ANNUAL BUDGET FINANCIAL SUMMARY

General Fund Revenue

Total General Fund revenue for the Annual Fiscal Year 2005 Budget, including carryover from Fiscal Year 2004, is $817.4 million, a 10.0 percent increase over the Annual Fiscal Year 2004 Budget. General Fund revenue funds core City services including police, fire, refuse collection, library services and parks and recreation programs.

Five major General Fund revenue sources – property tax, sales tax, transient occupancy tax (TOT), franchise fees, and motor vehicle license fees (VLF) – comprise 65.4 percent, or $534.8 million, of the City's General Fund. These figures take into account the estimated reduction of $17.3 million in property tax revenue as a result of State action in Fiscal Year 2005. It should also be noted that due to State action, VLF has been reduced significantly and replaced with property tax revenue. Hence, VLF revenue has been reduced by approximately $70.9 million, while property tax revenue has been increased by approximately $70.9 million. These major revenue sources, as well as several other General Fund revenue sources, are highly sensitive to State and local economic conditions. Accordingly, this section largely focuses on the economic conditions that are relevant to each of the major General Fund revenue sources. In addition, this section discusses General Fund revenue sources that are less affected by economic conditions, such as Licenses and Permits, Fines, Forfeitures and Penalties, and Revenue from Other Agencies.

Property Tax

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

Licenses and Permits

Fines, Forfeitures, and Penalties

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

Revenue from Other Agencies
- Motor Vehicle License Fees
- Other

Charges for Current Services

NATIONAL

Through the first quarter of 2004, the national economy appeared to be strong. Revised estimates of Gross Domestic Product (GDP), the broadest measure of the economy's health, indicated that the economy grew at a 4.5 percent rate in the first quarter of 2004, following growth rates of 4.2 percent, 7.4 percent, and 4.1 percent in the three preceding quarters. The first quarter estimate suggested that the economy was poised to grow at the strongest annual pace in five years. However, the second quarter estimate painted a much different picture. According to the Bureau of Economic Analysis, GDP growth in the second quarter of 2004 declined to 3.3 percent, primarily reflecting a drop in personal consumption expenditures, as the stimulus from tax cuts and mortgage refinancing began to fade. Despite the slowdown in consumer spending, the second quarter GDP estimate did show a few positive signs for the economy, such as accelerated growth in non-residential structures and equipment and software.

Job growth at the national level mirrored the growth in GDP, starting the year strong before falling off sharply in June. According to data from the Bureau of Labor Statistics, the economy added an average of 244,000 new jobs per month in the first five months of 2004, led by 353,000 new jobs in March and 324,000 in April, before pulling back to just 96,000 in June. The job market fared no better in July, adding just 73,000 jobs, leading many economists to question the true strength of the economy. Conditions improved modestly in August, however, as 144,000 new jobs were gained. Despite the negative GDP and employment data, Federal Reserve Chairman Alan Greenspan maintained that the economy merely hit a "slow patch" in June, largely due to "transitory factors" such as high oil prices.

Financial Summary
General Fund Revenue

STATE

After a few difficult years, California's economy has begun to pick up some momentum in 2004. While the State's unemployment rate remains higher than the nation's, California saw a dramatic improvement in August 2004 as the seasonally-adjusted unemployment rate dropped to 5.8 percent, down from 6.2 percent in July, marking the State's lowest unemployment rate in nearly three years. While much of the drop in the unemployment rate is due to a decline in the labor force, the Employment Development Department's survey of households showed that the number of Californians holding jobs is at an all-time high. Another positive indicator for the State of California, according to the UCLA Anderson Forecast, is the continued strength in the professional & business services, health & education and financial services sectors, as well as the apparent bottoming-out of the manufacturing and information services sectors. The Anderson Forecast projects personal income to grow at 5.5 percent in 2004, following 3.6 percent growth in 2003.

The major problem facing California's economy continues to be the State Budget. Despite the passage of the Fiscal Year 2004-2005 budget in late July, the major structural imbalance – meaning more expenditures than revenues – remains. The $78.8 billion General Fund budget, signed into law by the Governor on July 31, 2004, was balanced by the use of $2 billion in State Recovery Bonds, approved by the passage of Proposition 57 in the March 2004 election, as well as the withholding of $1.3 billion from local governments. The Legislative Analyst's Office estimates the structural deficit will be approximately $6 billion in the 2005-2006 fiscal year, growing to around $8 billion in 2006-2007. According to the UCLA Anderson Forecast, the short-term impacts of the State's failure to fix this structural impact will largely be felt by State and local governments. The long-run impacts, however, are more widespread, as residents and businesses will be turned away by deteriorating infrastructure.

