General Fund Revenues

The total Fiscal Year 2010 General Fund Annual Budget is $1.13 billion, which represents a decline of $62.9 million or 5.3 percent from the Fiscal Year 2009 Annual Budget. General Fund revenue pays for essential City services including police, fire, refuse collection, library services, and park and recreation programs.

Table 1 below illustrates the components of the decline in revenues of 5.3 percent or $62.9 million in General Fund revenue for Fiscal Year 2010:

TABLE 1
FISCAL YEAR 2010 GENERAL FUND REVENUE GROWTH BREAKDOWN

	Percent Change	Change (in millions)
Major Revenues	-4.3%	$ (51.1)
Other Revenue Sources	-1.0%	$ (11.8)
TOTAL	-5.3%	$ (62.9)

The General Fund Revenue section provides a detailed description of the revenue categories listed to the right 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 2010 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 65.7 percent of the City's General Fund revenue in the Fiscal Year 2010 Annual Budget. Changes in the local, State, and national economic environments can impact each of these revenue sources and trends, and their possible effects on the City's finances in Fiscal Year 2010 are outlined below. Other General Fund revenue sources are influenced by these same economic conditions as well as various other non-economic events, such as a fee change or the implementation of a new policy in an existing program.

The Fiscal Year 2010 Annual General Fund Budget was prepared using data current as of the end of May 2009, the most recent data available at the time the budget was prepared.

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

Volume II shows the detailed budgeted revenue that is generated by departments. Each revenue source generated by individual General Fund departments also falls under one of the revenue categories listed on the previous page and is discussed in this section of the budget document.

San Diego's Economic Environment[1]

With the current recession now well into its second year, the continued financial impact on national, State, and local revenue levels are more significant than originally anticipated. Indications are arising that a nascent stabilization on a national and localized level are potentially occurring; however, significant obstacles to any economic recovery still exist.

The global economy is currently in the deepest recession since World War II, and the national economy has contracted sharply in the fourth quarter of last year and the first quarter of this year. This has placed severe economic pressures on the State of California and the City of San Diego. Inflation remains a large risk to the economy, local unemployment remains at more than a 25-year high, fiscal impacts from the State of California's budget shortfall jeopardize services and revenues on a local level, and the continued decline in consumer spending has placed further pressures on the economy as a whole. While most economic gauges on a local and State level continue to show weakness, certain parts of the economy are showing indications of a potential nascent economic stabilization.

The local housing market, which has contracted sharply, has shown signs of stabilization. After declining 18 out of 19 months from July 2007, the average County-wide home price has increased 4 out of the last 5 months. Local consumer confidence has increased over the last 2 months after a 23 month slide, while national consumer confidence has increased 47.1 percent from February lows (returning to June 2008 levels), reported earnings from retailers and financial companies have exceeded expectations in the second quarter of 2009 (with the Dow Jones Industrial average breaking 9,000 points for the first time since January 6th), and economic stimulus funds now beginning to be circulated through the national economy. However, the obstacles that still remain are many, with the largest driver of economic stimulus, consumer spending, still at historically low levels.

Figure 1
San Diego Unemployment

Figure 1. Source: US Bureau of Labor

Figure 2
County-Wide Average Home Price & Sales

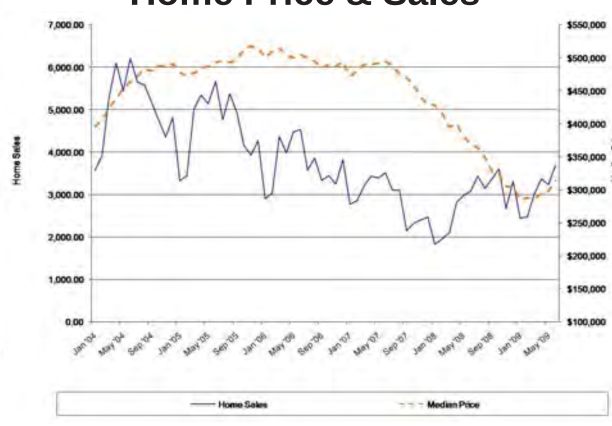


Figure 2. Source: DataQuick Info Systems

[1] The following sources were used for the budget publication: City of San Diego City Planning and Community Investment Department, San Diego Regional Chamber of Commerce, Economic Bulletin, California Employment Development Department, San Diego Convention and Visitors Bureau, San Diego Union Tribune, The Consumer Confidence Board, and DataQuick Information Systems.

The following are some of the economic assumptions and indicators that have been used in the preparation of the Fiscal Year 2010 Annual Budget for the General Fund[1].

- The median price of homes in San Diego County is estimated to have declined 38.9 percent from its peak in November 2005 ($518,000) to the end of June 2009 ($316,309). However, the median home price has increased 11.2 percent from January 2009 and is forecasted to stabilize during Fiscal Year 2010.
- National stock indices have dropped 34.5 percent since January 2008 (through July 1st, 2009 as measured by the Dow Jones Industrial Average), reducing retirement wealth and discretionary income.
- Initial unemployment claims in May 2009 exceeded 30,000 applications for the fifth consecutive month in the City as the unemployment rate has risen to 10.0 percent (as measured by the California Employment Development Division). The number of unemployed eligible workers in the City has grown from 41,900 in June 2008 to 70,500 in June 2009, or 68.3%.
- California's unemployment rate at the end of June 2009 was 11.6 percent, up from 7.1 percent in June 2008. San Diego County's unemployment level, which is historically below that of the State level, was 10.1 percent in June 2009 compared to 6.0 percent in June 2008 (as measured by the California Employment Development Division).
- National consumer confidence reached a measure of 24.8 in February 2009, the lowest recorded levels since statistics were compiled, starting in 1967 (as measured by the Consumer Conference Board). This increased to 49.3 in June 2009, but is still down from the June 2007 highs of 112.6, prior to the start of the current recession in December 2007. This drop in consumer confidence has led to an increase in consumer savings rates to provide a hedge against fiscal problems. Combined with the drop in housing equity, retirement wealth, and increased unemployment, the increase in savings rate has led to large declines in consumer spending. City of San Diego consumer confidence has dropped in excess of 34 percent since the beginning of 2008 to June 1, 2009.
- San Diego's Gross Metro Product (as estimated by the Bureau of Economic Analysis), the estimated value of San Diego metro area's total economic activity, is expected to decline by 0.3 percent in calendar year 2009.
- Leading economic indicators for San Diego have dropped 19.7 percent from the beginning of 2008 to May 2009, and are forecasted to continually decline during 2009 (University of San Diego, Index of Economic Indicators).
- San Diego County tourism is expected to continue to decline in Fiscal Year 2010, including both recreational tourism and convention or business visitors (CONVIS).

