General Fund Revenues

The Fiscal Year 2012 General Fund revenue budget is $1.1 billion, which represents an increase of $30.4 million or 2.8 percent from the Fiscal Year 2011 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 increase in revenues of 2.8 percent or $30.4 million in General Fund annual revenue for Fiscal Year 2012.

Table 1: Fiscal Year 2012 General Fund Revenue Change

	Percent Change from FY 2011 Adopted Budget	Change (in millions)
Major Revenues	3.4%	$ 24.3
Other Revenue Sources	1.6%	6.1
Total	**2.8%**	**$ 30.4**

The General Fund Revenues section provides a detailed description of the revenue categories listed to the right on this page, including background information describing growth trends, economic factors, and methods of allocation affecting each revenue source. This information provides insight into the formulation of the Fiscal Year 2012 General Fund revenue budget.

The four major General Fund revenue sources: property tax, sales tax, transient occupancy tax (TOT), and franchise fees account for 65.2 percent of the City's General Fund revenue in the Fiscal Year 2012 Adopted Budget. Changes in the local, State, and national economies can impact each of these revenue sources and trends, and their possible effects on the City's finances in Fiscal Year 2012 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 2012 Adopted Budget was based on Fiscal Year 2011 year-end projections and economic data through May 2011, the most recent information available at the time the budget was prepared. However, since the adoption of the Fiscal Year 2012 Budget there has been increased economic uncertainty in the U.S. that may impact the recovery the City experienced in Fiscal Year 2011. General Fund revenues will continue to be monitored during Fiscal Year 2012 and, if necessary, the budget will be modified.

Index of Revenues

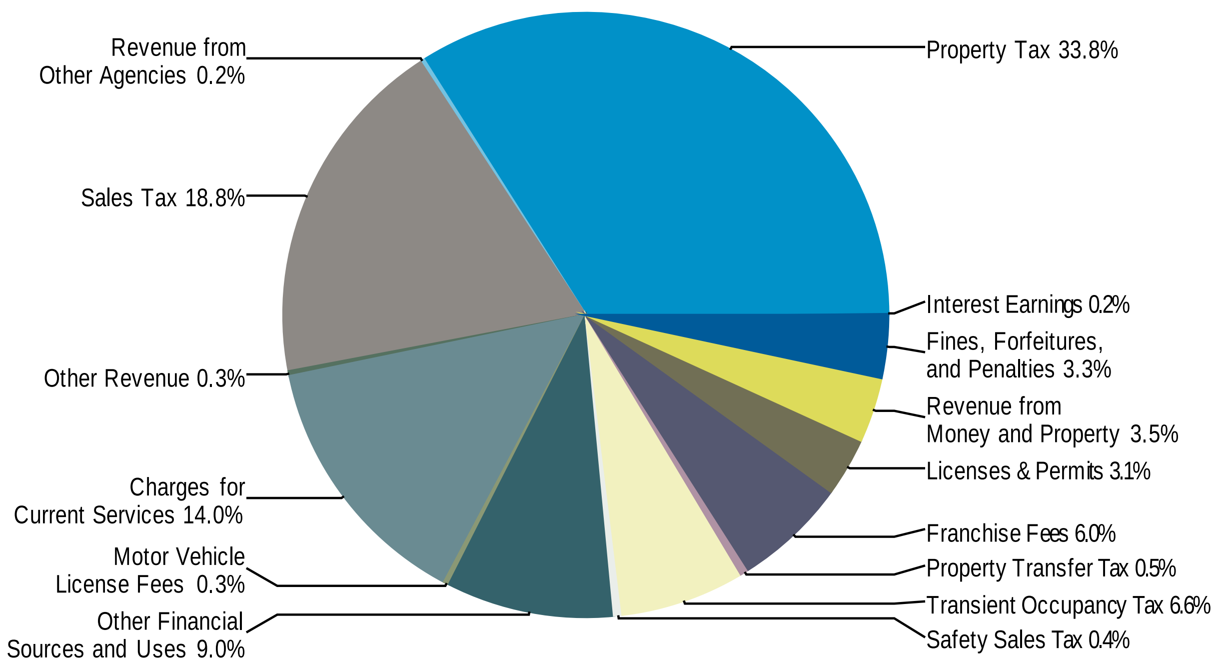
General Fund Revenues

Volume II shows the detailed budgeted revenues that are 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.

Table 2: Fiscal Year 2012 General Fund Revenues - $1.13 Billion (in millions)

Revenue Category	FY 2011 Adopted Budget	FY 2012 Adopted Budget	Change	Percent Change	% of Total General Fund Revenue
Property Tax	$ 390.1	$ 380.9	$ (9.2)	(2.3)%	33.8%
Sales Tax	187.5	211.6	24.1	12.9%	18.8%
Transient Occupancy Tax	66.1	74.8	8.7	13.1%	6.6%
Franchise Fees	67.2	67.8	0.6	0.9%	6.0%
Property Transfer Tax	4.7	5.1	0.5	9.9%	0.5%
Safety Sales Tax	6.3	5.0	(1.3)	(20.1)%	0.4%
Motor Vehicle License Fees	3.1	3.3	0.1	3.9%	0.3%
Licenses & Permits	31.6	35.2	3.6	11.5%	3.1%
Fines, Forfeitures, and Penalties	32.8	37.7	4.9	14.9%	3.3%
Revenue from Money and Property	43.6	39.2	(4.4)	(10.2)%	3.5%
Interest Earnings	1.7	1.9	0.2	14.0%	0.2%
Revenue from Other Agencies	2.2	2.6	0.4	17.4%	0.2%
Charges for Current Services	145.5	157.8	12.4	8.5%	14.0%
Other Financial Sources and Uses	111.4	100.9	(10.6)	(9.5)%	9.0%
Other Revenue	2.5	2.8	0.3	12.0%	0.3%
Total	**$ 1,096.2**	**$ 1,126.6**	**$ 30.4**	**2.8%**	**100.0%**

Figure 1: Fiscal Year 2012 General Fund Revenues - $1.13 Billion



San Diego's Economic Environment[1]

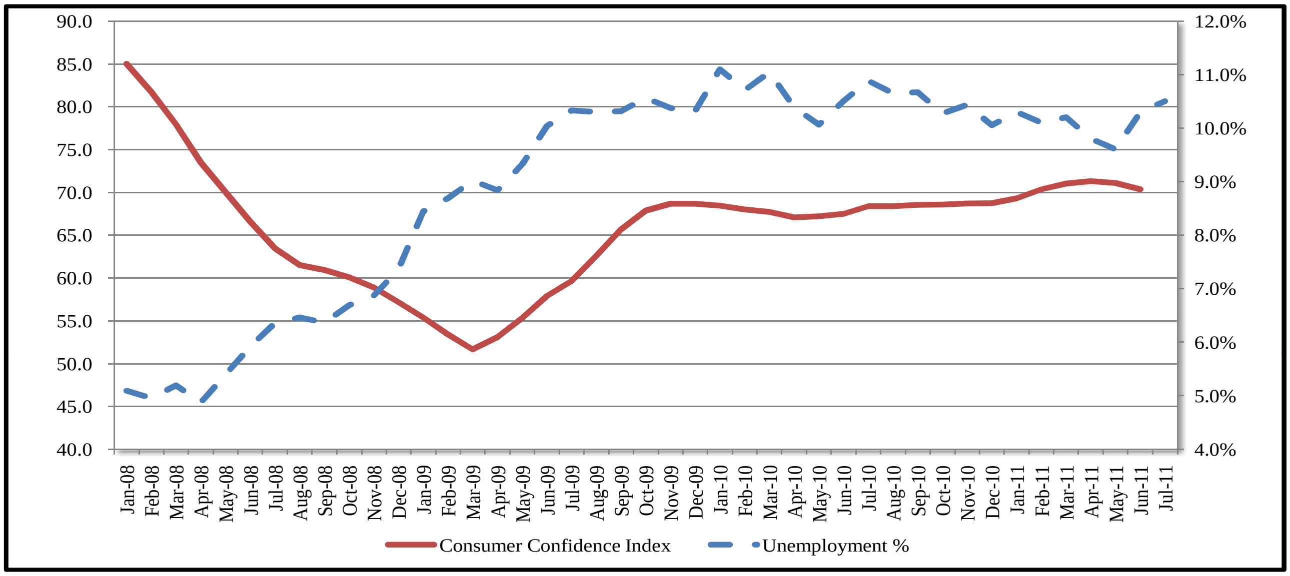
The Fiscal Year 2012 Adopted Budget incorporated an improved economic outlook during budget development, as compared to prior annual budgets based on increases in consumer spending, tourism and business travel, and reduced unemployment. However, since the adoption of the Fiscal Year 2012 Budget there has been increased economic uncertainty in the U.S. that may the affect the improved economic outlook the City incorporated into the Adopted Budget. The nation-wide recession that lasted from December 2007 to June 2009 dramatically impacted State and local revenues due to the unprecedented pace and scope of declines in economic drivers such as unemployment, housing, and consumer confidence. Consumer spending experienced improvement during fiscal year 2011, which has resulted in increases in transient occupancy and sales tax revenues. However, recovery has been slow and inconsistent from month-to-month for other indicators, such as local housing prices, which has resulted in projections for property tax revenues received by the City to remain below pre-recession levels.

The main economic drivers that contributed to General Fund revenue declines during Fiscal Years 2008 to 2010 were declining consumer discretionary spending and the overall decline in the housing market (home sales and prices). Consumer discretionary spending is greatly influenced by levels of unemployment and consumer confidence. At the onset of the economic recession in December 2007, the City's unemployment level was 4.8 percent, and increased rapidly to 11.1 percent in

1 The following sources were used in this section: National Bureau of Economic Research, California Employment Development Department, United States Bureau of Labor Statistics, California State Board of Equalization, University of San Diego Index of Leading Economic Indicators, DataQuick Information Systems, San Diego County Assessor / Recorder / Clerk's Office, San Diego Association of Governments, United States Bureau of Labor Statistics.

