General Fund Revenues

The total Fiscal Year 2011 General Fund Adopted Budget is $1.1 billion, which represents a decline of $33.5 million or 3.0 percent from the Fiscal Year 2010 Adopted Budget. General Fund revenues pay for essential City services including police, fire, refuse collection, library services, and park and recreation programs.

Table 1 illustrates the components of the decline in revenues of 3.0 percent or negative $33.5 million in General Fund annual revenue for Fiscal Year 2011.

Table 1: Fiscal Year 2011 General Fund Revenue Growth Breakdown

	Percent Change from FY 2010 Adopted Budget	Change (in millions)
Major Revenues	(4.3)%	$ (31.6)
Other Revenue Sources	(0.5)%	(1.9)
Total	**(3.0)%**	**$ (33.5)**

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 2011 General Fund Adopted Budget revenue projections.

The four major General Fund revenue sources: property tax, sales tax, transient occupancy tax (TOT), and franchise fees, account for 64.8 percent of the City's General Fund revenue in the Fiscal Year 2011 Adopted 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 2011 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 2011 Adopted Budget was based on data through May 2010, the most recent data available at the time the budget was prepared.

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 to the right and is discussed in this section of the budget document.

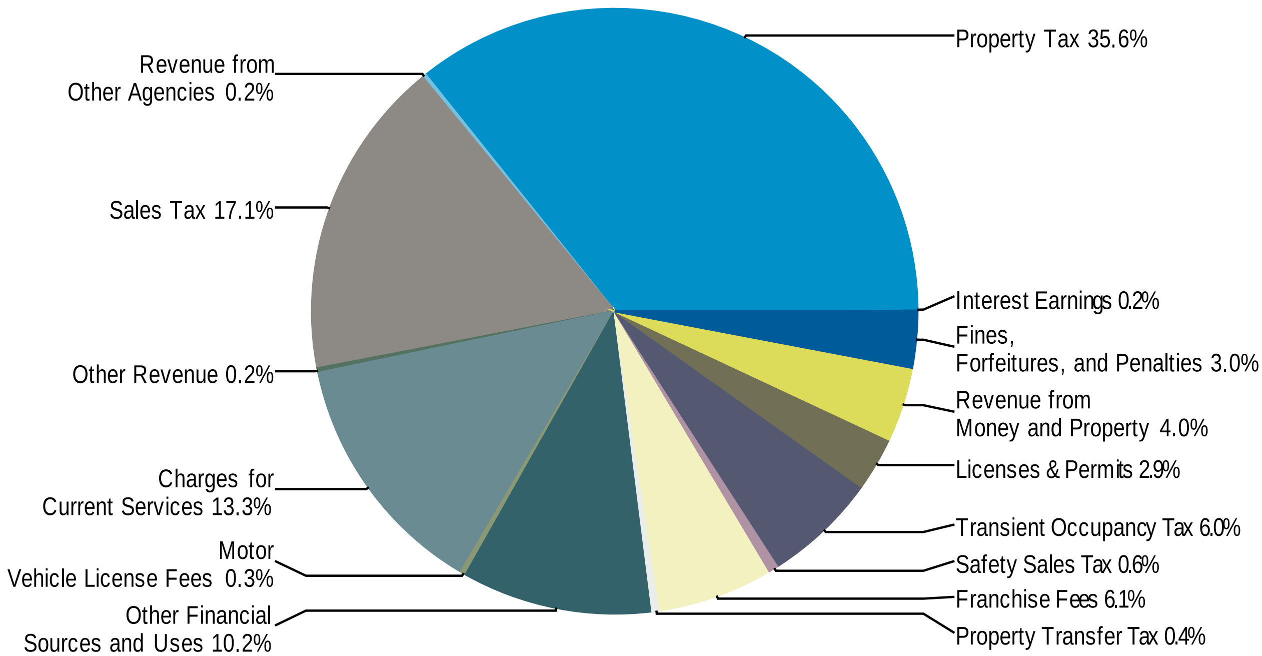
Index of Revenues

General Fund Revenues

Table 2: Fiscal Year 2011 General Fund Revenues - $1.10 Billion (in millions)

Revenue Category	FY 2010 Adopted Budget	FY 2011 Adopted Budget	Change	Percent Change	% of Total General Fund Revenue
Property Tax	$ 382.6	$ 390.1	$ 7.4	1.9%	35.6%
Sales Tax	210.1	187.5	(22.7)	(10.8)%	17.1%
Transient Occupancy Tax	75.9	66.1	(9.8)	(12.9)%	6.0%
Franchise Fees	73.7	67.2	(6.5)	(8.9)%	6.1%
Property Transfer Tax	4.5	4.7	0.2	3.9%	0.4%
Safety Sales Tax	7.1	6.3	(0.8)	(10.9)%	0.6%
Motor Vehicle License Fees	3.9	3.1	(0.8)	(19.4)%	0.3%
Licenses & Permits	32.4	31.6	(0.8)	(2.6)%	2.9%
Fines, Forfeitures, and Penalties	32.4	32.8	0.4	1.1%	3.0%
Revenue from Money and Property	41.7	43.6	1.9	4.5%	4.0%
Interest Earnings	4.1	1.7	(2.4)	(59.5)%	0.2%
Revenue from Other Agencies	3.3	2.2	(1.1)	(32.8)%	0.2%
Charges for Current Services	153.6	145.5	(8.1)	(5.3)%	13.3%
Other Financial Sources and Uses	100.1	111.4	11.3	11.3%	10.2%
Other Revenue	4.2	2.5	(1.6)	(39.4)%	0.2%
Total	**$ 1,129.7**	**$ 1,096.2**	**$ (33.5)**	**(3.0)%**	**100.0%**

Figure 1: Fiscal Year 2011 General Fund Revenues - $1.10 Billion



San Diego's Economic Environment[1]

The San Diego economic outlook for Fiscal Year 2011 is projected to improve compared to the economic environment in Fiscal Years 2009 and 2010, which was characterized by marked declines in nearly all the City's General Fund revenue sources as local, State-wide, and national real estate values, consumer spending, and business investment weakened. Many major economic indicators have shown positive growth over recent months and reversing trends that led to declining general fund revenues. However, the improvement in municipal budgets appears to be lagging the overall economy as some sectors report positive results. A flat to modest growth in certain revenues is projected in the City's Fiscal Year 2011 Budget, which is based on the weak economic growth outlook used to forecast General Fund revenues for Fiscal Year 2011.

The County-wide median home prices declined 33.9 percent from the start of the recession in December 2007 to their lowest price in January 2009. However, home prices have risen eight of the last twelve months, as of May 2010, and have increased 22.9 percent from the market low. The economic outlook in San Diego County is also more favorable compared to conditions that were present prior to Fiscal Year 2010. The leading index of economic indicators for San Diego County is a measure of economic activity and includes the number of residential building permits granted, initial unemployment claims, local publicly traded Company stock prices, and consumer confidence,

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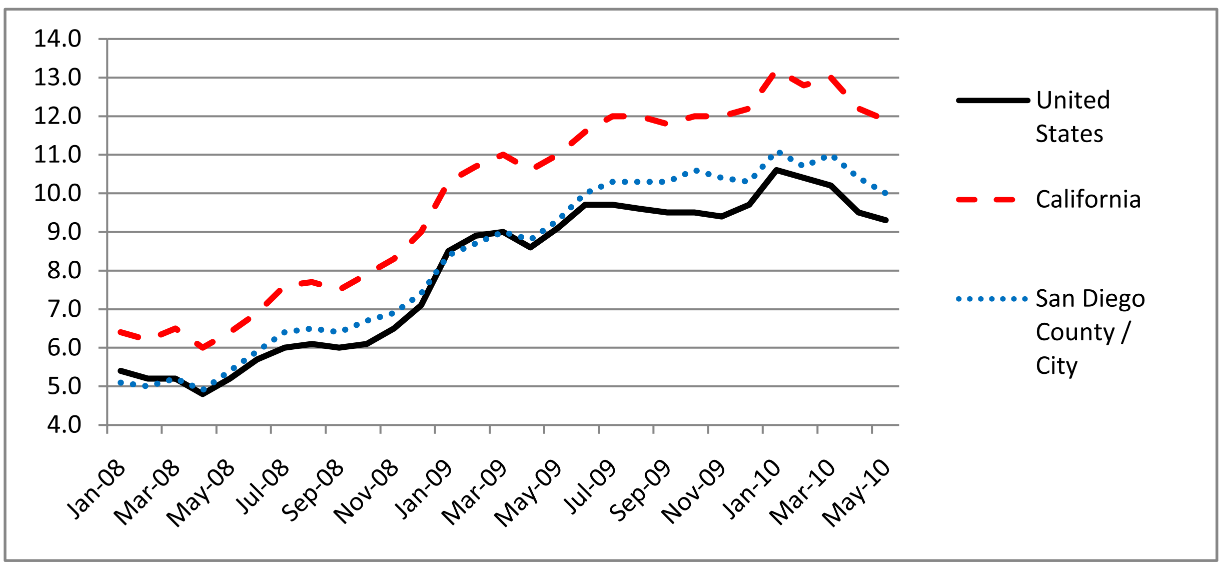
[1] The following sources were used for the budget publication: California Employment Development Department, US Bureau of Labor Statistics, San Diego Convention and Visitors Bureau, UCLA Anderson School of Management Economic Forecast, USD Index of Leading Economic Indicators, County of San Diego Assessor / Clerk / Auditor, and DataQuick Information Systems.

amongst others. This leading indicator index has increased by 8.6 percent over 14 consecutive months, as initial unemployment claims have stabilized and consumer confidence has increased.

Some economic indicators are also currently lagging and could possibly restrain economic stabilization or expansion in Fiscal Year 2011. While the unemployment rate on a national, State, county, and City level are all at or near a twelve month low; the total number of individuals unemployed in the City and County is still at a historically high rate. The City and County of San Diego unemployment rate has declined from 11.1 percent in January 2010 to 10.0 percent in May 2010, while the total number of employed individuals in the City increased 2.0 percent over this same time. However, the total number of unemployed individuals in the City is still 3.6 percent or 2,360 individuals less than the total amount of employed individuals at the start of the economic recession. The UCLA Anderson Forecast for California projects State-wide employment levels will improve in calendar years 2011 and 2012 after a reduction in 2010. However, they do not forecast employment levels for the State of California to return to pre-recession levels until well past calendar year 2012.