LOCAL

San Diego's economy continues to be one of the strongest in the State, and indeed, one of the strongest in the nation. The San Diego Regional Chamber of Commerce, Economic Research Bureau (ERB) estimates that the Gross Regional Product (GRP) in 2003 was a record $129.2 billion, a 5.5 percent increase over the 2002 estimate. The ERB is forecasting even stronger growth in 2004, projecting a 6.2 percent increase in GRP, to $137.2 billion. San Diego has also fared well on the job front. The State's Employment Development Department (EDD) reported that San Diego County added 4,200 jobs in August, dropping the local unemployment rate to 3.7 percent. Since local unemployment rates reported by the EDD are not seasonally-adjusted, they are only comparable to other non-seasonally adjusted unemployment rates. As such, San Diego County's 3.7 percent unemployment rate compares with non-seasonally unadjusted rates of 5.7 percent for the State and 5.4 percent for the nation. San Diego County has added 24,000 jobs since August, 2003, when the local unemployment rate stood at 4.3 percent.

The University of San Diego's Index of Leading Economic Indicators for San Diego County registered a 0.2 percent gain in June 2004, the most recent month for which the Index is available. While June's gain was the smallest monthly growth since August 2003, it marks a full year in which the index has seen positive growth. June's growth was led by a decrease in initial claims for unemployment insurance (a positive for the Index), San Diego stock prices, and local consumer confidence. Other positive indicators for the San Diego region that are not tracked by the Index are the housing market, which has seen continual increases in both median price and number of sales, and the tourism market, which set a record in 2003 with 26.4 million people visiting the region. These and other local factors are discussed in greater detail throughout this section.

Property Tax

Total City Budget $277.5 million
General Fund Budget $269.6 million
Percent of General Fund 33.0%

The City of San Diego receives property tax revenue based upon a one percent levy on the assessed value of all real property. Property tax revenue is collected by the County of San Diego, which allocates the revenue to a number of agencies within the City's geographic area, including the County itself, the City of San Diego, school districts, and special districts.

Prior to 1979, each local jurisdiction had the authority to levy its own property tax. Thus, a single residence might have been subject to a separate tax levy by the City, the County, the local school district, and any special districts that served the residence. In 1979, California voters passed Proposition 13, dramatically changing the face of State and local public finance. Proposition 13 limited the aggregate property tax rate to one percent of assessed value, and specifies that the assessed value of any real property may increase by a maximum of two percent per year based on the 1976 value, unless the property is improved or sold, at which time the property is reassessed at market value. Under the current system established by Proposition 13, all local jurisdictions receive a share of the one percent tax levy.

Over the past decade, many factors have contributed to reductions in the amount of property tax revenue the City has received. In Fiscal Years 1993 and 1994, the State took action to reduce its obligation for school funding by shifting local property tax revenue to school districts in what is now referred to as the Educational Revenue Augmentation Fund (ERAF) shifts. This reallocation of funds caused a permanent shift in the City's property tax that has resulted in a cumulative loss of nearly $341 million through Fiscal Year 2004. In addition, the State authorized counties to charge administrative fees to cities for collecting and distributing property tax. For the City of San Diego, that action has further reduced annual property tax receipts by approximately $2.1 million per fiscal year. Finally, increasing property values in Redevelopment Areas do not increase the General Fund's share of property tax revenue, as any increase in property tax due to redevelopment must stay in the Redevelopment zone.

In Fiscal Year 2005, California cities are once again impacted by State decisions. As described in the State Impacts section of this document, the passage of the State's Fiscal Year 2004-2005 Budget brought about sweeping changes to local government finance. One of the more prominent changes was the statutory reduction of the Vehicle License Fee (VLF) to 0.65 percent of a vehicle's value, and the elimination of the VLF "backfill". Prior to Fiscal Year 2005, the statutory VLF rate was 2.0 percent of a vehicle's value. Beginning in 1999, the State Legislature enacted a series of "offsets" to the statutory VLF rate, effectively reducing by two-thirds the rate that was charged to vehicle owners. Because these offsets resulted in a substantial loss of VLF revenue, the State "backfilled" the lost revenue out of its general fund in order to keep local governments whole.

In Fiscal Year 2005, the VLF rate has been statutorily reduced to 0.65 percent, thereby eliminating the State's VLF backfill. However, in order to hold cities harmless once again, the State will shift a commensurate amount of property tax revenue from the ERAF funds. Essentially then, State action in Fiscal Year 2005 will result in a dollar-for-dollar swap between the VLF backfill and property tax. For the City of San Diego, this swap will result in a $70.9 million reduction in VLF revenue, and a $70.9 million increase in property tax revenue. In addition, through negotiations with Governor Schwarzenegger, local governments agreed to a two-year, $2.6 billion "contribution" to the State in exchange for the Governor's support for Proposition 1A, a November 2004 approved ballot measure that provides protection of local revenues. The City of San Diego's share of this contribution in Fiscal Year 2005 is estimated to be $17.3 million, which will be withheld from the $70.9 million increase in property tax.