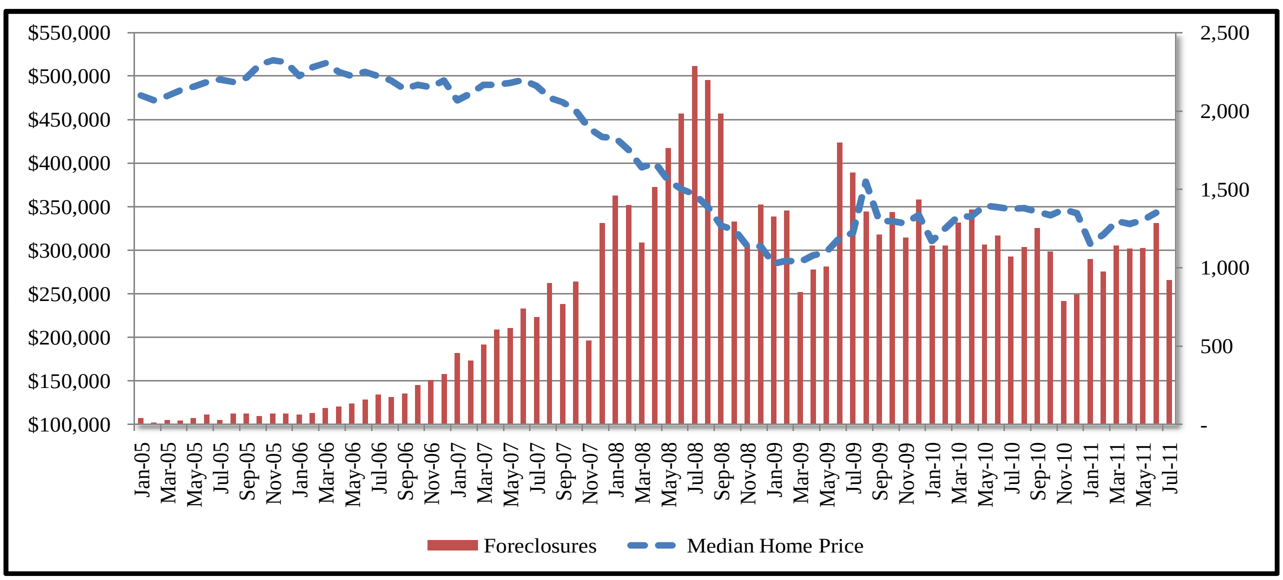
January 2010. Although still well above average historical levels, the unemployment rate has decreased to 10.5 percent as of July 2011. Local consumer confidence declined 41.2 percent from December 2007's index level of 87.8, to the lowest level in March 2009 of 51.7. Subsequently, consumer confidence has increased 36.2 percent to an index level of 70.3 as of June 2011.

Figure 2: San Diego Consumer Confidence and Unemployment



Source: California Employment Development Department, USD Index of Leading Economic Indicators

Figure 3: County of San Diego Monthly Median Home Price and Foreclosures



Source: DataQuick Information Systems, San Diego County Assessor/Recorder/Clerk

Countywide median home prices have increased from low levels in Fiscal Year 2009 and have subsequently stabilized over recent quarters. The San Diego median home price as of December 2007 was $495,000, decreased to the low of $284,435 in January 2009, and subsequently increased to $342,967 as of June 2011.

Despite increases in consumer spending, based on the recent stagnation in the growth of median home prices, there is uncertainty on the pace of the economic recovery. This increased economic uncertainty in the U.S. may impact the recovery the City experienced in Fiscal Year 2011. The City will continually monitor economic information and revenue distribution amounts to adjust forecasted revenue levels in Fiscal Year 2012.

Following are some of the economic indicators and assumptions that are used in the preparation of the Fiscal Year 2012 Adopted Budget for the General Fund and updated with recent information where available.In most cases, the indicators used to prepare the Fiscal Year 2012 Adopted Budget were through May 2011. Updated indicators are presented below where available:

- The Index of Leading Economic Indicators for San Diego County has increased 7.0 percent over the last twelve months (as of May 2011) from an index level of 109.5 to 117.2. The Index subsequently declined to a level of 117.0 as of June 2011 (University of San Diego, Index of Leading Economic Indicators).
- San Diego County's consumer confidence index has increased 5.8 percent over the past twelve months (as of May 2011). The index subsequently declined 1.1 percent from May 2011 to June 2011. (University of San Diego, Index of Leading Economic Indicators).
- Consumer spending in the City of San Diego on taxable items for the prior twelve months, as of May 2011, increased 7.0 percent as compared to the prior year. Consumer spending on taxable items has also increased five consecutive quarters after declining the previous seven consecutive quarters (California State Board of Equalization).
- San Diego's unemployment rate was 9.6 percent as of May 2011, and increased to 10.5 percent as of July 2011.
- Total home sales in San Diego for the prior twelve month (June 2010 - May 2011) period totaled 35,493, which is a decline of 10.8 percent from 39,811 home sales from the prior twelve month period (June 2009 - May 2010). The total number of home sales in June 2011 decreased 11.3 percent from the number of sales in June 2010 (San Diego County Assessor/ Recorder/Clerk’s Office).
- The median countywide home price as of May 2011 is $334,545 and increased to $342,967 as of June 2011. The June 2011 median countywide home price is a decrease of 1.9 percent from June 2010 (DataQuick Information Systems).
- Countywide foreclosures (June 2010 - May 2011) totaled 12,794 which is a decline of 20.3 percent from 16,094 from the prior twelve month period (June 2009 - May 2010). Notices of default, an indicator of potential future foreclosure levels, totaled 23,087 (June 2010 - May 2011), a decline of 26.0 percent from 31,192 notices of default (June 2009 - May 2010).Total foreclosures and notices of default in June and July of 2011 were down 3.2 and 19.0 percent, respectively, from levels experienced in June and July of 2010 (San Diego County Assessor/ Recorder/Clerk's Office).
- The City's median income is forecasted to grow 4.9 percent from approximately $50,000 to $52,500 from calendar year 2010 to 2015 (San Diego Association of Governments).
- The County of San Diego consumer price index (CPI) increased 1.2 percent in calendar year 2010 (United States Bureau of Labor Statistics).

General Fund Revenues

Property Tax

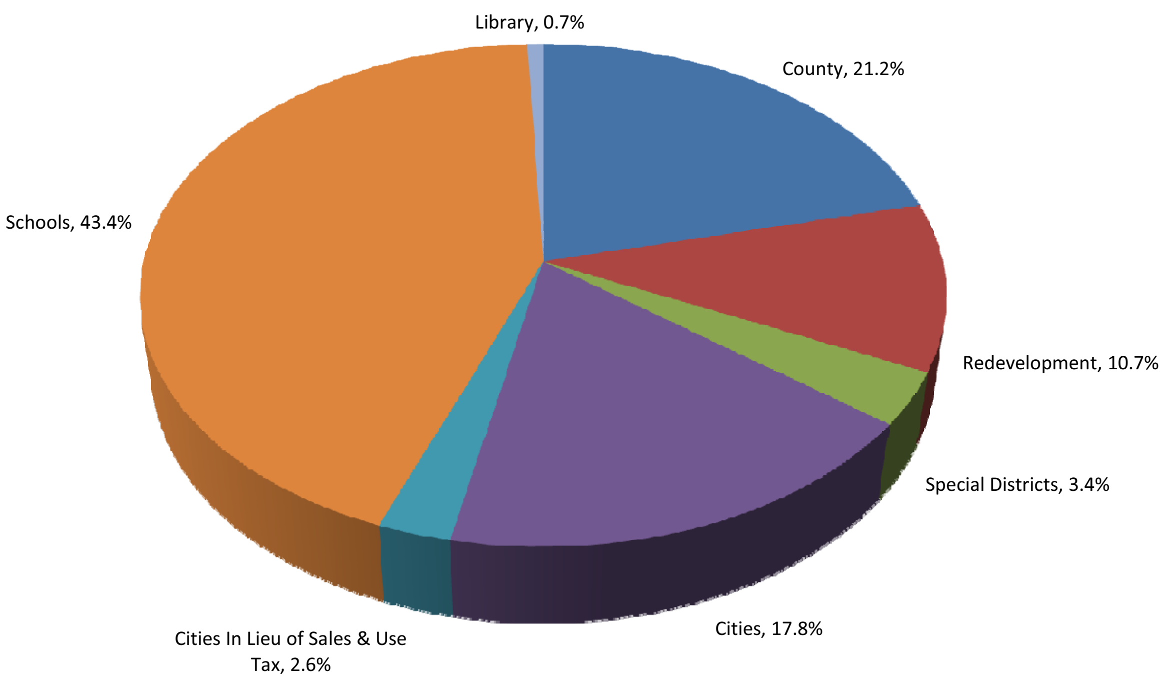
Background

Total City Budget **$403.3 million**
General Fund Budget **$380.9 million**
Percent of General Fund **33.8 percent**

Property tax revenue is the City's largest revenue source, representing 33.8 percent of total General Fund revenue. Property tax revenue is collected by the San Diego County Tax Collector 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 or decrease at the rate of the California 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, including the County, the City, school districts, and special districts. For every $100 collected, the allocation to the cities in San Diego County total $17.80 (with an additional $2.60 going to cities for the sales tax "triple-flip" outlined in the sales tax section), which includes offsets for Motor Vehicle License Fees, according to the County of San Diego Assessor's Office. Property tax revenue is also collected in other (non-General) funds per City Charter requirement. Those include a special tax levy of $0.005 per $100 of assessed value for funding zoological exhibits in Balboa Park.

Figure 4: Fiscal Year 2011 Countywide 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:

- 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 2012, the County estimated the administration fee for the City to be $5.1 million.
- Beginning in Fiscal Year 2005, the Motor Vehicle License Fee (MVLF) rate was reduced from 2.0 percent to 0.65 percent resulting in less revenue received by the City, which was replaced dollar-for-dollar with property tax, resulting in a property tax revenue increase.