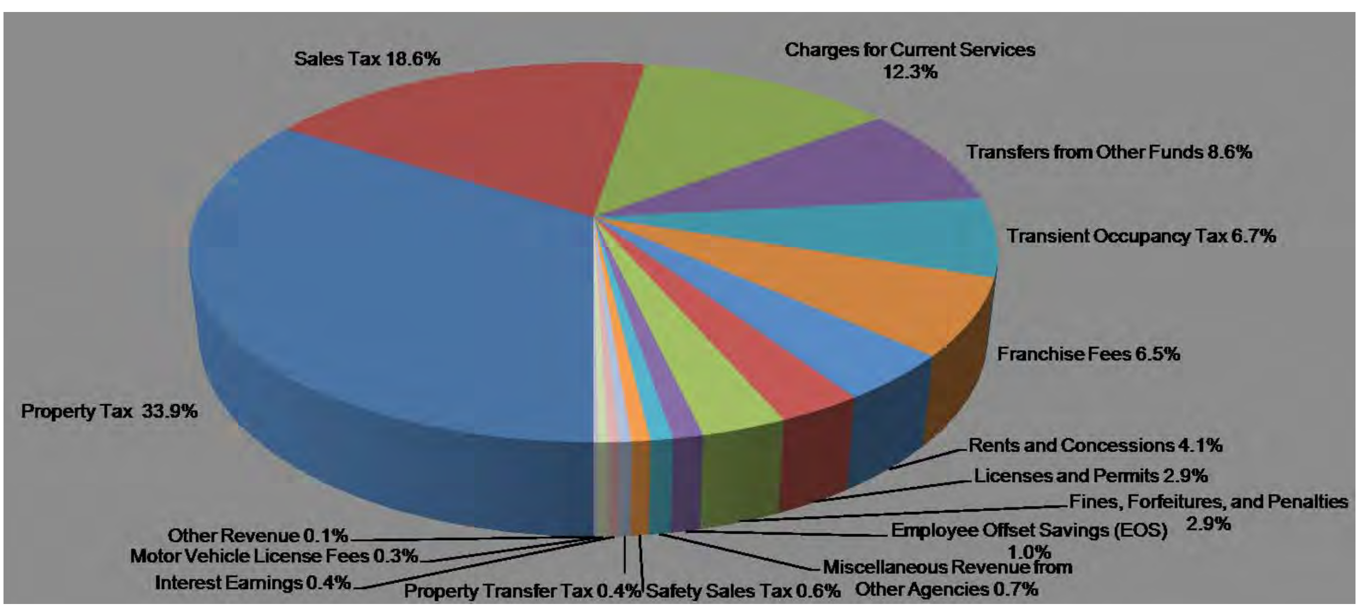
With the continuing economic weakness in the local, State, and national economies, the outlook on the City's revenue sources remains cautious. The local economy has shown certain signs of stabilization, including stabilization in the median house price and a slight increase in consumer confidence, but continued weakness in consumer spending is continuing to cause uncertainty in the short term outlook for the economy on a local, State, and national scale. Stabilization may occur as federal fiscal stimulus continues to circulate through the economy, job losses stabilize, and the housing market and consumer spending improves.

[1] The following sources were used for the budget publication: City of San Diego City Planning & Community Investment Department, San Diego Regional Chamber of Commerce, Economic Bulletin, California Employment Development Department, San Diego Convention and Visitors Bureau, San Diego Union Tribune, The Conference Board, and DataQuick Information Systems.

General Fund Revenues

TABLE 2 FISCAL YEAR 2010 GENERAL FUND REVENUES – $1.13 BILLION (IN MILLIONS)							
REVENUE CATEGORY	FY 2009 ADOPTED BUDGET	FY 2009 REVISED BUDGET	FY 2010 ANNUAL BUDGET	$ CHANGE FY '10 - FY '09 ADOPTED	% CHANGE FY '10 - FY '09 ADOPTED	$ CHANGE FY '10 - FY '09 REVISED	% CHANGE FY '10 - FY '09 REVISED
Property Tax	$ 411.1	$ 396.6	$ 382.6	$ (28.5)	-6.9%	$ (14.0)	-3.5%
Sales Tax	$ 222.1	$ 216.0	$ 210.1	$ (11.9)	-5.4%	$ (5.9)	-2.7%
Safety Sales Tax	$ 8.1	$ 7.3	$ 7.1	$ (1.1)	-13.0%	$ (0.3)	-3.6%
Transient Occupancy Tax	$ 90.6	$ 82.2	$ 75.9	$ (14.7)	-16.2%	$ (6.3)	-7.6%
Property Transfer Tax	$ 8.9	$ 6.5	$ 4.5	$ (4.4)	-49.3%	$ (1.9)	-30.1%
Licenses and Permits	$ 32.6	$ 32.6	$ 32.4	$ (0.3)	-0.8%	$ (0.3)	-0.8%
Fines, Forfeitures, and Penalties	$ 34.5	$ 34.5	$ 32.3	$ (2.3)	-6.5%	$ (2.3)	-6.5%
Franchise Fees	$ 69.6	$ 68.4	$ 73.7	$ 4.1	5.9%	$ 5.4	7.8%
Interest Earnings	$ 9.6	$ 7.9	$ 4.1	$ (5.5)	-57.4%	$ (3.9)	-48.5%
Rents and Concessions	$ 47.2	$ 47.2	$ 46.0	$ (1.2)	-2.6%	$ (1.2)	-2.6%
Motor Vehicle License Fees	$ 6.9	$ 6.0	$ 3.9	$ (3.0)	-43.3%	$ (2.1)	-35.3%
Miscellaneous Revenue from Other Agencies	$ 20.3	$ 20.3	$ 8.5	$ (11.9)	-58.4%	$ (11.8)	-58.2%
Employee Offset Savings (EOS)	$ 17.7	$ 10.1	$ 11.4	$ (6.3)	-35.5%	$ 1.3	13.2%
Charges for Current Services	$ 134.1	$ 133.5	$ 138.6	$ 4.5	3.3%	$ 5.0	3.8%
Transfers from Other Funds (excludes EOS)	$ 78.2	$ 85.7	$ 97.1	$ 18.8	24.1%	$ 11.3	13.2%
Other Revenue	$ 0.8	$ 0.8	$ 1.6	$ 0.7	88.6%	$ 0.7	88.9%
TOTAL	$ 1,192.6	$ 1,155.7	$ 1,129.7	$ (62.9)	-5.3%	$ (26.0)	-2.3%

Fiscal Year 2010 General Fund Revenues – $1.13 Billion

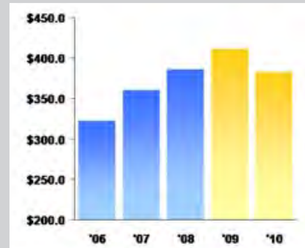


Property Tax

Total City Budget
$392.5 million

General Fund Budget
$382.6 million

Percent of General Fund
33.9 percent



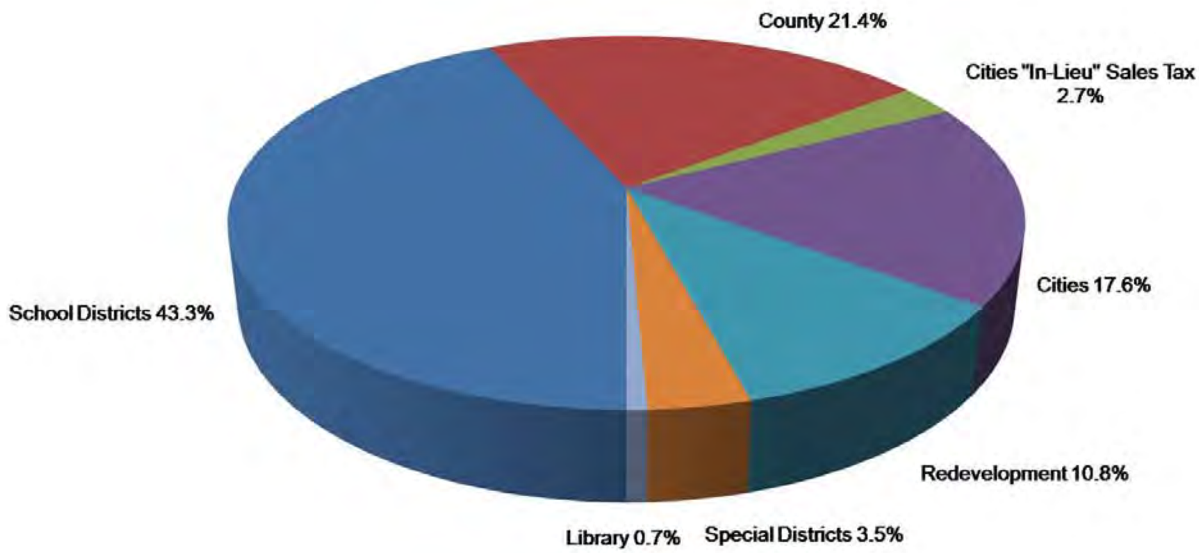
Property Tax Background

Property tax revenue is the City's largest revenue source, representing 33.9 percent of total General Fund revenue. Property tax revenue collected by the San Diego 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, but cannot 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 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 $17.70 (with an additional $3.30 also going to the City for the sales tax "triple-flip" outlined in the sales tax section), which includes offsets from Motor Vehicle License Fees, according to the County of San Diego Assessor's Office.