Financial Summary
General Fund Revenue

Overall, the City's Annual Fiscal Year 2005 General Fund Budget for property tax is $269.6 million. This figure includes the "base" property tax projection of $216.0 million, an eight percent growth over Fiscal Year 2004 year-end estimates, as well as the VLF-property tax swap and the corresponding reduction due to the State contribution. These impacts are illustrated in the table below:

Fiscal Year 2005 Property Tax Budget

"Base" Property Tax	$216.0 million
VLF-Property Tax Swap	$70.9 million
State Contribution	($17.3 million)
Total Property Tax Budget	**$269.6 million**

The Fiscal Year 2005 base property tax projection of $216.0 million reflects a real estate market that remains strong, and shows no indication of an immediate slowdown. According to DataQuick, a local housing industry research company, the median price of an existing detached single-family home in San Diego County in August was a record $525,000, a substantial $113,000, or 27.4 percent, increase from August 2003. The median price of all homes (including condominiums and condo conversions) reached $483,000 in August, a record high that represents an $11,000 increase from July and a 24.2 percent gain from a year earlier. At the State level, the California Association of Realtors reported that the median price of existing detached single-family homes in August increased 16.8 percent from a year ago to $474,370, while sales decreased 8.5 percent to a seasonally-adjusted annual rate of 591,150, well below the 645,720 sales pace recorded in August 2003.

Property tax is also collected for purposes other than supporting the General Fund. As allowed by Proposition 13, an additional levy above the one percent rate is collected to pay for debt service on voter approved debt. In June 1990, voters approved a $25.5 million debt issuance to finance a public safety communication system for the City. With a current balance of $14.4 million, the Fiscal Year 2005 tax levy is $1.70 per $100,000 of assessed valuation. In addition, a special tax levy of $5.00 per $100,000 of assessed valuation is used to fund zoological exhibits. The zoological exhibits property tax was first approved by the City Council in 1934.

Other Local Taxes

Total City Budget
$204.0 million

General Fund Budget
$135.8 million

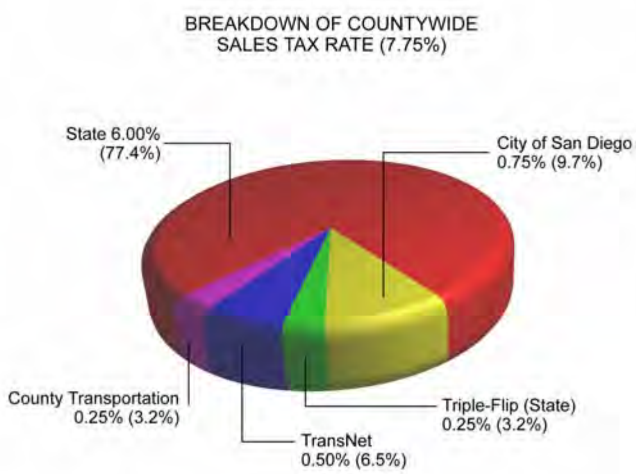
Percent of General Fund
16.6%

Sales Tax

Sales tax is the City's second largest source of 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. The City receives one cent (or 13.0 percent) of the total 7.25 cent statewide sales tax levied on each dollar of taxable sales. In addition, 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 City also receives revenue from safety sales tax, a ½-cent tax that was passed by California voters in 1993. This revenue is discussed in the next section.

The Annual Fiscal Year 2005 Budget for General Fund sales tax is $135.8 million, reflecting five percent growth over Fiscal Year 2004 year-end estimates. This projection reflects strong growth in taxable sales within the City, resulting from an improving job market and rising incomes. This projection also takes into account the impact of the "triple-flip," a complex revenue shift that resulted from the passage of Proposition 57 in the March 2004 elections.

As described in the State Impacts section of the Executive Summary, Proposition 57 authorized the one-time issuance of an Economic Recovery Bond to pay off the accumulated deficit in the State's General Fund. To finance the bond, the State has implemented a complex revenue shift known as the "triple-flip," whereby local governments will shift ¼-cent of their Bradley-Burns Sales and Use Tax to the State in exchange for an equivalent amount of property tax, which will be shifted from the Educational Revenue Augmentation Funds. While the triple-flip is intended to hold local government harmless, the intricate mechanics of this shift will cause the City of San Diego to lose approximately $2.5 million in sales tax revenue in Fiscal Year 2005. This loss has already been incorporated into the Annual Fiscal Year 2005 Budget. The graph below shows the current breakdown of San Diego County's 7.75 percent sales tax, after implementation of the triple-flip.



