CITY OF SAN DIEGO
FISCAL YEAR
2008 ANNUAL BUDGET

General Fund Revenues

General Fund Revenues

The total Fiscal Year 2008 Annual General Fund revenue is $1.11 billion, which represents an 8.3 percent increase over the Fiscal Year 2007 Annual Budget. General Fund revenue pays for essential City services including police, . re, refuse collection, library services, and parks and recreation programs.

The General Fund Revenue section provides a detailed description of the revenue categories listed on this page, including background information describing methods of allocation, growth trends, and economic factors affecting the revenue source. This information provides insight into the formulation of the Fiscal Year 2008 Annual General Fund revenue projections.

The four major General Fund revenue sources – property tax, sales tax, Transient Occupancy Tax (TOT), and franchise fees – account for 70.5 percent of the City's General Fund. Changes in the local, state, and national economic environments can impact each of these revenue sources. Many of these high-level changes expected in Fiscal Year 2008 are outlined below along with the impact they may have on the City's finances. Other General Fund revenue sources are influenced by these same economic conditions as well as various other non-economic factors. These factors may include a change in an existing fee or the implementation of a new policy in an existing program.

The Fiscal Year 2008 Annual General Fund revenue projections were prepared using data current as of the end of May 2007, the most recent data available.

Each department's budget detail in Volume II shows revenue generated by General Fund departments as well as the revenue each department is responsible for overseeing. Each revenue source generated by individual General Fund departments also falls under one of the revenue categories listed at right and is discussed in this section of the budget document.

Revenue Categories

Property Tax

Other Local Taxes
- Sales Tax
- Safety Sales Tax
- Transient Occupancy Tax
- Property Transfer Tax

Licenses and Permits

Fines, Forfeitures, and Penalties

Revenue from Money and Property
- Franchise Fees
- Interest Earnings
- Rents and Concessions

Revenue from Other Agencies
- Motor Vehicle License Fees
- Miscellaneous Revenue from Other Agencies

Charges for Current Services

Transfers from Other Funds

Other Revenue

General Fund Revenues

San Diego's Economic Environment

San Diego continues to demonstrate favorable growth, and the diversified economy shows strength in a variety of sectors, with the general economy growing at a moderate, sustainable pace. San Diego's economy experienced very strong growth from 2002 to 2004, due mainly to a large increase in defense-based spending by the United States government, an expanding technology sector, and tremendous growth in the real estate market. However, the region's economy began to show signs of a slowdown in 2005 and 2006; in 2007, it is expected that San Diego economy will grow by only 2.5 percent. Despite the slowdown, San Diego's economic growth still leads the forecasted growth for the State of California (2.4 percent) and the nation (2.2 percent). The following are some of the economic assumptions that have been used for the preparation of the Fiscal Year 2008 Annual General Fund Budget.[1]

- For 2007, the County of San Diego's Gross Regional Product (GRP), the estimated value of the County's total economic activity is expected to grow by 2.5 percent to reach $157.2 billion. In comparison, the County grossed $150.0 billion in 2006, a 2.9 percent increase over 2005, adjusted for inflation. In 2005, the GRP was $142.3 billion, a 4.0 percent growth rate over 2004.
- Single-family home prices are expected to decline by 5.0 percent over the course of 2007. By comparison, the median price of existing homes in San Diego is estimated to have declined 2.2 percent in 2006.[1] Recently reported data shows that the median home price in San Diego County in June 2007 decreased by 1.9 percent to $495,000 compared to $505,000 in June 2006. The number of homes sold continued to decline through the first half of 2007, with 3,510 homes being sold in June 2007 compared to 4,533 sold in June 2006, a decrease of 22.6 percent.[2] This trend is expected to reverse during the second half of calendar year 2007 and first half 2008 to show an increase in home prices and number of homes sold.
- For 2007, San Diego's Consumer Price Index is expected to decrease to 3.2 percent from 3.6 percent in 2006 and fall far below the 3.7 percent average between years 2003 and 2005.
- The retail and wholesale trade sector slowed in 2006, suggesting a slower economic expansion and a moderation in consumer spending in 2007. Taxable sales in the County are projected to increase by 4.2 percent in 2007 to reach $37.4 billion, compared to an estimated 5.0 percent growth rate reaching $35.9 billion in 2006.
- According to conservative estimates, the San Diego tourism industry will continue to show a modest growth across all sectors, though the industry has a strong chance of exceeding expectations. The total number of visitors is forecasted to increase by 1.5 percent and hotel supply (room availability) is projected to increase by 0.4 percent. Hotel occupancy and average daily room rates are expected to increase by 1.0 percent and 5.0 percent, respectively. Attendance at conventions held at the San Diego Convention Center is projected to increase by 11.7 percent.
- The City's population is estimated to increase by 14,663 from 1,316,837 on January 1, 2007 to 1,331,500 on January 1, 2008.

[1] The following sources were used for the budget publication: City of San Diego Planning Department, San Diego Regional Chamber of Commerce Economic Bulletin, California Employment Development Department, San Diego Convention and Visitors Bureau.

[2] DataQuick Information Systems, March 2007

- The unemployment rate for San Diego County is projected to remain relatively low during 2007–around 4.1 percent, 0.1 percent higher than estimated for 2006. In June 2007, the unemployment rate in San Diego County was 4.6 percent, up from 4.4 percent from May 2007, and higher by 0.4 percent compared to June 2006. Employment is expected to increase by 1.1 percent countywide in 2007.
- Nearly 16,000 new jobs are estimated to be created in the region during 2007, compared to 19,600 estimated for 2006 and 21,000 in 2005. The construction sector is expected to experience a net decline in its residential segment, though this may be offset by an increase in new infrastructure, commercial, and industrial construction. Other sectors projected to experience growth include visitor services, educational and health services, defense, transportation, and high-tech industries.

Overall, the outlook for the San Diego economy during Fiscal Year 2008 forecasts a slowing economy that will experience moderate growth. The primary reasons for moderate growth are slowing in the national economy, stabilization of the housing market, and the negative impact on consumer spending due to rising oil and gas prices. Despite these impacts, the City's economy is projected to show positive growth and should avoid a recession.

General Fund Revenues

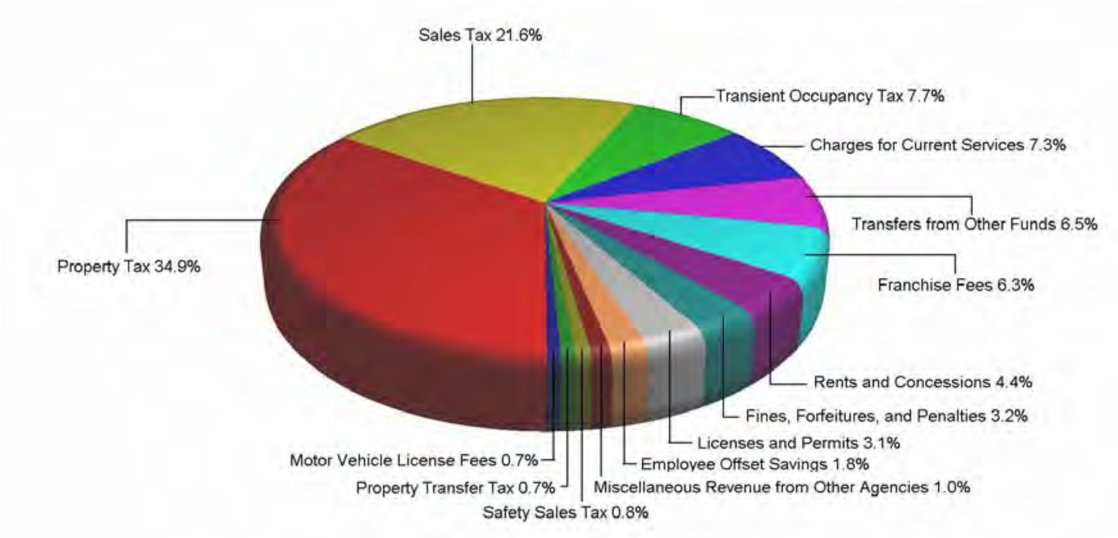
Fiscal Year 2008 Annual General Fund Revenues – $1.11 Billion (in Millions)

