General Fund Revenues

The total Fiscal Year 2011 General Fund Proposed Budget is $1.1 billion, which represents a decline of $37.4 million or 3.3 percent from the Fiscal Year 2010 Annual Budget. General Fund revenues pay for essential City services including police, fire, refuse collection, library services, and park and recreation programs.

Table 1 below illustrates the components of the decline in revenues of 3.3 percent or negative $37.4 million in General Fund proposed revenue for Fiscal Year 2011.

Table 1: Fiscal Year 2011 General Fund Revenue Growth Breakdown

	Percent Change from FY2010 Annual Budget	Change (in millions)
Major Revenues	-3.9%	$ (32.8)
Other Revenue Sources	-1.6%	$ (4.6)
Total	**-3.3%**	**$ (37.4)**

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 Proposed Budget revenue projections.

The four major General Fund revenue sources: property tax, sales tax, transient occupancy tax (TOT), and franchise fees, account for 65.1 percent of the City's General Fund revenue in the Fiscal Year 2011 Proposed 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 Proposed Budget was prepared using data current as of February 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.

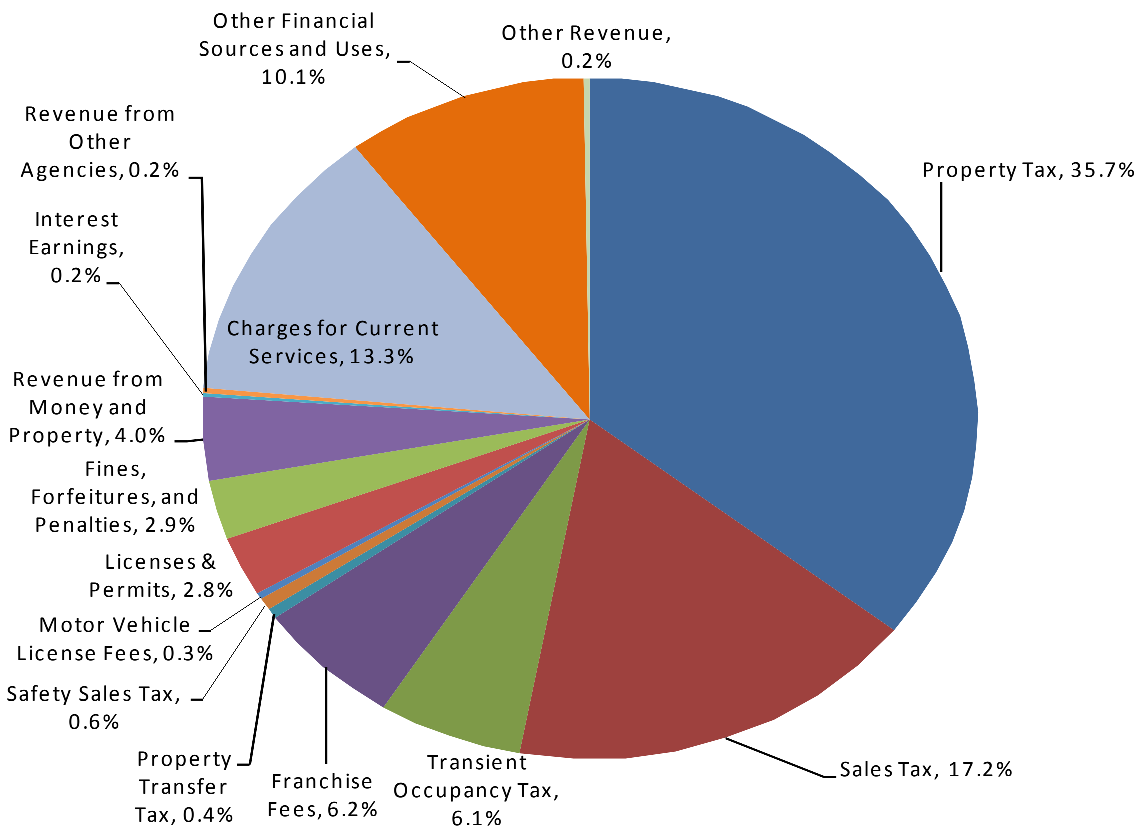
Index of Revenues

General Fund Revenue

Table 2: Fiscal Year 2011 General Fund Revenues - $1.09 Billion (in millions)