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 which will reach maturity in Fiscal Year 2012. Additionally, a special tax levy prescribed by the City Charter of $0.005 per $100 of assessed valuation is used to fund zoological exhibits within the City.

Property Tax Distribution



General Fund Revenues

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

- In Fiscal Year 1993, the State of California faced a serious deficit and in order to meet its obligations to fund school districts at specified levels under Proposition 98, the State enacted legislation that shifted partial financial responsibility for funding education to local governments. These revenue shifts were otherwise known as the Educational Revenue Augmentation Fund (ERAF) shifts.
- The State authorized counties to charge cities for administrative fees in order to collect and distribute property tax, further reducing the City's annual property tax receipts by approximately $4.0 million per fiscal year.
- Another ERAF shift was enacted in Fiscal Year 2005, mandating local agencies to contribute $1.30 billion per year to the State. This shift ended in Fiscal Year 2006, resulting in an annual impact of $16.9 million to the City.
- 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.

Property Tax Trends and Outlook

The Fiscal Year 2010 Property Tax Annual Budget is based on the decline in total assessed value of commercial and residential properties in the City, and is projected to be $382.6 million. This represents a $12.8 million or 3.2 percent decrease from the Fiscal Year 2009 Year-End Projection and a $16.7 million or 4.2 percent decrease from the Fiscal Year 2010 Proposed Budget.

The State of California, to balance their Fiscal Year 2010 budget, has suspended Proposition 1A (2004), which protected local government's sales and property tax revenues. By suspending this Proposition, the State borrows $2 billion in local government property tax revenues to aid in balancing their budget. More specifically, the State borrows $36 million in property tax revenues from the City of San Diego in exchange for a promissory note that would accrue interest over a three year period before repayment of the principal amount. To address the State borrowing these funds, the City plans on securitizing this note to replace these borrowed funds within the fiscal year; therefore, having no planned impact on total projected property tax revenue receipts.

The $382.6 million consists of $277.6 million in base property tax (Proposition 13) and an estimated "in-lieu of MVLF" payment of $105.0 million.

TABLE 3 FISCAL YEAR 2010 ADOPTED PROPERTY TAX BUDGET	
Base Property Tax	$ 277.6 million
MVLF "In-Lieu" Property Tax	$ 105.0 million
TOTAL PROPERTY TAX	$ 382.6 million

Although the median price of a home in San Diego has dropped over 38.9 percent from February 2008 to June 2009[1], the actual property tax receipts do not reflect the full impact of this drop due to Proposition 13.

Homeowners who have owned the same property for an extended period of time have received the benefit of a high rate of annual growth in property value, while their property tax bills were capped at a 2 percent maximum growth rate. These residents, although losing equity in their properties in this declining price environment, are still eligible for a property tax rate increase this year as their current house value exceeds the value of their property based on their assessed value and the 2.0 percent annual compounded maximum growth rate of their taxes. However, a decline in property tax receipts is still forecasted as the total assessed value of all combined properties within the City has decreased 0.65 percent (as estimated by the County Assessor's Office) from Fiscal Year 2009 to Fiscal Year 2010. This decrease in assessed value is due to the decline in median home prices in San Diego City and County in addition to a drop in commercial property values. This negative growth in total assessed value is due to a number of causes, including the growth in foreclosure properties, a reduction in the number of home purchases due to rising unemployment and erosion in consumer confidence, and increasingly stringent underwriting standards for a home loan.

Supplemental assessments, where State law requires the County Assessor to reappraise property and issue a supplemental assessment based on a new sale or purchase of a home, have been significantly reduced as more properties are sold for less than their original assessment due to the 38.9 percent decline in housing prices since the 2005 high levels. This has resulted in supplemental property tax revenue decreasing from a high of $22.6 million in Fiscal Year 2006 to a Fiscal Year 2010 supplemental property tax projection of $8.0 million.

Foreclosures in the County of San Diego have remained at the same level for the past year, with the exception of September through December 2008. During this time, State Bill CC 2923.5 required that a lender, before filing a new default notice, conduct an in-person interview with the borrower to assess the borrower's financial situation; provide borrower with a list of HUD-certified credit counselors; explore options for borrower to avoid foreclosure; offer restructuring or other options; and do not file the notice of default until at least 30-days after the in-person meeting. This reduced the amount of foreclosures in the fourth quarter of calendar year 2008, which allowed time for the amount of foreclosed properties available on the market to decline as foreclosed properties were purchased without additional properties being foreclosed. However, after this State Bill lapsed at the beginning of calendar year 2009, approximately 3,000 new notices of default were sent out in January, and have averaged 3,600 notices per month up to May 2009. Of these foreclosed homes, approximately 45.0 percent of properties are re-sold on a monthly basis, while the remaining 55.0 percent unsold inventory of foreclosed homes are increasing the amount of available properties on the market[2]. Additionally, the County Assessor's Office expects an increase in the number of foreclosed properties from June to August 2009 due to State Bill CC 2923.5. While this State Bill delayed foreclosure on properties due to an increase in both the notification period and mitigation process, the Assessor expects the majority of these properties to be foreclosed upon in summer 2009 in addition to other properties that are currently in the foreclosure process.

While the average home price has seen recent stabilization, both the number of continuing foreclosures and existing foreclosed properties available on the market would need to decline to help stabilize the overall residential real estate market to return to historical growth rates in property tax revenue to the City.

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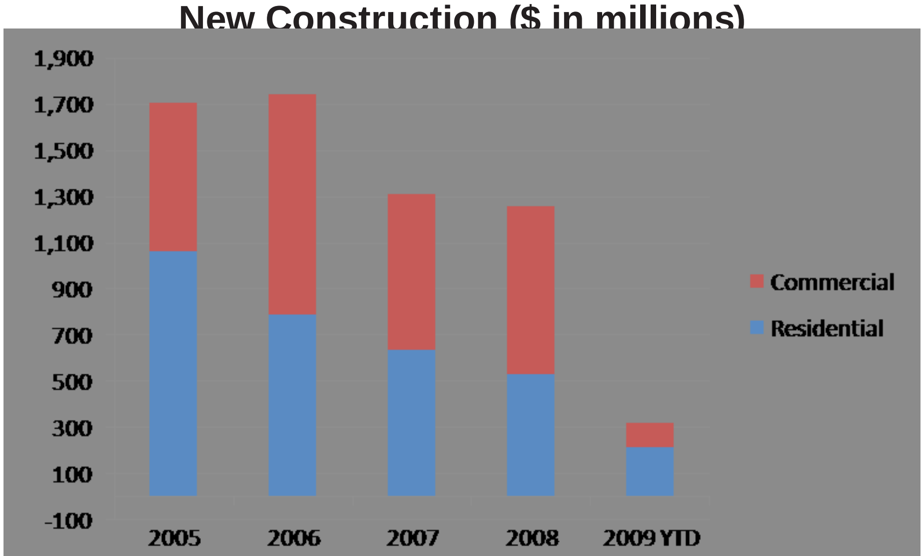
[1] DataQuick Information
[2] San Diego County Recorder's Office

General Fund Revenues

Property Tax Economic Indicators

Total issued building permits and permit valuation (residential and non-residential) are used as indicators of overall construction activity. The graphs below represent the trends in building permits issued and building permit valuations through June 2009. Fiscal Year 2009 commercial new construction permits are down 85.5 percent ($620 million reduction) from 2008, while residential permits are down 59.3 percent ($316.9 million reduction) from the same time period. The Fiscal Year 2008 annual figures were down 16.4 percent from Fiscal Year 2007, and 32.2 percent down from Fiscal Year 2006 highs. With the illustrated decline in building permits for both residential and commercial construction, the real estate market in San Diego has slowed dramatically and is expected to continue to show low new construction during Fiscal Year 2010.