REVENUE CATEGORY	BUDGET FY 2007	BUDGET FY 2008	% CHANGE FROM PRIOR YEAR	PERCENTAGE OF TOTAL
Property Tax	$ 344.2	$ 385.7	12.1%	34.9%
Sales Tax	234.9	239.5	2.0%	21.6%
Safety Sales Tax	8.2	8.4	2.4%	0.8%
Transient Occupancy Tax*	72.9	85.2	16.9%	7.7%
Property Transfer Tax	14.9	7.6	-49.0%	0.7%
Licenses and Permits	30.7	34.4	12.1%	3.1%
Fines, Forfeitures, and Penalties	34.9	35.1	0.6%	3.2%
Franchise Fees	64.8	69.6	7.4%	6.3%
Rents and Concessions	32.7	48.5	48.3%	4.4%
Motor Vehicle License Fees	9.3	7.9	-15.1%	0.7%
Miscellaneous Revenue from Other Agencies	12.3	10.9	-11.4%	1.0%
Employee Offset Savings (EOS)	9.3	20.2	117.2%	1.8%
Charges for Current Services	88.3	81.3	-7.9%	7.3%
Transfers from Other Funds (excludes EOS)	62.2	71.4	14.8%	6.5%
Other Revenue	1.8	0.6	-66.7%	0.1%
TOTAL	$ 1,021	$ 1,106	8.3%	100.0%

*Total City Transient Occupancy Tax revenue is $162.6 million

General Fund Revenues

Fiscal Year 2008 Annual General Fund Revenues – $1.11 Billion



Property Tax

Total City Budget
$396.7 million

General Fund Budget
$385.7 million

Percent of General Fund
34.9 percent

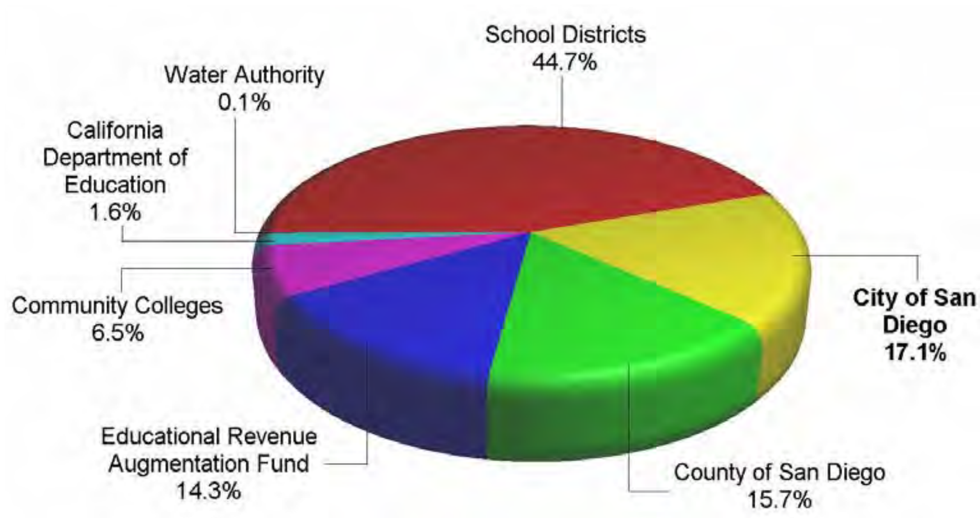
Property Tax Background

Property tax revenue collected by the County Tax Collector comes from a 1.0 percent levy on the fair market value of all real property. Proposition 13, passed by voters in 1979, specifies that an assessed value may increase at the rate of the Consumer Price Index, not to exceed 2.0 percent per year based on the 1979 value, unless the property is improved or sold to establish a new market value.

The 1.0 percent property tax levy is collected by the County Tax Collector and distributed to a number of agencies within the City's geographic area, including the County, school districts, and special districts. For every $100 collected, the allocation to the City totals $17.10.

Property tax revenue is also collected for purposes other than the General Fund. An additional levy over the 1.0 percent rate is collected to pay debt service on voter-approved debt. In June 1990, voters approved a $25.5 million debt issuance to finance a new public safety communication system for the City. This bond will reach maturity in Fiscal Year 2012. Additionally, a special tax levy of $5 per $100,000 of assessed valuation is used to fund zoological exhibits within the City.

Property Tax Distribution



Property Tax Trends

Since the early 1990s, many factors have contributed to reductions in the amount of revenue the City has received from property tax:

- In Fiscal Year 1993, the State of California faced a serious deficit and in order to meet its obligations to fund school districts at specified levels under Proposition 98, the State enacted legislation that shifted partial financial responsibility for funding education to local governments. These revenue shifts, otherwise known as the Educational Revenue Augmentation Fund (ERAF) shifts, resulted in an estimated cumulative loss of over $522.7 million in property tax revenue for the City up through Fiscal Year 2007.
- The State authorized counties to charge cities for administrative fees in order to collect and distribute property tax, further reducing the City's annual property tax receipts by approximately $3.0 million per fiscal year.
- Another two-year ERAF shift was enacted in Fiscal Year 2005, mandating local agencies to contribute $1.3 billion per year to the State. This contribution was "offered" by the State in exchange for Proposition 1A (approved by voters in November 2004). Proposition 1A was designed primarily to protect local governments from future revenue losses resulting from the State actions. For the City, this contribution has resulted in approximately $16.9 million annually in property tax losses during Fiscal Years 2005 and 2006.
- Beginning in Fiscal Year 2005, the Motor Vehicle License Fee (MVLF) backfill was eliminated by the State and was replaced dollar-for-dollar with property tax, resulting in a property tax revenue increase of approximately $69.1 million in Fiscal Year 2005 and $74.3 million in Fiscal Year 2006. Beginning in Fiscal Year 2006, the "property tax in-lieu of MVLF" revenue has risen annually and will continue to increase at the rate of growth in assessed valuation.

General Fund Revenues

Property Tax Outlook

In Fiscal Year 2008, property tax revenues are projected to increase 6.0 percent over the Fiscal Year 2007 year-end projections of $363.8 million; this is a decline from the 7.25 percent growth from Fiscal Year 2006 to Fiscal Year 2007. The lower growth rate is mainly attributable to a reduction in assessed values of local properties. Despite lower growth however, the local assessed valuation rate is expected to remain comparatively high, supporting a projection of 6.0 percent in Fiscal Year 2008. According to the San Diego Regional Chamber of Commerce Economic Forecast, the local real estate market is projected to have another year with housing prices declining further by nearly 5.0 percent. A recent report from DataQuick Information Systems indicated that the median home price in June 2007 fell by 1.9 percent to $495,000 from $505,000 in June 2006. The decline in median price was mainly attributable to reductions in prices in condo conversions and new homes. Home sales decreased by 22.6 percent in June 2007 compared to June 2006 sales.