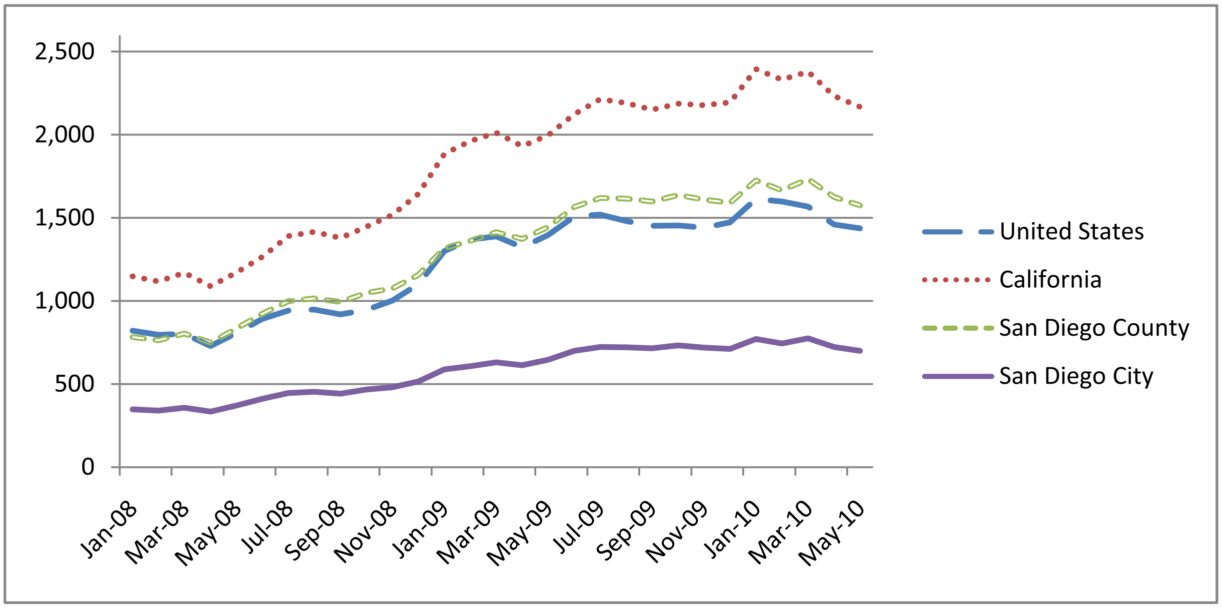
Additionally, the high number of County-wide foreclosures has held constant despite the institution of loan modification programs and other efforts to reduce foreclosures. The average number of foreclosures per month in 2008 was 1,631, 1,291 in 2009, and 1,218 through May of 2010. This is in comparison to 172 average foreclosures per month in 2006 and 701 in 2007. However, the average monthly notices of default through May 2010 is 2,174, which is below the average level of both 2009 and 2008 of 3,192 and 2,839 per month, respectively and may indicate a decline in future foreclosures.

Figure 2: US / California / San Diego City & County Unemployment Rate (January 2008 - May 2010)



Source: California EDD, US Bureau of Labor Statistics

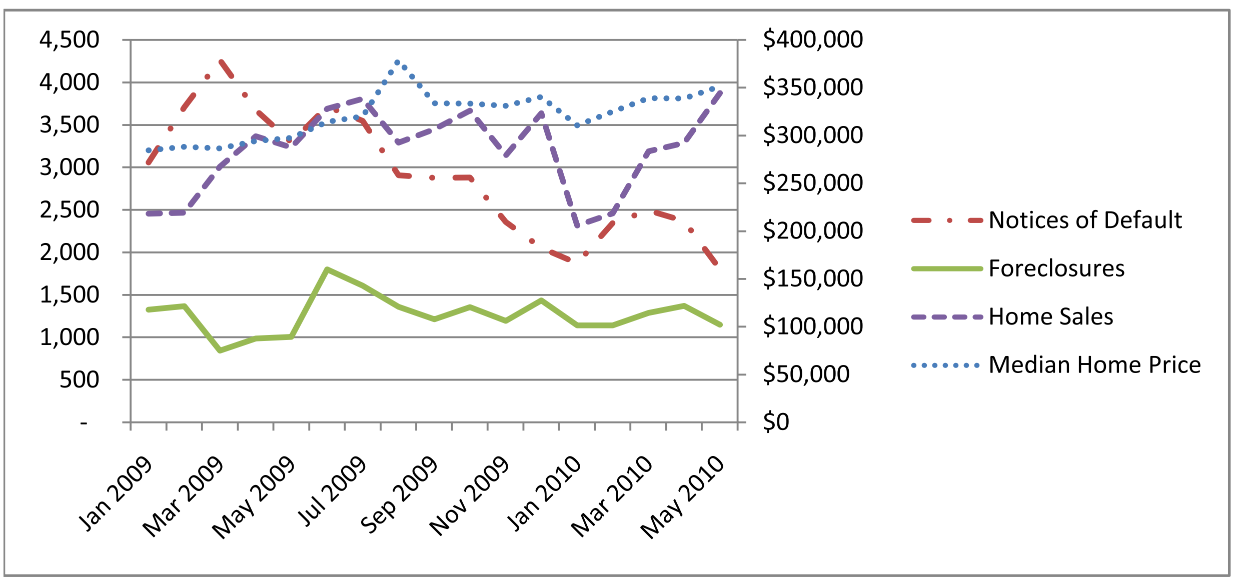
Figure 3: US / California / San Diego City & County Total Unemployed (January 2008 - May 2010)



* US figures in 10,000 increments, California in 1,000 increments, San Diego County / City in 100 increments

Source: California EDD, US Bureau of Labor Statistics

Figure 4: County of San Diego Notices of Default, Foreclosures, Homes Sales, and Median Home Price (January 2009 - May 2010)



Source: Source: DataQuick Information Systems, County of San Diego Recorder's Office

The following are some of the economic assumptions and indicators that have been used in the preparation of the Fiscal Year 2011 Adopted Budget for the General Fund.

General Fund Revenues

- San Diego County tourism is forecasted to improve in Fiscal Year 2011, with stabilization and slight improvement in the average daily room rates, revenue per available room, and occupancy rate (CONVIS).
- Leading economic indicators for San Diego County have increased by 8.6 percent during the last 14 months as of May, 2010 (University of San Diego, Index of Leading Economic Indicators).
- The unemployment rate in the City and County of San Diego has held increased to 10.0 percent compared to 9.3 percent a year ago. However, the May unemployment rate of 10.0 percent is an improvement in comparison to the 11.1 percent unemployment rate in January (California Employment Development Department).
- Foreclosures in the County of San Diego totaled 16,045 for the last twelve months, from June 2009 to May 2010, which represents a 9.9 percent decrease for the previous twelve-month period (June 2008 - May 2009).
- Notices of default in the County of San Diego, which are the best indicator for future foreclosures, totaled 31,192 for the last twelve months, from June 2009 to May 2010, which represents a decrease of 11.5 percent for the previous twelve-month period (June 2008 - May 2009).
- Total home sales in San Diego County for the last twelve months (as of May 2010) totaled 39,811 homes compared to 37,136 a year ago; while home prices in the County have also increased 18.0 percent over the last twelve months, from $297,663 to $351,279 (DataQuick Information Systems).

While the preceding information was used in the development of revenue projections for the Fiscal Year 2011 Adopted Budget, updated economic information has become available.

- The County and City of San Diego unemployment rate increased to 10.5 percent in June 2010 from 10.0 percent in May 2010. Job losses occurred in government, education, and health services sectors since May (California Employment Development Department / US Bureau of Labor Statistics).
- The median home price in San Diego County declined by 0.5 percent in June 2010 to $349,661, while home sales stayed relatively steady at 3,831 countywide. Countywide foreclosures through July 2010 have averaged 1,195 homes per month in 2010, compared to an average of 1,291 homes monthly in 2009. Notices of default have averaged 2,096 per month in 2010, compared to an average of 3,192 per month in 2009. (DataQuick Information Systems / County of San Diego Recorder's Office)
- The index of leading economic indicators for San Diego County increased 0.2 percent in June 2010. This was the fifteenth consecutive month in which the index has registered an increase mainly driven by increasing local consumer confidence and building permits issued (University of San Diego, Index of Leading Economic Indicators).

The City continues to review these and other economic indicators throughout the fiscal year for the development of updated revenue projections for Fiscal Year 2011. This updated economic information, revenue receipts, and other relevant information will be reflected in the City's quarterly budget monitoring reports.

Property Tax

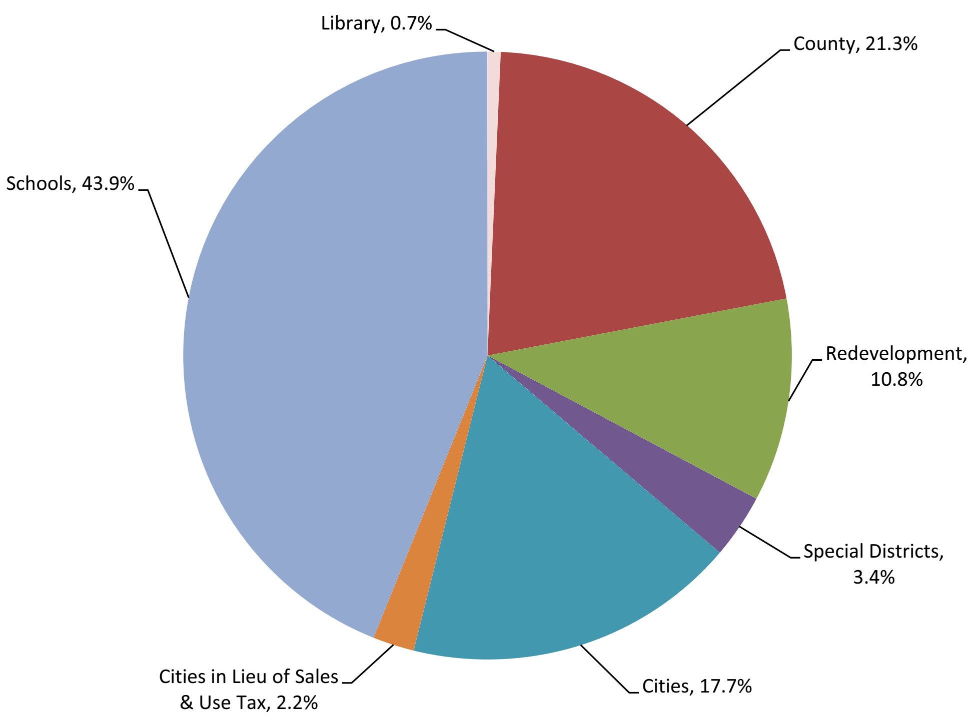
Background

Total City Budget **$413.6 million**
General Fund Budget **$390.1 million**
Percent of General Fund **35.6 percent**

Property tax revenue is the City's largest revenue source, representing 35.6 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 assessed value of all real property. Proposition 13, passed by voters in 1979, specifies that a property owner's tax bill may increase at the rate of the Consumer Price Index, but cannot exceed 2.0 percent per year unless the property is improved or sold to establish a new assessed 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 cities in San Diego County total $17.70 (with an additional $2.20 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 in other funds outside of the General Fund. Those include an additional levy collected to pay debt on a $25.5 million debt issuance approved by voters in June 1990 to finance a new public safety communication system for the City, and a special tax levy prescribed by the City Charter of $0.005 per $100 of assessed valuation used to fund zoological exhibits within the City.