Total Building Permit Valuation by Fiscal Year – New Construction ($ in millions)



Source: City of San Diego, Development Services Department

TABLE 4 – NEW RESIDENTIAL PERMITS VALUATIONS (IN MILLIONS)					
DESCRIPTION	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Total Single Family	$ 349.5	$ 377.8	$ 257.5	$ 210.7	$ 138.7
Apartment	$ 321.4	$ 189.0	$ 73.4	$ 202.7	$ 69.2
Condominium	$ 394.7	$ 221.5	$ 307.9	$ 120.8	$ 9.3
Total Multi-Family	$ 716.0	$ 410.5	$ 381.4	$ 323.5	$ 78.5
TOTAL RESIDENTIAL	$ 1,065.5	$ 788.3	$ 638.8	$ 534.2	$ 217.3
TOTAL COMMERCIAL	$ 641.9	$ 953.7	$ 670.5	$ 724.8	$ 104.8

TABLE 5 – NEW RESIDENTIAL PERMITS ISSUED					
DESCRIPTION	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Total Single Family	1,271	1,290	903	719	490
Apartment	242	106	72	72	32
Condominium	164	72	192	48	12
Total Multi-Family	406	178	264	120	44
TOTAL RESIDENTIAL	1,677	1,468	1,167	839	534

Source: City of San Diego, Development Services Department

Other Local Taxes

Sales Tax

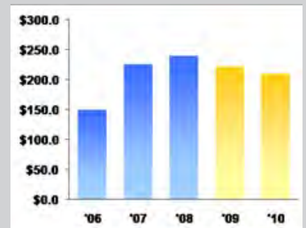
Sales Tax Background

Sales tax is the City's second largest revenue source, representing 18.6 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 State-wide 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. The TransNet Extension Ordinance and Expenditure Plan, which went into effect April 2008, renewed the half-cent obligation for an additional 40-year term. Sales tax also 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.

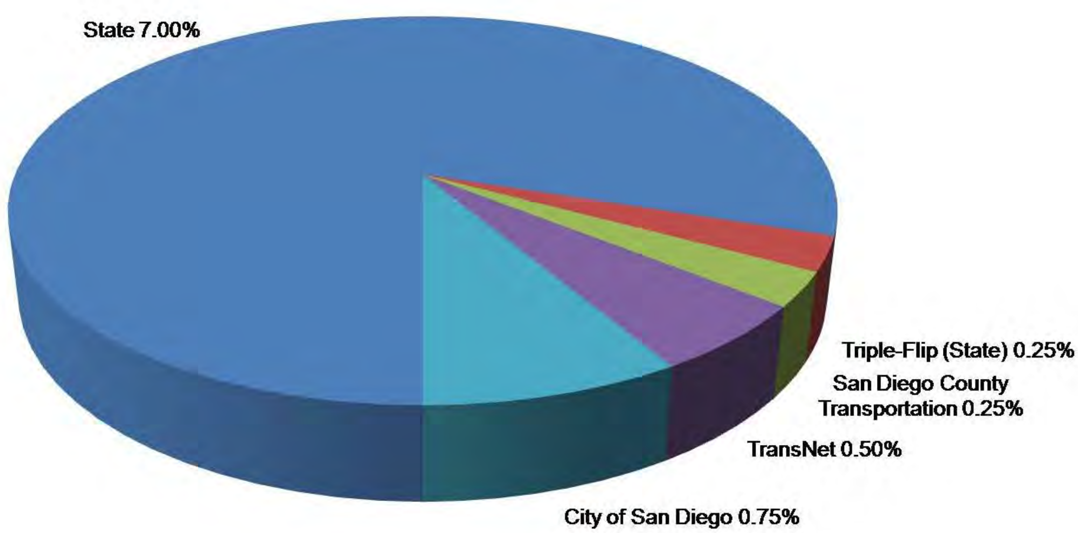
Total City Budget
$210.1 million

General Fund Budget
$210.1 million

Percent of General Fund
18.6 percent



City Sales Tax Rate (8.75 percent)[1]



[1] California's State sales tax was increased 1% effective April 1, 2009

General Fund Revenues

Sales Tax Trends

Consumer and business spending within the City determines sales tax receipts. Consumer spending depends upon numerous factors, of which, growth in per capita income and percent of income spent on goods and services can be the strongest predictor of sales tax revenue trends. Per capita income in California has declined 2.1 percent from January 2008 due to rising unemployment, reduced hiring by new and existing business, and reduced business profits. The average consumer savings rate as of May 2009 has risen to 6.9 percent of disposable personal income (compared to 0.4 percent in April 2008) due to greater uncertainty in the economy and greater need for savings, and the direct result is that spending as a percent of income has declined[1]. Business spending is directly linked to consumer spending on goods and services, and in a recession, business spending is reduced and job creation slows.

As per capita income growth slows and perceived wealth in the form of home equity decreases, it is anticipated that consumer spending will continue to slow during the first half of Fiscal Year 2010. National consumer spending was buoyed by over 3.0 percent per year[2] due to the increased valuation of homes which has declined during the recession. Consumer spending from local residents and visitors to the region must increase for sales tax revenues to recover.

Sales Tax Outlook

The projected sales tax revenue for the Fiscal Year 2010 Annual Budget is $210.1 million, a decline of $3.0 million or 1.4 percent less than the projection in the Fiscal Year 2009 Year-End Projection and no change from the Fiscal Year 2010 Proposed Budget. The Fiscal Year 2010 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). Once the State's Economic Recovery Bonds are paid off (estimated in Fiscal Year 2011-2012 by the California Department of Finance), 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.

TABLE 6 FISCAL YEAR 2010 ANNUAL SALES TAX BUDGET		
Sales Tax Revenue	$	159.2 million
Property Tax Reimbursement	$	50.9 million
TOTAL SALES TAX	$	210.1 million

The State of California Board of Equalization, which controls the distribution of sales tax to individual jurisdictions, issues guidance on growth in State-wide taxable sales. Growth estimates for the State of California as issued by the Board of Equalization for Fiscal Year 2010 projects a decline in taxable sales in the first half of the fiscal year and then zero growth for the remainder of the year (as measure by growth over the previous fiscal year's comparable quarter).

While San Diego has historically been economically stronger than the State of California in aggregate as previously mentioned, growth estimates for the City's sales tax receipts are monitored closely based on updated performance measures received on local taxable sales growth.

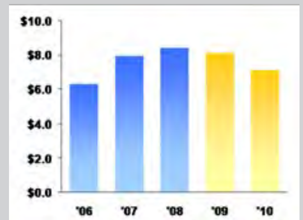
[1] US Federal Reserve & Bureau of Economic Analysis compiled information
[2] "Sources & Uses of Extracted Home Equity" – Alan Greenspan, James Kennedy (2007)

Safety Sales Tax

Total City Budget
$7.1 million

General Fund Budget
$7.1 million

Percent of General Fund
0.6 percent



Safety Sales Tax Background

Safety sales tax revenue makes up 0.6 percent of the General Fund revenue budget and is derived from a half-cent sales tax resulting from the passage of Proposition 172 in November 1993, and must be used 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 based upon the individual cities' proportion of taxable sales in the County. Safety sales tax revenue entirely depends on the County's share of total State-wide taxable sales, not on taxable sales within the City.

Safety Sales Tax Outlook

The Fiscal Year 2010 Annual General Fund Budget projects $7.1 million in safety sales tax revenue, a 1.0 percent decrease over projections in the Fiscal Year 2009 Year-End Projection and no change from the Fiscal Year 2010 Proposed Budget. Proposition 172 funds are used for local public safety activities, including police and fire protection. In Fiscal Year 2010, approximately $1.6 million will be allocated to the Fire and Lifeguard Facilities Fund for debt service payments on the fire facility improvements, while the remaining $5.5 million is allocated for public safety expenditures within the General Fund.