Total building permit valuation (residential and non-residential) is used as an indicator of overall construction activity. During Fiscal Year 2006, the value of permits issued totaled $1.96 billion or a 0.2 percent decrease from the prior fiscal year; in Fiscal Year 2007, the value of permits issued totaled $1.49 billion, representing a 23.9 percent decrease from Fiscal Year 2006. New residential construction is a strong indicator of trends in the construction industry and the overall economy. For single-family units, 903 permits were issued over the course of Fiscal Year 2007, a 30.0 percent drop from Fiscal Year 2006. Multi-family unit permits also declined in Fiscal Year 2007 versus the previous fiscal year, showing a 7.9 percent decrease to 3,004 permits.

The slowing housing market will drag down the local economy but is not expected to create a recession in 2007, according to economic forecasts.[1] The San Diego Association of Governments (SANDAG) suggests two possible outcomes in 2007 – the housing market will continue to slow down local economic activity or the housing market will stabilize and will stimulate other sectors of the economy to grow. However, SANDAG does not predict a recession caused by a weakened housing market in 2007.[2] Supplemental assessment charges also partially account for the reduced growth rate in the property tax revenue. State law requires the County Assessor, upon change in ownership or completion of new construction, to immediately reappraise property and issue a supplemental assessment reflecting the difference between the prior assessed value and the new assessment. Both of these factors – change in ownership and new construction – are projected to slow down along with the rest of the housing market. These supplemental assessment charges are projected to grow by 6.0 percent to reach $19.5 million, approximately 5.1 percent of total property tax receipts.

The Fiscal Year 2008 property tax forecast is built on the assumption of a continued slowdown in the housing market and is projected to be $385.7 million based on the 6.0 percent growth rate mentioned above. The $385.7 million consists of $287.5 million in base property tax (Proposition 13) and the estimated “property tax in-lieu of MVLF” payment of $98.2 million.

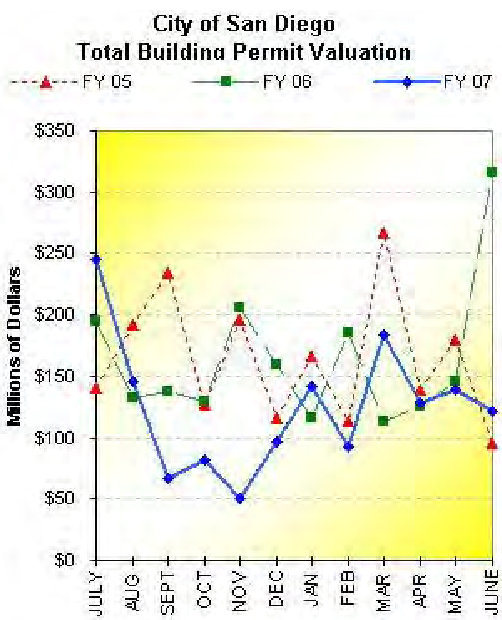
FISCAL YEAR 2008 GENERAL FUND PROPERTY TAX BUDGET	
Base Property Tax	$287.5 million
Property Tax in-lieu of MVLF	$98.2 million
Total Property Tax	$385.7 million

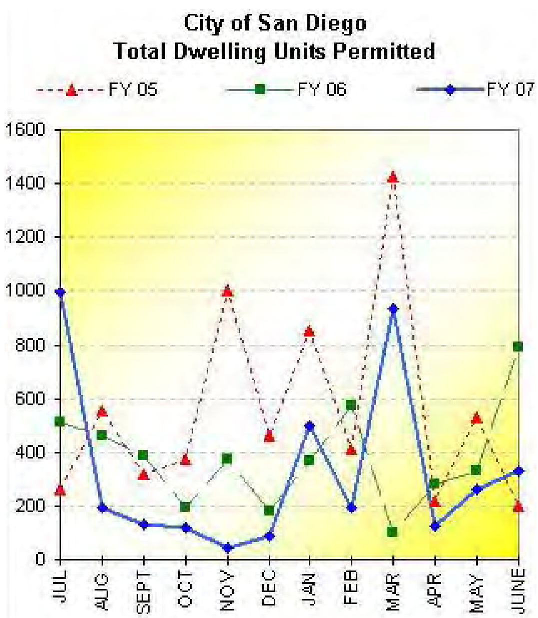
[1] UCLA Anderson Forecast, June 2007.
[2] 2007’s Future Visions of Economic Development, San Diego Metropolitan, January 2007.

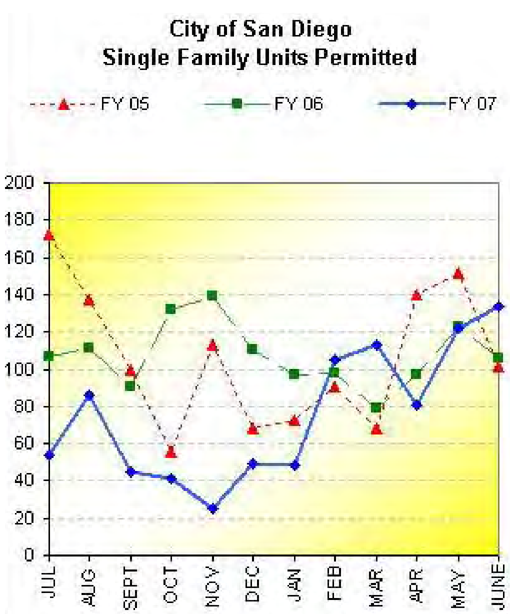
The growth assumptions for Fiscal Year 2008 property tax budget have changed from the projections in the Five-Year Financial Outlook. Based on the preliminary information the City received from the County of San Diego Assessor's Office, the growth of 3.0 percent assumed in the Five-Year Financial Outlook may be too pessimistic. At the time of budget preparation, it was determined that the growth of 6.0 percent may be close to the actual growth to be seen later during the year. In June 2007, the City received the final assessed valuation growth of 9.4 percent which was higher than expected.

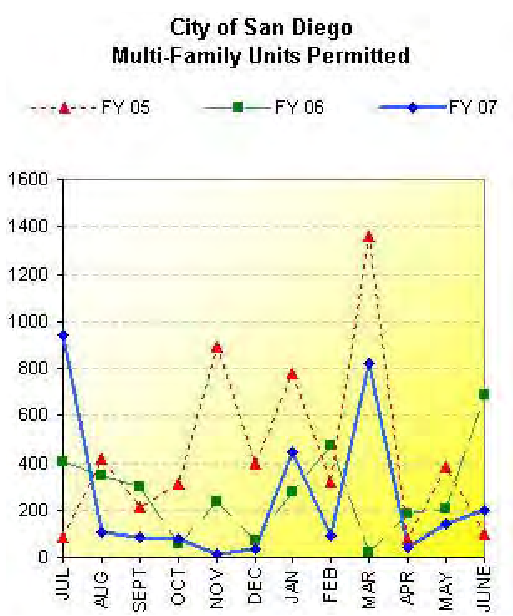
Property Tax Economic Indicators

The graphs below represent the trends in building permit valuation, permits in dwelling units, single-family units, and multi-family units, respectively, during Fiscal Years 2005-2007.









General Fund Revenues

The charts below represent permits and valuations for single-family homes, apartments, and condominiums in Fiscal Years 2003-2007.

