,000 in franchise fees from the EDCO facilities, and $827,000 from other franchise fee sources. Also included is a one-time transfer to the General Fund of $4.3 million from the Recycling Fund, associated with the Sycamore Facility franchise fee.

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

Figure 13 - Franchise Fee Revenue Breakdown



Property Transfer Tax

Background

Property Transfer Tax makes up 0.5 percent of the General Fund revenue budget and is levied on the sale of real property. The County of San Diego collects $1.10 per $1,000 of the sale price when any real property is sold. The City is credited $0.55 per $1,000 against the County's charge, giving both the County and City each $0.55 per $1,000 of the sale price. The funds are collected by the County upon a sale of real property within City limits and transferred to the City monthly.

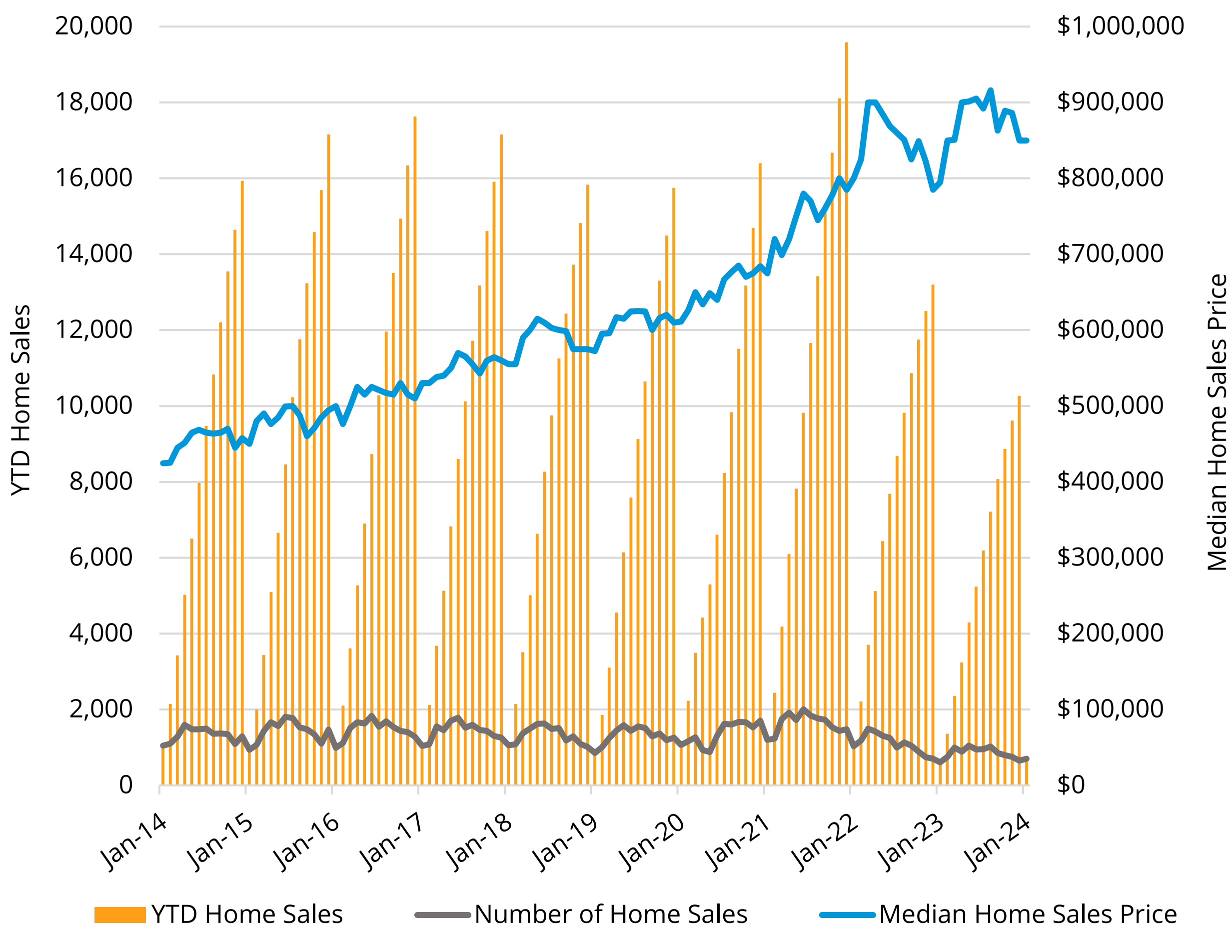
General Fund Revenues
$10.0 million

Percent of General Fund Revenues
0.5 percent

Economic Trends

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

Figure 14 - City of San Diego Home Sales



Source: CoreLogic®

Home sales have decreased as a result of the FOMC's decision to continue to raise rates through the first half of calendar year 2023 and maintaining rates at these high levels. However, median home prices are anticipated to continue at elevated levels through calendar year 2024. The Department of Finance will continue to closely monitor Property Transfer Tax revenue and adjust projections as necessary.

Fiscal Year 2025 Proposed Budget

The Fiscal Year 2025 Proposed Budget for property transfer tax is $10.0 million and is based on Fiscal Year 2024 year-end projections. This represents a decrease of $2.0 million, or 16.5 percent, from the Fiscal Year 2024 Adopted Budget. The negative growth is based on a projected decline in home sales. As noted in the property tax section, on March 20, 2024, the FOMC "decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent."[27] Along with the decision to maintain target rates, FOMC officials forecast three cuts in rates by the end of calendar year 2024. Any changes in the federal funds rate in calendar year 2024 would likely impact property transfer tax; any significant changes will be included in the Fiscal Year 2025 quarterly budget monitoring reports.