Transient Occupancy Tax

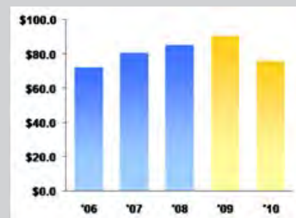
Transient Occupancy Tax Background

Transient occupancy tax (TOT) makes up 6.7 percent of the General Fund revenue budget and 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 City Council Policy 100-3. The policy stipulates that of the 10.5 cents of collected TOT, 4.0 cents shall be applied toward promoting the City as a tourist destination; 5.5 cents shall be applied toward general government purposes, and the remaining 1.0 cent to be allocated for any purposes approved by the City Council.

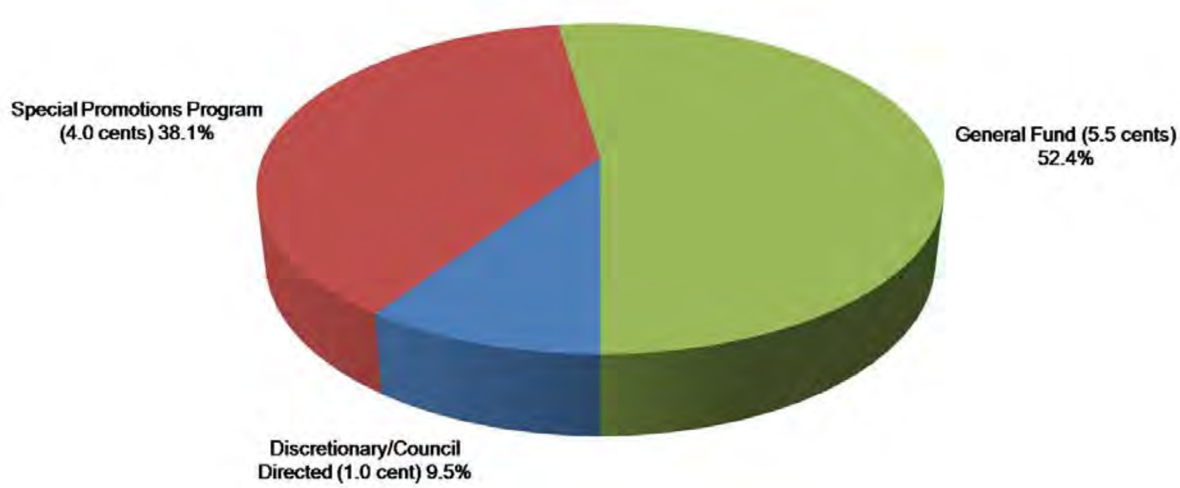
Total City Budget
$144.9 million

General Fund Budget
$75.9 million

Percent of General Fund
6.7 percent



Transient Occupancy Tax Allocation[1]



[1] Distribution according to Council Policy 100-3

Transient Occupancy Tax Trends

Although San Diego's local attractions, natural amenities, and proximity to other popular tourist sites continue to make the area a top destination, the economic recession has had a negative effect on tourism over the last two years. The 2009 forecast for San Diego's visitor industry is a continued negative growth. Room demand is anticipated to drop by 7.5 percent during calendar year 2009. Reduced number of group bookings, for conventions and other large events, contributes a large part to the decline in tourism, with the latest data showing a decline of over 23 percent for 2009 compared to 2008. The Average Daily Rate (ADR) in 2009 is forecasted to decline to 8.8 percent to $129 per night, compared to $141.50 in 2008, as local hotels try to entice visitors to come to San Diego with special room packages and lower room rates to increase demand and in turn revenues. However, combined with an estimated increase of 3.4 percent in the supply of available rooms, revenue per available room (RevPAR) is expected to decrease by 18.4 percent. Average occupancy is also anticipated to drop to a five-year low of 62.2 percent compared to 69.5 percent in 2008 (totaling 13.0 million rooms sold). Stabilization in tourism is expected to begin in the second half of 2009 with small growth starting in the third quarter of calendar year 2010[1].

Table 7 illustrates a breakout of hotel and motel performance in San Diego over the last four years and projections for calendar year 2009:

TABLE 7
2005 - 2009 SAN DIEGO TOURIST INFORMATION[1]

	Projected 2009	2008	2007	2006	2005	% Projected Change '08-'09	% Change '07-'08	% Change '06-'07	% Change '05-'06
Total Visitors	30.0	31.1	31.6	32.2	31.8	-3.5%	-1.5%	-2.0%	1.3%
Overnight Visitors	14.4	15.2	15.4	15.8	15.7	-4.9%	-1.3%	-2.9%	0.6%
Day Visitors	15.6	15.9	16.2	16.4	16.1	-2.1%	-1.6%	-1.1%	2.1%
Supply - Room Inventory	20.8	20.2	19.7	19.4	19.4	3.4%	2.2%	1.7%	-0.2%
Demand - Rooms Sold	13.0	14.0	14.4	14.2	14.0	-7.5%	-2.6%	1.1%	1.3%
Average Occupancy	62.2%	69.5%	72.9%	73.3%	72.2%	-10.5%	-4.7%	-0.5%	1.5%
Average Daily Rate	$129.00	$141.50	$138.60	$130.80	$121.90	-8.8%	-2.1%	5.9%	7.4%

Transient Occupancy Tax Outlook

Total TOT revenue has been revised downward 3.1 percent from $149.6 million in the Fiscal Year 2010 Proposed Budget to $144.9 million in the Fiscal Year 2010 Annual Budget due to a continued decline in TOT revenue collection. Of this amount, $75.9 million will be allocated to the General Fund with the remaining funds allocated to Special Promotional Programs. This assumes a growth rate of negative 3.4 percent or $2.7 million decline from the projections in the Fiscal Year 2009 Year-End Projection.

Factors such as the housing crisis, the recession, and rising unemployment continue to influence consumer spending, forcing cutbacks on travel plans and other discretionary spending for the individual consumer and corporations alike. As previously mentioned, this trend is expected to persist until mid-calendar year 2010 when an anticipated national economic recovery is underway alongside growing consumer confidence. Although the continuing trend in declining TOT is forecasted to reverse in 2010, peak levels in San Diego hotel room demand from 2006-2008 are not forecasted to be reached until 2013[1].

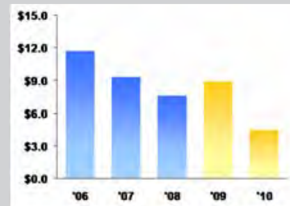
[1] CONVIS

Property Transfer Tax

Total City Budget
$4.5 million

General Fund Budget
$4.5 million

Percent of General Fund
0.4 percent



Property Transfer Tax Background

Property transfer tax makes up 0.4 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 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 estimated property transfer tax revenue for Fiscal Year 2010 reflects the same trends that were discussed in the property tax revenue section. The economic factors that affect property tax also influence the transfer tax as it is assessed upon the transfer of newly constructed properties, the sale of existing homes, and when foreclosed properties are purchased. The total amount of deeds transferred to home buyers in the County of San Diego has averaged 9,828 per month in 2009 through the month of June, 9,628 in 2008, 11,113 in 2007, 13,745 in 2006, and 16,704 in 2005[1]. These historically low numbers are forecasted to continue into the first part of Fiscal Year 2010, with growth occurring thereafter and a corresponding stabilization in revenue. This low amount of turnover in home sales directly affects the amount of property transfer tax revenue received by the City in addition to the decline in the average home price in the City. Lower sales prices reduce revenue further since the revenue generated from transfers in ownership is assessed based on a percentage of sales price. The average home price in San Diego County has declined 13.1 percent in the last year and is down 38.9 percent from 2005 highs[2]; however, since January, home prices have increased 11.2 percent, potentially signaling a nascent recovery. The downward trend in revenue is forecasted to continue until mid-Fiscal Year 2010, when prices are expected to stabilize and the amount of home sales in the City increases to more historically normalized levels.