Home Sales Trends – Permits Issued

DESCRIPTION	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Detached	2,294	1,820	1,204	1,238	836
One Family Attached	11	46	67	52	67
Mobile Home	74	11	-	-	-
Total Single Family	*2,379*	*1,877*	*1,271*	*1,290*	*903*
Two Family Apartment	33	86	31	13	12
Three or Four Family Apartment	31	109	107	47	13
Five or More Family Apartment	99	139	104	46	47
Total Apartment	163	334	242	106	72
Two Family Condominium	28	16	32	17	45
Three or Four Family Condominium	54	89	29	12	41
Five or More Family Condominium	119	88	103	43	106
Total Condominium	201	193	164	72	192
Total Multi-Family	*364*	*527*	*406*	*178*	*264*
GRAND TOTAL	2,743	2,404	1,677	1,468	1,167

Source: City of San Diego Planning Department

Home Sales Trends – Valuations (in Millions)

DESCRIPTION	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Detached	$ 581.12	$ 462.02	$ 335.92	$ 368.70	$ 240.09
One Family Attached	$ 3.61	$ 9.72	$ 13.62	$ 9.14	$ 17.36
Mobile Home	-	$ 0.02	-	-	-
Total Single Family	*$ 584.73*	*$ 471.76*	*$ 349.55*	*$ 377.85*	*$ 257.45*
Two Family Apartment	$ 6.06	$ 29.77	$ 8.96	$ 5.32	$ 3.33
Three or Four Family Apartment	$ 14.19	$ 48.04	$ 51.64	$ 38.12	$ 5.69
Five or More Family Apartment	$ 277.12	$ 200.96	$ 260.75	$ 145.55	$ 64.42
Total Apartment	$ 297.37	$ 278.76	$ 321.35	$ 189.99	$ 73.44
Two Family Condominium	$ 6.03	$ 4.25	$ 8.62	$ 5.72	$ 7.30
Three or Four Family Condominium	$ 24.14	$ 29.94	$ 21.74	$ 14.31	$ 18.28
Five or More Family Condominium	$ 301.03	$ 220.45	$ 364.29	$ 201.47	$ 282.34
Total Condominium	$ 331.20	$ 254.64	$ 394.64	$ 221.51	$ 307.92
Total Multi-Family	*$ 629*	*$ 533*	*$ 716*	*$ 410*	*$ 381*
GRAND TOTAL	$ 1,213	$ 1,005	$ 1,066	$ 788	$ 639

Source: City of San Diego Planning Department

Other Local Taxes

Sales Tax

Total City Budget
$239.5 million

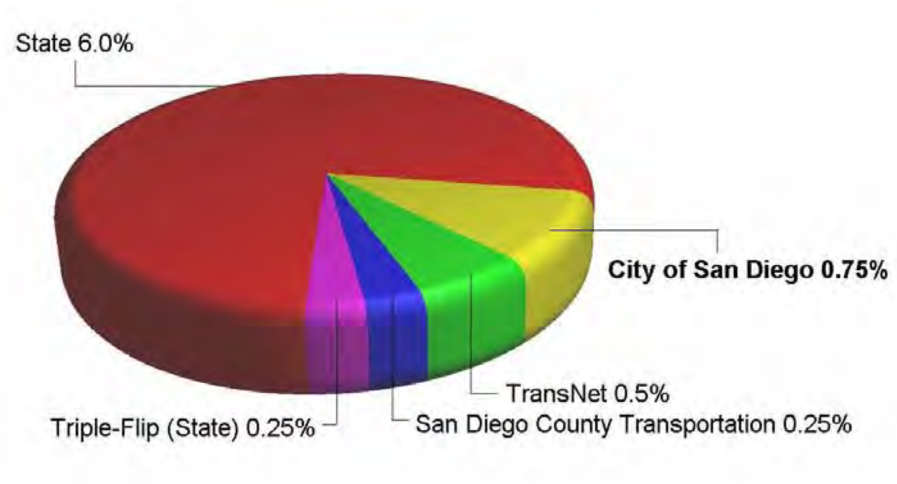
General Fund Budget
$239.5 million

Percent of General Fund
21.6 percent

Sales Tax Background

Sales tax is the City's second largest revenue source, representing 21.6 percent of the total General Fund revenue. Collected at the point of sale, sales tax receipts are remitted to the State Board of Equalization, which allocates tax revenue owed to the City in the form of monthly payments. According to the Bradley-Burns Sales and Use Tax law, cities are to receive one cent of the total 7.25 cent Statewide sales tax levied on each dollar of taxable sales. In addition to the Bradley-Burns sales tax, San Diego County voters approved a half-cent supplemental sales tax in 1987 to fund the San Diego Transportation Improvement Program (TransNet), resulting in a total countywide sales tax of 7.75 percent. This tax rate includes a half-cent tax approved by California voters in 1993 for the purpose of funding local public safety expenditures. The revenue from this half-cent sales tax, known as the safety sales tax, is discussed in the following section.

Countywide Sales Tax Rate (7.75%)



General Fund Revenues

Sales Tax Trends

Certain economic factors, especially unemployment rates, play a significant role in the performance of retail sales. A lower unemployment rate correlates with stronger consumer spending, which in turn has a positive effect on retail sales and local sales tax. San Diego boasts a low unemployment rate compared to national and statewide rates; the average unemployment rate in San Diego County for May and June 2007 was 4.4 percent.[1] For comparison, during the same period, the unemployment rate for California and the nation was 5.1 percent and 4.5 percent, respectively. Between May and June 2007, non-farm wage and salary employment in San Diego County rose by 4,600 jobs to reach 1,314,800 jobs, with the leisure and hospitality industry recording the largest increase (up 3,200 jobs), followed by construction (up 900 jobs), and professional and business services (up 800 jobs). Between June 2006 and June 2007, total employment was up by 1,400 jobs, an increase of 0.1 percent; between June 2006 and June 2007, the leisure and hospitality industry had the largest increase (up 6,500 jobs), followed by government with 3,100 jobs each. Professional and business services added 2,000 jobs since June 2006.

The Fiscal Year 2008 sales tax estimate reflects expectations of modest growth in local taxable sales. The performance of taxable sales in San Diego County for the second half of calendar 2007 is expected to continue to post a slowdown from 2006 on the realization of growing unemployment in the construction and real estate/finance industries, moderating household income growth, and the continuing rise of energy prices.[2] Any increase in the costs of energy, specifically in the cost of gasoline, reduces the consumer's ability to spend money in other sectors such as retail.

The San Diego Regional Chamber of Commerce estimates that as personal income growth slows and perceived wealth in the form of home equity dissipates in Fiscal Year 2008, consumer spending will slow down and keep closer pace with personal income growth. Continued declines in new housing building permits issued and the subsequent job losses are expected to be isolated in the construction and real estate sectors. Local economic slowdown due to losses in the housing industry is expected to be partially offset by the diverse nature of the San Diego economy, especially by sustained employment growth in the leisure and hospitality, educational services, and professional services industries. Local employment growth in these other sectors is not expected to completely offset losses nor spare the local economy from a slowdown; they will, however, provide a buffer against a full-blown economic recession. While personal income growth and taxable sales are expected to stumble in 2007, a steady recovery in the housing market and housing wealth is expected to bring about stable growth in the overall economy in 2008.[3]

Sales Tax Outlook

The projected sales tax revenue for Fiscal Year 2008 is $239.5 million. The increase in sales tax revenue from Fiscal Year 2007 to Fiscal Year 2008 of $11.0 million assumes a projected economic growth rate of 3.0 percent over Fiscal Year 2007 year-end projections.

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[1] California Employment Development Department, July 2007.
[2] San Diego Regional Chamber of Commerce Economic Bulletin Forecast 2007.
[3] UCLA Anderson Forecast, May 2007.