Figure 5: Property Tax Distribution



Source: County of San Diego Assessor's Office

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

General Fund Revenues

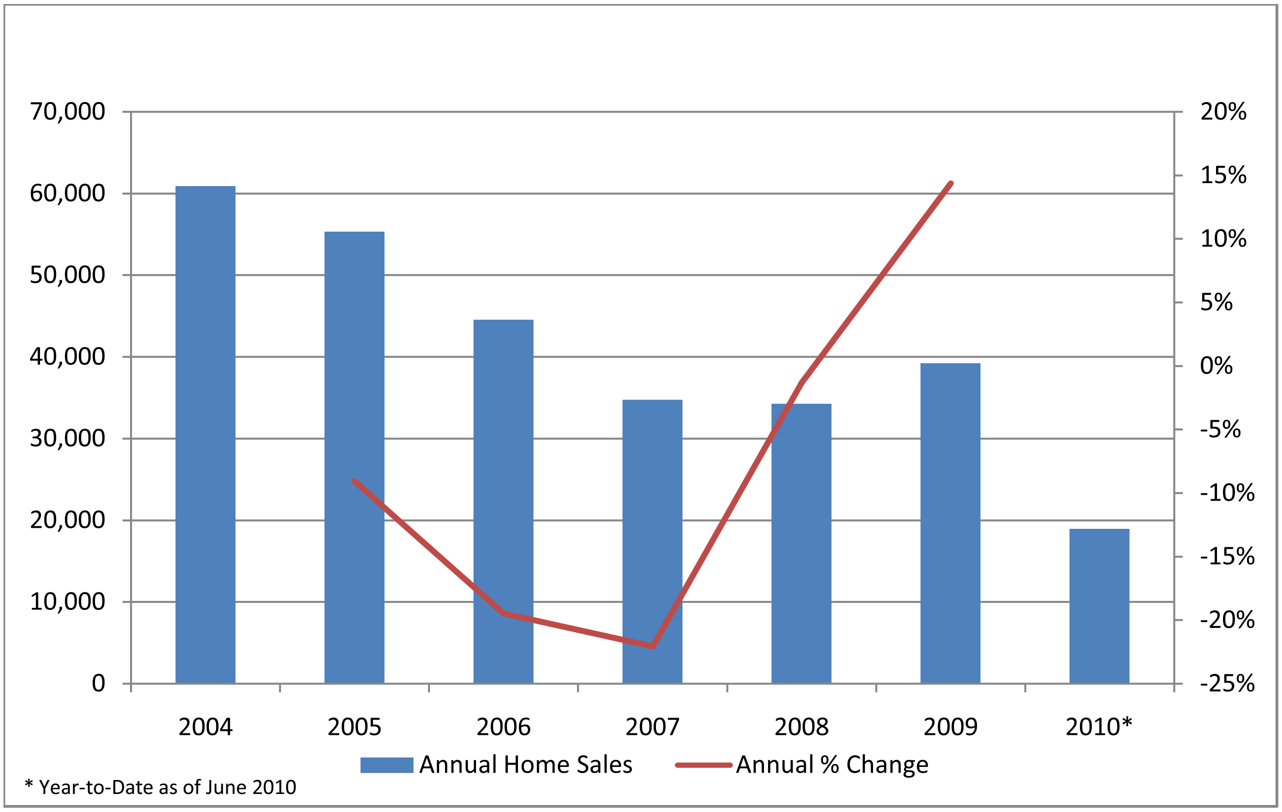
- In Fiscal Year 1993, the State of California faced a serious deficit and in order to meet its obligations to fund school districts at specified levels under Proposition 98, the State enacted legislation that shifted partial financial responsibility for funding education to local governments. These revenue shifts were otherwise known as the Educational Revenue Augmentation Fund (ERAF) shifts.
- The State authorized counties to charge cities an administrative fee in order to collect and distribute property tax, further reducing the City's annual property tax receipts. For Fiscal Year 2011, the County estimated the administration fee for the City to be $4.7 million.
- Beginning in Fiscal Year 2005, the Motor Vehicle License Fee (MVLF) rate was revised by the State and was replaced dollar-for-dollar with property tax, resulting in a property tax revenue increase.

Economic Trends

Based on Revenue and Taxation Code 51, all real property shall receive an annual assessed value adjustment based on the California Consumer Price Index (CPI), as measured by the California Department of Industrial Relations. The CPI measures the change in the cost of living in California, and for the first time, has resulted in a negative adjustment to all real property assessed values for Fiscal Year 2011. Due to the economic recession, the CPI declined by 0.24 percent from the previous year after averaging 4.4 percent growth since Fiscal Year 1977. This CPI decline, along with other factors used by the County Assessor, was factored into the City's property tax revenue budget for Fiscal Year 2011 that resulted in a projected revenue decline. However, this decline was partially offset due to a projected increase in the collection rate of property taxes, an increase in supplemental property tax assessments, and a reduction in refunds paid to property owners in Fiscal Year 2011.

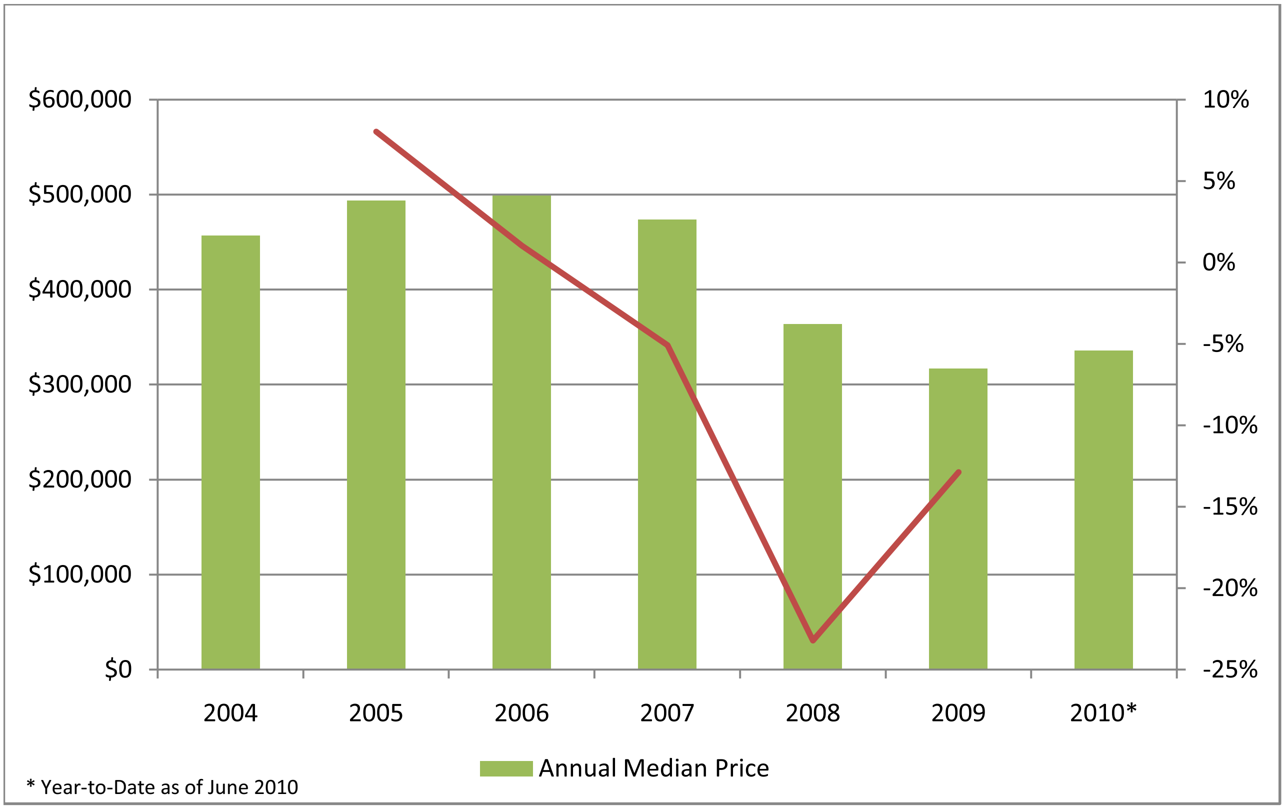
While the residential property market has experienced moderate increases in home values and sales (as can be seen on the following graphs), the declines experienced in the commercial real estate market are offsetting the forecasted gains in residential property. A slight decrease in growth is forecasted in property tax revenue for Fiscal Year 2011 factoring in a slightly improving residential housing market and a continually weak commercial real estate market.

Figure 6: San Diego County Home Sales



Source: MDA DataQuick

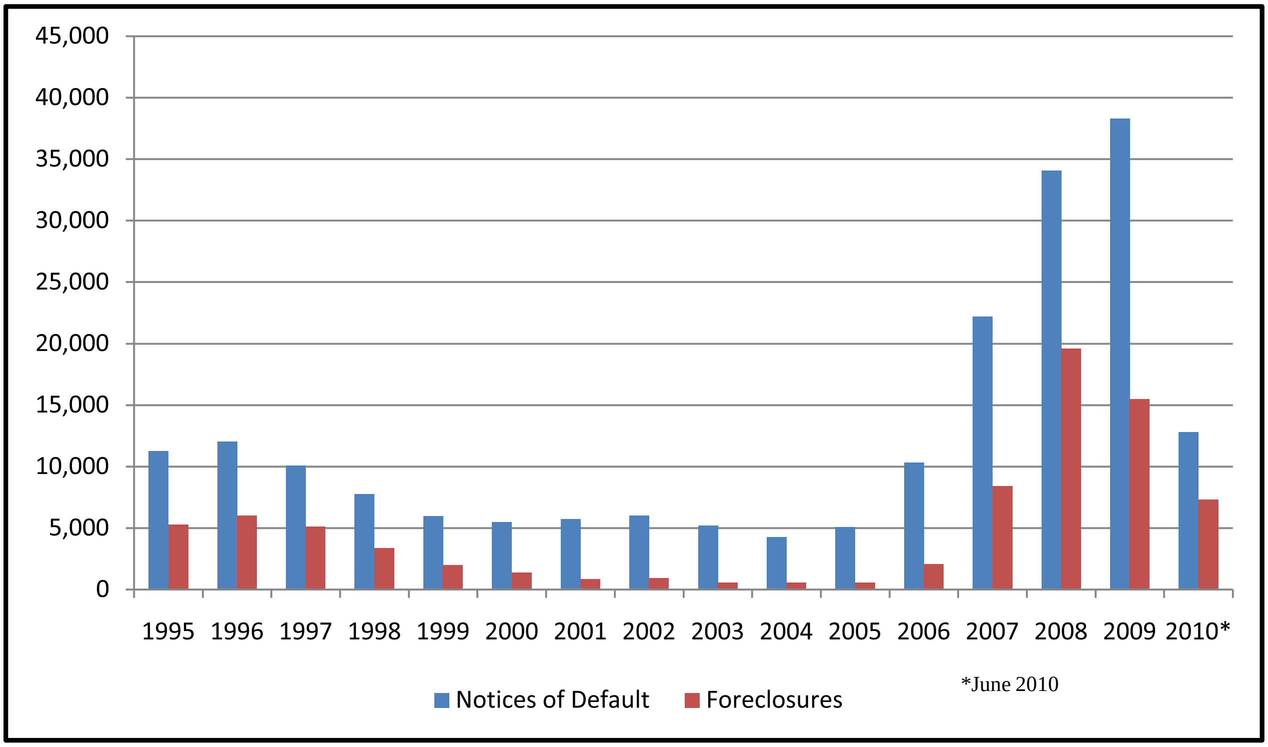
Figure 7: San Diego County Annual Median Home Price