Property Transfer Tax Outlook

The Fiscal Year 2010 Annual Budget projects a property transfer tax revenue of $4.5 million, which represents a $750,000 decrease or 14.1 percent from the Fiscal Year 2009 Year-End Projection and $1.5 million or 25.0 percent from the Fiscal Year 2010 Proposed Budget. The Fiscal Year 2010 Annual Budget amount for property transfer tax revenue was revised significantly due to the prolonged and continual deterioration of the housing market (notices of default, foreclosures, and average price change) during late Fiscal Year 2009. With housing prices reaching a tentative stabilization, the lack of availability of credit, and the amount of foreclosures increasing, the amount of property transfer tax revenue will continue to be comparatively low to historical levels of revenue received. However, the City of San Diego may be better poised for a recovery in the housing market than the majority of other California cities due to lower unemployment, diversity in the local economy, and the narrowing of the gap between average home prices and average per capita income for San Diego.

[1] San Diego County Recorder's Office
[2] DataQuick Information Systems

Licenses and Permits

Licenses and Permits Background

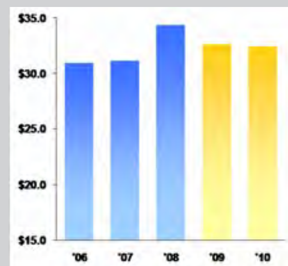
Licenses and permits generate revenue for the purpose of recovering the costs associated with regulating an activity and make up 2.9 percent of the General Fund revenue budget. These regulatory functions are typically performed by the City in the interests of promoting public safety. Included in this category are business licenses, rental unit taxes, parking meter collections, and referral fees received from the City's towing operators.

Business and rental unit business tax, parking and Police permits are captured under the license and permits allotment class. The business tax is a tax levied on any businesses operating within the City of San Diego based on the number of employees. Those with 12 or fewer employees pay an annual flat tax of $34 and businesses with 13 or more employees pay an annual flat tax of $125 plus an additional $5 per employee. The rental unit business tax is calculated as a flat rate plus a per-rental unit fee. Currently, the rental unit business tax has three rate tiers for residential properties and two rate tiers for hotel/motel properties. City parking meters attempt to maximize revenues base on location and turnover of on-street parking in commercial districts.

Total City Budget $58.3 million

General Fund Budget $32.4 million

Percent of General Fund 2.9 percent



Licenses and Permits Trends and Outlook

For Fiscal Year 2010, the licenses and permits revenue budget is $32.4 million, a decrease of $300,000 or 0.8 percent from the Fiscal Year 2009 Revised Budget due to a budgeted decline in business taxes.

Fines, Forfeitures, and Penalties

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. City parking violations represent approximately half of this revenue category. Fines, forfeitures, and penalties make up 2.9 percent of the General Fund revenue budget.

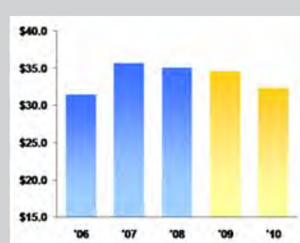
Fines, Forfeitures, and Penalties Trends and Outlook

The Fiscal Year 2010 Annual Budget for fines, forfeitures, and penalties is $32.3 million, a $2.3 million or a 6.5 percent decrease from the Fiscal Year 2009 Revised Budget due mostly to an estimated $2.1 million decrease in parking citation revenue.

Total City Budget $33.5 million

General Fund Budget $32.3 million

Percent of General Fund 2.9 percent



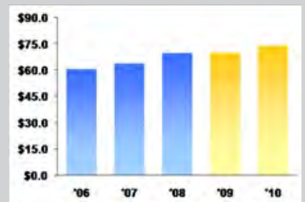
Revenue from Money and Property

Franchise Fees

Total City Budget
$137.0 million

General Fund Budget
$73.7 million

Percent of General Fund
6.5 percent



Franchise Fees Background

Franchise fees revenue makes up 6.5 percent of the General Fund revenue budget and results from agreements with private utility companies in exchange for the City's rights-of-way. Currently, San Diego Gas and Electric (SDG&E), Cox Communications, Time Warner Cable, and AT&T are the franchises that pay the City. 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 of gas and electricity within the City of San Diego - which is split between the General Fund (75 percent) and the Environmental Growth Fund (25 percent), according to the City Council Policy. In addition, the City receives a 3.5 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, Time Warner Cable, and AT&T. Refuse hauler fees are imposed on private refuse haulers depending on tonnage per year: Class I haulers (less than or equal to 75,000 tons per year) or Class II haulers (more than 75,000 tons per year).

Franchise Fees Trends and Outlook

SAN DIEGO GAS & ELECTRIC. The projected revenue for Fiscal Year 2010 from SDG&E franchise fees is $55.2 million, reflecting 2.8 percent growth over the projections in the Fiscal Year 2009 Year-End Projection. In accordance with City Council policy, 25.0 percent of revenue received from SDG&E or $13.8 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 approximately $41.4 million received from SDG&E franchise fees is allocated to the General Fund.

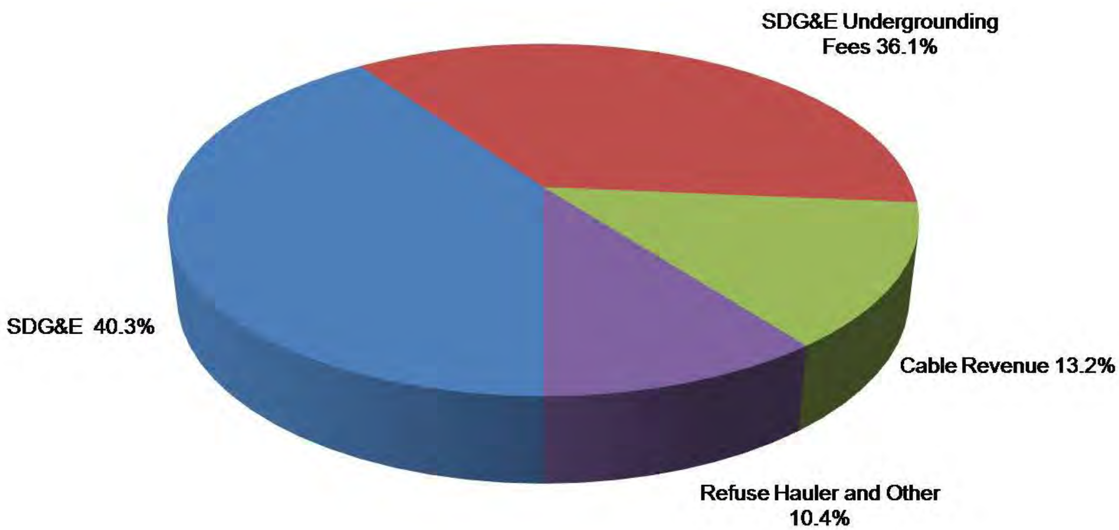
CABLE COMPANIES. The projected revenue for Fiscal Year 2010 from cable franchise fees is $18.1 million. This is a 2.4 percent growth rate over the projections in the Fiscal Year 2009 Year-End Projection and reflects the steady growth of this revenue source over the last two fiscal years. Cable franchise fee revenue is received from Cox Communications, Time Warner Cable, and AT&T (AT&T began remitting cable franchise fees during Fiscal Year 2008). Cox Communications and Time Warner Cable will provide the majority of cable franchise fees revenue in Fiscal Year 2010 but AT&T is expected to steadily increase its share of the limited San Diego market.

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 2010 revenue at $11.3 million, a $3.2 million or 40 percent increase from the projections in the Fiscal Year 2009 Year-End Projection. The large increase in projected revenues from the Fiscal Year 2009 Year-End Projection is due to an approved fee increase of $4 per ton in the City's Non-Exclusive Solid Waste Collection Franchise Fee for Class I and II refuse haulers.

UNDERGROUNDING UTILITY FEE. The utility undergrounding surcharge is estimated to be $49.5 million in Fiscal Year 2010. This revenue will be deposited into the Underground Utility District Fund to be used solely for the purpose of placing utility lines underground. This money is budgeted outside of the General Fund.