Revenue Category	FY 2010 Annual Budget	FY 2011 Proposed Budget	$ Change FY 2011 - FY 2010	% Change FY 2011 FY 2010	% of Total General Fund Revenue
Property Tax	$ 382.6	$ 390.1	$ 7.4	1.9%	35.7%
Sales Tax	$ 210.1	$ 187.5	$ (22.7)	-10.8%	17.2%
Transient Occupancy Tax	$ 75.9	$ 66.1	$ (9.8)	-12.9%	6.1%
Franchise Fees	$ 73.7	$ 67.2	$ (6.5)	-8.9%	6.2%
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	$ 31.0	$ (1.5)	-4.6%	2.8%
Fines, Forfeitures, and Penalties	$ 32.4	$ 31.4	$ (1.0)	-3.2%	2.9%
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	$ 2.1	$ (1.2)	-36.4%	0.2%
Charges for Current Services	$ 153.6	$ 144.9	$ (8.7)	-5.6%	13.3%
Other Financial Sources and Uses	$ 100.1	$ 110.2	$ 10.0	10.0%	10.1%
Other Revenue	$ 4.2	$ 2.5	$ (1.6)	-39.4%	0.2%
Total	**$ 1,129.7**	**$ 1,092.3**	**$ (37.4)**	**-3.3%**	**100%**

Figure 1: Fiscal Year 2011 General Fund Revenues - $1.09 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, and continuing revenue declines are not expected in the Fiscal Year 2011 Budget. A flat to modest growth in certain revenues is projected in the City's Fiscal Year 2011 Budget.

Some of these positive current economic trends include growth in consumer spending, the main driver of the National Gross Domestic Product. National consumer spending increased 3.9 percent in the rolling twelve month period from March 2009 to February 2010, and increasing nine out of the twelve months. Over this same time period national total personal income has increased 2.3 percent, and nine out of the twelve month period. The national consumer savings rate has declined to 3.1 percent in response to an improved economic outlook, helping fuel greater spending per capita.

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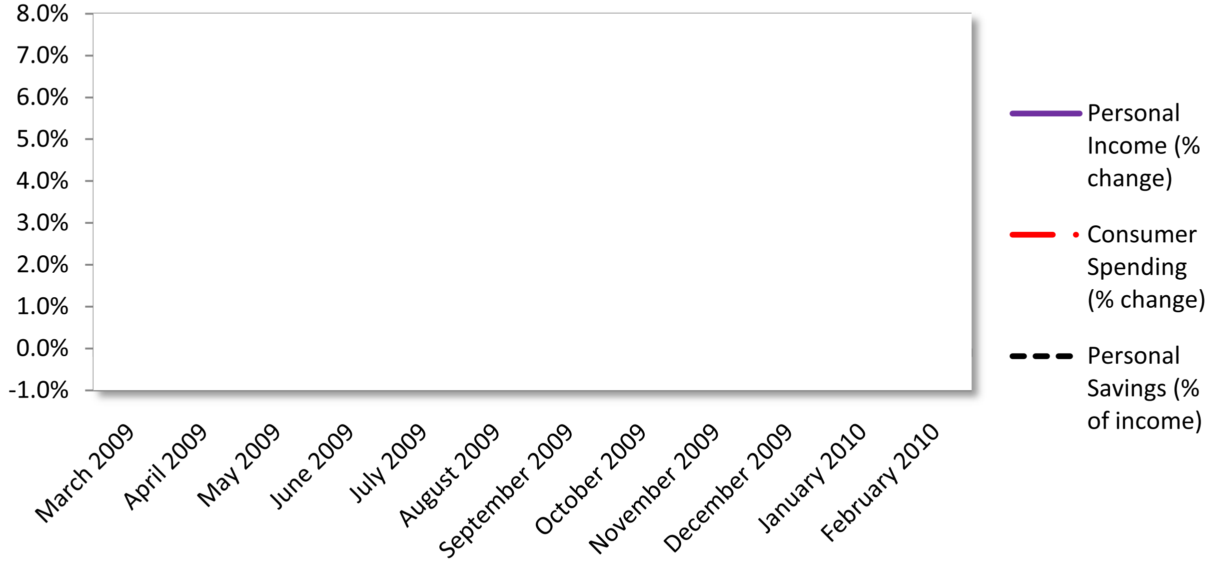
[1] The following sources were used for the budget publication: California Employment Development Department, San Diego Convention and Visitors Bureau, USD Index of Leading Economic Indicators, The Consumer Conference Board, County of San Diego Assessor / Clerk / Auditor, and MDA DataQuick Information Systems.