Source: MDA DataQuick

The County had a total of 15,487 foreclosures in 2009, a 20.9 percent decrease from the five-year high of 19,577 foreclosures in 2008. Despite the five-year high of 38,308 notices of default recorded by the County in calendar year 2009, the County Assessor's Office has seen a recent decline in the number of notices of default in the first two quarters of calendar year 2010. As of May 2010, the County recorded 1,789 notices of default, a 45 percent decrease from the 3,292 notices recorded in May 2009. While the average home price has seen recent growth, the number of foreclosures and existing foreclosed properties available on the market would need to further decline to possibly stimulate housing starts.

Figure 8: San Diego Home Foreclosures 1995 — Present



Source: County of San Diego Assessor / Recorder / Clerk Office

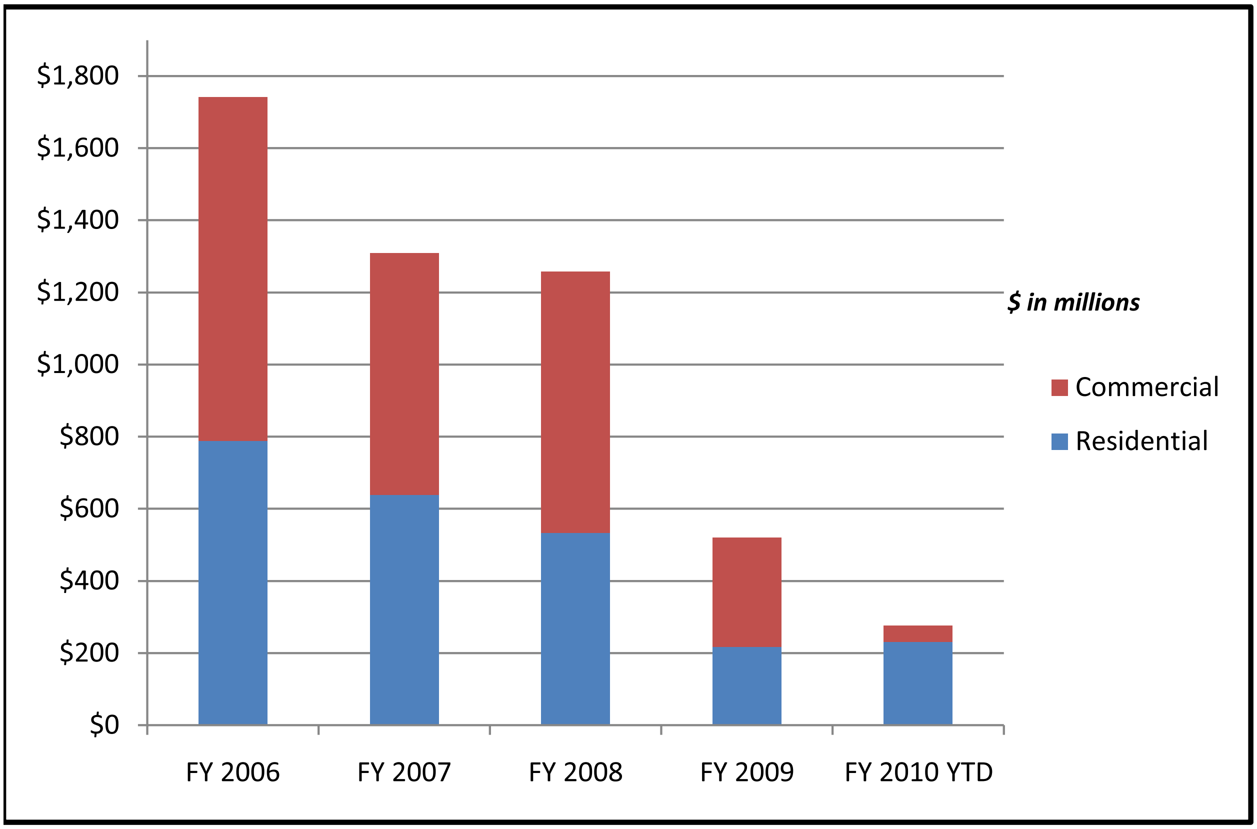
While the residential housing market is showing some modest improvements, a slight decrease in growth is expected in property tax revenues due to a declining commercial real estate market. Throughout calendar year 2009 and into the first quarter of 2010, the local commercial real estate market was affected as consumer confidence remained weak and regional unemployment levels climbed. In San Diego, the office market has experienced a large increase in vacancy rates, as more business close or reduce the amount of space occupied in response to continued economic troubles in the region. The direct vacancy rate for office properties in San Diego County is 18.8 percent. However, this is a reduction from the high of 19.2 percent in the fourth quarter of 2009, as the local market has increased leasing activity by over 800,000 square feet in the last two quarters. The San Diego industrial market experienced a direct vacancy rate increase from 7.8 percent to 9.9 percent during calendar year 2009. Consequently, the overall availability rate in the industrial market increased from 12.1 percent to 16.0 percent over that same period.[1] The first quarter of 2010 reported continued increases in direct vacancy in the San Diego industrial market, rising from 9.9 to 10.5 percent. With less sublease space available on the market, the availability rate fell to 15.8 percent during the first quarter of 2010. The continued low consumer spending has also had a significant impact on the local market for retail space, as numerous retailers have either closed or downsized the amount of space they occupy. San Diego retail vacancy rates, as of the first quarter 2010, were 6.2 percent, an increase from a vacancy rate of 4.2 percent from twelve months prior. However, this is a decrease from the high of 6.4 percent in the fourth quarter of 2009, as a total of 60,000 square additional feet were leased in the first quarter of 2010.

[1] All commercial real estate references sourced from the CB Richard Ellis Market View, San Diego 1st Quarter 2010

General Fund Revenues

Total issued building permits and permit valuation (residential and non-residential) are used as indicators of overall construction activity and indicative of demand and economic activity in the County of San Diego. The graphs below represent the trends in building permits issued and building permit valuations through June 2010. According to the City of San Diego Development Services Department, new commercial construction permits totaled $303.9 million in Fiscal Year 2009, a 58.1 percent decrease from $724.8 million in Fiscal Year 2008. New residential construction permits totaled $217.3 million for the City in Fiscal Year 2009, a 59.3 percent decrease from the $534.2 million in Fiscal Year 2008. As of June 2010, Fiscal Year 2010 total new residential permit valuations have increased by 6.6 percent, while total new commercial permit valuations are down 85.2 percent from the same period in Fiscal Year 2009 as demonstrated in the following figure and tables.

Figure 9: New Construction Building Permit Valuation by Fiscal Year



Source: City of San Diego, Development Services Department

Table 3: New Residential & Commerical Permits Valuations (in millions)

Description	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Total Single Family	$ **377.8**	$ **257.5**	$ **210.7**	$ **138.7**	$ **161.5**
Apartment	189.0	73.4	202.7	69.2	65.1
Condominium	221.5	307.9	120.8	9.3	4.9
Total Multi-Family	$ **410.5**	$ **381.4**	$ **323.5**	$ **78.5**	$ **70.0**
Total Residential	$ **788.3**	$ **638.8**	$ **534.2**	$ **217.3**	$ **231.5**

Table 3: New Residential & Commerical Permits Valuations (in millions) (Cont'd)

Description	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Total Commercial	**$ 953.7**	**$ 670.5**	**$ 724.8**	**$ 303.9**	**$ 44.9**

Table 4: New Residential Permits Issued

Description	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Total Single Family	**1,290**	**903**	**719**	**490**	**566**
Apartment	106	72	72	32	76
Condominium	72	192	48	12	23
Total Multi-Family	**178**	**264**	**120**	**44**	**99**
Total Residential	**1,468**	**1,167**	**839**	**534**	**665**

Source: City of San Diego, Development Services Department

Fiscal Year 2011 Adopted Budget

The Fiscal Year 2011 adopted property tax budget of $390.1 million is based on the Fiscal Year 2010 year-end projection assuming a 0.1 percent decline for Fiscal Year 2011. The $390.1 million property tax budget consists of $284.7 million in base property tax (Proposition 13) and an estimated "in-lieu of MVLF" payment of $105.4 million.

Table 5: Fiscal Year 2011 Adopted Property Tax Budget

	(in millions)
Base Property Tax	$ 284.7
Property Tax "In-Lieu" of MVLF	105.4
Total Property Tax	**$ 390.1**

Sales Tax

Background

Total City Budget
$223.1 million

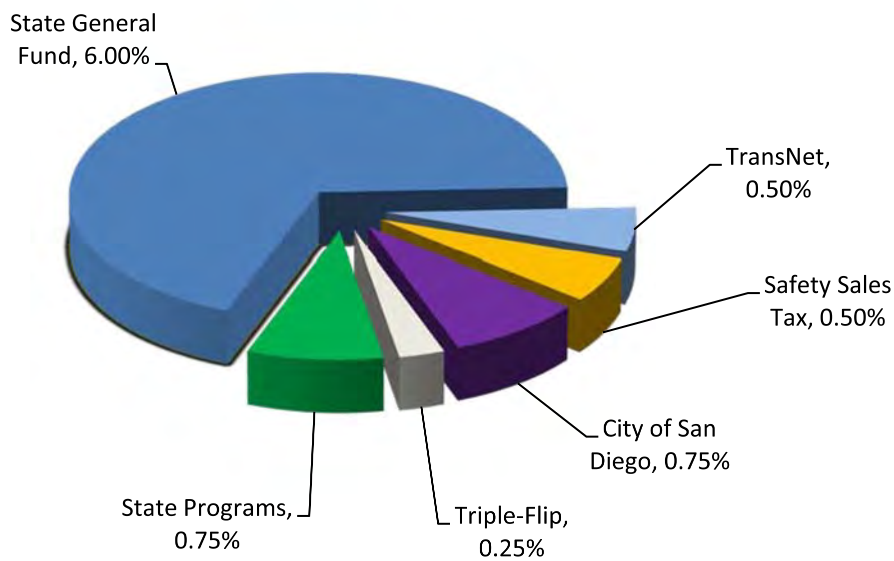
General Fund Budget
$187.5 million

Percent of General Fund
17.1 percent

Sales tax is the City's second largest revenue source, representing 17.1 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 monthly payments. According to the Bradley-Burns Sales and Use Tax law, cities are to receive one cent of the total 8.25 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 8.75 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. In an effort to minimize the impacts of the State deficit, voters increased the state sales and use tax rate by one percent, effective April 1, 2009. This increased the City of San Diego sales tax rate to 8.75 percent. The one percent tax rate increase will expire on July

1, 2011, with an option to extend the additional tax levy until July 1, 2012.[1] 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.