The Fiscal Year 2008 sales tax projection also includes the property tax reimbursement that the City will receive as a result of the triple-flip (triple-flip is the shift enacted by the State in Fiscal Year 2005 whereby local governments shift one-quarter of a cent of their Bradley-Burns Sales and Use Tax to the State in exchange for an equivalent amount of property tax). It should be noted that the amount of property tax reimbursed to the City is equivalent to the growth in taxable sales, not the growth in assessed valuation. In addition, once the Economic Recovery Bonds are paid off by the State, local governments will no longer receive the property tax reimbursement, but will instead regain the one-quarter-cent sales tax that was diverted to the State by the triple-flip. This shift is different from the MVLF property tax swap which is considered to be a permanent shift of revenues from MVLF to property tax. The growth assumptions for Fiscal Year 2008 sales tax budget have not changed from the projections in the Five-Year Financial Outlook.

FISCAL YEAR 2008 SALES TAX BUDGET	
Sales Tax Revenue	$179.6 million
Property Tax Reimbursement	$59.9 million
Total Sales Tax	$239.5 million

Safety Sales Tax

Total City Budget
$8.4 million

General Fund Budget
$8.4 million

Percent of General Fund
0.8 percent

Safety Sales Tax Background

Safety sales tax revenue is derived from a half-cent sales tax resulting from the passage of Proposition 172 in November 1993, and must be utilized solely for local public safety purposes. The State Controller's office disburses safety sales tax revenue to the County Local Public Safety Fund for distribution. Cities receive 5.0 percent of the amount of the fund which is allocated based upon a city's proportionate loss of property tax revenue in the 1993-1994 ERAF shift. Subsequent legislation (Senate Bill 8) changed the allocation system for Proposition 172 revenue and lifted the cap on the share that the City of San Diego and other cities within the county could receive. Total revenues reflect additional funds received by the City as a result of this legislation.

Safety Sales Tax Trends

Safety sales tax receipts generally follow the same economic trends as sales tax receipts including taxable sales, per-capita income levels and employment rates. The primary difference is that safety sales tax is first allocated to counties in proportion to their share of taxable sales, and then distributed to the cities within the county. Safety sales tax revenue therefore depends on San Diego County's share of total statewide taxable sales, not on taxable sales within the City.

General Fund Revenues

Safety Sales Tax Outlook

The Fiscal Year 2008 Annual General Fund Budget projects $8.4 million in safety sales tax revenue, a 3.0 percent growth over Fiscal Year 2007 year-end projections. City Council Policy 500-07 requires that the use of Proposition 172 funds be used only for local public safety activities, including police and fire protection. In Fiscal Year 2008, approximately $1.6 million will be allocated to the Fire and Lifeguard Facilities Fund for debt service payments on fire facility improvements while the remaining $6.8 million is allocated for public safety expenditures within the General Fund. The growth assumptions for Fiscal Year 2008 safety sales tax budget have not changed from the projections in the Five-Year Financial Outlook.

Transient Occupancy Tax

Total City Budget
$162.6 million

General Fund Budget
$85.2 million

Percent of General Fund
7.7 percent

Transient Occupancy Tax Background

The Transient Occupancy Tax (TOT) is levied at 10.5 cents per dollar of the daily room price in hotels and motels used by visitors staying in San Diego for less than 30 consecutive days. The allocation of TOT is at the discretion of the Mayor and City Council with guidelines provided by the City Council Policy 100-3. The Policy stipulates that, of the 10.5 cents of TOT, 4.0 cents shall be applied toward promotion of the City as a tourist destination; 5.5 cents shall be applied toward general government purposes with the remaining 1.0 cent to be allocated for any purposes approved by the City Council. Currently, 5.0 cents of the 10.5 cents, or 47.7 percent, is allocated to Special Promotional Programs for the promotion of tourism and other purposes designated by the City Council policy. The remaining 5.5 cents, or 52.3 percent, is allocated directly to the General Fund for general government purposes.

Transient Occupancy Tax Trends

San Diego continues to be one of the most desirable travel destinations in the United States. According to the Smith Travel Research, the San Diego's hotel room demand growth, while relatively low at 1.3 percent, showed one of the highest gains among competitive markets within the Pacific region. San Diego visitor market is very diverse and does not depend entirely on business travel, which tends to be highly cyclical and heavily dependent on economic conditions.[1]

Recent data for San Diego County shows that the year-to-date (January through June 2007) average occupancy rate was 72.6 percent, a 1.1 percent decrease over the same period in 2006; the average daily room rate was $137.17, up by 6.8 percent over the same period in 2006.[2]

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[1] San Diego Convention and Visitors Bureau: 2007 San Diego Tourism Outlook, December 2006. / San Diego Convention and Visitors Bureau: San Diego County Visitor Industry Summary
[2] Calendar Year - January-December 2006, March 2007. / San Diego Convention and Visitors Bureau: San Diego County Visitor Industry Summary
[2] Calendar Year - January-December 2006, June 2007. / San Diego Convention and Visitors Bureau: 2007 San Diego Tourism Outlook, December 2006.

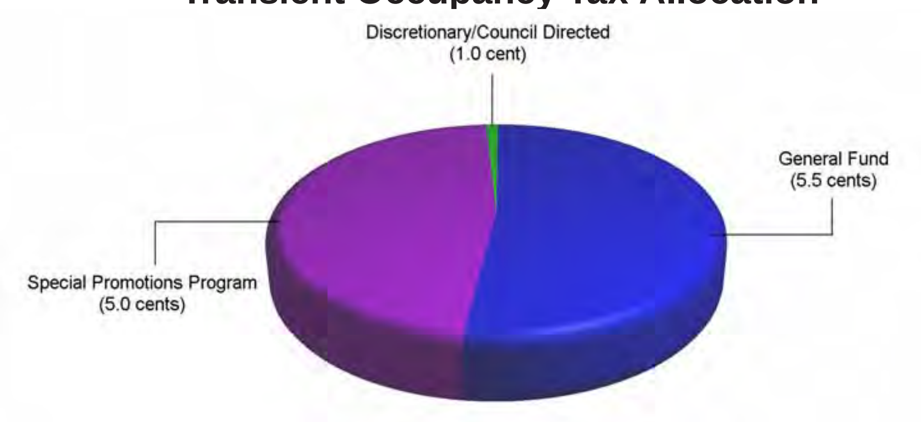
Transient Occupancy Tax Outlook

For Fiscal Year 2008, the TOT allocated to Special Promotional Programs is $77.4 million and the TOT allocated to the General Fund is $85.2 million. The total Fiscal Year 2008 Annual TOT Budget is $162.6 million, a 7.5 percent growth over Fiscal Year 2007 year-end projections. The growth assumptions for Fiscal Year 2008 TOT budget have changed slightly from the projections in the Five-Year Financial Outlook due to stronger than expected tourism growth. The overall forecast for San Diego visitor industry in 2007 assumes continued steady growth. The hotel occupancy is anticipated to be approximately at 73.0 percent compared to 73.4 percent in 2006 with 16.3 million visitors expected to stay overnight in San Diego County. The number of hotel visitors is expected to increase by 2.2 percent compared to prior year. An estimated 2,300 rooms is expected to be added to the County inventory in 2007. The average daily room rate for 2007 is anticipated to be $136.60, a 5.0 percent increase over 2006.[1]

Tourism Marketing District. The San Diego's Lodging Industry Association (LIA) and the San Diego County Hotel/Motel Association proposed a 2.0 percent assessment on nightly hotel room rentals to create a Tourism Marketing District (TMD) to be modeled after several similar successful programs elsewhere in California. The TMD is an assessment district that allows hotel/motel business owners to assess an additional fee on their patrons. Proceeds from this fee would be utilized by lodging industry representatives to promote tourism in hopes of increasing the hotel occupancy rate.