General Fund Revenue

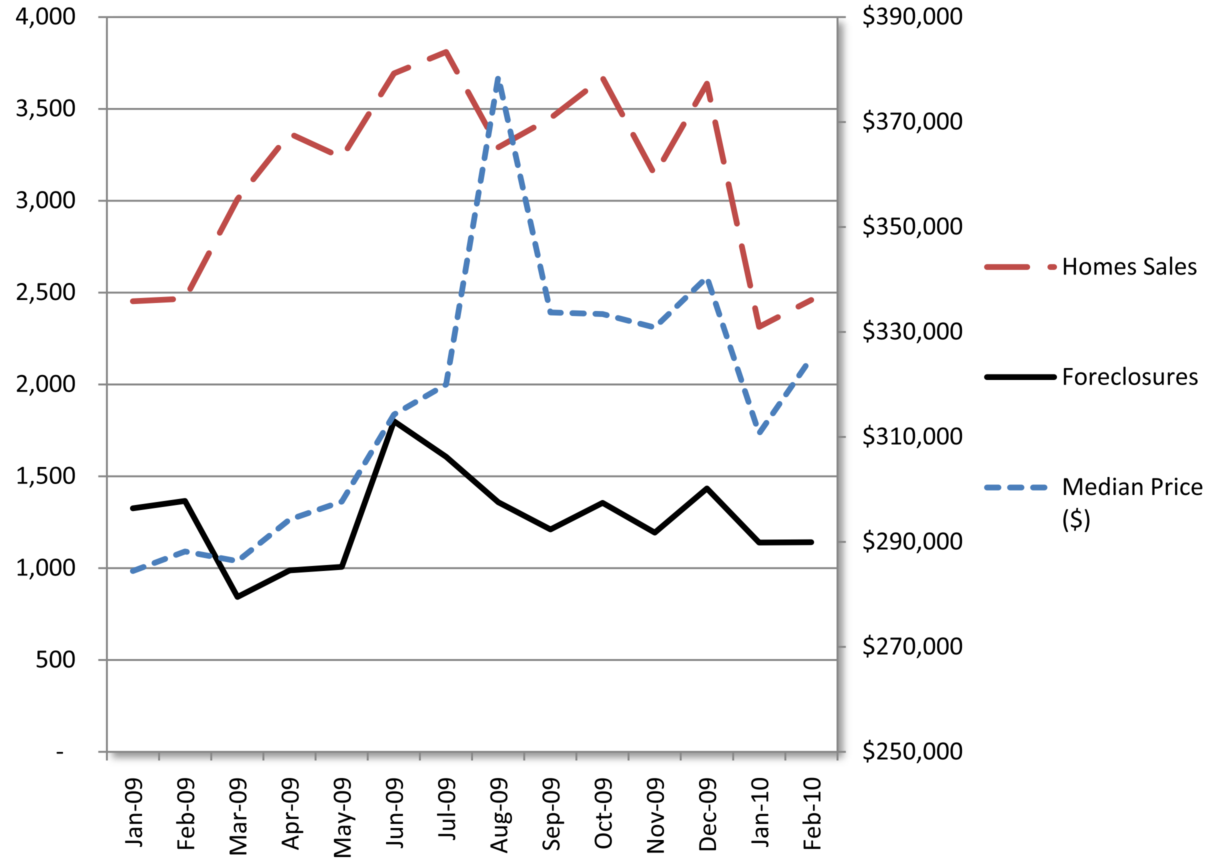
Figure 2: National Personal Income, Savings, and Consumer Spending



Source: United States Bureau of Economic Analysis

On a local level, the County-wide housing market has begun to recover from the high levels of foreclosures and low price levels experienced in Fiscal Year 2009. The County-wide average home price has risen 13.5 percent over the last twelve month period, from March 2009 to February 2010, and increased 14.3 percent from the low experienced in January 2009. Total home sales in the County from March 2009 to February 2010 rose 10.3 percent from the low sales count experienced from March 2008 to February 2009; while foreclosures have dropped 22.3 percent for the same time period.