Figure 10: City Sales Tax Rate (8.75 percent)

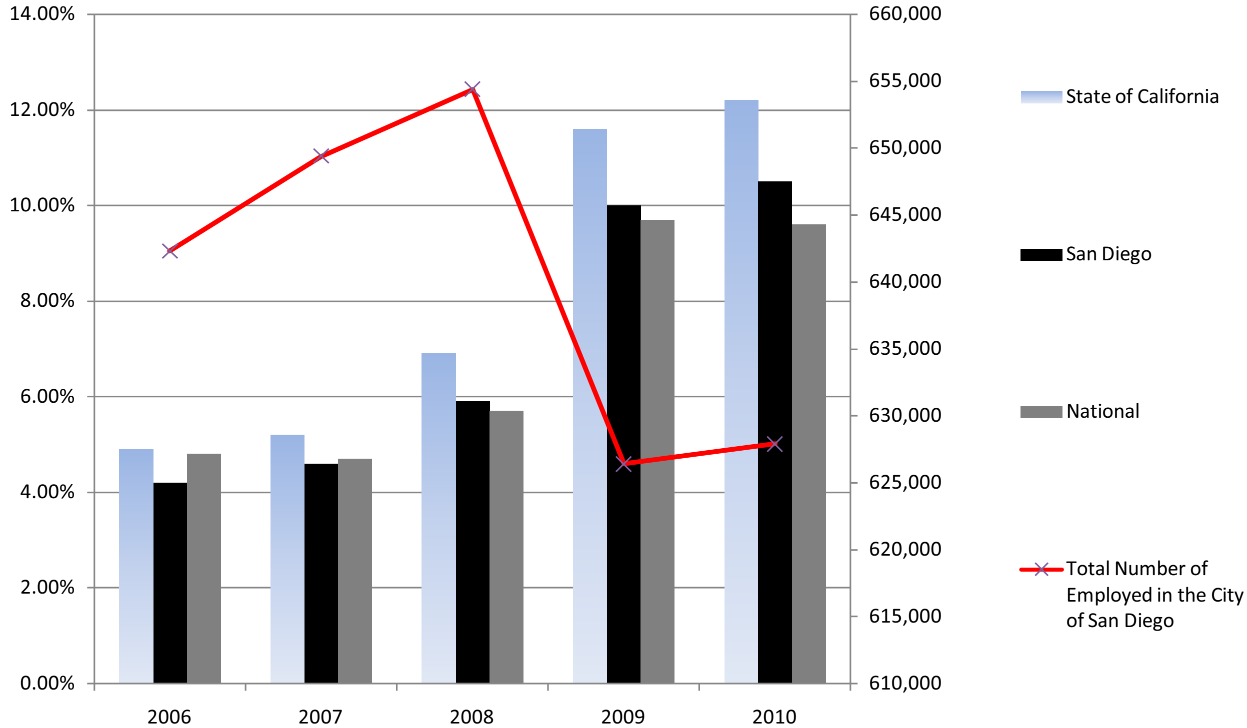


Economic Trends

Consumer and business spending within the City determines sales tax receipts, among other factors. Growth in per capita income and percent of income spent on discretionary goods and services are typically the two strongest predictors of sales tax revenue trends. Business spending is directly linked to consumer spending on goods and services, and in a recession, both business spending and job creation slow down. Sales tax revenues for Fiscal Year 2009 were low in comparison to previous years and minimal improvements were made throughout the remainder of Fiscal Year 2010, as unemployment rates rose to 11.1 percent in San Diego during January 2010, and remained high at 10.0 percent in May 2010.[2] A zero percent growth in sales tax revenue is forecasted for Fiscal Year 2011, due to high unemployment throughout the county and other factors. High levels of unemployment increases the likelihood of less discretionary spending as consumers are forced to focus on essential purchases.

[1] State Board of Equalization, New Tax Rate Notice, March 2009
[2] California Employment Development Department

Figure 11: Unemployment Rates (as of June 2010)



Source: State of California, Employment Development Department

The State Employment Development Department cites San Diego unemployment as being above national unemployment levels, which has had a direct affect on local discretionary spending. During the first three quarters of Fiscal Year 2010, San Diego experienced a decline in sales tax revenue in five major sectors of the local economy: General Retail, Food Products, Transportation, Business to Business, and Construction. The fourth quarter of Fiscal Year 2010 saw a moderate gain in sales tax revenue within the Transportation sector; however revenue declines were still evident in the other four sectors of the local economy. With evidence of conservative discretionary spending, a zero net gain in sales tax revenue is forecasted for Fiscal Year 2011 while economic recovery remains slow and tentative.

Table 6: City of San Diego Calendar Year Sales Tax Revenue (in millions)

Economic Category	Calendar Year 2008	Calendar Year 2009	% Change
General Retail	$ 60.1	$ 54.8	(8.7)%
Food Products	$ 42.6	$ 39.6	(7.1)%
Transportation	$ 39.5	$ 31.4	(20.5)%
Business to Business	$ 34.4	$ 28.7	(16.7)%
Construction	$ 15.4	$ 12.7	(17.4)%

Source: MuniServices, LLC

General Fund Revenues

Fiscal Year 2011 Adopted Budget

The Fiscal Year 2011 adopted sales tax budget of $187.5 million is based on the Fiscal Year 2010 year-end projection assuming no growth in taxable sales. The Fiscal Year 2011 adopted sales tax revenue also includes the property tax reimbursement that the City receives 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 7: Fiscal Year 2011 Annual Sales Tax Budget

	(in millions)
Sales Tax Revenue	$ 141.1
Triple-Flip Property Tax Reimbursement	46.4
Total Sales Tax	$ 187.5

Growth for taxable sales is forecasted at zero percent, given that unemployment may remain at current high levels and have an adverse affect on discretionary spending in Fiscal Year 2011. As a destination city for visitors and tourists around the globe, San Diego has historically been economically stronger than the State of California in aggregate; however, the impacts of the recession have reached all California cities. Higher employment rates, housing market stabilization, growth in median income, improved tourist and business travel, and increased consumer spending would need to occur to increase sales tax revenues to pre-recession growth levels.

Safety Sales Taxes

Total City Budget
$6.3 million

General Fund Budget
$6.3 million

Percent of General Fund
0.6 percent

Background

Safety Sales Tax, the one-half cent imposed on most goods purchased in the County of San Diego, was levied with the enactment of Proposition 172 in November 1994. Safety Sales Tax revenues are used to support local public safety needs. The State Board of Equalization collects the one-half cent and the State Controller's Office allocates the monies to each county based on its proportionate share of statewide taxable sales. In accordance to California Government Code Section 30055, the City of San Diego receives 3.2 percent from the San Diego County's Public Safety Augmentation Fund on a monthly basis.

Economic Trends

Safety sales tax receipts generally follow the same economic trends that determine sales tax receipts such as per capita income levels, employment rates, consumer savings, and discretionary spending. Safety sales tax revenue entirely depends on the County's share of total statewide taxable sales, and not on taxable sales within the City.

Fiscal Year 2011 Adopted Budget

The Fiscal Year 2011 adopted safety sales tax is $6.3 million reflecting an 8.4 percent decrease from Fiscal Year 2009 actual revenue and a 1.6 percent decrease over Fiscal Year 2010 year-end projections. Safety sales tax provides support to the Police and the Fire Rescue Departments. In Fiscal Year 2011, approximately $1.6 million will be allocated to the Fire and Lifeguard Facilities Fund for debt service payments on facility improvements, while the remaining $4.7 million will be allocated to support other public safety expenditures.

General Fund Transient Occupancy Tax (TOT)

Background

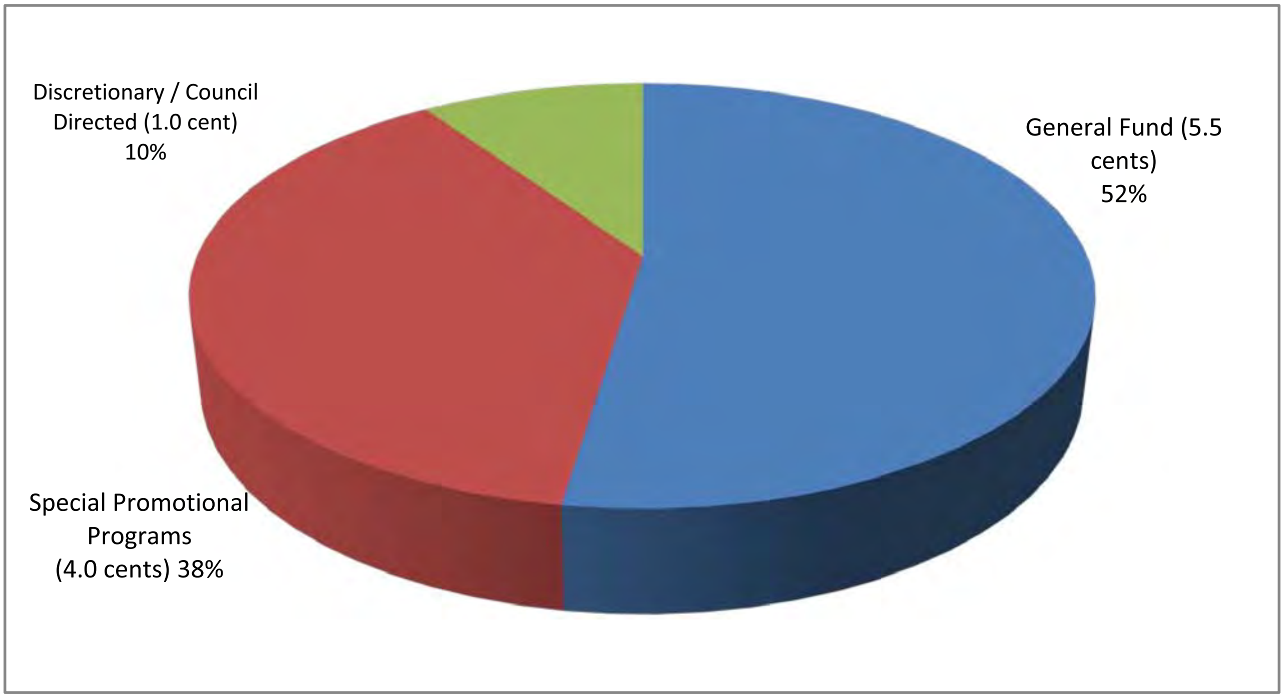
Transient occupancy tax (TOT) makes up 6.0 percent of the General Fund revenue budget and is levied at 10.5 cents per dollar of the daily room price in hotels and motels used by visitors staying in San Diego for less than 30 consecutive days. The use of TOT is guided by City Council Policy 100-3 which 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
$126.2 million