As this chart indicates, most of the sales tax revenue generated within City limits is allocated to other jurisdictions. Under the triple-flip system the City's Bradley-Burns Sales and Use Tax allocation amounts to just 9.7 cents out of each $1.00 of sales tax that is collected.

The total City sales tax budget in Fiscal Year 2005 is comprised of two parts: the sales tax revenue that the City is projecting to receive from the ¾-cent allocation, and the property tax reimbursement that the City will receive as a result of the triple-flip. This is reflected in the table below.

Fiscal Year 2005 Sales Tax Budget

Sales Tax Revenue	$154.8 million
Property Tax Reimbursement	$49.2 million
Total Sales Tax Budget	**$204.0 million**

The property tax reimbursement is included in the sales tax budget for two principal reasons. First, the year-over-year growth in the reimbursement amount will be equivalent to the growth in taxable sales, not the growth in assessed valuation. As such, it should be considered a subset of sales tax, not a subset of property tax. Secondly, once the Economic Recovery Bonds are paid off, cities will no longer receive the property tax reimbursement, but will instead regain the ¼-cent sales tax that was diverted to the State by the triple-flip. In these two ways, the property tax reimbursement from the triple-flip is markedly different than the VLF-property tax swap, as described in the previous section. In the case of the latter, the VLF-property tax swap marks a permanent shift of revenues from VLF to property tax. Beginning in Fiscal Year 2006, this shift will no longer be considered a revenue swap, but rather a permanent increase in property tax revenue, with year-over-year growth being based on the growth in assessed valuation.

Sales tax revenue is highly sensitive to economic conditions such as unemployment, income, and business investment. As previously mentioned, San Diego County's unemployment rate dropped sharply to 3.7 percent in August 2004, down from 4.4 percent in July and from 4.3 percent in August 2003. According to the Employment Development Department's Household Employment Survey, the number of employed persons in San Diego County averaged 1,419,100 in 2003, a 1.7 percent increase over the 2002 average. Through August 2004, the number of employed persons in the county has already increased by more than 30,000, or 2.2 percent, over 2003 averages. However, there is some indication that many recent job gains are in low income sectors. An analysis of employment data by the San Diego Union-Tribune showed that from 2001 to 2003, 61 percent of the payroll jobs created in San Diego County have been in categories with average salaries of less than $25,000 per year. The Economic Research Bureau (ERB) of the San Diego County Chamber of Commerce estimates that per-capita income in San Diego County will increase 0.4 percent in 2004, after adjusting for inflation. While this may seem like meager growth, it is substantial considering that real growth in per-capita income has been negative for the past three years.

Nationally, the Department of Commerce reported that advance estimates of retail and food service sales for August decreased 0.3 percent from July, but increased 4.9 percent from August 2003. Total retail sales excluding food services increased 7.8 percent in the second quarter of 2003, while e-commerce sales increased 23.1 percent from the same period last year. The ERB estimates that retail sales in San Diego County will reach $30.5 billion in 2004, a 5.9 percent increase over 2003. Business fixed investment, the primary engine behind the boom of the late 1990s and the main cause of the recession in 2001, continues to post strong growth. Investment in equipment and software has grown solidly for five consecutive quarters, including a revised 14.2 percent growth in the second quarter 2004. Global Insight, a leading economic forecasting firm, projects business spending on equipment and software to grow by 11 percent and 23 percent in the third and fourth quarters, respectively.

Safety Sales Tax

Total City Budget
$6.7 million

General Fund Budget
$3.9 million

Percent of General Fund
0.5%

Safety sales tax revenue is derived from a half-cent sales tax, approved by voters on November 2, 1993 with the passage of Proposition 172, which 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 five percent of the amount in the Fund based upon their 1993-94 allocation that was derived from their proportionate loss of Property Tax revenue to school districts. 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.

The Annual Fiscal Year 2005 Budget projects safety sales tax at $6.7 million, a three percent growth over Fiscal Year 2004 year-end estimates. Approximately $2.8 million in safety sales tax revenue is allocated for debt service payments on fire and lifeguard facility improvements. The remainder, or approximately $3.9 million, is allocated for public safety expenditures within the General Fund. City Council Policy 500-07 directs the use of Proposition 172 funds for new public safety expenditures to ensure an augmentation of existing General Fund public safety expenditure levels. Increases to public safety expenditures in the Police and San Diego Fire-Rescue departments have far exceeded the revenue growth of safety sales tax, ensuring the City's compliance with Council Policy 500-07. Further discussion of public safety expenditures can be found in the Public Safety section.

As with regular sales tax revenue, safety sales tax revenue is sensitive to economic conditions, particularly factors that influence taxable sales, such as employment levels, per-capita income, and business investment. However, safety sales tax is allocated first to counties in proportion to their share of taxable sales, and then to the cities within the county. As a result, the City of San Diego's share of total county-wide safety sales tax revenue depends not on taxable sales within the City, but rather on San Diego County's share of total statewide taxable sales.