The primary goal of creating the TMD is "to ensure a dedicated, stable source of funding for comprehensive destination marketing."[2] The TMD, if approved, would raise $24.0 million annually to be spent on marketing San Diego to potential visitors. In addition, the TMD proposal would offset $10.0 million annually in funding for organizations that are currently underwritten by the City for marketing and tourism promotion. The TMD proposal is expected to be voted on by the City Council in fall 2007 and, if the ordinance is passed, it is subject to approval via a vote by members of the LIA. Any budgetary savings from the passage of the TMD ordinance would be realized in the Special Promotional Programs budget.

Transient Occupancy Tax Allocation



1 San Diego Convention and Visitors Bureau: San Diego County Visitor Industry Summary Calendar Year - January-December 2006, June 2007.
2 San Diego Lodging Industry Association.

Property Transfer Tax

Total City Budget
$7.6 million

General Fund Budget
$7.6 million

Percent of General Fund
0.7 percent

Property Transfer Tax Background

Property transfer tax 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 transferred. The City charges 55 cents per $1,000, which is credited against the County's charge, giving both the County and City each 55 cents per $1,000 received. The funds are collected by the County for property transfers occurring within City limits and then transferred to the City in 13 payments throughout the year.

Property Transfer Tax Trends

The Fiscal Year 2007 property tax budget reflected the market conditions and trends at the time of the budget preparation. The growth rate for Fiscal Year 2007 was projected at 7.0 percent; however, the final property transfer tax revenue came in at a disappointing 20.5 percent under projections. This drop is due in part to hesitancy of home buyers to purchase new homes in a rising interest rate environment. As a result, the median home price in the City declined for the first time since 2001. The public's reaction to general concerns about the health of the American economy also played a major role in the decline. It was reported that between 2005 and 2006, single-family home sales declined as much as 28.0 percent in a single month. Total home sales in San Diego County plummeted in between January and June 2007, posting a decline of over 17.7 percent, with existing home sales down over 14.7 percent for the fiscal year.[1]

Property Transfer Tax Outlook

The Fiscal Year 2007 revenue from property transfer tax was budgeted at $14.9 million, a 7.0 percent increase over the Fiscal Year 2006 year-end projections. In February 2007, this figure was revised downward to reflect the decline in overall real property sales. A moderate decline in sales is expected in Fiscal Year 2008, due largely to concerns regarding an escalating number of foreclosures that are occurring in all sectors of the real estate market and also the implosion of the subprime mortgage market. This relatively modest decline is projected to plateau towards the middle of the fiscal year and could potentially return to positive growth by year's end. The total Fiscal Year 2008 Annual Budget for property transfer tax revenue is $7.6 million, a 5.0 percent decline from the Fiscal Year 2007 year-end projections. The growth assumptions for Fiscal Year 2008 property transfer tax budget have not changed from the projections in the Five-Year Financial Outlook.

[1] DataQuick Information Systems, July 2007.

Licenses and Permits

Total City Budget $64.2 million
General Fund Budget $34.4 million
Percent of General Fund 3.1 percent

Licenses and Permits Background

Licenses and permits generate revenue for the purpose of recovering the costs associated with regulating an activity. These regulatory functions are typically performed by the City in the interests of promoting public safety. Included in this category are business licenses, rental unit taxes, parking meter collections, and referral fees received from the City's towing operators.

The business license tax is levied on businesses with 12 or fewer employees through an annual flat fee of $34. Companies with 13 or more employees pay an annual flat fee of $125 plus $5 per employee. Rental unit taxes are calculated as a flat rate plus a per-rental unit fee. Currently, the rental unit tax has three tiers for residential properties and two rate tier for hotel/motel properties.

Licenses and Permits Trends and Outlook

For Fiscal Year 2008, the licenses and permits revenue budget is $34.4 million. The Fiscal Year 2008 projection suggests a modest year-to-year increase by reflecting trends and receipts over the past two fiscal years, including the decline of the new home building market and the resulting impact on the construction and real estate sectors in Fiscal Years 2006 and 2007.

Fines, Forfeitures, and Penalties

Total City Budget $36.0 million
General Fund Budget $35.1 million
Percent of General Fund 3.2 percent

Fines, Forfeitures, and Penalties Background

Fines, Forfeitures, and Penalties include revenue generated from monetary sanctions associated with the violation of a law or regulation such as California Vehicle Code violations, City parking and ordinance violations, and litigation awards.

Fines, Forfeitures, and Penalties Trends and Outlook

For Fiscal Year 2008, the Annual revenue budget for Fines, Forfeitures, and Penalties is $35.1 million.

Revenue from Money and Property

Franchise Fees

Total City Budget
$129.7 million

General Fund Budget
$69.6 million

Percent of General Fund
6.3 percent

Franchise Fees Background

Franchise fees revenue results from agreements with private utility companies in exchange for the City's rights-of-way. The City currently has franchise agreements with San Diego Gas and Electric (SDG&E), Cox Communications, and Time Warner Cable. In addition, the City collects franchise fees from private refuse haulers that conduct business within its borders. The revenue received from the above agreements is based on a percentage of gross sales.

SDG&E, the single largest generator of franchise fee revenue, is charged 3.0 percent of the gross sales from gas and electricity within the City of San Diego. In addition, the City receives a 3.53 percent surcharge on SDG&E's electricity sales for the undergrounding of electric utility lines that was approved by the California Public Utilities Commission in December 2002. The City also generates revenue by collecting 5.0 percent of gross revenues from Cox Communications and Time Warner Cable. Refuse hauler fees are imposed on private refuse haulers at $11 per ton for Class I haulers (less than 75,000 tons per year) or $12 per ton for Class II haulers (more than 75,000 tons per year).

Franchise Fees Trends and Outlook

SDG&E. The projected revenue for Fiscal Year 2008 for the franchise is $56.6 million, representing an 8.5 percent growth over Fiscal Year 2007 year-end projections. In accordance with City Council policy, 25.0 percent of the SDG&E-derived revenue (3.0 percent of SDG&E's gross earnings) or approximately $14.1 million is to be deposited into the Environmental Growth Fund (EGF). One-third of the EGF is used to finance the maintenance of parks; the remaining two-thirds are used for the annual interest payments for debt service on open space acquisition bonds and parkland maintenance. The remaining revenue balance of $42.4 million received from SDG&E franchise fees is allocated to the General Fund.

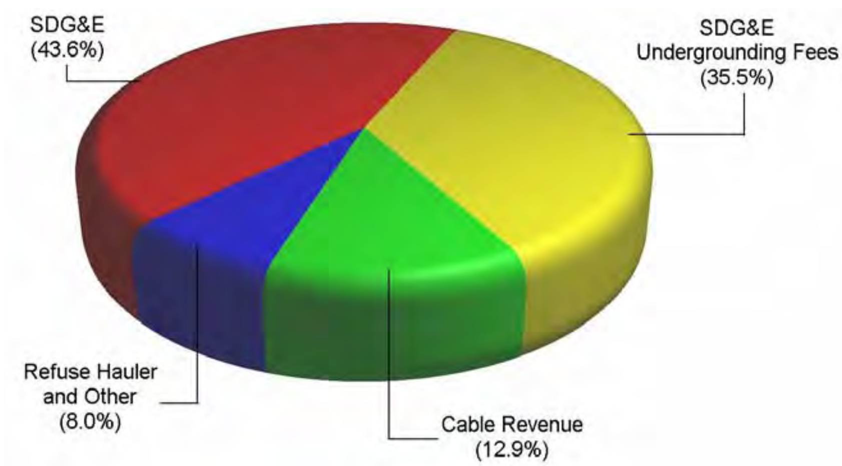
The growth assumptions for the Fiscal Year 2008 SDG&E budget reflect higher than expected actual receipts for Fiscal Year 2007. The initial projections in the Five-Year Financial Outlook have been revised upward to an 8.5 percent growth rate for SDG&E franchise fees in Fiscal Year 2008, 1.0 percent higher than the original estimate. The increase is expected to bring the City an additional $600,000 in revenue.