Licenses and Permits

Background

General Fund Revenues
$47.3 million

Percent of General Fund Revenues
2.3 percent

The Licenses and Permits category include 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. Recreational Cannabis Business Tax makes up almost half of the licenses and permits revenue category. On Nov. 8, 2016, San Diego voters passed Measure N, a tax on non-medical cannabis, which imposes a gross receipts tax on non-medical cannabis businesses that operate or provide services within the City of San Diego. Businesses were initially taxed at a rate of 5.0 percent of monthly gross receipts, but this rate increased to 8.0 percent on July 1, 2019. Effective May 1, 2022, the Cannabis Business Tax rate for Cannabis Production Facilities (Cultivation, Manufacturing, Distribution, Storage) is 2.0 percent of monthly gross receipts.

Fiscal Year 2025 Proposed Budget

The Fiscal Year 2025 Proposed Budget for licenses and permits is $47.3 million, or 2.3 percent of the General Fund revenue budget. This represents an increase of $2.5 million, or 5.5 percent, from the Fiscal Year 2024 Adopted Budget. The increase is primarily attributed to $6.3 million for the Short-Term Residential Occupancy (STRO) Program, where licenses are valid for two years with fees due at the beginning of January, every two years after applications are submitted and a lottery on those applications occurs. This increase is offset by the following decreases:

- $2.0 million reduction in Cannabis Business Tax revenue due to a decrease in gross receipts reported by cannabis business outlets and a reduction of business tax remitted associated to increased competition from other municipalities and delivery services;
- $790,000 reduction in Shared Mobility Device fee revenue due to a contraction of current scooter operations in the City;

[27] Federal Reserve issues FOMC Statement. Press Release. March 20, 2024.

- $661,000 reduction of Business Tax and various licenses and permit fees due to fewer renewals and permits issued; and,
- $650,000 one-time removal of licensing revenue for the Short-Term Residential Occupancy (STRO) Program application and licensing fees as mandated by Ordinance O-21305 in Fiscal Year 2024.