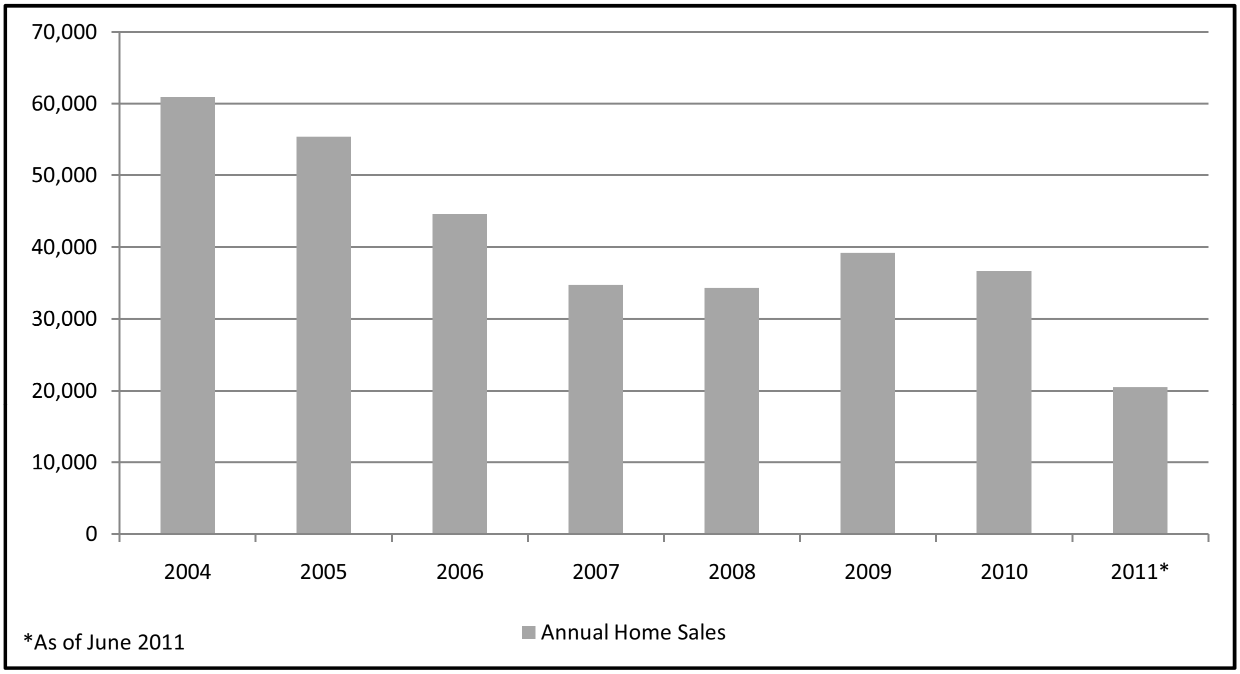
Economic Trends

Since the onset of the economic recession in December 2007, significant decreases in median home prices, home sales, and an increase in foreclosures have led to property tax revenue declines. However in Fiscal Year 2011, a number of factors (that affect property tax revenue forecasts) have led to declines in foreclosure rates and notices of default, and stabilization in countywide median home values.[1] Countywide foreclosures (August 2010 - July 2011) totaled 12,722, which is a decline of 14.7 percent from 14,914 from the prior twelve month period (August 2009 - July 2010). Notices of default, an indicator of potential future foreclosure levels, totaled 22,635 for the same time period, a decline of 19.4 percent from 27,738 notices of default.[2] While still above pre-recession levels, the decline in foreclosures and notices of default translate to an increase in the property tax revenue collection rate. In addition, moderate increases in median countywide home values further support the stabilization within the local real estate market. The calendar year 2010 average median countywide home price of $340,331 increased 7.5 percent from the calendar year 2009 average median home price of $316,846.[3] As of June 2011, home prices have experienced a slight increase to $342,967 indicating that, while the market has not yet reached pre-recession levels, it is no longer experiencing the large declines in home values recorded in prior fiscal years.

1 California Department of Industrial Relations, Consumer Price Index.
2 County of San Diego Assessor’s Office.
3 DataQuick Information Systems.

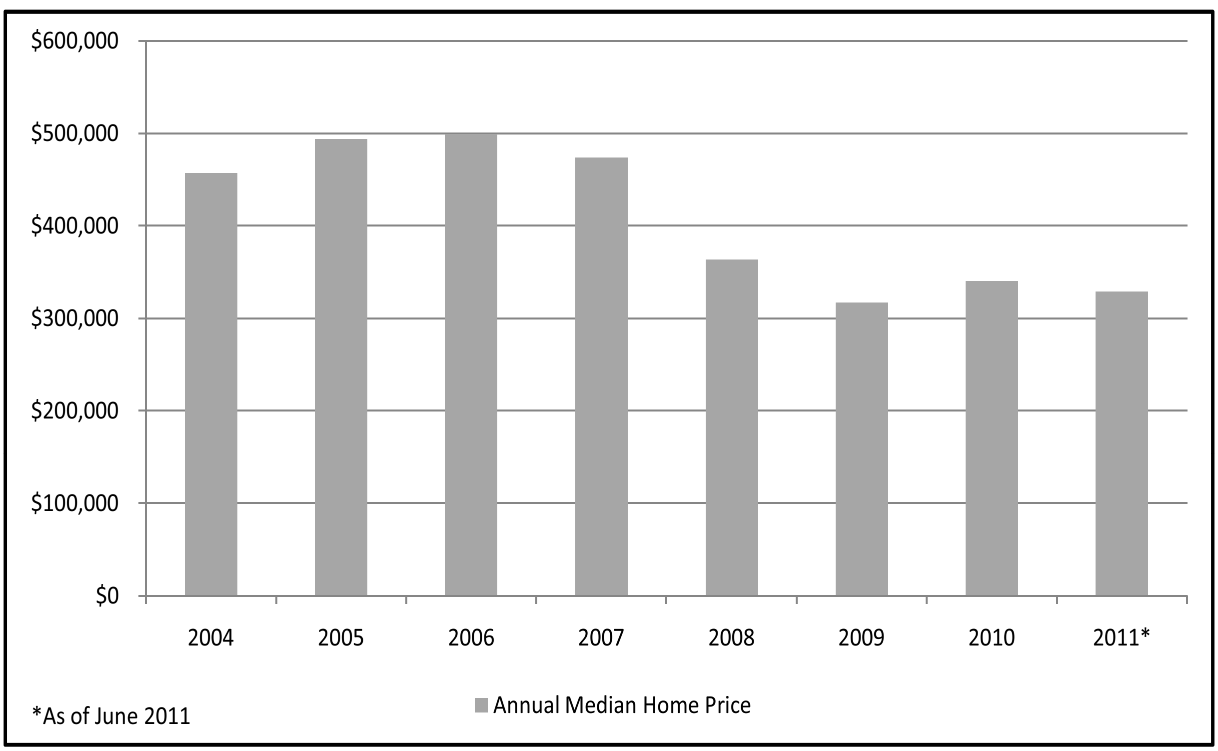
General Fund Revenues

Figure 5: San Diego County Home Sales (calendar year)



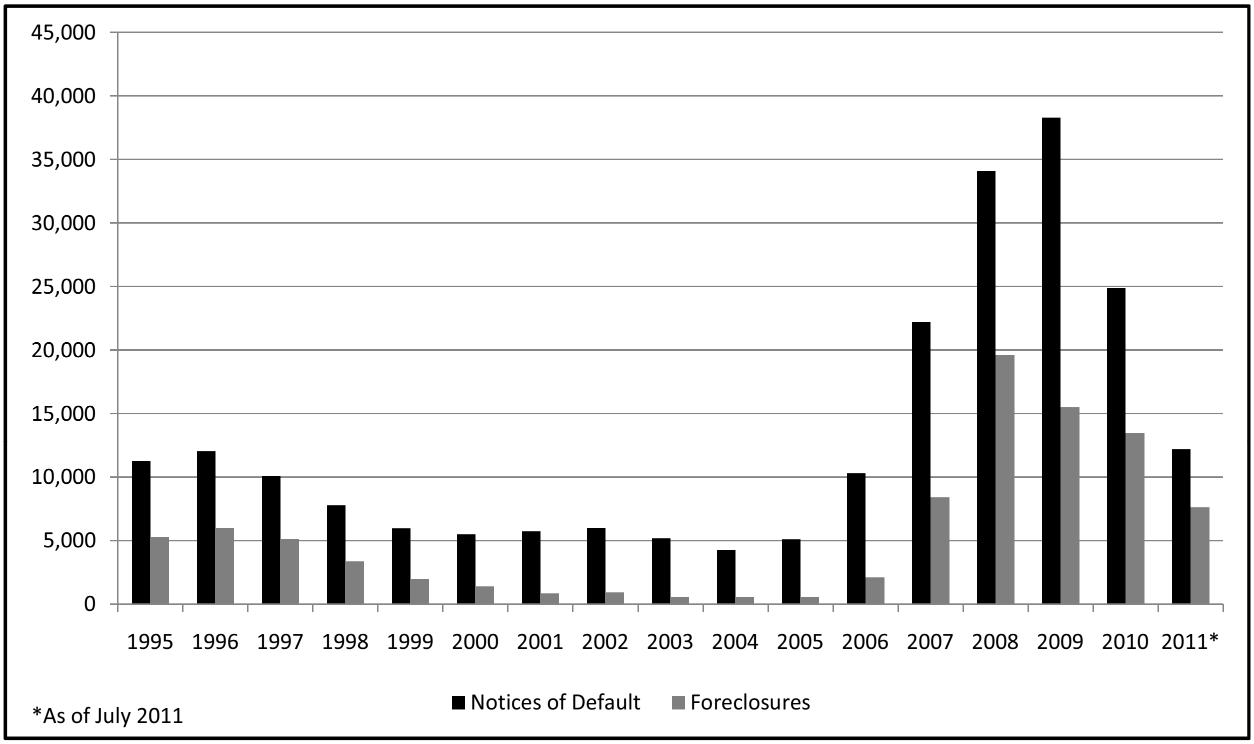
Source: DataQuick Information Systems

Figure 6: San Diego County Annual Median Home Price (calendar year)