General Fund Budget
$66.1 million

Percent of General Fund
6.0 percent

Figure 12: Transient Occupancy Tax Allocation[1]



Economic Trends

The economic recession has had a severe negative impact on San Diego tourism over the past two years which has been reflected in the City's TOT revenue totals. Visitor growth performance in first quarter of calendar year 2010 confirmed expectations of tourism industry stabilization, and bolstered

[1] Distribution according to Council Policy 100-3

industry analysts' forecast of improved travel to San Diego in calendar year 2010. This recovery is expected to remain slow as growth in group hotel bookings is likely to remain weak due to weak business travel. According to recent data from the San Diego Convention and Visitors Bureau (CONVIS), the average daily rate (ADR) for the San Diego hotel sector in calendar year 2010 is forecasted to decline further to $122, a 2.1 percent decrease over calendar year 2009, as continued competition between hotels to attract travelers is expected to keep rates low. In calendar year 2011, ADR is forecasted to increase to $128, or 4.8 percent. Room demand is expected to grow by 5 percent in calendar year 2010 and 4.8 percent in calendar year 2011 as the economy strengthens and travelers begin to return to past travel behavior. The hotel occupancy rate is anticipated to increase to 65.6 percent in calendar year 2010, from 63.1 percent in calendar year 2009, with a further increase to 68.3 percent in calendar year 2011. The 2008 level of occupancy is not expected to be reached until calendar year 2012.[1]

Table 8 illustrates hotel performance in San Diego since calendar year 2006 and projections for calendar year 2010:

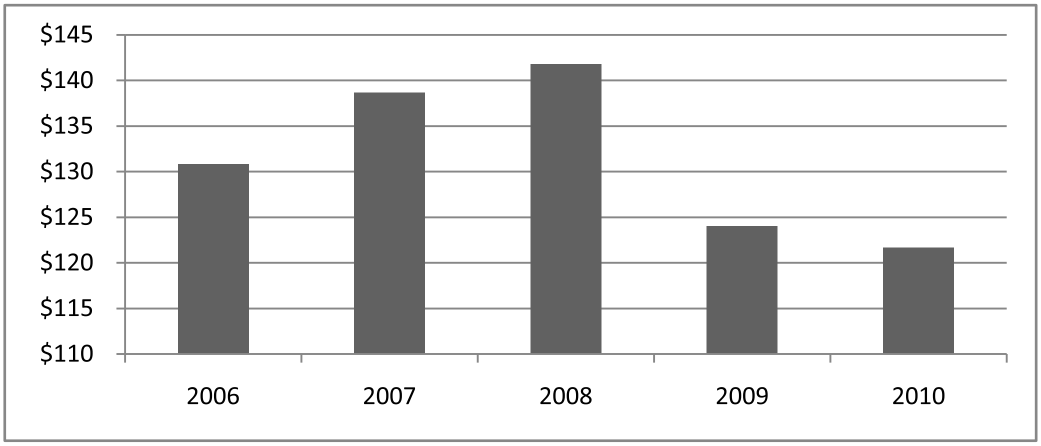
Table 8: 2006 - 2010 San Diego County Tourism

	Projected CY 2010	CY 2009	CY 2008	CY 2007	CY 2006		Projected % Change '09 - '10	% Change '08-'09	% Change '07-'08	% Change '06-'07
Total Visitors (in millions)	30.2	29.6	31.1	31.6	32.2		2.6%	(4.8)%	(1.5)%	(2.0)%
Overnight (in millions)	14.9	14.4	15.2	15.4	15.8		3.2%	(4.8)%	(1.3)%	(2.9)%
Day (in millions)	15.4	15.2	15.9	16.2	16.4		2.1%	(4.8)%	(1.6)%	(1.1)%
Supply - Room Inventory	21.1	20.9	20.2	19.7	19.4		0.7%	3.8%	2.2%	1.7%
Demand - Rooms Sold	13.9	13.2	14.0	14.4	14.2		4.9%	(5.7)%	(2.6)%	1.1%
Average Occupancy	65.6%	63.1%	69.4%	72.9%	73.3%		4.2%	(9.1)%	(4.8)%	(0.5)%
Average Daily Rate	$ 121.7	$ 124.0	$ 141.8	$ 138.6	$ 130.8		(3.0)%	(12.6)%	2.3%	6.0%
Airport Arrivals (in millions)	none	8.5	9.1	9.2	8.7		n/a	(6.2)%	(1.0)%	5.0%

Source: CONVIS Quarterly Travel Forecast, June 2010, CONVIS San Diego County Visitor Industry Summaries 2006-2009

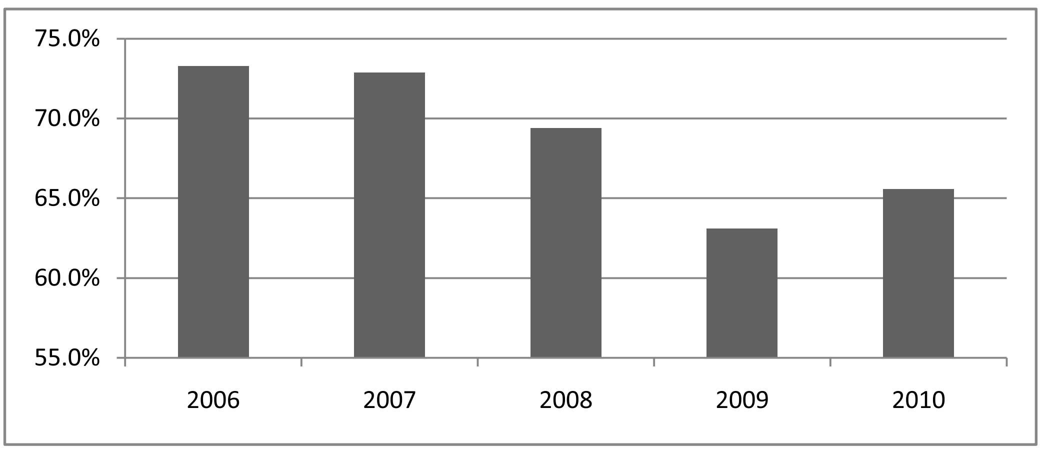
[1] CONVIS Quarterly Travel Forecast, June 2010

Figure 13: San Diego Hotel Average Daily Rate



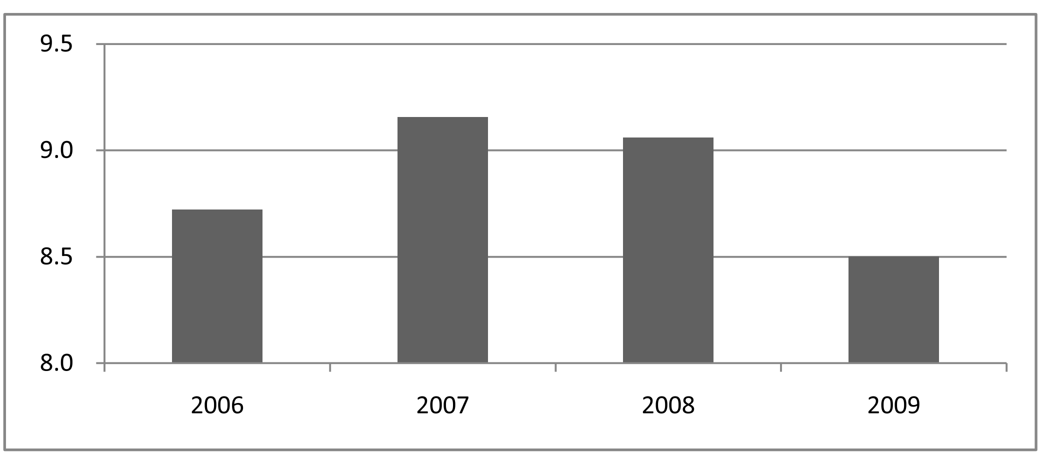
Source: CONVIS Quarterly Travel Forecast, June 2010

Figure 14: San Diego Hotel Occupancy Rate



Source: CONVIS Quarterly Travel Forecast, June 2010

Figure 15: San Diego International Airport Arrivals (in millions)



Source: CONVIS Quarterly Travel Forecast, June 2010

General Fund Revenues

Fiscal Year 2011 Adopted Budget

The Fiscal Year 2011 adopted transient occupancy tax budget for the City of San Diego is $126.2 million. Of this amount, $66.1 million will be allocated to the General Fund with the remaining funds allocated to Special Promotional Programs. This assumes no growth over Fiscal Year 2010 year-end TOT projections.

General concern over the high level of unemployment as well as low consumer confidence still affect tourism trends despite the slow improvement in some economic sectors. As previously mentioned, this trend is expected to persist through the remainder of calendar year 2010. According to the latest information from industry experts, slow recovery is expected and improvement is not anticipated until calendar year 2011.

Property Transfer Tax

Background

Total City Budget
$4.7 million

General Fund Budget
$4.7 million

Percent of General Fund
0.4 percent

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 sold. The City is credited 55 cents per $1,000 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 upon a sale of real property within City limits and transferred to the City on a monthly basis.

Economic Trends

The proposed property transfer tax budget reflects the market conditions and trends as of May 2010. The economic factors that affect property tax also influence the transfer tax as it is levied upon the sale of newly constructed properties and existing homes. The total amount of home sales in the County of San Diego for calendar year 2009 was 39,212, an increase of 14.4 percent from prior year's totals of 34,286.[1] The recent increase in home sales can be attributed in part to the lower median price for a home in the County. Lower home prices typically attract more buyers and thus increase property transfer tax revenue. May 2010 prices dropped 32.2 percent since the November 2005 high of $518,000. The median countywide home price was $316,846 for calendar year 2009, a 12.9 percent decrease from the 2008 median home price of $363,680. From August 2009 to May 2010, median countywide home prices have increased an average of 10.7 percent per month over the last nine months, which is due in part to the reduction in foreclosures. The rebound in home sales as well as the steady increase in median home prices is evidence of a potentially stabilizing market and the potential for a possible increase in property tax revenue. Higher turnover in home sales, along with small but steady increases in sale prices, has the potential to increase property transfer tax revenue.