Franchise fees also include a $2.6 million franchise payment from the Sycamore Canyon Landfill Facility. This revenue item was transferred from the Enterprise Fund to the General Fund for 2010.

Franchise Fee Revenue Breakdown



Interest Earnings

Interest Earnings Background

In accordance with the City Charter and authority granted by the City Council, the City Treasurer is responsible for investing the City's cash assets, exclusive of City Pension Trust Funds. With the exception of certain bond funds, all City funds are pooled and invested together in a Pooled Investment Fund ("Fund") to facilitate increased flexibility in the management of 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. 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.

Interest Earnings Trends

Interest rates decreased dramatically during Fiscal Year 2008 and 2009, due to the ongoing global economic recession and credit crisis. During Fiscal Year 2009, the Federal Reserve cut the Federal Funds rate from 2.00 percent to its current target of 0.00 to 0.25 percent in response to the financial market crises and an economy that has officially been in a recession since December 2007. In the Federal Open Market Committee meeting in June, the Committee indicated that economic conditions are likely to warrant keeping interest rates exceptionally low for an extended period of time. The dramatic decrease in rates has helped the Fund generate superior returns in Fiscal Year 2009 through the realization of capital gains. Earnings in Fiscal Year 2010 are expected to be much lower as the Fund reinvests its cash flows at the significantly lower interest rates.

Interest Earnings Outlook

Recent statements by the Federal Reserve have indicated they are likely to keep interest rates at historical lows through the majority of Fiscal Year 2010. Any action by the Federal Reserve before the end of the calendar year is highly unlikely since the economy is still weak, and any interest rate hike could reverse the recent progress in stabilizing the economy and throw it back into a deeper recession. As a result, a more likely scenario is that the Federal Reserve keeps rates at current levels through most of the remainder of Fiscal Year 2010. This will result in a significant drop off in interest earnings compared to Fiscal Year 2009, as we are starting from a low yield environment and will not have the same capital gains effect enjoyed in Fiscal Year 2009. Additionally, if the economy were to recover more quickly than expected, the Federal Reserve may be forced to start raising rates quickly during Fiscal Year 2010 to prevent runaway inflation. Although this seems unlikely at this point, if that were to happen, it would negatively impact interest earnings further in Fiscal Year 2010 as realized capital losses would detract from earnings.

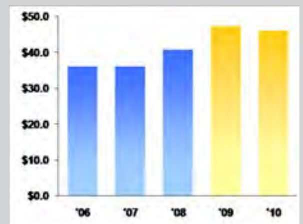
It should be noted that interest rates are market driven and subject to a number of uncontrollable or unpredictable factors, and the primary risk to the constant interest rate forecast is that inflation accelerates rapidly, causing the Federal Reserve to increase rates sooner than expected.

Rents and Concessions

Total City Budget
$84.7 million

General Fund Budget
$46.0 million

Percent of General Fund
4.0 percent



Rents and Concessions Background

The rents and concessions category makes up 4.0 percent of the General Fund revenue budget and include revenue generated from Mission Bay Park, Balboa Park, and Torrey Pines Golf Course. The largest component of this category is revenue from Mission Bay Park rents and concessions, the majority of which is generated from leases with Sea World, the Marina Village Conference Center, and the hotels and marinas within Mission Bay Park. Other contributing components in the Rents and Concessions category include lease agreements for City Pueblo lands.

The new Mission Bay Ordinance changed the minimum threshold of revenue to be placed into the general fund for use in any municipal purpose. The minimum threshold amount to be placed into the General Fund without restriction is $23 million. This threshold amount will remain at the same level until Fiscal Year 2015, when it will be reduced to $20 million. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Park Improvement Fund and the Mission Bay Park Improvement Fund. 25.0 percent of revenues in excess of the threshold amount or $2.5 million, whichever is greater, will be allocated to the San Diego Regional Park Improvement Fund, with 75.0 percent or the remaining amount allocated to the Mission Bay Park Improvement Fund. The prior ordinance specified a minimum General Fund threshold of $20.0 million, a $2.5 million maximum allocation for the Mission Bay Improvement Fund and Regional Park Improvement Fund, with the remaining funds above these allocations placed back within the General Fund.

Rents and Concessions Trends

The Mission Bay Park rents and concessions are projected to generate $28.0 million in Fiscal Year 2010. The threshold amount for the General Fund allocation will be $23.0 million as stipulated in the Mission Bay Ordinance. The $5.0 million excess above the threshold amount will then be split between the San Diego Park Fund and Mission Bay Park Fund according to the formula previously outlined. The 25.0 percent allocation to the San Diego Regional Park Fund does not meet the minimum dollar threshold, so the amount allocated to this fund will be the minimum contribution of $2.5 million. The remaining $2.5 million will go to the Mission Bay Park Regional Park Improvement Fund.

Rents and Concessions Outlook

The Fiscal Year 2010 Annual Budget for rents and concessions is $46.0 million, a decrease of $1.2 million or 2.6 percent from the Fiscal Year 2009 Annual Budget. The majority of this decrease is due to lower expected revenues from Mission Bay Park rents caused by the decline in actual Fiscal Year 2009 lease revenues.

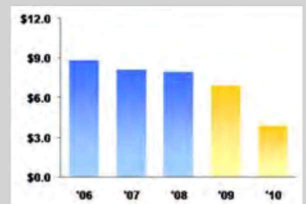
Revenue from Other Agencies

Motor Vehicle License Fees

Total City Budget
$3.9 million

General Fund Budget
$3.9 million

Percent of General Fund
0.3 percent



Motor Vehicle License Fees Background

Motor vehicle license fees (MVLF) make up 0.3 percent of the General Fund revenue budget and 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 as part of the owner's registration. The fees are then forwarded to the State Controller's Office, which allocates the funds to local governments per capita on a monthly basis.

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 current depreciated 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, otherwise known as the MVLF backfill. As part of the 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 the loss in MVLF revenue with increased property tax revenues.

The State budget package that was passed in February 2009 includes an increase to the MVLF tax rate from 0.65 percent to 1.15 percent beginning May 19, 2009. Of this increase, 0.35 percent will be deposited to the State's General Fund and 0.15 percent will be dedicated to public safety programs. Since no portion of the increase is dedicated to the cities' proportionate MVLF allocation, there will be no effect on the City's revenue as a result of this change.

Motor Vehicle License Fees Outlook

The Fiscal Year 2010 Annual Budget for MVLF is $3.9 million, which represents an 8.6 percent decrease or $370,000 over the projections in the Fiscal Year 2009 Year-End Projection and no change from the Fiscal Year 2010 Proposed Budget. This revenue outlook is based on stagnant State-wide auto sales activity over Fiscal Year 2009 levels. The number of vehicles in the State, the age of those vehicles, and their most recent depreciated value affect the amount of MVLF raised. The total number of vehicles in California (autos, trucks, trailers, and motorcycles) is estimated to be 30.9 million in Fiscal Year 2010, remaining mostly flat over the projections in the Fiscal Year 2009 Mid-Year Report[1]. It is projected by the State that there will be 1.9 million new vehicles registered in Fiscal Year 2010. It should be noted, however, that this does not necessarily translate into increased revenue for the City as State-wide revenues are distributed on a per capita basis for local governments and therefore growth in the amount of local vehicle sales does not directly translate into an increase in the City's MVLF revenue.

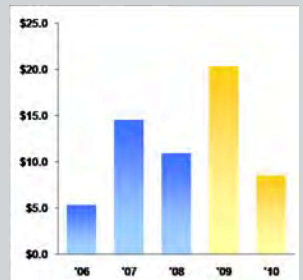
[1] 2009-10 California Budget: Governor's Proposed Budget, January 2009.