Source: DataQuick Information Systems

Figure 7: San Diego Home Foreclosures 1995 — 2011 **(calendar year)**



Source: San Diego County Assessor/Recorder/County Clerk

Despite these stabilizing indicators in the local residential real estate market, economists project high unemployment levels to remain in the region. As of July 2011, San Diego's unemployment rate is 10.5 percent, which is a decline of 0.6 percent from the high of 11.1 percent in January 2010; however, this is still above the national unemployment rate of 9.3 percent. The State of California's unemployment rate was 12.1 percent as of June 2011, and economists predict slow growth in job creation and a double-digit unemployment rate until calendar year 2012.[1]

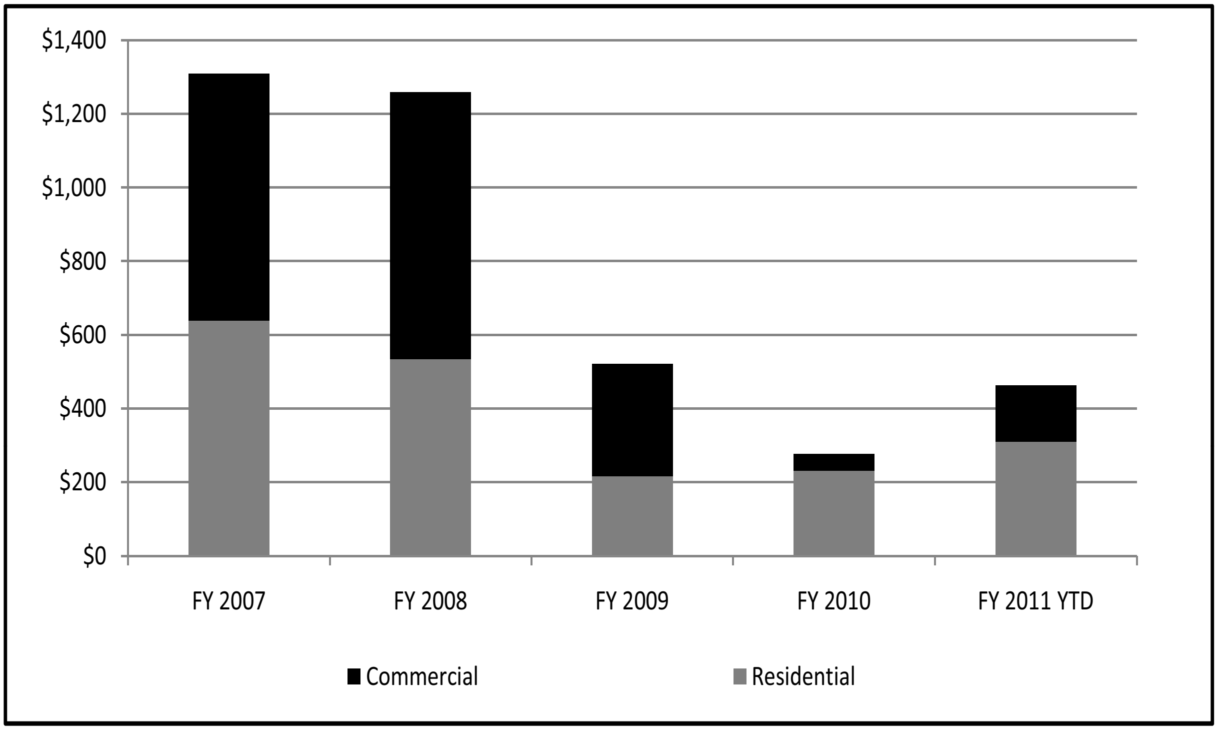
Another factor offsetting the stabilization of the residential housing market is a delayed recovery in the local commercial real estate market. According to CB Richard Ellis, throughout calendar year 2010 the local commercial real estate market experienced mixed signs of improvement with a continued lack of construction activity as compared to levels prior to the onset of the economic recession in December 2007. During the third quarter of Fiscal Year 2011, the overall vacancy rate in the county-wide office market dropped for the sixth straight quarter to 16.8 percent, which is a 1.4 percent decline from the same period last year. However, CB Richard Ellis reports that the San Diego industrial market experienced a "slight relapse" in job growth, with an increase of 1,800 jobs in the professional and business service sectors that was tempered by significant declines in the trade, transportation and utilities sectors, with a total of 900 jobs lost. Furthermore, during the third quarter of Fiscal Year 2011, CB Richard Ellis indicates that the retail market's 7.1 percent vacancy rate experienced a slight increase of 0.9 percent over the same period last year. Lastly, CB Richard Ellis reports that county-wide construction activity remained low in all three commercial real estate markets throughout Fiscal Year 2011, suggesting that a slow economic recovery and San Diego's lack of vacant land have resulted in a lack of construction activity.

[1] UCLA Anderson Forecast, March 2011.

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 May 2011. According to the City of San Diego Development Services Department, new commercial construction permits totaled $44.9 million in Fiscal Year 2010, an 85.2 percent decrease from $303.9 million in Fiscal Year 2009, which indicates that overall construction activity has improved over Fiscal Year 2010, but has yet to return to pre-recession levels.

Figure 8: New Construction Building Permit Valuation by Fiscal Year (in millions)



Source: City of San Diego, Development Services Department

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

Description	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 (as of May 2011)
Total Single Family	**$ 257.5**	**$ 210.7**	**$ 138.7**	**$ 161.5**	**$ 117.7**
Apartment	73.4	202.7	69.2	65.1	177.4
Condominium	307.9	120.8	9.3	4.9	15.1
Total Multi-Family	**$ 381.4**	**$ 323.5**	**$ 78.5**	**$ 70.0**	**$ 192.5**
Total Residential	**$ 638.8**	**$ 534.2**	**$ 217.3**	**$ 231.5**	**$ 310.2**
Total Commercial	**$ 670.5**	**$ 724.8**	**$ 303.9**	**$ 44.9**	**$ 152.4**

Table 4: New Residential Permits Issued

Description	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 (as of May 2011)
Total Single Family	**903**	**719**	**490**	**566**	**401**
Apartment	72	72	32	76	59
Condominium	192	48	12	23	122
Total Multi-Family	**264**	**120**	**44**	**99**	**181**
Total Residential	**1,167**	**839**	**534**	**665**	**582**

Source: City of San Diego, Development Services Department

Fiscal Year 2012 Proposed Budget

While the residential housing market has experienced slight increases in home sales and home prices in Fiscal Year 2011, this does not impact the growth rate for the Fiscal Year 2012 Adopted Budget due to a lag time between the time assessed valuation is set by the County Assessor's Office (reflecting the entire calendar year) and property tax revenue is received by the City. Property tax is a lagging revenue source and, therefore, does not depict recent market activity, including increases in the median home price. The zero percent growth rate in property tax revenue forecasted for Fiscal Year 2012 is indicative of the decrease in home sales and prices experienced in calendar years 2008 and 2009. Stabilization in home sales and prices experienced in 2010 and 2011 may provide for moderate growth in upcoming fiscal years from the negative impacts of the recession that began in December 2007.

The Fiscal Year 2012 adopted property tax budget of $380.9 million assumes no growth over the Fiscal Year 2011 year-end projection. The $380.9 million property tax budget consists of $276.8 million in base property tax (Proposition 13) and an estimated "in-lieu of motor vehicle license fee" payment of $104.1 million. In June 2011, the County Assessor's Office released information indicating a 0.65 percent growth in assessed valuation (AV) during Fiscal Year 2012 for the City. However, there are concerns that the declines in the local commercial market (which lags the residential market by almost two years) will counterbalance this slight increase in AV. Continued growth in the California Consumer Price Index (CPI) is required if the City is to experience ongoing growth in assessed valuation during future fiscal years.[1]

Table 5: Fiscal Year 2012 Adopted Property Tax Budget

		(in millions)
Base Property Tax	$	276.8
Property Tax "In-Lieu" of MVLF		104.1
Total Property Tax Budgeted Revenue	**$**	**380.9**

[1] County of San Diego Notice- County Assessor's Assessed Valuation for the City of San Diego, June 27, 2011.

General Fund Revenues

Sales Tax

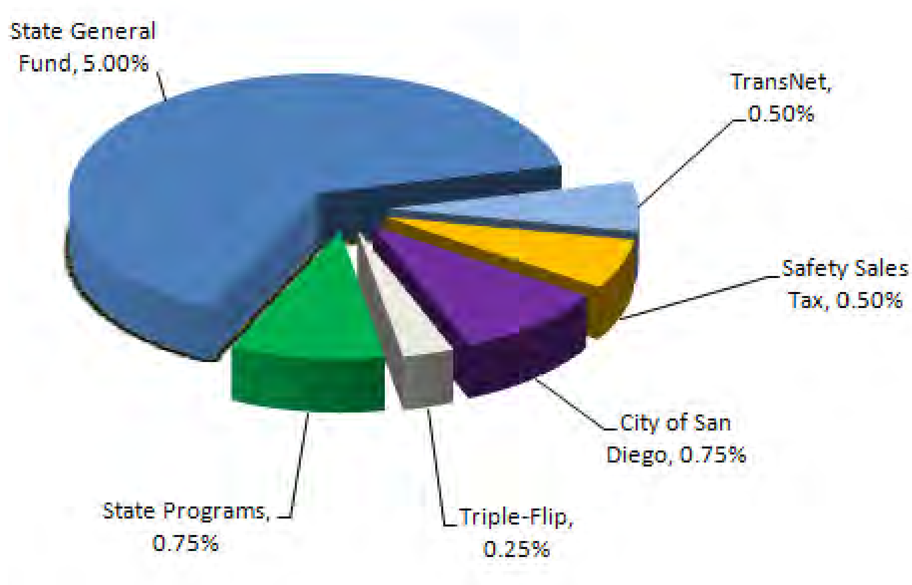
Background

Total City Budget **$251.2 million**
General Fund Budget **$211.6 million**
Percent of General Fund **18.8 percent**

Sales tax is the City's second largest General Fund revenue source, representing 18.8 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. The citywide total sales tax rate has decreased to 7.75 cents per dollar of taxable sales effective July 1, 2011, from 8.75 cents. The one cent decrease is due to the expiration of the State of California's sales and use tax increase that was voted into effect in April 2009 to mitigate state budget deficits. According to the Bradley-Burns Sales and Use Tax law, the City is to receive one cent of the total citywide sales tax rate levied on each dollar of taxable sales.