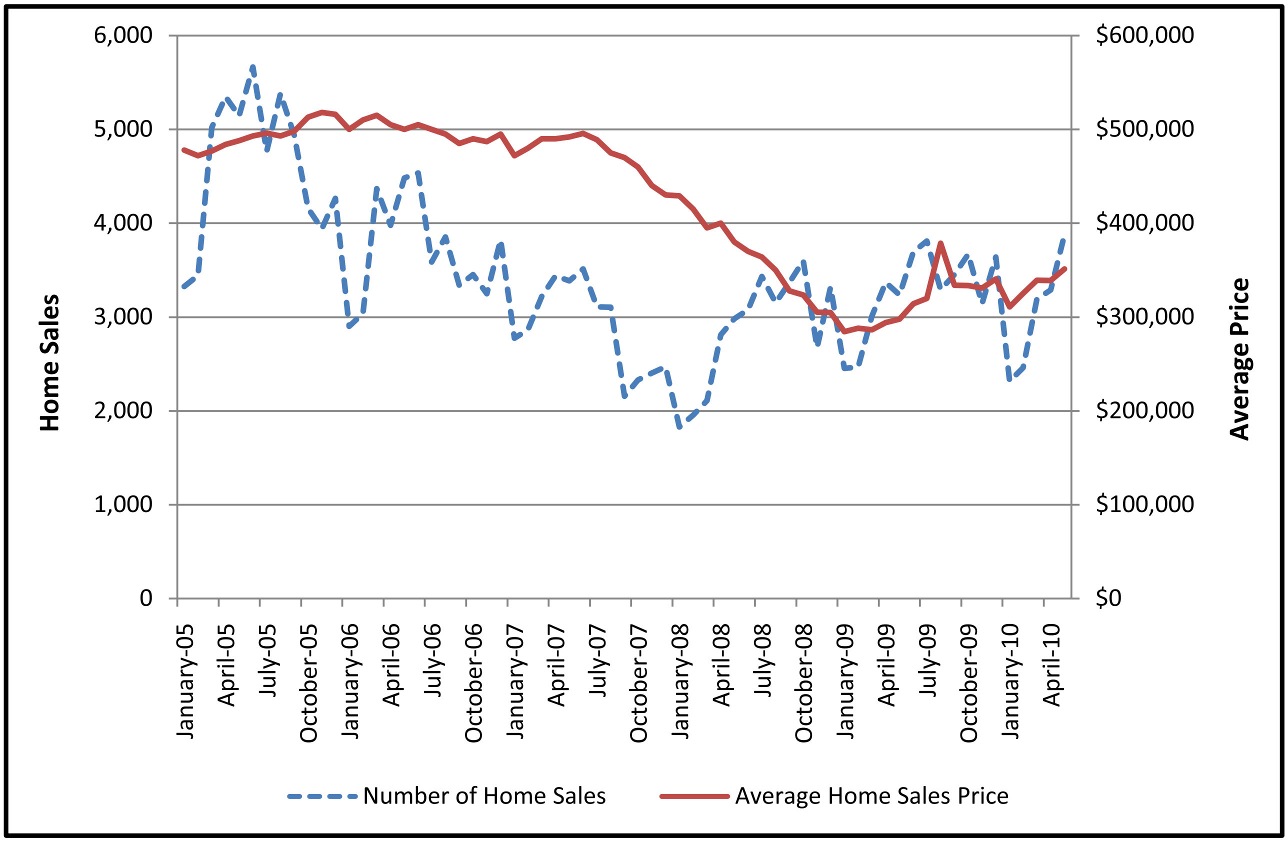
Fiscal Year 2011 Adopted Budget

The Fiscal Year 2011 adopted property transfer tax budget of $4.7 million is based on the Fiscal Year 2010 year-end projection assuming 0.8 percent negative growth. The negative growth rate is attributed to an anticipated slight decrease in home sales due to the expiration of the Federal housing tax credit in April 2010 and the State housing tax credit in January 2011. The forecasted

1 Home sales/prices, MDA DataQuick

slight decrease in home sales is also due to the potential for lower foreclosures in Fiscal Year 2011 and, therefore, reduced sales. The potential for lower foreclosures is a result of the decline in notices of default sent by the County of San Diego. However, it is expected that the countywide median home price will continue to grow modestly, which would allow continued steady home sales due to the greater affordability of residential properties compared to historically high levels.

Figure 16: San Diego County Home Sales



Source: DataQuick Information Systems

Franchise Fees

Background

Total City Budget
$130.0 million

General Fund Budget
$67.2 million

Percent of General Fund
6.1 percent

Franchise fees revenue makes up 6.1 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 in the General Fund, 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 City Charter. 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 (this revenue is placed in a special revenue fund). 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).

Fiscal Year 2011 Adopted Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2011 Adopted Budget for SDG&E franchise fee revenue of $49.8 million is based on the Fiscal Year 2010 year-end projection assuming no growth for Fiscal Year 2011. The Fiscal Year 2011 budget is based on the projection that natural resource prices in Fiscal Year 2011 will remain at current levels, and therefore generate the same revenue to the City.

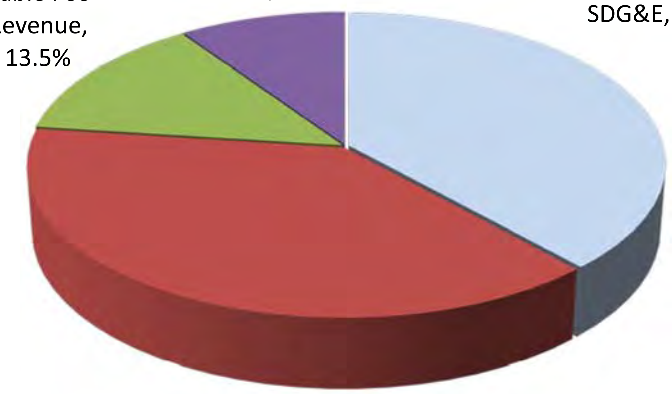
In accordance with the City Charter, 25.0 percent of revenue received from SDG&E or $12.5 million is to be deposited into the Environmental Growth Fund (EGF). One-third of the EGF is used to finance the maintenance of parks; the remaining two-thirds are used for the annual interest payments for debt service on open space acquisition bonds and parkland maintenance. The remaining revenue balance of approximately $37.3 million received from SDG&E franchise fees is allocated to the General Fund.

CABLE COMPANIES. The Fiscal Year 2011 Adopted Budget for cable franchise fee revenue of $17.5 million is based on the Fiscal Year 2010 year-end projection assuming a 1.6 percent growth for Fiscal Year 2011.

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2011 Adopted Budget for refuse hauler franchise fee revenue from private refuse haulers is $9.5 million, an 8.0 percent growth over Fiscal Year 2010 year-end projection based on a projected increase in tonnage from economic growth. The City also anticipates an additional $2.7 million in franchise fees from the EDCO and Sycamore Landfill Facility and $200,000 from other franchise fee sources.

UNDERGROUNDING UTILITY FEE. The Fiscal Year 2011 Adopted Budget for Underground Utility Fee revenue of $50.4 million is based on the Fiscal Year 2010 year-end projection assuming no growth.

Figure 17: Franchise Fee Revenue Breakdown



Licenses and Permits

Total City Budget $56.3 million
General Fund Budget $31.6 million
Percent of General Fund 2.9 percent

Background

Licenses and permits generate revenue for the purpose of recovering costs associated with regulating an activity and is mainly comprised of business license taxes, rental unit taxes, parking meter collections, and alarm permit fees. These regulatory functions are typically performed by the City in the interests of promoting public safety.

Fiscal Year 2011 Adopted Budget

License and permit revenues make up 2.9 percent of the Fiscal Year 2011 Adopted General Fund revenue budget. The Fiscal Year 2011 Adopted Budget for licenses and permits is $31.6 million, which represents an $840,330.00 or 2.6 percent decrease from the Fiscal Year 2010 Adopted Budget. The decline in revenue is attributable to a $3.8 million decline in business tax application processing fees and rental unit processing fees whose collection has been suspended during Fiscal Year 2010 pending further review. This decline is offset by a projected increase of $2.6 million in parking meter collections based on projections included in an updated parking study completed in Fiscal Year 2010.

General Fund Revenues

Fines, Forfeitures, and Penalties

Total City Budget
$34.0 million

General Fund Budget
$32.8 million

Percent of General Fund
3.0 percent

Background

Fines, forfeitures, and penalties include revenue generated from monetary sanctions associated with the violation of a law or regulations, such as California Vehicle Code violations, City parking and ordinance violations, negligent impounds, red light photo enforcement, collection referrals, and litigation awards.

Fiscal Year 2011 Adopted Budget

The Fiscal Year 2011 Adopted Budget for fines, forfeitures, and penalties revenue is $32.8 million or 3.0 percent of the General Fund revenue budget. This represents an approximate $360,000 or a 1.1 percent increase as compared to the Fiscal Year 2010 Adopted Budget. This increase is due to an addition of $1.4 million in civil litigation awards revenue to the City.

Parking violations represent approximately half of this revenue category and are projected at $17.3 million, the same level as forecasted in the Fiscal Year 2010 Adopted Budget.

Revenue from Money and Property

Total City Budget
$69.6 million

General Fund Budget
$43.6 million

Percent of General Fund
4.0 percent

Rents and Concessions

The rents and concessions category includes 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, and the hotels and marinas within Mission Bay Park. Another significant contributing component in the Rents and Concessions category is revenue from leases for City Pueblo lands.

The minimum threshold amount of Mission Bay rents and concession revenues that are to be placed into the General Fund for use in any municipal purpose without restriction is set by the Mission Bay Ordinance at $23.0 million. This threshold amount will remain at the same level until Fiscal Year 2015, at which time it will be reduced to $20.0 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. The San Diego Regional Park Improvement Fund is to receive 25.0 percent of revenues in excess of the threshold amount or $2.5 million, whichever is greater, with 75.0 percent or the remaining amount allocated to the Mission Bay Park Improvement Fund.

Fiscal Year 2011 Adopted Budget

The Fiscal Year 2011 Adopted Budget for rents and concessions revenue is $43.6 million, which is a $1.9 million or 4.5 percent increase from the Fiscal Year 2010 Adopted Budget. The category makes up 4.0 percent of the General Fund revenue budget. This increase is attributable to a forecasted $2.6 million increase in Mission Bay Park lease revenues, offset by declines in commercial lease revenues from City owned properties.