Transient Occupancy Tax

Total City Budget
$119.9 million

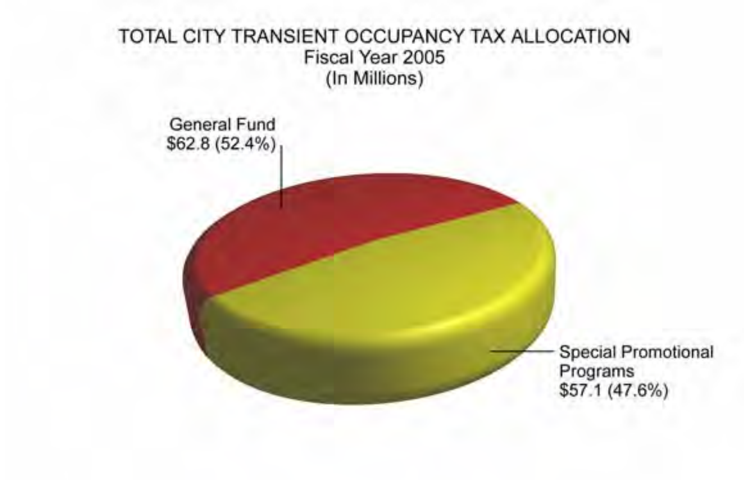
General Fund Budget
$62.8 million

Percent of General Fund
7.7%

Transient occupancy tax (TOT) is levied on the daily rental price of rooms in hotels and motels used by visitors staying in San Diego for less than one month. Also known as the hotel tax or room tax, San Diego's TOT is levied at 10.5 cents per dollar of the daily room price. Currently, an equivalent of five cents of the TOT, approximately 48 percent, is allocated to Special Promotional Programs for the promotion of tourism and other purposes designated by City Council policy. The remaining 5.5 cents, approximately 52 percent, is allocated directly to the General Fund for general government purposes. The TOT was last raised in August 1994, when the rate was increased by 1.5 cents per dollar.

The Annual Fiscal Year 2005 Budget for General Fund TOT revenue is $62.8 million, reflecting continued strong performance by San Diego's tourism industry. The Fiscal Year 2005 projection assumes a six percent growth over Fiscal Year 2004 year-end estimates, adjusted for estimated TOT revenue from the construction of new hotels associated with PETCO Park.

Financial Summary
General Fund Revenue



San Diego continues to be one of the top travel destinations in the country. According to a recent survey by *Travel & Leisure*, one of the nations top travel publications, San Diego came in second place as America's favorite city, behind only Honolulu. San Diego took first place in seven "best" categories, including best destination for holidays and seasons, best place for outdoor activities, and destination with the best parks. Several factors have contributed to San Diego's comparative advantage over other travel destinations. According to a joint report from the San Diego Convention and Visitors Bureau (ConVis) and the Center for Hospitality and Tourism Research at San Diego State University, approximately two-thirds of all visitors to San Diego County come from other parts of California and Arizona, making San Diego primarily a "drive-in" market, and hence less affected by the decline in airline travel. In addition, the report stated, travel patterns have shifted in the last few years to reflect a preference for shorter, closer-to-home types of vacations – a good match for San Diego's perception as "a little paradise, not too far away."

Smith Travel Research reported that in August**,** San Diego County's hotel occupancy rate was 85.1 percent, the highest occupancy rate among the top 25 metropolitan markets, while the average daily room rate reached $126.48, a 6.5 percent increase over August 2003. Year-to-date, San Diego County's occupancy rate is 75.1 percent, a 3.6 percent increase over 2003, and the third highest among the top 25 markets behind New York and Oahu, Hawaii. ConVis estimates that 5.3 million visitors came to San Diego in the first quarter of 2004, a 2.6 percent increase over the same period in 2003. The increase in the number of visitors is particularly impressive considering that San Diego played host to the Super Bowl in January 2003. San Diego was also recently ranked the number one city in North America for conventions and meetings, according to a prominent survey of professional meeting planning executives. The survey, conducted by Kansas City-based Watkins Research Group, rated 44 cities on three criteria: customer awareness of the destination, structural factors such as quality and attractiveness of convention center facilities, and experiential factors such as public safety and free-time activities. San Diego received the highest marks in all three categories. Convention activity posted impressive gains in the first quarter of 2004, with total number of delegates up 29.5 percent from the same period in 2003, while total delegate spending was up 14.5 percent. Through July, however, activity has slowed somewhat, with delegate attendance up just 0.2 percent, and delegate spending down by 23 percent.