Fines, Forfeitures, and Penalties

Background

General Fund Revenues
$31.1 million

Percent of General Fund Revenues
1.5 percent

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 2025 Proposed Budget

The Fiscal Year 2025 Proposed Budget for fines, forfeitures, and penalties revenue is $31.1 million, or 1.5 percent, of the General Fund revenue budget. This represents a decrease of $1.5 million, or 4.6 percent, from the Fiscal Year 2024 Adopted Budget.

The decrease is primarily attributed to a $1.6 million reduction in parking citation revenue. This includes a $1.3 million revenue reduction in the Stormwater Department related to citations issued during street sweeping activities and a $310,000 reduction in the City Treasurer’s Office due to fewer citations being issued as a result of a reduction in enforcement positions and realignment of core duties.

Revenue from Money and Property

Rents and Concessions

General Fund Revenues
$78.5 million

Percent of General Fund Revenues
3.8 percent

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

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

Interest and Dividends

In accordance with the City Charter and authority granted by the City Council, the City Treasurer is responsible for investing the City's cash assets, exclusive of City Pension Trust Funds. 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 are allocated to the participating City funds based on their pro rata share of cash balances.

Fiscal Year 2025 Proposed Budget

The Fiscal Year 2025 Proposed Budget for revenue from money and property is $78.5 million, or 3.8 percent of the General Fund revenue budget. This represents an increase of $5.8 million, or 8.0 percent, from the Fiscal Year 2024 Adopted Budget. This increase is primarily attributed to an increase of $4.3 million from rents and concessions due to additional activity and rent revenue at Mission Bay hotels, Sea World, and City Pueblo Lands. Additionally, the Fiscal Year 2025 Proposed Budget includes increases of $996,000 in rent reimbursements to the General Fund from non-general funds and $300,000 for additional interest earnings revenue.

Revenue from Federal & Other Agencies

Background

General Fund Revenues
$11.5 million

Percent of General Fund Revenues
0.6 percent

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

Fiscal Year 2025 Proposed Budget

The Fiscal Year 2025 Proposed Budget for Revenue from Federal and Other Agencies is $11.5 million, or 0.6 percent of the General Fund revenue budget. This represents an increase of $1.2 million, or 11.5 percent, from the Fiscal Year 2024 Adopted Budget. This increase is due to the following:

- $1.3 million increase in Motor Vehicle License fee-Excess collection payments from the State Controller's Office;
- $813,000 in one-time staff reimbursement revenue associated with the "Ready, Set, Grow San Diego" program, which seeks to address climate action goals and promote tree equity;
- $363,000 in new one-time State grant revenue to support the wellness and safety of people experiencing homelessness;
- $228,000 in grant revenue in the Fire-Rescue Department to support the addition of 1.00 Fire Battalion Chief to coordinate emergencies and training related to alternative energy sources; and
- $197,000 in one-time revenue from the Opioid Settlement Fund, which will support the Community Harm Reduction and Safe Haven Programs.

These increases are offset by a reduction of $648,000 for the SD Access for All Grant and $263,000 for the Employ and Empower grant which were added as one-time revenue sources in the Fiscal Year 2024 Adopted Budget.

Charges for Current Services

Background

General Fund Revenues
$278.2 million

Percent of General Fund Revenues
13.4 percent

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

Fiscal Year 2025 Proposed Budget

The Fiscal Year 2025 Proposed Budget for charges for current services revenue is $278.2 million, or 13.4 percent of the General Fund revenue budget. This represents an increase of $34.8 million, or 14.3 percent, from the Fiscal Year 2024 Adopted Budget. This increase is primarily attributed to an increase of $12.7 million in reimbursements from the Environmental Growth Funds to support eligible expenditures, $4.5 million for the Employ & Empower Internship program, $4.1 million in one-time reimbursement revenue associated with right-of-way maintenance that will be supported by the Infrastructure Fund, $3.3 million increase in GGSB, $2.2 million in TransNet revenue to support congestion relief efforts, and $1.1 million in Gas Tax revenue to support administration of traffic engineering activities.