CABLE COMPANIES. The projected revenue for Fiscal Year 2008 from Cox Communications and Time Warner Cable is $16.8 million. This figure reflects a 7.5 percent growth rate over Fiscal Year 2007 year-end projections of $15.6 million. In spite of the passage of the Digital Infrastructure and Video Competition Act of 2006 (AB 2987), the City is not expected to experience a reduction in franchise fees from cable companies; the bill was amended to allow municipalities to keep 5.0 percent of gross revenue from cable television providers for using the City's public rights-of-way. Beginning in July 2007, franchise fees from Cox and Time Warner will be collected and distributed by the California Public Utilities Commission.

REFUSE HAULERS AND OTHER FRANCHISES. Revenue from private refuse haulers is based on the total amount of refuse hauled annually. The City projects Fiscal Year 2008 revenue at $10.1 million, a 1.0 percent growth over year-end projections for Fiscal Year 2007. Franchise fee revenue from other sources categorized as "miscellaneous revenue" is expected to be approximately $259,000 for Fiscal Year 2008, a decrease of 21.7 percent from Fiscal Year 2007 year-end projections.

UNDERGROUNDING UTILITY FEE. The Utility Undergrounding surcharge is estimated to be $46.0 million in Fiscal Year 2008. This revenue will be deposited into the Underground Utility District Fund to be used solely for the purpose of placing utility lines underground.

Total City Franchise Fee Revenue



Interest Earnings

Interest Earnings Background

The City Treasurer, in accordance with the Charter and authority granted by the City Council, 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 a Pooled Investment Fund ("Fund") to facilitate increased flexibility in the management of the City's cash flow requirements and the overall management of the Fund for the purpose of maximizing interest earnings. Fund investments must be consistent with the City 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. Major deviations in returns from one fiscal year to the next can generally be attributed to changes in market interest rates or the actual average amount invested during the fiscal year. Past interest earnings performance is no guarantee or indicator of future results.

General Fund Revenues

Interest Earnings Trends

Interest rates have finally leveled off and even declined slightly in Fiscal Year 2007 after a number of years of steadily increasing. The Federal Reserve increased the Federal Funds Rate from 1.0 percent to 5.25 percent between June 2004 and June 2006 but has held the rate steady since then. In a decreasing interest rate environment the value of securities held in the portfolio appreciates, while the opposite is true in an increasing interest rate environment. When this change in portfolio value occurs, the impact on overall interest earnings, whether positive or negative, is mitigated to some degree by the earnings derived from the reinvestment of cash from coupon payments, the turnover of portfolio securities and the investment of new revenues at current market rates of interest.

Interest Earnings Outlook

Overall interest rates are expected to stay at current levels for much of Fiscal Year 2008, though it is possible that there may be periods of significant volatility due to domestic and international economic conditions. While the effect of stable interest rates on the market value of the securities held in the portfolio will be relatively insignificant, periodic volatility may cause more significant changes in the value of the portfolio. It should be noted that interest rates are market driven and subject to a number of uncontrollable or unpredictable factors. For Fiscal Year 2008, the revenue budget for interest earnings is $7.8 million.

Rents and Concessions

Total City Budget
$56.2 million

General Fund Budget
$40.8 million

Percent of General Fund
3.7 percent

Rents and Concessions Background

The Rents and Concessions category includes General Fund revenue generated from Mission Bay Park, Balboa Park, and Torrey Pines Golf Course. The largest component of this category is Mission Bay Park rents and concessions revenue, the majority of which is generated from leases with Sea World, Marina Village Conference Center, and the hotels and marinas within Mission Bay Park. The Mission Bay Ordinance requires that one-half of all revenue from Mission Bay rents and concessions in excess of $20 million be allocated to the Mission Bay Improvements Fund and the Regional Park Improvements Fund (with a $2.5 million maximum allocation for each fund), while the remaining funds are deposited in the General Fund. Other contributing components in the rents and concessions include lease agreements of City Pueblo lands.

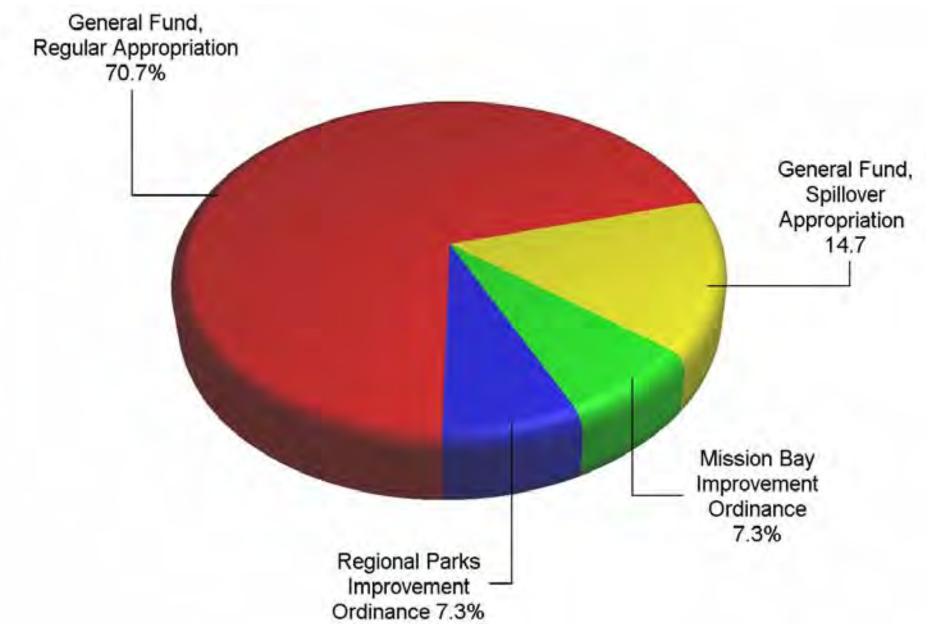
Rents and Concessions Trends

The Mission Bay Park rents and concessions are projected to generate $30.0 million in Fiscal Year 2008. Per the Mission Bay Ordinance, the Fiscal Year 2008 Annual General Fund Budget allocates a maximum allocation of $2.5 million each to the Mission Bay Improvements and Regional Parks Improvements Fund while the remaining $5.0 million is allocated to the General Fund.

Rents and Concessions Outlook

For Fiscal Year 2008, the revenue budget for Rents and Concessions is $40.8 million. The Fiscal Year 2008 projection includes $4.0 million from lease agreements of City Pueblo lands. The large growth is largely due to rental increases for Sea World and other Mission Bay Park tenants. This growth is expected to level off towards the end of Fiscal Year 2008.

Mission Bay Park Rents and Concessions Allocation



Revenue from Other Agencies

Motor Vehicle License Fees

Motor Vehicle License Fees Background

Motor Vehicle License Fees (MVLF) are levied as a percentage of an automobile's purchase price, subject to depreciation, and are paid annually to the California Department of Motor Vehicles at the time of registration. The amount of fees received is determined by the size of a local government's constituency and are distributed on a monthly basis.