On March 2, 2004, a proposal to increase the City's TOT rate to 13.0 percent failed to win the necessary two-thirds approval by San Diego voters. Another proposal to increase the TOT rate to 13 percent appeared on the November 2, 2004 ballot, and failed to receive the majority voter approval necessary to implement the proposed general purpose tax increase.

Property Transfer Tax

Total City Budget
$10.6 million

General Fund Budget
$10.6 million

Percent of General Fund
1.3%

A Property Transfer Tax is levied on the sale of real estate property. The County charges $1.10 per $1,000 of sale price when any real property is transferred. The City of San Diego charges $0.55 per $1,000, which is credited against the County's charge, so that the City and the County both receive $0.55 per $1,000. The funds are collected by the County for property transfers that occur within City limits, and transferred to the City in 13 apportionments throughout the year.

The Annual Fiscal Year 2005 Budget projects Property Transfer Tax revenue at $10.6 million, a six percent growth over Fiscal Year 2004 year-end estimates, reflecting strong sales of residential and commercial property. Despite three consecutive interest rate increases by the Federal Reserve, mortgage rates have remained at historically low levels, continuing to fuel investment in residential and commercial real estate. While the residential market is contributing to healthy property transfer tax revenue by setting records for sales and price appreciation, the commercial market is also doing well. According to Burnham Real Estate Services, San Diego's office market is showing no signs of a slowdown, with over $1 billion in transactions through July, a pace that is likely to exceed the $1.3 billion in sales that occurred in 2003. Downtown office vacancy fell to 9.9 percent in August according to a Walsh Chacon Commercial report, into single digits for the first time since 2002. Retail properties have fared even better, posting a vacancy rate of just 2.4 percent through the second quarter of 2004, marking the seventh quarterly decline during the past 10 quarters. San Diego County apartment sales have increased dramatically in 2004, reaching a 15-year high with 350 transactions in the second quarter alone. The first six months of 2004 have seen 676 apartment sales, a 37.1 percent increase over the same period in 2003.

While commercial real estate sales are fewer in number than residential sales, each transaction generates a greater amount of property transfer tax. Notable commercial sales in 2004 include the Promenade Rio Vista in Mission Valley, at $101.5 million, SBC Plaza, at $121.3 million, the Acqua Vista Condominiums in downtown, at $106 million, and the Emerald Plaza, at $100.9 million.

Licenses and Permits

Total City Budget
$59.3 million

General Fund Budget
$26.7 million

Percent of General Fund
3.3%

The Licenses and Permits category reflects revenue generated to recover costs associated with performing regulatory functions. These functions are typically performed by government due to public safety considerations. The Annual Fiscal Year 2005 Budget for General Fund Licenses and Permits is $26.7 million, a 13.9 percent increase over the Annual Fiscal Year 2004 Budget. Major budgeted revenues in this category include general business license taxes, rental unit taxes, parking meter collections, and the refuse collector business license tax.

The general business license tax for companies with 12 or fewer employees is a flat rate of $34. Companies with 13 or more employees pay a flat fee of $125 plus $5 per employee. Rental unit taxes are calculated as a flat rate plus a fee per rental unit. Currently, the rental unit tax has three rate tiers for residential properties and two rate tiers for hotel/motel properties. On June 28, 2004, the Mayor and City Council approved a Business Tax Processing Fee, which is estimated to generate approximately $3.2 million for the City's General Fund in Fiscal Year 2005.

Fines, Forfeitures, and Penalties

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. The Annual Fiscal Year 2005 General Fund Budget for Fines, Forfeitures, and Penalties is $32.0 million, a 9.0 percent increase over the Annual Fiscal Year 2004 Budget.

Total City Budget
$33.2 million

General Fund Budget
$32.0 million

Percent of General Fund
3.9%

Revenue from Money and Property

Franchise Fees

Franchise fees are paid to the City of San Diego by private utility companies in exchange for the permission to use the City's rights-of-way. Franchise fees are usually charged as a percentage of gross sales, although other types of charges are common. Rates are set through Franchise Agreements that are negotiated with individual utility companies, which often contain provisions for renegotiation after a standard period of time. The City of San Diego currently has Franchise Agreements with San Diego Gas & Electric (SDG&E), Cox Communications, and Time Warner Cable. In addition, the City collects a refuse hauler franchise fee from private refuse haulers.

