CITY OF SAN DIEGO

Attachment # 3

MEMORANDUM

DATE: January 31, 2006

TO: Mayor and City Council

FROM: Jay M. Goldstone, Chief Financial Officer

SUBJECT: Revised Property Tax Projection

Based on the latest information received from the County of San Diego Assessor's Office, the City's year-end projection for property tax revenue has been revised. Based on this new information, property tax is currently projected to end the fiscal year approximately $30 million over-budget. While the property tax revenue is anticipated to perform better than budget, there are other major revenue accounts that may be below their budgeted amounts such as sales tax and motor vehicle license fee. A portion of this property tax revenue will be used to compensate for those underperforming revenues. In addition, the City Council approved the use of $10 million of this additional property tax revenue to pay for investigation costs.

The $30 million over-budget projection consists of the following components:

- **Fiscal Year 2005 In-Lieu VLF Payment True-Up** – Fiscal Year 2005 marked the first year of the VLF-property tax swap, as explained in Volume I of the Annual Fiscal Year 2005 Budget document. The State of California originally estimated that the City's In-lieu VLF payment for Fiscal Year 2005 would be approximately $69.1 million. However, it was not anticipated that the City would receive a positive "true-up" in Fiscal Year 2006. The State Controller's Office recently informed the City that this true-up payment will be approximately **$4.4 million**.

- **Higher Growth in Assessed Valuation** – The Fiscal Year 2006 property tax budget assumed a 7.5 percent growth in current secured property tax receipts, anticipating a gradual slowdown in the housing market. However, the current secured openings (better known as "tax bills") reflect nearly a 13 percent growth year-over-year or **$16.7 million**, suggesting that the assumption of a slowdown may have been premature.

- **Fiscal Year 2006 In-Lieu VLF Payment** – The City's In-lieu VLF payment in the current fiscal year will be over-budgeted by approximately **$8.8 million**. State law stipulates that the In-lieu VLF payment shall grow annually at the rate of property tax growth. As a result, the Fiscal Year 2006 budget for the In-lieu VLF payment was developed with a 7.5 percent growth rate, in line with other property tax categories. However, as evident in the State Controller's Office calculation, the In-lieu VLF payment is not impacted by Redevelopment Agencies; as a result, the In-lieu VLF payment will grow at the City's assessed valuation growth rate, approximately 13 percent.

Financial Management staff will continue to monitor all revenue forecasts and will apprise the Mayor and City Council should any additional significant developments occur.

Sincerely,

Jay M. Goldstone,
Chief Financial Officer

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cc: Ronne Froman, Chief Operating Officer
John Torell, City Auditor and Comptroller
Rudy Graciano, City Auditor and Comptroller
Dean Roberts, Financial Management
Andrea Tevlin, Independent Budget Analyst