The total citywide sales tax rate in San Diego also includes two voter approved half-cent supplemental sales tax add-ons: TransNet Extension Ordinance and Expenditure Plan (TransNet), and safety sales tax. TransNet was implemented in 1987 to fund the San Diego Transportation Improvement Program for the maintenance, construction, and expansion of roads and bridges. The TransNet Extension Ordinance and Expenditure Plan, which went into effect April 2008, renewed the half-cent obligation for an additional 40-year term. Additionally, the total citywide sales tax rate includes a half-cent tax approved by California voters in 1993 for the purpose of funding local public safety expenditures. The revenue from this half-cent sales tax, known as the safety sales tax, is discussed in the following section.

Figure 9: City of San Diego Sales Tax Rate (7.75 percent)



Economic Trends

Due to the recession, large declines in sales tax revenue were experienced in San Diego from Fiscal Years 2008 to 2010. However, positive growth occurred in Fiscal Year 2011 with gains reported in all economic sectors, except construction. Moderate growth was reported in the general retail, food products, transportation, and business to business sectors, as seen in the table below.

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

Economic Category	Calendar Year 2009	Calendar Year 2010	% Change
General Retail	$ 54.9	$ 56.7	3.3%
Food Products	$ 39.8	$ 40.2	0.9%
Transportation	$ 31.6	$ 34.5	9.2%
Business to Business	$ 28.8	$ 29.9	3.6%
Construction	$ 12.8	$ 12.1	(5.4)%

Source: MuniServices, LLC

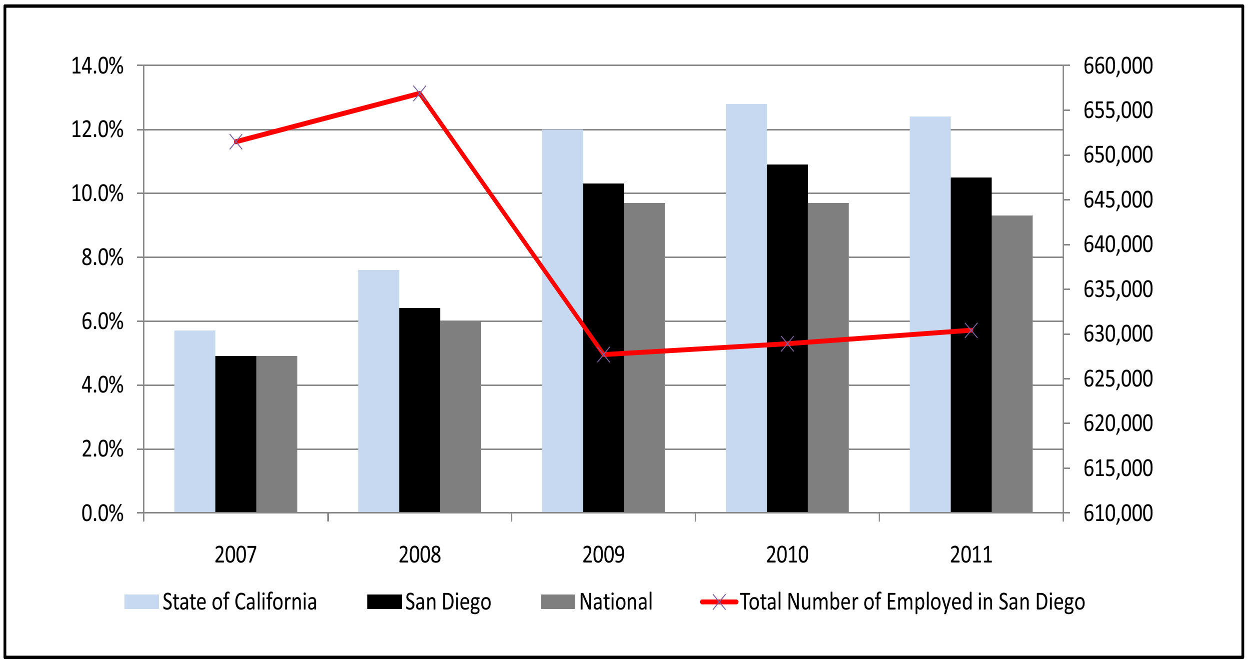
The City's sales tax consultant, MuniServices, LLC (MuniServices), projected that broad recovery is expected to continue into Fiscal Year 2012 with taxable sales increasing in the areas of department store retail, new automobiles, office equipment, furniture and appliances, and service stations. MuniServices further indicated that growth in sales tax revenue may be attributed to consumers who kept their jobs throughout the recession and feel confident spending money on replacement items and new products.[1]

According to the most recent (January 2011) forecast from the State Board of Equalization (BOE), State-wide taxable sales are forecasted to have an average growth of 8.0 percent in Fiscal Year 2012. A conservative growth rate of 4.0 percent is forecasted for the City's Fiscal Year 2012 budget due to high unemployment levels throughout the county and economic uncertainty. In July 2011, the California Employment Development Department reported San Diego's unemployment rate at 10.5, which is still above the national unemployment rate of 9.3 percent.

[1] MuniServices, City of San Diego, Sales Tax and Economic Review.

General Fund Revenues

Figure 10: Unemployment Rates (as of July 2011)



Source: State of California, Employment Development Department

Fiscal Year 2012 Adopted Budget

The Fiscal Year 2012 adopted sales tax budget of $211.6 million is based on the Fiscal Year 2011 year-end projection of actual revenue and assuming a 4.0 percent growth in taxable sales in Fiscal Year 2012. The Fiscal Year 2012 adopted budget for 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 were required to shift one-quarter of one 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, 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. It is currently unknown when the State will pay off their Economic Recovery Bonds.

Table 7: Fiscal Year 2012 Adopted Sales Tax Budget

		(in millions)
Sales Tax Revenue	$	159.3
Triple Flip Property Tax Reimbursement		52.3
Total Sales Tax Budgeted Revenue	**$**	**211.6**

As a destination city for visitors and tourists around the globe, San Diego has historically been economically stronger than the State of California. However, economic recovery has been slow and tentative State-wide. Higher employment rates, improvement in residential and commercial markets, growth in median income, steady tourist and business travel, and continued consumer spending are required to generate more sales tax revenues.

Safety Sales Taxes

Background

Total City Budget **$6.7 million**
General Fund Budget **$5.0 million**
Percent of General Fund **0.4 percent**

Safety sales tax revenue is derived from a half-cent sales tax resulting from the enactment of Proposition 172 in 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, the City of San Diego receives 3.2 percent from the San Diego County's Public Safety Augmentation Fund on a monthly basis. For Fiscal Year 2012, the Public Safety Needs and Debt Service Fund was set up in the City as a special revenue fund, with the purpose to track expenditures for public safety needs. Debt service for the Fire and Lifeguard Facilities Fund will be paid first from this fund and the remainder is distributed equally between the Police and Fire-Rescue Departments.

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. However, safety sales tax revenue does also depends on the County's share of total statewide taxable sales and allocations to the City do not entirely depend on taxable sales within the City.

Fiscal Year 2012 Adopted Budget

The Fiscal Year 2012 adopted safety sales tax budget is $6.7 million reflecting a 2.5 percent budgeted growth rate over the Fiscal Year 2011 year-end projections budget of $6.3 million. In Fiscal Year 2012, approximately $1.6 million will be allocated to the Fire and Lifeguard Facilities Fund for debt service payments on facility improvements, while the remaining $5.0 million amount will be equally distributed between Police and Fire-Rescue Departments' budgets to support public safety needs. For Fiscal Year 2012, the safety sales tax budget in the General Fund reflects only the allocation for the Police and Fire-Rescue Departments.

General Fund Transient Occupancy Tax (TOT)

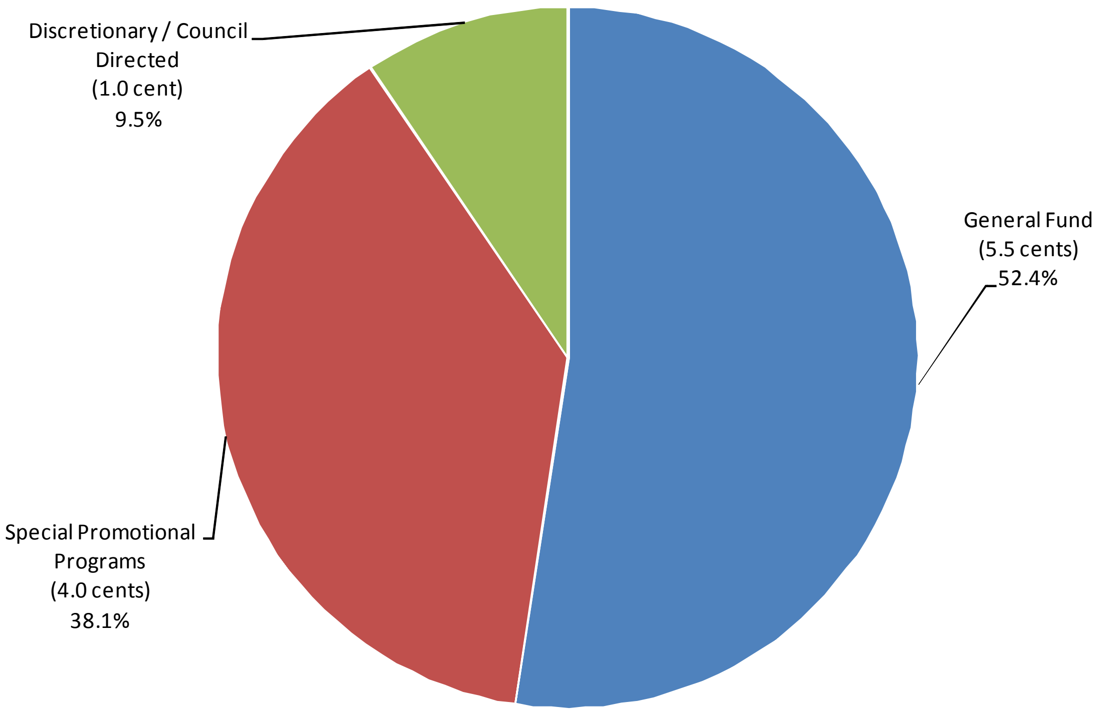
Background

Total City Budget **$142.8 million**
General Fund Budget **$74.8 million**
Percent of General Fund **6.6 percent**

Transient occupancy tax (TOT) makes up 6.6 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 the City's Municipal Code 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.