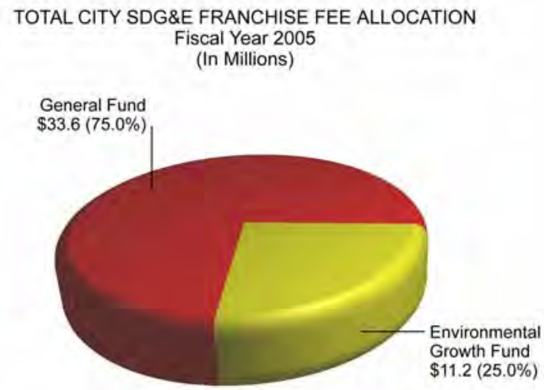
Total City Budget
$106.8 million

General Fund Budget
$56.8 million

Percent of General Fund
6.9%

The Annual Fiscal Year 2005 Budget for General Fund franchise fees is $56.8 million. This projection assumes a five percent increase in gross sales over year-end estimates for SDG&E, Cox Communication, and Time Warner, while refuse hauler franchise fees are projected to decrease slightly from Fiscal Year 2004 year-end estimates. The Annual Fiscal Year 2005 Budget projection also includes the annualization of the Time Warner rate increase from three percent to five percent that became effective on January 8, 2004. The Franchise Agreement with Cox Communications was renegotiated in 2002, which increased the franchise fee charged to the cable provider from three to five percent of gross sales. In addition, the refuse hauler franchise fee was increased by $1 in July 2003 to an effective rate of $11 per ton for Class I haulers (less than 75,000 tons per year) and $12 per ton for Class II haulers (more than 75,000 tons per year).

SDG&E, the single largest generator of franchise fee revenue, is charged three percent of gross sales from gas and electricity within the City of San Diego. Three-fourths of total SDG&E franchise revenue is allocated to the General Fund, while one-fourth is required to be allocated to the Environmental Growth Fund (EGF). One-third of the SDG&E revenue in the EGF is used to finance various environmental programs such as regional park and open space maintenance; two-thirds is used for debt service on open space acquisition bonds.



In addition to the current three percent franchise fee, the City Council approved a 3.53 percent surcharge on electricity sales for the undergrounding of electric utility lines. The surcharge is estimated to raise $38.8 million per year for the City, to be used solely for the purpose of placing utility lines underground. The surcharge was approved by the California Public Utilities Commission in December 2002. This revenue is deposited into a separate fund.

Franchise revenue from SDG&E remains unstable. Late in the year 2000, an unusual spike in natural gas prices sent utility bills soaring. As a result franchise revenue from SDG&E increased by nearly 45 percent in Fiscal Year 2002. However, the unusually high natural gas prices did not last, and in Fiscal Year 2003, SDG&E franchise revenue fell almost 33 percent. Even though General Fund SDG&E franchise revenue is estimated to have increased 21 percent in Fiscal Year 2004, the average growth over the last five years has been under 10 percent. Due to the instability over the past several years, the City has set a more conservative estimate for Fiscal Year 2005.

Interest Earnings

Total City Budget
$17.5 million

General Fund Budget
$1.2 million

Percent of General Fund
0.1%

The City Treasurer is responsible for investing the City's cash assets exclusive of City Pension Trust 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 Treasurer's Investment Policy and the State of California Government Code guidelines and restrictions. The maximum maturity of any investments 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 rates, which had been declining for a number of years, reached their lowest levels in June 2003 and have been rising since then. This change in the overall level of interest rates is reflected in the estimated interest earnings for Fiscal Year 2005, which takes into account the realization of any capital gains or losses on portfolio securities which occur as securities are regularly turned over during the fiscal year. In a rising interest rate environment the value of securities held in the portfolio declines, while the opposite is true in a declining 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 higher current market rates of interest.

Interest rates are expected to continue to rise through most of Fiscal Year 2005. The adverse effect of rising interest rates on the market value of the securities held in the portfolio will be mitigated by the reinvestment of coupon payments, maturing investments and proceeds of sold securities at higher reinvestment rates. This reinvestment activity will result in higher portfolio earnings in the future. It should be noted that interest rates continue to be volatile and subject to a number of uncontrollable or unpredictable factors. Based on these factors, the Annual Fiscal Year 2005 Budget projects Interest Earnings to be $17.5 million for the entire City, with the General Fund's share being $1.2 million, unchanged from the Annual Fiscal Year 2004 Budget.

Rents and Concessions

Total City Budget
$56.4 million

General Fund Budget
$34.3 million

Percent of General Fund
4.2%

The Rents and Concessions category includes General Fund revenue generated from Mission Bay Park, Balboa Park and Torrey Pines Golf Course. The Annual Fiscal Year 2005 Budget for General Fund Rents and Concessions is $34.3 million, a 9.3 percent growth over the Annual Fiscal Year 2004 Budget. 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 hotels and marinas within Mission Bay Park. This revenue source is projected to generate $23.2 million in Fiscal Year 2005. The Mission Bay Ordinance requires that one-half of all revenue from Mission Bay rents and concessions in excess of $20 million is to be allocated to the Mission Bay Improvement Fund and the Regional Park Improvement Fund; however, this requirement has been waived for Fiscal Year 2005, thereby allocating the entire amount to the General Fund. Another component of the Rents and Concessions category relates to revenue generated from lease agreements on City Pueblo lands, which in Fiscal Year 2005 is projected to be $3.1 million.

