CITY OF SAN DIEGO
MEMORANDUM

DATE: April 25, 2006

TO: Councilmember Donna Frye

FROM: Jay M. Goldstone, Chief Financial Officer

SUBJECT: Fiscal Year 2007 Revenue Projections

This is in response to your memorandum dated April 13, 2006, Revenue Projections and Annual Required Contribution, the following information is provided for a clear understanding of the Fiscal Year 2007 revenue projections, which were presented to the City Council on April 17, 2006 as part of the Fiscal Year 2007 Proposed Budget.

What is the basis for the projection that sales tax revenues will increase by 63 percent ($90.8 million)? What were the actual sales tax revenues for FY '05?

The projected sales tax revenue for Fiscal Year 2007 is $234.9 million. This figure reflects greater transparency in budgeting. In prior fiscal years, the City would allocate portions of its sales tax revenue directly into selected programs and funds (i.e., Special Promotional Programs, Police Decentralization Fund, Centre City Maintenance Coordination Fund, unappropriated reserves, Street Division, etc). Any remaining sale tax revenue was then budgeted in the General Fund. This amount was approximately $144.1 million in fiscal year 2006.

In Fiscal Year 2007, the General Fund sales tax figure now reflects the total sales tax revenue received. Any allocations to non-General Fund programs will be made as "inter-fund transfers". The result of this budgeting change suggests a $91 million increase in sales tax revenue from Fiscal Year 2006 to Fiscal Year 2007. The reality is that only about $16 million of this amount is the result of projected growth. The balance reflects the restructured transparent sales tax budget.

The Fiscal Year 2007 Sales Tax Projection is based on the Fiscal Year 2006 year-end estimates, which is higher than budgeted (the actual growth in sales tax revenues for Fiscal Year 2006 is estimated at 3.5% over budgeted amount). In fiscal year 2005, the State implemented a new revenue shift known as the triple-flip as part of its "Recovery Plan". A component of this was to reduce the amount of sales tax local government received by 25% and replace these funds with additional property tax revenue. The State miscalculated the amount of funds local government was to receive which resulted in an overpayment to local government. In fiscal year 2006, the State withheld a comparable dollar amount which results in a one-time adjustment of approximately $8.3 million. The following schedule reflects the actual changes projected between fiscal years 2006 and 2007.

	FY 2006 Budget	FY 2006 Projected	Change	FY 2007 Projected
Sales Tax Revenue (0.75%)	$164.1 M	$170.6 M	$6.5	$177.5 M
Property Tax Reimbursement	$53.7 M	$45.4 M	($8.3)	$57.4 M
Total	$218.4 M	$216.0 M	($2.4)	$234.9 M

The actual unaudited revenue from sales tax for Fiscal Year 2005 was $208.2 million.

By way of a little more detail for arriving at the fiscal year 2006 total as compared to what was included in the budget, please refer to the following schedule:

General Fund Sales Tax Revenue fiscal year 2006	$144.10 million
Sales Tax Revenue Included in other Funds:	
Special Promotions	42.30 million
Centre City Maintenance Corportion	.90 million
Police Decentralization Fund	8.90 million
Facilities Financing	.40 million
Capital Improvements	.13 million
Unappropriated Reserves Contribution	3.00 million
Redevelopment Public Use Lease	2.00 million
Street Division	17.00 million
Total Sales Tax Revenue	$218.36 million

What is the basis for the projection that property tax revenue will increase by 19 percent ($53.8 million)? What were the actual property tax revenues for FY'05?

The projected property tax revenue for Fiscal Year 2007 is $344.2 million. The increase of $53.8 million includes a growth in property tax receipts of $21.5 million over the Fiscal Year 2006 property tax budget. Approximately $16.9 million of this growth comes from the reinstatement of ERAF III dollars (a two-year revenue shift imposed by the State in Fiscal Years 2005 and 2006); and a growth in in-lieu VLF reimbursement of $15.4 million (in-lieu VLF payment is a result of the State triple-flip revenue shift mentioned earlier in the sales tax projections paragraph). In addition to these adjustments, the City is projecting approximately 3.5% growth in property tax between fiscal year 2006 estimated actuals and fiscal year 2007 budget.

The actual unaudited total property tax for Fiscal Year 2005 was $223.5 million.

The TOT revenue is projected to increase by 8 percent ($10.6 million), a modest rate relative to the other two categories. What is the basis for that level of increase in tourism and hotel occupancy? What were the actual TOT revenues for FY '05?

The Fiscal Year 2007 projected TOT revenue is $139.1 million. The projection is based on the Fiscal Year 2006 year-to-date receipts which are estimated at $131.2 million, or 2.1% higher than budgeted ($128.5 million), and reflects a 6% growth over Fiscal Year 2006 year-to-date receipts.

The actual unaudited total City TOT revenue for Fiscal Year 2005 was $121.6 million.

What revenues constitute the "other" category and why is it projected to decline by 11 percent ($33.2 million)? What were the actual revenues for "other" in FY '05?

"Other Revenue" category includes all General Fund departments revenues (approximately $239.4 million) as well as other non-department revenue, such as Property Transfer Tax, Safety Sales Tax, Franchise Fees, Vehicle License Fees, and other miscellaneous revenue reaching almost $121.7 million. The actual decrease in "Other Revenue" category between Fiscal Year 2006 ($362.9 million) and Fiscal Year 2007 ($361.1 million) is approximately 0.5%. The table below provides a breakdown of three major revenue categories and other revenue changes.

General Fund Revenue	FY 2006 Adopted Budget	FY 2007 Proposed Budget	$ Change	% Change
Property Tax	$290.4 M	$344.2 M	$53.8 M	18.5%
Sales Tax	$144.2 M	$234.9 M	$90.7 M	62.9%
TOT (5.5 cents)	$67.3 M	$72.9 M	$5.6 M	8.3%
Other Revenue	$362.9 M	$361.2 M	($1.7 M)	(0.5%)
Total General Fund	**$864.9 M**	**$1.013 B**	**$149 M**	**17.2%**

The City Auditor and Comptroller's General Fund Revenue Status Report (Status Report) for the period ending February 24, 2006 shows General Fund TOT Revenues as approximately $67 million. The TOT revenue shown on page 2 of the Fact Sheet shows TOT revenues for the FY '06 budget is $128.5 million, increasing to $139.1 million in the FY '07 budget? How and where is the other $61.5 million in TOT accounted for in the city's current budget?

The Fact Sheet reflects "gross" TOT revenue and not just the portion dedicated to the General Fund. This was corrected in the Mayor's recommended budget.

Per Municipal Code Sections 35.0128 – 35.0133, total TOT revenue received by the City should be allocated as follows:

- Four cents must be used solely for the purpose of promoting the City of San Diego
- One cent can be used for any purpose the City Council may direct
- Five and one-half cents are deposited in the General Fund for general government purposes as the City Council may provide in accordance with the Charter of the City and the City Council's appropriation ordinance.

The Status Report prepared by City Auditor included only the General Fund portion of TOT revenue - $67.3 million (5.5 cents). The Mayor's Fact Sheet, however, reflects the total city TOT revenue (10.5 cents) budgeted in Fiscal Year 2006 ($128.5 million). Special Promotional Programs receive 5.0 cents from TOT revenue per Municipal Code Sections mentioned above. A detailed description of all Special Promotional Programs is available in the Fiscal Year 2006 Annual Budget, Volume III.

cc: Mayor Jerry Sanders
City Councilmembers
Ronne Froman, Chief Operating Officer
Mary Lewis, Financial Management Director
Andrea Tevlin, Independent Budget Analyst
John Torell, City Auditor