General Fund Revenues

Figure 11: City of San Diego Transient Occupancy Tax Allocation



Economic Trends

Stabilization and recovery in travel were evident during calendar year 2010, which began to positively affect the City's TOT revenue in the first quarter of calendar year 2010, thus ending a revenue decline that started in the fall of calendar year 2008. The positive growth trend is projected to continue through calendar year 2012, according to the June 2011 Quarterly Travel Forecast from the San Diego Convention and Visitors Bureau (CONVIS). Local travel is estimated to continue to grow by 3.7 and 2.9 percent in calendar years 2011 and 2012, respectively, and is reflected in CONVIS tourism industry projections for room demand, average daily rate (ADR), and total occupancy. Room demand growth of 3.1 percent is projected in calendar year 2011 and 2.7 percent in calendar year 2012, while ADR is projected to increase as discount travel becomes less available in the face of higher travel demand versus the available room supply. ADR is projected to increase to $126 in 2011 and $134 in calendar year 2012, which would be the first positive growth since calendar year 2008, while the overall hotel occupancy rate is anticipated to increase to 68.5 percent in calendar year 2011, from 66.6 percent in calendar year 2010. Total occupancy is also projected to increase to 69.8 percent in calendar year 2012, which exceeds the occupancy rate in 2008, prior to the onset of the economic recession.[1]

Table 8 illustrates hotel performance in San Diego since calendar year 2008 and projections for calendar years 2011 and 2012:

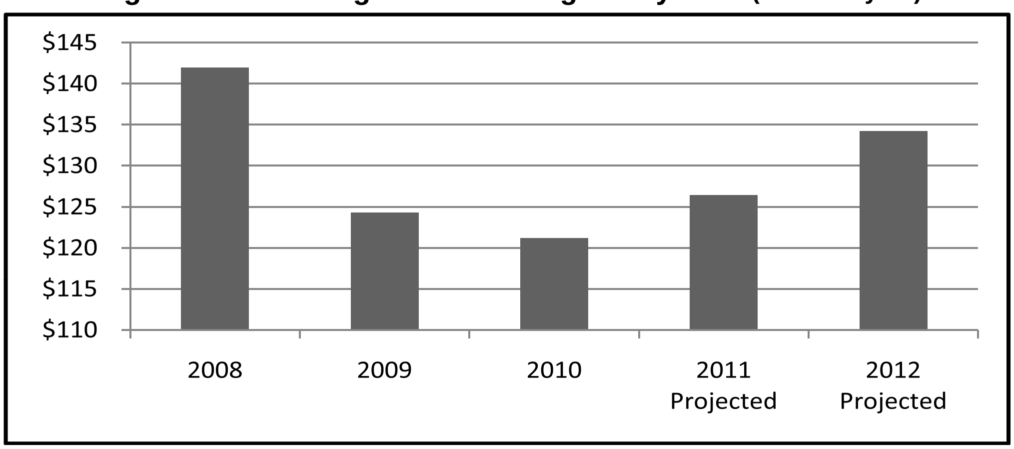
[1] CONVIS Quarterly Travel Forecast, June 2011.

Table 8: 2008 - 2012 San Diego Tourism

	CY 2008	CY 2009	CY 2010	Projected CY 2011	Projected CY 2012	% Change '07 '08	% Change '08-'09	% Change '09 '10	Projected % Change '10 '11	Projected % Change '11 - '12
Total Visitors (in millions)	31.1	29.6	29.9	31.0	31.9	-1.5%	-4.8%	0.9%	3.7%	2.9%
Overnight (in millions)	15.2	14.4	15.1	15.5	15.7	-1.3%	-4.8%	4.5%	2.5%	1.9%
Day (in millions)	15.9	15.2	14.8	15.5	16.1	-1.6%	-4.8%	-2.5%	5.0%	3.9%
Room Supply	20.2	20.9	21.1	21.1	21.3	2.2%	3.7%	0.8%	0.2%	0.8%
Room Demand	13.9	13.1	14.0	14.5	14.9	-2.9%	-5.8%	6.9%	3.1%	2.7%
Average Occupancy	69.2%	62.9%	66.6%	68.5%	69.8%	-5.1%	-9.2%	6.0%	2.9%	1.8%
Average Daily Rate	$ 141.9	$ 124.3	$ 121.2	$ 126.4	$ 134.2	2.4%	-12.4%	-2.5%	4.3%	6.2%
Airport Arrivals (in millions)	9.1	8.5	8.4	not available	not available	-1.0%	-6.2%	-0.8%	n/a	n/a

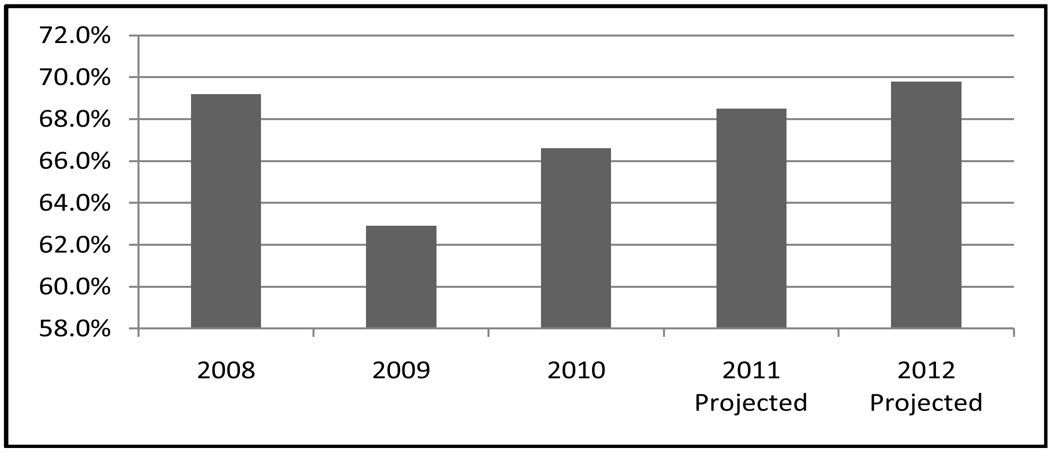
Source: CONVIS Quarterly Travel Forecast, June 2011, CONVIS San Diego County Visitor Industry Summaries 2008-2010

Figure 12: San Diego Hotel Average Daily Rate (calendar year)



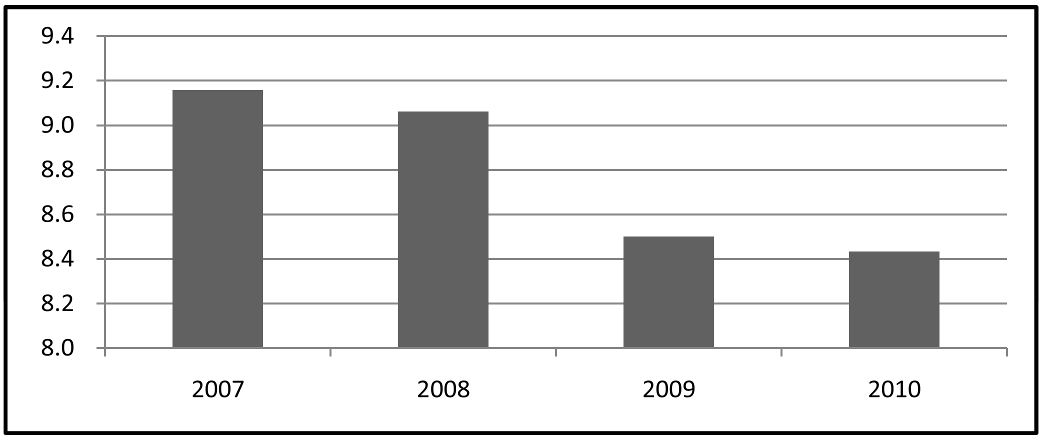
Source: CONVIS Quarterly Travel Forecast, June 2011

Figure 13: San Diego Hotel Occupancy Rate **(calendar year)**



Source: CONVIS Quarterly Travel Forecast, June 2011

Figure 14: San Diego International Airport Arrivals **(in millions by calendar year)**



Source: CONVIS San Diego County Visitor Industry Summaries 2007 - 2010

Fiscal Year 2012 Proposed Budget

The Fiscal Year 2012 total adopted transient occupancy tax budget for the City of San Diego is $142.8 million, a 4.0 percent growth over the Fiscal Year 2011 year-end projections. Of the $142.8 million, $74.8 million will be allocated to the General Fund. The remaining funds are allocated to Special Promotional Programs, which includes the 1-cent Council discretionary TOT funding budgeted to be transferred to the General Fund and TOT allocated for reimbursement of General Fund tourism related expenditures.

The TOT revenue estimate for Fiscal Year 2012 is based on the growth in receipts experienced from March 2010 to May 2011. Growth in tourism activity is expected through the remainder of calendar years 2011 and 2012. This growth is anticipated to remain steady based on promising signs in some economic indicators; however, with high unemployment and cautious consumer spending impacting tourism trends, the budgeted revenue reflects cautiously optimistic estimates.