Transfers In

Background

General Fund Revenues
$122.8 million

Percent of General Fund Revenues
5.9 percent

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

Fiscal Year 2025 Proposed Budget

The Fiscal Year 2025 Proposed Budget for Transfers In is $122.8 million, or 5.9 percent of the General Fund revenue budget. This represents a decrease of $33.8 million, or 21.6 percent, from the Fiscal Year 2024 Adopted Budget. This decrease is primarily attributed to a reduction of $52.1 million in the one-time use of American Rescue Plan Act (ARPA) funds in Fiscal Year 2024. This decrease is offset by an increase of $13.5 million in transfers to the General Fund from the Concourse and Parking Garages Operating Fund, Community Equity Fund, Energy Independence Fund, Civil Penalties Fund and Central Stores Fund; as well as an increase of $7.7 million in one-time revenue related to the Monsanto Action Class Settlement.

Other Revenue

Background

General Fund Revenues $1.6 million **Percent of General Fund Revenues 0.1 percent**

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

Fiscal Year 2024 Adopted Budget

The Fiscal Year 2025 Proposed Budget for Other Revenue is $1.6 million, or 0.1 percent, of the General Fund revenue budget. This represents a decrease of $400,000, or 17.7 percent, from the Fiscal Year 2024 Adopted Budget, which is associated with a redistribution of the base budget of $180,000 in the Environmental Services Department associated with the automated refuse container management, and a reduction of $167,000 in the Transportation Department from the cancellation of the 50/50 Sidewalk Cost Share Program.

State of California Budget Impacts[28]

On January 10, 2024, Governor Newsom released the 2024-2025 Governor's Proposed Budget, which would appropriate $291.5 billion in State funds, including $208.7 billion from the General Fund, $80.8 billion from special funds, and $2.0 billion from bond funds.

Per the Governor, the Proposed Budget closed a projected budget shortfall of $37.9 billion. The shortfall is primarily due to two key factors: a substantial decline in the stock market that decreased California revenues in 2022, and a delay in income tax collections in 2023 as a result of extensions granted by the Internal Revenue Service (IRS).

The Governor's proposed solution to cover the shortfall includes the use of $13.1 billion of State reserve funds; internal borrowing and funds shifts totaling $9.1 billion; $15.7 billion in reductions of funding levels, delays and deferrals in funding to later years; and withdrawals of $5.7 billion from the Public School System Stabilization Account (PSSSA). After the proposed withdrawals, total budgetary reserves in the coming fiscal year are projected to be $18.4 billion.

The budget proposal includes total funding of $126.8 billion for K-12 education programs; $44.8 billion for higher education and the California Student Aid Commission; and $253.4 billion for health and human services programs, including expanding Medi-Cal to all income-eligible Californians, as well as childcare and development.

The budget also maintains $3.4 billion to continue the State's efforts to address homelessness, including $1.0 billion from the General Fund for the Homeless Housing, Assistance and Prevention (HHAP) Program grants, $400.0 million for the Encampment Resolution grants, and $1.1 million in public safety investments.

Annual Tax Appropriations Limit (Gann Limit)

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

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

based on actual appropriations during the State of California Fiscal Year 1978-79, and adjusted each year using population and inflation adjustment factors.

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

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

The San Diego City Council adopted a resolution on June 27, 2023 that established the City's Tax Appropriations Limit for Fiscal Year 2024 at $5,127,592,710. Using the Fiscal Year 2024 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 $1,554,198,470, which is $3,573,394,240 below the Gann Limit.

In accordance with California Law, Division 9 of the Government Code and Proposition 111 guidelines, the Fiscal Year 2025 Tax Appropriations Limit will be set and adopted on or before June 30, 2024, and this section will be updated in the Fiscal Year 2025 Adopted Budget.

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