Miscellaneous Revenue from Other Agencies

Total City Budget
$59.6 million

General Fund Budget
$8.5 million

Percent of General Fund
0.8 percent



Miscellaneous Revenue Background

A significant amount of revenue paid to the City is initially collected by other agencies and 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 Unified Port District and other cities in the region such as emergency fire dispatch services for the City of Chula Vista. These revenues make up 0.8 percent of the General Fund revenue budget.

Miscellaneous Revenue Trends and Outlook

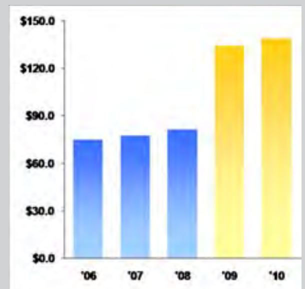
The Fiscal Year 2010 Annual Budget for miscellaneous revenue is $8.5 million, an $11.8 million or 58.2 percent decrease from the Fiscal Year 2009 Revised Budget and a $100,000 decrease or -1.3 percent from the Fiscal Year 2010 Proposed Budget. The large decrease in revenue from Fiscal Year 2009 is due to the elimination in Fiscal Year 2010 of Federal Emergency Management Agency (FEMA) reimbursements related to the October 2007 wildfires, Mount Soledad emergency road reimbursements, and Proposition 1B funding for street and storm drain deferred maintenance (all of which were budgeted in Fiscal Year 2009). Included in this category is $1.3 million from the State for the Citizens' Option for Public Safety (COPS) Program, $460,000 from the Chula Vista Dispatch Contract (which provides fire communication operations for dispatching emergency services), and other federal and State grants or reimbursements.

Charges for Current Services

Total City Budget
$963.7 million

General Fund
Budget
$138.6 million

Percent of
General Fund
12.3 percent



Charges for Current Services Background

Charges for current services revenue make up 12.3 percent of the General Fund revenue budget and are 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 City Auditor, City Comptroller, City Attorney, City Clerk, and Financial Management to all City departments by means of a rate based on the General Government Services Billing (GGSB) standard. The amounts allocated to non-General Fund departments are billed and received into the General Fund as revenue to offset the cost of the services provided by these central service departments.

Included in current services is a User Fee Policy (adopted March, 2009) that has been proposed to help recoup the cost of services provided to people in the City of San Diego.

Charges for Current Trends and Outlook

The Fiscal Year 2010 Annual General Fund Budget for charges for current services within the General Fund is $138.6 million, a $5.0 million or 3.8 percent increase over the Fiscal Year 2009 Revised Budget and a $1.5 million or 1.0 percent decrease from the Fiscal Year 2010 Proposed Budget. This category includes an additional $7.0 million in user fee revenue that the City anticipates to receive in Fiscal Year 2010.

Transfers from Other Funds

Transfers from Other Funds Background

Transfers from other funds include transfers to the General Fund from Capital Improvement Programs, Special Promotional Programs, Environmental Growth Fund, TransNet Fund, Gas Tax Fund, Storm Drain Fund, and other funds. These transfers make up 9.6 percent of the General Fund revenue budget.

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 received under the Master Settlement Agreement with tobacco companies (Tobacco Settlement Revenues or TSRs). Due to securitization, TSRs that supported a variety of City programs, including the General Fund, were backfilled by EOS revenue.

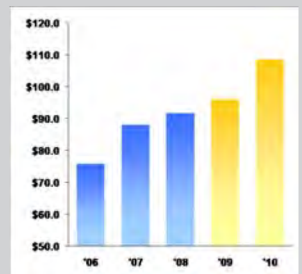
Transfers from Other Funds Trends and Outlook

The Fiscal Year 2010 Annual Budget for transfers from other funds is $108.5 million, a $12.7 million or 13.2 percent increase from the Fiscal Year 2009 Revised Budget and $5.4 million or 5.2 percent increase from the Fiscal Year 2010 Proposed Budget. This includes revenue from the Transient Occupancy Fund, Environmental Growth Fund, Employee Offset Fund, and Rate Stabilization Reserves. The large increase from the revised budget was due to a transfer of $21.4 million to the General Fund for rate stabilization reserves in combination with unused fund balances in departmental budgets that were unencumbered.

Total City Budget $353.3 million

General Fund Budget $108.5 million

Percent of General Fund 9.6 percent



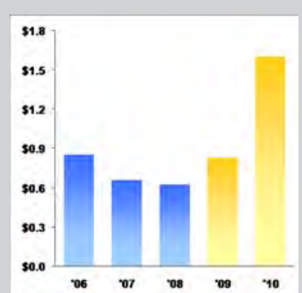
Other Revenue

Other revenue makes up 0.1 percent of the General Fund revenue budget and is mainly composed of refunds and revenue generated from the sale of publications, excess inventory, and auctioned police items. The Fiscal Year 2010 Annual Budget includes other revenues totaling $1.6 million.

Total City Budget $300.7 million

General Fund Budget $1.6 million

Percent of General Fund 0.1 percent



State of California Budget Impacts

California's Proposition 1B (known as the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act), passed in 2006 for the improvement of roadway infrastructure throughout the State, has allocated and distributed $550.0 million to cities throughout the State; of which, the City received $21.2 million in Fiscal Year 2008. The second round of disbursements was expected to occur in Fiscal Year 2010, however, with the deterioration in the national credit markets, the $187.0 million in Proposition 1B bonds that were to be issued by the State to raise the monies for this distribution were not sold. These bonds that were attempted to be sold on the open market in December 2008 faced difficulties due to California's budget shortfalls and downgraded credit ratings. The State is expected to issue the bonds once the State's credit rating and the overall debt market improves. The City of San Diego does not expect any Proposition 1B funds from this $187 million second round of State distributions in Fiscal Year 2010; however, the City may receive Proposition 1B funds in FY 2011.

The City is expected to receive State funds related to Proposition 42 in Fiscal Year 2010. These funds, like Proposition 1B, are set aside for the improvements of local streets and roads as well as interstate highways. The City expects to receive $15.5 million in Proposition 42 payments in Fiscal Year 2010. The Proposition 42 funds have been budgeted in the Special Revenue Fund AB 2928.

In Fiscal Year 2010, the City is expected to receive State money restricted for specific purposes. The expected annual payment for the Citizen's Options for Public Safety (COPS) included in the budget was reduced from $2.1 million to $1.3 million; however, the actual payment that will be made by the State is $762,000, which is $730,000 less than the current budgeted amount. This money will support public safety programs in the Police Department.

The State of California's recently adopted fiscal measures to stem the $26 billion budgetary shortfall have placed additional pressure on the City's Fiscal Year 2010 financial outlook. The fiscal measures adopted by the State include an estimated $1.7 billion in property tax revenues borrowed from local municipalities and $2.1 billion in funds that are being taken away from redevelopment agencies throughout the State. More specifically, the State of California's budget borrows $36 million in property tax revenue that is due to the City for Fiscal Year 2010 to aid in addressing the State's budgetary shortfall. The property tax revenues that are being appropriated from the City will be secured by the State with a promissory note that will specify repayment of the funds, plus a designated interest rate. The City is currently working to address the details of the promissory note to potentially transfer its interest to an outside investor for the principal amount of funds that will be redirected away from the City.

Additionally, the State takes $55 million in funds from the City of San Diego Redevelopment Agency. These funds will not be securitized and will result in a revenue loss for the Agency. This specific State action does not affect the General Fund budgeted revenues.

These fiscal measures taken by the State are being monitored by the City for their potential effects on revenues and expected cash flows, including the State's potential appropriation of local gas tax revenues.

Annual Tax Appropriation Limit (Gann Limit)

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

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

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

The San Diego City Council adopted a resolution in June 2009 that established the Tax Appropriations Limit for Fiscal Year 2010 at $1,392,023,944. Using the Fiscal Year 2010 Annual Budget, the appropriations subject to the limit (i.e., proceeds of taxes, excluding debt service on voter-approved debt and qualified capital outlays) were calculated to be $760.1 million, which was $632.0 million lower than the Gann Limit.