Revenue from Other Agencies

Motor Vehicle License Fees

Total City Budget
$9.9 million

General Fund Budget
$9.9 million

Percent of General Fund
1.2%

Motor vehicle license fees (VLF) are levied as a percentage of an automobile's purchase price, subject to depreciation, and are paid annually to the Department of Motor Vehicles at the time of registration. The fees are forwarded to the State Controller's Office, which allocates the funds to local governments. Prior to Fiscal Year 2004, approximately 25 percent of total statewide VLF revenues were allocated to counties in order to fund realignment of various health and social service programs, while the remaining 75 percent was allocated to cities and counties on a per capita basis. Notably, because statewide revenues are distributed on a per capita basis, increases to local vehicle sales do not directly translate into local VLF revenue increases.

Beginning in 1999, the VLF 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 percent reduction in the effective VLF rate, from two percent of a vehicle's value to 0.65 percent. To compensate cities and counties for the tax offset, the State began providing General Fund revenue to cities and counties on a dollar-for-dollar basis, in what became known as the VLF backfill. As part of the 2004-2005 Budget agreement, the VLF rate has been statutorily reduced to 0.65 percent, thereby eliminating the VLF backfill. As described in the property tax section, cities will be compensated through a property tax backfill. The Annual Fiscal Year 2005 Budget projects that approximately $71 million will be shifted from VLF to property tax. As a result, the total Budget for VLF is $9.9 million. This is reflected in the table below.

Fiscal Year 2005 VLF Budget

Base VLF Projection	$80.8 million
Backfill Loss to Property Tax	($70.9 million)
Total VLF Budget	**$9.9 million**

In California, new vehicle registrations, defined as passenger vehicles registered for the first time regardless of age, came in at 148,741 on a seasonally-adjusted basis in June 2004 according to the California Department of Finance, an 8 percent increase from May and a 5.4 percent increase from June 2003. Through the first half of the year, new vehicle registrations have increased by over 46,000, or 5.4 percent, from the same period in 2003. On the national level, total U.S. light vehicle sales in September came in at 17.5 million units on a seasonally-adjusted annual rate (SAAR), according to AutoData, an automotive research firm. Monthly auto sales are commonly measured as an SAAR, meaning the number of sales that would occur in one year if the current monthly pace was maintained, adjusting for monthly variation. September’s mark was a 5.5 percent increase over August, and the second highest annual rate in the past 12 months. Heavy discounting and other incentives have maintained strong sales, particularly in recent months as auto dealers attempt to clear their lots of 2004 models.

Other

A significant amount of revenue received by 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 reimbursement for general City services provided to the Unified Port District.

Total City Budget
$116.4 million

General Fund Budget
$11.7 million

Percent of General Fund
1.4%

The Annual Fiscal Year 2005 Budget includes revenue totaling approximately $11.7 million in this category, including $5.2 million in State reimbursements for booking fee expenses. The Annual Fiscal Year 2005 Budget also includes $2.5 million from the State for the Community Policing Services (COPS) Program and $1.2 million in Local Law Enforcement Block Grant. The State Police Officer Standards and Training (POST) grant reimbursement, included in the General Fund beginning in Fiscal Year 1995, is budgeted at $100,000.

Charges for Current Services

Charges for Current Services includes revenue generated by General Fund departments resulting from services provided to other City funds. General Fund departments regularly incur expenses in the process of performing services for other City funds and receive reimbursement for direct, indirect, and overhead costs. Such instances include general government services and facilities maintenance services provided to other City funds. The Annual Fiscal Year 2005 Budget for Charges for Current Services within the General Fund is $82.6 million, a 16.5 percent increase over the Annual Fiscal Year 2004 Budget. Refer to Schedule III of this Financial Summary for a breakdown of the budgetary data by subcategory.

Total City Budget
$751.7 million

General Fund Budget
$82.6 million

Percent of General Fund
10.1%

Transfers from Other Funds

The Annual Fiscal Year 2005 General Fund Budget for Transfers from Other Funds is $78.8 million. Revenue in this category reflects transfers to the General Fund from various other funds including a transfer from Special Promotional Programs to cover the costs of maintenance of tourist-oriented facilities.

Total City Budget
$285.7 million

General Fund Budget
$78.8 million

Percent of General Fund
9.6%

Other Revenue

Other Revenue represents 0.1 percent of total General Fund revenue and consists mainly of refunds and revenue generated from the sale of publications and excess inventory. Other Revenue represents just 0.1 percent of total General Fund revenue; however, this category represents a substantial portion of the revenue in other funds.

Total City Budget
$275.2 million

General Fund Budget
$0.9 million

Percent of General Fund
0.1%