Property Transfer Tax

Background

Total City Budget
$5.1 million
General Fund Budget
$5.1 million
Percent of General Fund
0.5 percent

Property transfer tax makes up 0.5 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 $0.55 per $1,000 against the County's charge, giving both the County and City each $0.55 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

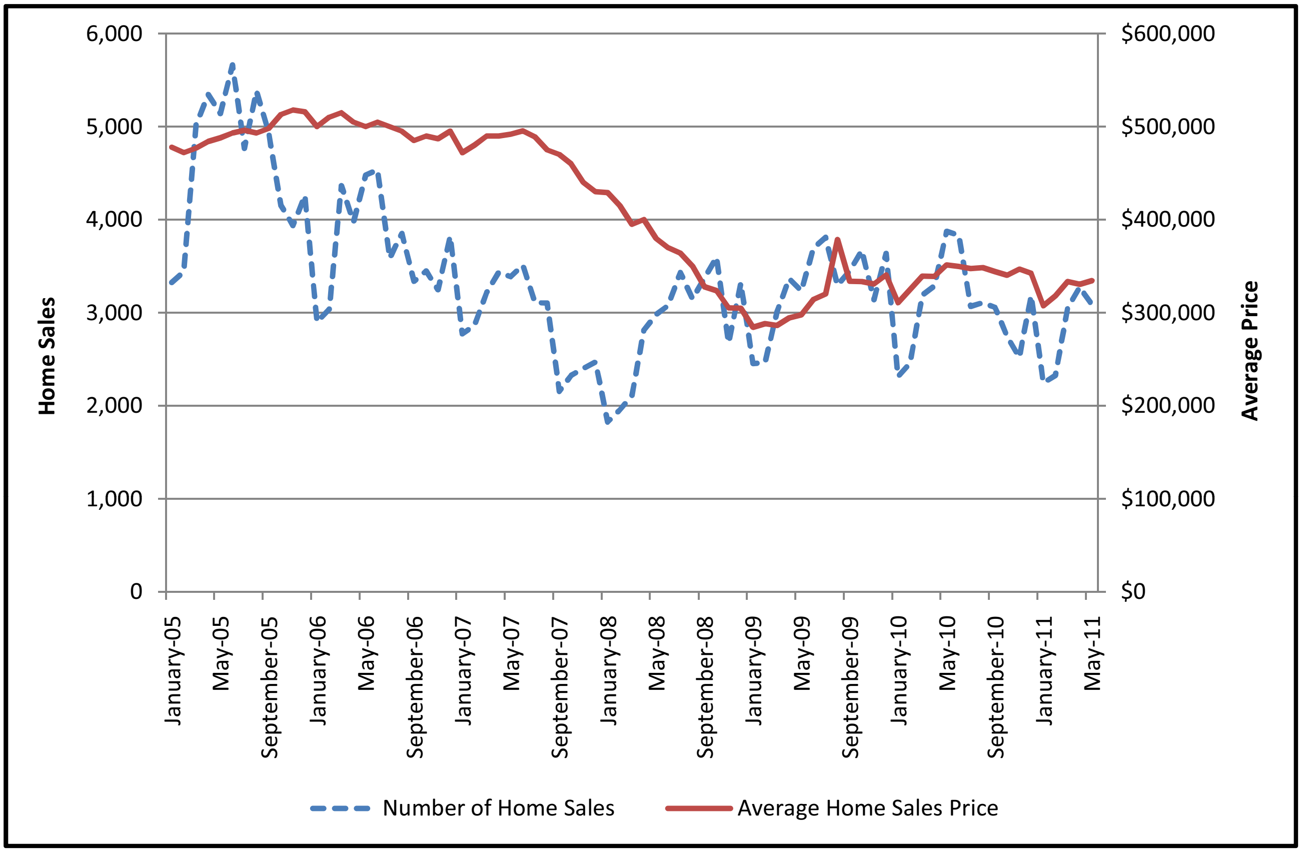
Countywide foreclosures (August 2010 - July 2011) totaled 12,722, which is a decline of 14.7 percent from 14,914 from the prior twelve month period (August 2009 - July 2010); while notices of default, an indicator of potential future foreclosure levels, totaled 22,635 (August 2010 - July 2011), a decline of 19.4 percent from 27,738 notices of default (August 2009 - July 2010).[1] The calendar year 2010 average median countywide home price of $340,331 increased 7.5 percent from the calendar year 2009 average median home price of $316,846. As of June 2011, home prices have experienced a slight increase to $342,967.[2] It is projected that median home prices in San Diego will continue to stabilize and notices of default and foreclosures will continue to decrease during Fiscal Year 2012 potentially improving the forecast for property transfer tax revenue.

Fiscal Year 2012 Adopted Budget

The Fiscal Year 2012 Adopted property transfer tax budget of $5.1 million assumes a 5.0 percent growth over the Fiscal Year 2011 year-end projection. The positive growth rate is based on projected growth in median prices and decreases in local notices of default and foreclosures.

1 San Diego County Assessor/Recorder/County Clerk
2 DataQuick Information Systems.

Figure 15: San Diego County Home Sales



Source: DataQuick Information Systems

Franchise Fees

Background

Total City Budget
$124.7 million

General Fund Budget
$67.8 million

Percent of General Fund
6.0 percent

Franchise fees revenue makes up 6.0 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 (75.0 percent) and the Environmental Growth Fund (25.0 percent), according to the 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. There are 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 2012 Adopted Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2012 Adopted Budget for SDG&E franchise fee revenue of $48.2 million is based on the Fiscal Year 2011 year-end projection of actual receipts and assumes a 3.0 percent growth rate for Fiscal Year 2012. The Fiscal Year 2012 budget reflects pre-recession growth levels.

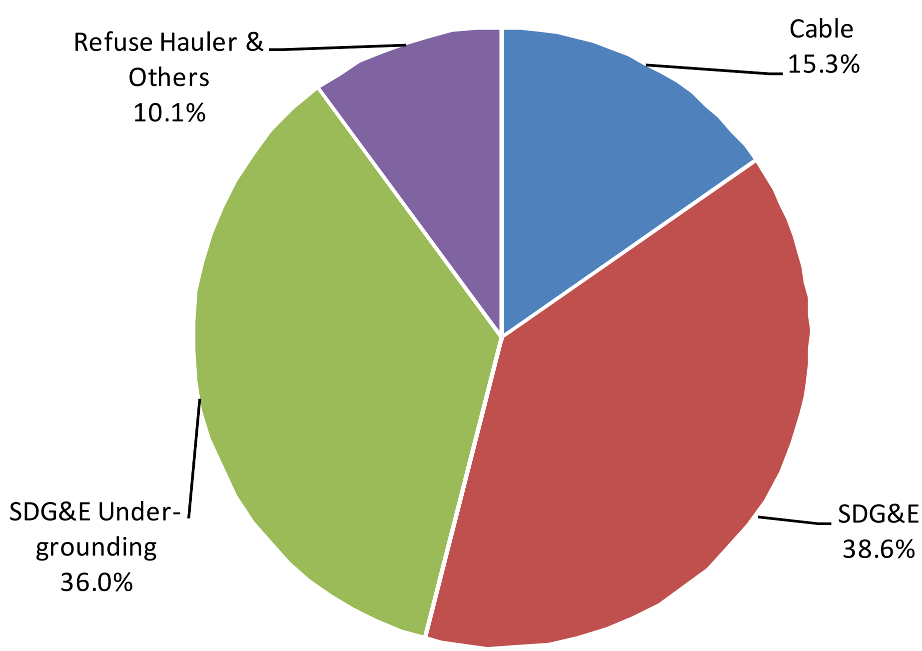
In accordance with the City Charter, 25.0 percent of revenue received from SDG&E or $12.1 million is to be deposited into the Environmental Growth Fund (EGF). One-third of the EGF is used to fund the maintenance of parks; the remaining two-thirds are designated for parkland maintenance and debt service payments for open space acquisitions. The remaining revenue balance of approximately $36.1 million received from SDG&E franchise fees is allocated to the General Fund.

CABLE COMPANIES. The Fiscal Year 2012 Adopted Budget for cable franchise fee revenue of $19.1 million is based on the Fiscal Year 2011 year-end revenue projection and assumes a 3.0 percent growth rate for Fiscal Year 2012.

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2012 Adopted Budget for refuse hauler franchise fee revenue from private refuse haulers is $9.6 million, an increase of $569,000 over the Fiscal Year 2011 year-end revenue projection. The increase in Fiscal Year 2012 is due to a projected increase in refuse tonnage. The City also anticipates an additional $2.9 million in franchise fees from the EDCO and Sycamore Landfill facilities and $155,000 from other franchise fee sources.

UNDERGROUNDING UTILITY FEE. The Fiscal Year 2012 Adopted Budget for SDG&E undergrounding utility fee revenue of $44.8 million is based on the Fiscal Year 2011 year-end revenue projection and assumes a 3.0 percent growth rate for Fiscal Year 2012.

Figure 16: Franchise Fee Revenue Breakdown



General Fund Revenues

Licenses and Permits

Background

Total City Budget
$59.3 million

General Fund Budget
$35.2 million

Percent of General Fund
3.1 percent

The Licenses and Permits revenue category includes revenue for the purpose of recovering costs associated with regulating an activity and other revenues such as business license taxes, rental unit taxes, parking meter collections, and alarm permit fees.

Fiscal Year 2012 Adopted Budget

The Fiscal Year 2012 Adopted Budget for licenses and permits is $35.2 million or 3.1 percent of the General Fund revenue budget. This represents an approximate $3.6 million or 11.5 percent increase from the Fiscal Year 2011 Adopted Budget. The increase in revenue is mainly due to $4.9 million in San Diego Fire-Rescue Department new fees, including a new fire alarm permitting fee, new air medical billing fee, and an increase in the allocation of medical aid response costs to recover City support expenses. This gain in revenue is offset by the elimination of $500,000 in one-time revenue from the collection of delinquent business tax revenue from Fiscal Year 2011; a decrease of $130,000 in refuse collector business tax revenue; and a $1.0 million decrease in revenue from parking meter collections. In the Fiscal Year 2011 Adopted Budget, $2.6 million in new parking meter revenue was included based on the projected implementation of the City's Parking Meter Utilization Program (Program) at that time. The Program was approved by the City Council in Fiscal Year 2011. The revenue projection has been added to the Fiscal Year 2012 budget with a new updated estimate of $1.6 million, which is $1.0 million less than the original estimates included in the Fiscal Year 2011 Adopted Budget.