Total City Budget
$7.9 million

General Fund Budget
$7.9 million

Percent of General Fund
0.7 percent

Motor Vehicle License Fees Trends

Beginning in 1999, the MVLF underwent a series of offsets, first initiated by the State legislature as part of the 1998-1999 Budget agreement. These offsets ultimately resulted in a 67.0 percent reduction in the effective MVLF rate, from 2.0 percent of a vehicle's value to 0.65 percent. To compensate cities and counties for the tax offset, the State began providing State General Fund revenue to cities and counties on a dollar-for-dollar basis – known as the MVLF backfill. As part of Fiscal Year 2004-2005 Budget agreement, the MVLF rate was statutorily reduced to 0.65 percent, thereby eliminating the MVLF backfill. As described in the property tax section, cities were compensated for this loss with increased property tax revenues and as a result of this shift, MVLF is no longer considered a major General Fund revenue source for the City.

Motor Vehicle License Fees Outlook

The Fiscal Year 2008 Annual General Fund Budget for MVLF is $7.9 million, a growth rate of 3.95 percent over Fiscal Year 2007 year-end projections. The number of vehicles in the State, the ages of those vehicles, and their most recent sales price affect the amount of MVLF raised and the amount allocated to the City. The total number of vehicles in California – autos, trucks, trailers, and motorcycles as well as vehicles registered in multiple states – is estimated to be 32.6 million in Fiscal Year 2008, a 2.6 percent increase over Fiscal Year 2007.[1] It is expected that there will be 2.7 million new vehicles registered in Fiscal Year 2008. It should be noted that Statewide revenues are distributed on a per capita basis for local governments; growth in the amount of local vehicle sales do not directly translate into an increase in the City's MVLF revenue.

Miscellaneous Revenue from Other Agencies

Total City Budget
$53.3 million

General Fund Budget
$10.9 million

Percent of General Fund
1.0 percent

Miscellaneous Revenue Background

A significant amount of revenue paid to the City is initially collected by other agencies then returned (or subvened) to the City. Within the General Fund, revenues from other agencies include federal and State grants and reimbursements for general City services provided to the San Diego United Port District.

Miscellaneous Revenue Outlook

The Fiscal Year 2008 Annual Budget includes revenue totaling approximately $10.9 million in this category, including $5.2 million in State reimbursements for booking fee expenses. The Fiscal Year 2008 Annual Budget also includes $1.5 million from the State for the Citizen's Option for Public Safety (COPS) Program.

[1] Governor's Budget Summary 2007-2008, May 2007.

Charges for Current Services

Total City Budget
$789.4 million

General Fund Budget
$81.3 million

Percent of General Fund
7.3 percent

Charges for Current Services Background

Charges for Current Services include revenue generated by General Fund departments resulting from services provided to 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 Auditor and Comptroller, City Attorney, City Clerk and Financial Management to all City departments by means of a rate based on the General Government Services Billing (GGSB) standard. The amounts allocated to Non-General Fund departments are billed and received into the General Fund as revenue to offset the cost of the services provided by these central service departments. In reviewing the allocation of citywide costs, it was determined that the City's General Fund inappropriately supports the total cost of several departments, including the Offices of the Mayor, City Council, the Chief Operating Officer, and similar support services. Based on the GGSB standard, it was determined that the General Fund is currently paying more annually than its appropriate share. Implementing this corrective action, as described in the Fiscal Recovery section of the budget, results in a net-zero effect on the City's total budget; however, the savings to the General Fund provides direct relief to the City's operations funded by taxes. The Fiscal Year 2008 Annual Budget includes $5.8 million in revenue from the GGSB.

Charges for Current Services Trends and Outlook

The Fiscal Year 2008 Annual General Fund Budget for Charges for Current Services within the General Fund is $81.3 million. Refer to Schedule III of this budget document for a breakdown of the budgetary data by sub-category.

Transfers from Other Funds

Total City Budget
$394.9 million

General Fund Budget
$91.6 million

Percent of General Fund
8.3 percent

Transfers from Other Funds Background

Transfers from Other Funds for services rendered by General Fund departments include transfers from Capital Improvement Programs, Special Promotional Programs, the Environmental Growth Fund, the TransNet Fund, and other funds.

Also included in this category is Employee Offset Savings (EOS) revenue. In Fiscal Year 2006, the City securitized $10.1 million of the revenues it receives under the Master Settlement Agreement with tobacco companies (Tobacco Settlement Revenues). Due to the securitization, Tobacco Settlement Revenues (TSRs) will be backfilled by the EOS and in Fiscal Year 2008, the Annual EOS revenue is $20.2 million. Before the securitization of TSRs, the City collected revenues during the prior fiscal year and recorded them as a carryover in the budget for the following fiscal year. The same practice will not continue with the EOS and as a result, the City will have a one-time gain in revenue of $10.1 million by budgeting the TSR revenue backfilled by EOS from Fiscal Year 2007 along with an additional $10.1 million in EOS as backfilled TSR revenue that will be collected in Fiscal Year 2008.

Transfers from Other Funds Trends and Outlook

The Fiscal Year 2008 projection for Transfers from Other Funds is $71.4 million. This is in addition to $20.2 million from EOS backfill for TSRs for Fiscal Years 2007 and 2008 and includes a $10.6 million transfer from Special Promotional Programs.

Other Revenue

Total City Budget
$225.7 million

General Fund Budget
$0.6 million

Percent of General Fund
0.1 percent

Other Revenue is mainly composed of refunds and revenue generated from the sale of publications and excess inventory. The Fiscal Year 2008 Annual General Fund Budget includes other revenues totaling $0.6 million.

State of California Budget Impacts

AB 1811 – BOOKING FEES. In Fiscal Year 2007, the State reinstated the booking fees reimbursement to local governments. The State's supplemental budget bill, AB 1811, allocated $35.0 million to be paid to cities in Fiscal Year 2006-2007 to reimburse booking fees that were assessed on cities by county-operated jails in previous years.

The budget bill also set out a new booking fee structure to begin on July 1, 2007, stating that in any year the State provides at least $35.0 million in subventions for local jail facility funds, existing booking fees would be eliminated. Under the bill, the City will also be liable to pay a new jail access fee for each booking of municipal code and misdemeanor violations in excess of the City's most recent three-year average. Misdemeanors for driving under the influence or related to domestic violence would be excluded from the jail access fee calculation. Local governments could reinstate booking fees in any year in which the state appropriates less than $35.0 million, but only in proportion to the shortfall in appropriation.

Beginning in Fiscal Year 2008, the maximum rate of any future booking fees would be limited to the fee in effect on June 30, 2006, plus an annual inflation adjustment equal to the increase in the Consumer Price Index plus 1.0 percent.

For Fiscal Year 2008, the City expects to receive $5.2 million in booking fee reimbursements from the State.

CITIZEN'S OPTION FOR PUBLIC SAFETY/JUVENILE JUSTICE CRIME PREVENTION. The Fiscal Year 2007-2008 State Budget allocates a total of $238.0 million to be distributed to local governments for the Citizens' Option for Public Safety/Juvenile Justice Crime Prevention. This money is intended for local law enforcement entities to provide enhanced public safety services. Funds are also provided to local agencies to fund juvenile crime prevention programs.

For Fiscal Year 2008, the City expects to receive $1.5 million from the State for Citizen's Option for Public Safety/Juvenile Justice Crime Prevention. There is no change from Fiscal Year 2007.