The Mission Bay Park rents and concessions are projected to generate $30.7 million in Fiscal Year 2011, as compared to the Fiscal Year 2010 Adopted Budget of $28.0 million. As stipulated by the Mission Bay Ordinance, the maximum amount of these revenues to be placed in the General Fund will be $23.0 million. Pursuant to the Mission Bay Ordinance, the excess above the threshold has been budgeted between the San Diego Regional Park Fund and the Mission Bay Park Improvement Fund in the amounts of $2.5 million and $5.2 million respectively.

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 manage 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. 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

After decreasing during Fiscal Years 2008 and 2009, interest rates remained historically low throughout Fiscal Year 2010. The federal funds rate has remained at a target of 0.00 to 0.25 percent during the entire period even as economic activity picked up and the credit markets began to thaw. The most recent economic figures have been lackluster, and have led many economists to speculate that the eventual federal funds rate hikes will not occur until mid-2011 at the earliest. In its June statement, the FOMC reiterated that conditions "are likely to warrant exceptionally low levels of the federal funds rate for an extended period."

Interest Earnings Outlook

Recent statements by the Federal Reserve have indicated they are likely to keep interest rates at historic lows well into Fiscal Year 2011. A stubbornly high national unemployment rate and very low inflation figures may result in the federal funds rate remaining at or near the current target of 0.00 to 0.25 percent for most if not all of Fiscal Year 2011. Even if this assessment is correct, longer term interest rates may begin to move up during Fiscal Year 2011 as the market anticipates eventual Fed rate hikes. This will create an extremely challenging investment environment as monies invested in short term instruments will earn very little until rate increases begin, while longer-term investments will decrease in value as longer rates increase. The result will be lower interest earnings compared with prior fiscal years. It should be noted that interest rates are market driven and subject to a number of uncontrollable or unpredictable factors, resulting in outcomes different from our outlook.

Revenue from Other Agencies

Motor Vehicle License Fees

Background

Motor vehicle license fees (MVLF) are levied as a percentage of an automobile's purchase price, subject to depreciation, and are paid annually to the California Department of Motor Vehicles 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 after administrative costs are deducted.

Total City Budget
$3.1 million

General Fund Budget
$3.1 million

Percent of General Fund
0.3 percent

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.

In February 2009, a State budget package was passed that included an increase to the MVLF tax rate from 0.65 percent to 1.15 percent beginning May 19, 2009, through June 30, 2011. 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 without affecting the cities' MVLF allocation.

Economic Trends

In recent years, the California Department of Motor Vehicles has raised their administrative costs and consumed a larger share of cities' MVLF allocation. This trend, compounded by the economic downturn, has caused MVLF revenue declines over the past four fiscal years. In calendar year 2010, however, the new vehicle market is showing improvement. As reported by the California New Car Dealers Association, new vehicle registrations during the first three months of 2010 increased 19.8 percent compared to a year earlier; in the second quarter of 2010, new car registrations increased 26.0 percent compared to the second quarter of 2009. New vehicle registrations in California increased by nearly 44,000 units from the first quarter to the second quarter in 2010. The car market share in California exceeded national levels in the first half of 2010.

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 30.3 million in Fiscal Year 2010 and 29.9 million in Fiscal Year 2011 with 1.6 million new vehicles as forecasted by the 2010-2011 Governor's Proposed Budget.

Fiscal Year 2011 Adopted Budget

The Fiscal Year 2011 adopted motor vehicle license fees budget of $3.1 million is based on the Fiscal Year 2010 year-end projection assuming a 20.0 percent decrease. This revenue outlook is based on reduced auto sales and the expectation that auto sales activity will remain soft as consumers recover from higher unemployment, depressed household asset values, and a cautious outlook from the economic downturn. In addition, as the California Department of Motor Vehicles has raised their administrative costs in recent years, this outlook forecasts a decrease in the MVLF allocation to the City of San Diego in anticipation of potential further increases in such costs.

Revenue from Federal & Other Agencies

Total City Budget
$35.7 million

General Fund Budget
$2.2 million

Percent of General Fund
0.2 percent

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 grants and reimbursements for certain general City services.

Fiscal Year 2011 Adopted Budget

Revenue from other agencies makes up 0.2 percent of the Fiscal Year 2011 Adopted Budget revenue for the General Fund. The Fiscal

Year 2011 Adopted Budget for revenue from other agencies is $2.2 million, which represents a $1.1 million or 32.8 percent decrease from the Fiscal Year 2010 Adopted Budget. Federal grant revenues in Fiscal Year 2011 declined by $372,000, from $2.2 million in Fiscal Year 2010 to $1.8 million in Fiscal Year 2011, due to the elimination of the Urban Search and Rescue reimbursement. The additional decline in revenues in this category is due to a reduction of $700,000 in excess tobacco settlement revenues from the Fiscal Year 2011 Adopted Budget, which was included in the Fiscal Year 2010 Adopted Budget.

Charges for Current Services

Background

Total City Budget
$1,113.8 million

General Fund Budget
$145.5 million

Percent of General Fund
13.3 percent

Charges for current services revenue is 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 the 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 the charges for current services category are user fees in compliance with the User Fee Policy adopted March 2009, which has been updated in the Fiscal Year 2011 budget for full cost recovery based on the increase in the California Consumer Price Index.

Fiscal Year 2011 Adopted Budget

The Fiscal Year 2011 Adopted Budget for charges for current services revenue is $145.5 million, an $8.1 million or 5.3 percent decrease from the Fiscal Year 2010 Adopted Budget received in the General Fund. This decrease in revenue is attributable to a combined $6.6 million decrease in reimbursements for services from other departments and funds to the General Fund, including GGSB revenues.

Other Financial Sources & Uses

Background

Total City Budget
$185.7 million

General Fund Budget
$111.4 million

Percent of General Fund
10.2 percent

Other Financial Sources & Uses represent revenues received by the General Fund from other non-General Fund City funds for reimbursement of services. Also included in this category are one-time, non-recurring, revenue transfers as part of the Fiscal Year 2011 deficit mitigation plan outlined in the Fiscal Recovery section.

This revenue category was previously known as Transfers from Other Funds in the Fiscal Year 2010 Adopted Budget, but was reorganized to exclude several revenue sources that are now under the Charges for Current Services category.

Fiscal Year 2011 Adopted Budget

The Fiscal Year 2011 Adopted Budget for Other Financial Sources & Uses is $111.4 million or 10.2 percent of General Fund revenues, which represents a $11.3 million or 11.3 percent increase from the Fiscal Year 2010 Adopted Budget.

The largest transfers include $24.6 million of savings set aside from Fiscal Year 2010 to mitigate $179 million projection deficit in Fiscal Year 2011; $11.8 million transfer from the Transient Occupancy Tax Fund; $10.1 million employee offset for the securitization of tobacco settlement; and transfers from other funds.

Other Revenue

Total City Budget
$238.0 million

General Fund Budget
$2.5 million

Percent of General Fund
0.2 percent

Other Revenues comprises 0.2 percent of the General Fund revenue budget and is mainly composed of ambulance fuel reimbursements, refunds of Supplemental Pension Savings Plan forfeitures, refuse disposal reimbursements, and other miscellaneous revenues. The Fiscal Year 2011 Adopted Budget for other revenues total $2.5 million, which is a $1.6 million or 39.4 percent decrease from the Fiscal Year 2010 Adopted Budget. The decline in revenue is mainly attributable to a decrease in certain private donations and contributions to the City.

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 2010 that established the Tax Appropriations Limit for Fiscal Year 2011 at $1,375,737,264. Using the Fiscal Year 2011 Adopted Budget, the appropriations subject to the limit is $715.0 million, which was $660.7 million lower than the Gann Limit.

State of California Budget Impacts

State of California Budget Impacts

The State's FY 2011 Budget May Revise, released in May 2010, addressed the Fiscal Year 2011 estimated deficit of $19.1 billion. None of the solutions identified in the Governor's May Revision to address this deficit affected revenue sources for the City of San Diego. However, due to continued uncertainty in the economy that may affect the State's revenue forecasts, the Governor has identified certain "triggers" to balance the budget based on any potential reduction in revenues from forecasted levels. These "triggers" do not include the appropriation or reduction of any revenues remitted to the City of San Diego. However, the possibility of redirecting local gas tax revenues, dedicated to road improvement projects, to the State's general fund still exists as on option to the State in Fiscal Year 2011 (should their fiscal condition change from forecasted levels).

For Fiscal Year 2010, the City's gas tax revenues were classified under Proposition 42 (also known as AB 2928) revenue, which was generated from a 6 percent tax on each gallon of gasoline, and HUTA (Highway User's Tax Account) gasoline tax, which was generated from a flat 18 cent tax on each gallon of gasoline. Both Proposition 42 and HUTA revenue distributed to cities and counties from the State are used for road improvement projects and are deposited into a set-aside special revenue fund by the City. In March 2010, the California Governor signed AB 86, AB 89, and SB 70, which restructured the State's portion of gasoline tax. These bills eliminated the 6 percent tax on each gallon of gasoline in favor of a flat tax of 17.3 cents per gallon (to be adjusted annually for inflation). The amount of revenue generated by the new 17.3 cent tax will be distributed according to provisions set in these bills, i.e., replacement of the revenue that was to be received by each jurisdiction under Proposition 42. Although these funds distributed to each jurisdiction are no longer considered Proposition 42 revenues, the State mandates still require the use of these funds on road improvement projects.

This restructuring of gasoline taxes did not affect the 18 cent per gallon tax that generates HUTA revenues. For Fiscal Year 2011, the City budgeted $13.3 million to be received in Proposition 42 'replacement revenue' and $21.6 million in HUTA gas tax.

The restructuring of gasoline taxes allows both HUTA and the Proposition 42 'replacement revenues' to be redirected back to the State's general fund if the State's legislature votes in majority to do so. The City could receive a repayment obligation from the State for lost revenue amounts if the State were to redirect these revenues back to their General Fund. However, the State would not have to pay interest based on these borrowed funds, and could borrow funds from cities every fiscal year. This $34.9 million in combined Proposition 42 'replacement revenues' and HUTA revenue may potentially be redirected to the State in Fiscal Year 2011 based on any changes in their estimated deficit above the "triggers" solutions presented by the Governor.

California's Proposition 1B (known as the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act) was established in 2006 to provide over $1 billion in funds to cities and counties throughout California for local transportation improvement projects. In Fiscal Year 2008, the City received $21.2 million from Proposition 1B funds. The City did not receive any Proposition 1B revenue in Fiscal Years 2009 or 2010, but is expected to receive another disbursement of $19.6 million in Fiscal Year 2011. In addition to these funds, 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 is $1.6 million to be used for funding of law enforcement.

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.

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