Fines, Forfeitures, and Penalties

Background

Total City Budget
$38.9 million

General Fund Budget
$37.7 million

Percent of General Fund
3.3 percent

The Fines, Forfeitures, and Penalties revenue category includes revenue generated from the violation of laws 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 2012 Adopted Budget

The Fiscal Year 2012 Adopted Budget for fines, forfeitures, and penalties revenue is $37.7 million or 3.3 percent of the General Fund revenue budget. This represents an approximate $4.9 million or a 14.9 percent increase as compared to the Fiscal Year 2011 Adopted Budget. The increase in the Fiscal Year 2012 Adopted Budget for fines, forfeitures, and penalties is primarily due to $3.2 million in revenue from the City's Parking Citation Penalty Pass-Through Fee Ordinance in addition to $1.3 million in anticipated audit revenue recovery from delinquent payments. The increase in revenues from this Ordinance is due to a change in assessing surcharges included in each violation. Previously, the City of San Diego paid State surcharges on each parking citation issued out of total revenue received. In Fiscal Year 2011, the City Council approved an Ordinance authorizing the City to pass State mandated surcharges to violators. Additionally, the increase in fines, forfeitures, and penalties revenue includes a $500,000 increase in red light enforcement revenue due to the installation of new red light photo enforcement cameras at fifteen sites.

Revenue from Money and Property

Rents and Concessions

Total City Budget
$64.5 million
General Fund Budget
$39.2 million
Percent of General Fund
3.5 percent

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 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 City Charter 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 2012 Adopted Budget

The Fiscal Year 2012 Adopted Budget for rents and concessions revenue is $39.2 million or 3.5 percent of the General Fund revenue budget. This represents a $4.4 million or 10.2 percent decrease from the Fiscal Year 2011 Adopted Budget. This decrease is primarily attributable to the elimination of a $4.3 million one-time transfer from the Mission Bay Park Improvement Fund in Fiscal Year 2011 ($2.5 million in prior year balance and $1.8 million in savings from delayed capital improvement projects).

Mission Bay Park rents and concessions are projected to generate $25.3 million in Fiscal Year 2012, as compared to the Fiscal Year 2011 Adopted Budget of $26.4 million, which is a decrease of $1.1 million. In Fiscal Year 2012, pursuant to the City Charter, the excess above the threshold of $2.3 million is budgeted in the San Diego Regional Park Fund. The Mission Bay Park Improvement Fund will not receive funding in Fiscal Year 2012 based on projected revenues for Mission Bay.

Offsetting the elimination of the $4.3 million one-time revenue and the $1.1 million decline in rents and concessions generated from Mission Bay are revenue increases of $500,000 from Pueblo Lands and $500,000 from Belmont Park over Fiscal Year 2011 Adopted Budget amounts.

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

Interest rates have remained historically low since the financial crisis of 2008. The federal funds rate has remained at a target of 0.00 to 0.25 percent during the entire period even as economic activity has been through several stops and starts. While the strains in the credit markets have eased, recent economic figures have been showing signs of weakness and there is increased concern that the global sovereign debt crisis and tough fiscal austerity measures may lead to another global recession. The Federal Open Market Committee (FOMC) has stated that conditions "are likely to warrant exceptionally low levels of the federal funds rate at least through mid Fiscal Year 2013."

Interest Earnings Outlook

Recent statements by the Federal Reserve have indicated they are likely to keep interest rates at historic lows through the end of Fiscal Year 2013. The result will be continued low interest earnings for Fiscal Year 2012 and most likely beyond. 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

Total City Budget
$3.3 million

General Fund Budget
$3.3 million

Percent of General Fund
0.3 percent

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.

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 to 0.65 percent; the State compensated cities and counties for the tax offset and loss in MVLF revenue with increased property tax revenues. Beginning May 19, 2009 through June 30, 2011, the MVLF tax rate was increased from 0.65 percent to 1.15 percent; the 0.50 percent increase effective during this time does not have any impact on the cities' MVLF allocation. The rate dropped back to 0.65 percent on July 1, 2011.

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 the City's MVLF revenue declines over the past four fiscal years. In the second half of calendar year 2010, however, the new vehicle market showed signs of improvement. In the first quarter of calendar year 2011, new vehicle registrations in the State were up 19.7 percent from calendar year 2010, according to the New Car Dealers Association; the Association's Auto Outlook is predicting the overall rate of increase in California to be 13.6 percent for calendar year 2011.

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 Governor's Fiscal Year 2011-2012 Proposed Budget estimated the total number of vehicles in California (autos, trucks, trailers, and motorcycles) to be 30.7 million, and assumes that there will be 1.6 million new vehicle registrations, in Fiscal Year 2012.

Fiscal Year 2012 Adopted Budget

The Fiscal Year 2012 adopted motor vehicle license fees budget of $3.3 million assumes a 14.9 percent growth over the Fiscal Year 2011 year-end projection. This revenue outlook was based on the projection that the new vehicle market will continue to improve throughout calendar year 2011 and that new vehicle registrations remain on the upward trend that began in the second half of calendar year 2010. However, subsequent to finalizing the Fiscal Year 2012 Adopted Budget, State Bill 89 was passed and included as part of the balancing actions in California's Fiscal Year 2012 Adopted Budget. This bill eliminates MVLF allocations to cities as the revenue will be redirected to fund State public safety grants. State decisions regarding MVLF will continue to be monitored throughout the fiscal year and adjustments to the City's General Fund revenue projections will be made accordingly. The City estimates that potential partial funding of booking fees and an increase in COPS grant funding will mitigate most of this revenue shortfall.

Revenue from Federal & Other Agencies

Total City Budget
$66.1 million

General Fund Budget
$2.6 million

Percent of General Fund
0.2 percent

Background

Revenues from federal and other agencies include federal grants and reimbursements for City services such as court crime lab revenue, urban search and rescue, service level agreements, and unbudgeted cost reimbursements.

Fiscal Year 2012 Adopted Budget

The Fiscal Year 2012 Adopted Budget for revenue from federal and other agencies is $2.6 million or 0.2 percent of the General Fund revenue budget. This represents an approximate $0.4 million or 17.4 percent increase from the Fiscal Year 2011 Adopted Budget. The revenue increase is due to the re-categorization of some revenues that were previously budgeted in the charges for current services category.

Charges for Current Services

Total City Budget
$1,163.7 million

General Fund Budget
$157.8 million

Percent of General Fund
14.0 percent

Background

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.

General Fund Revenues

Fiscal Year 2012 Adopted Budget

The Fiscal Year 2012 Adopted Budget for charges for current services revenue is $157.8 million or 14.0 percent of the General Fund revenue budget. This represents a net increase of $12.4 million or 8.5 percent from the Fiscal Year 2011 Adopted Budget.

The increase of $12.4 million is primarily attributable to a $5.1 million transfer of Emergency Medical Services balance to the General Fund ($4.1 million in one-time revenue and $1.0 million on-going), a $6.1 million federal grant from the American Recovery and Reinvestment Act, and an increase of $1.4 million in general governmental services billing revenue, among others. Offsetting these revenue gains are revenue reductions related to the restructuring of the Transportation and Storm Water and City Planning and Community Investment Departments, where revenue previously budgeted in this category in Fiscal Year 2011 was reclassified in other revenue categories.

Other Financial Sources & Uses

Background

Total City Budget
$193.1 million

General Fund Budget
$100.9 million

Percent of General Fund
9.0 percent

The Other Financial Sources & Uses revenue category includes revenues received by the General Fund from other non-General Fund City funds such as the Transient Occupancy Tax (TOT) 1.0 cent transfer, fees from street and urban forestry maintenance, Storm Water permit fees, and reimbursements for engineering services provided for capital projects.

Fiscal Year 2012 Adopted Budget

The Fiscal Year 2012 Adopted Budget for other financial sources & uses is $100.9 million or 9.0 percent of the General Fund revenue budget. This represents an approximate $10.6 million or 9.5 percent decrease from the Fiscal Year 2011 Adopted Budget.

A decrease of $39.0 million from the Fiscal Year 2011 Adopted Budget is due to one-time revenue transfers budgeted in the Fiscal Year 2011 Adopted Budget that were eliminated from the Fiscal Year 2012 Adopted Budget. These one-time revenue transfers include $24.6 million of property tax revenue set aside from Fiscal Year 2010 for Fiscal Year 2011 deficit mitigation; elimination of $9.5 million in undesignated fund balances ($7.5 million from the De Anza Operating Fund and $2.0 million from the Library System Improvement Program Fund); and $3.3 million of Proposition 1B revenue from the State. The remaining $1.0 million is made up of miscellaneous one-time transfers as part of solutions for Fiscal Year 2011 deficit mitigation.

Offsetting the decrease in revenue from one-time transfers is a revenue increase of $27.7 million, consisting of a one-time $4.0 million reimbursement to the City related to the 2007 wildfires; $6.1 million transfer due to the reclassification of revenues related to the restructuring of the Transportation & Storm Water Department; $1.6 million increase in the 1.0 cent transient occupancy tax transfer to the General Fund (due to a projected increase in total City TOT revenue); $2.0 million Redevelopment Agency payment into the General Fund to subsidize convention center debt payments; $0.8 million Redevelopment Agency repayment of original loan monies from the City; $11.8 million reimbursement in Gas Tax savings that were realized in FY11 for street work and re-budgeted in the General Fund; and other miscellaneous revenue adjustments and transfers.

Other Revenue

Total City Budget **$142.9 million**
General Fund Budget **$2.8 million**
Percent of General Fund **0.3 percent**

Fiscal Year 2012 Adopted Budget

The Fiscal Year 2012 Adopted Budget for other revenue is $2.8 million or 0.3 percent of the General Fund revenue budget. This represents an approximate $0.3 million or 12.0 percent increase from the Fiscal Year 2011 Adopted Budget. Other revenue is mainly composed of ambulance fuel reimbursements, refunds of Supplemental Pension Savings Plan forfeitures, refuse disposal reimbursements, and other miscellaneous revenues. The increase in revenue is mainly attributable to an increase in reimbursements related to the restructuring of the transportation and storm water department.

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 2011 that established the Tax Appropriations Limit for Fiscal Year 2012 at $1,421,136,594. Using the Fiscal Year 2012 Adopted Budget, the appropriations subject to the limit (i.e., proceeds of taxes, excluding debt service on voter-approved debt and qualified capital outlays) were calculated to be $746.8 million, which was $674.4 million lower than the Gann Limit.