Figure 3: County-wide Median Home Value, Home Sales, and Foreclosures



Source: MDA DataQuick / County of San Diego Recorder's Office

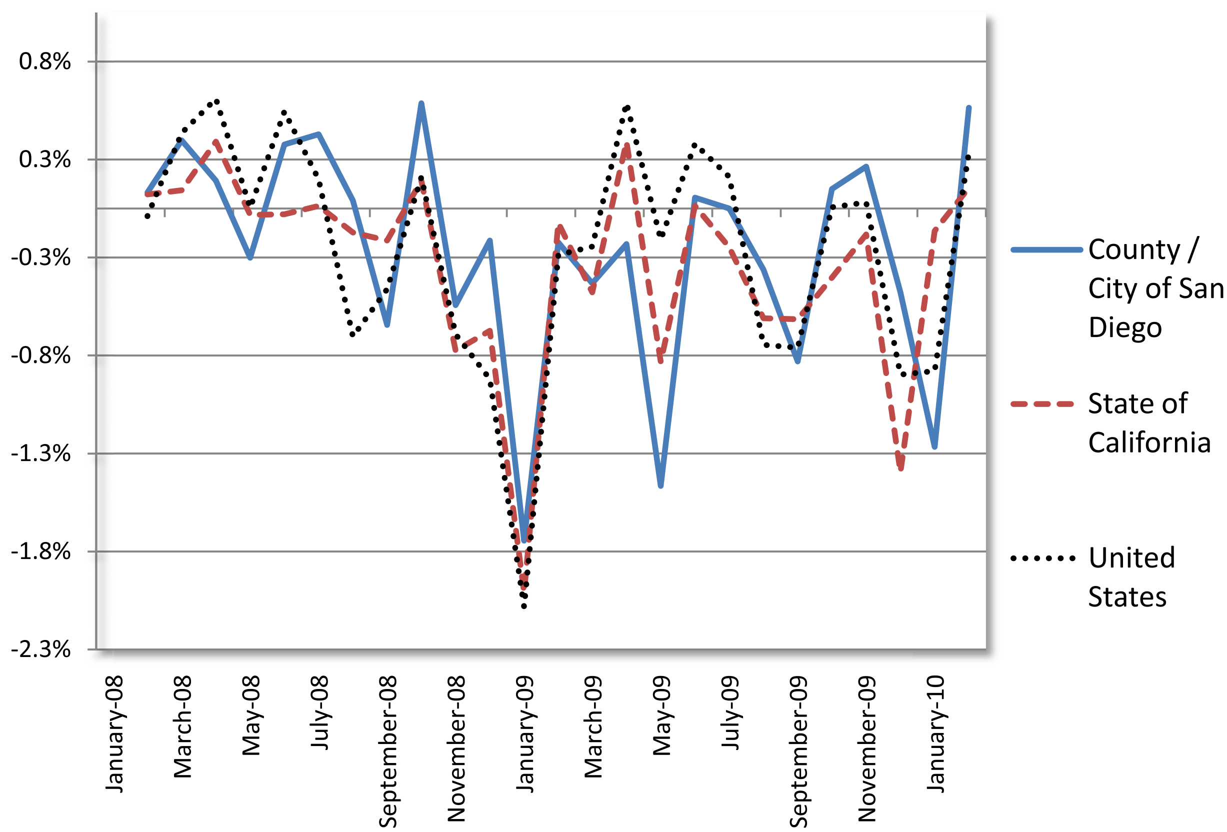
However, some economic indicators are still lagging, and could possibly restrain economic stabilization or growth in Fiscal Year 2011. These include the unemployment rate and total employed population in the local economy, and the number of foreclosed properties, amongst others. The unemployment rate and its affect on consumer spending is currently the most closely monitored indicator by economists. The unemployment rate in San Diego has reached 10.6 percent as of February 2010. While the unemployment rate is used to help determine the strength of the local economy, the total number of employed individuals in the City is the key factor in determining the total spending capacity and demand for goods and services in the local economy. The total number of employed individuals in the City has dropped by 3.4 percent in the last twelve months (from 641,400 in March 2009 to 619,500 in February 2010). The total number of employed individuals in the City has reached a six-year low and has dropped by 4.3 percent in the last twelve months (from 643,800 in February 2009 to 616,300 in January 2009), according to California Employment Development Department.

General Fund Revenue

Figure 4: San Diego Unemployment Rate (Recessions in Shaded)

Source: California Employment Development Department

Figure 5: Percent Change in Total Employed



Source: California Employment Development Department / US Department of Labor

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

- 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 7.1 percent over the last twelve months, as of February, 2010 (University of San Diego, Index of Leading Economic Indicators).
- The unemployment rate in San Diego has increased from 9.5 percent to 10.6 percent in the last twelve months. The State of California unemployment rate has increased from 11.0 percent to 12.8 percent for the same time period (California Employment Development Department).
- Foreclosures in the County of San Diego totaled 15,077 for the last twelve months, from March 2009 to February 2010, which represents a decrease of 4,300 foreclosed homes or a 22.3 percent decrease for the previous 12 month period, covering March 2008 to February 2009 (County of San Diego Clerk's Office).
- Total home sales in the San Diego County for the last twelve months (as of February 2010) totaled 39,067 homes as compared to 35,424 a year ago; while home prices in the County have also increased 13.5 percent for the same period. (DataQuick Information Systems).
- National Consumer Confidence has increased 22.0 percent from January 2009 to February 2010, but declined 17.7 percent from January to February 2010. While this increase in the consumer confidence index in 2009 reflects an improved outlook for consumer spending and investment, the recent decline in confidence is an illustration of the mixed outlook in employment, wage levels, and housing throughout the nation and its impact on consumer confidence. (Consumer Conference Board).

Property Tax

Background

Total City Budget
$414.1 million

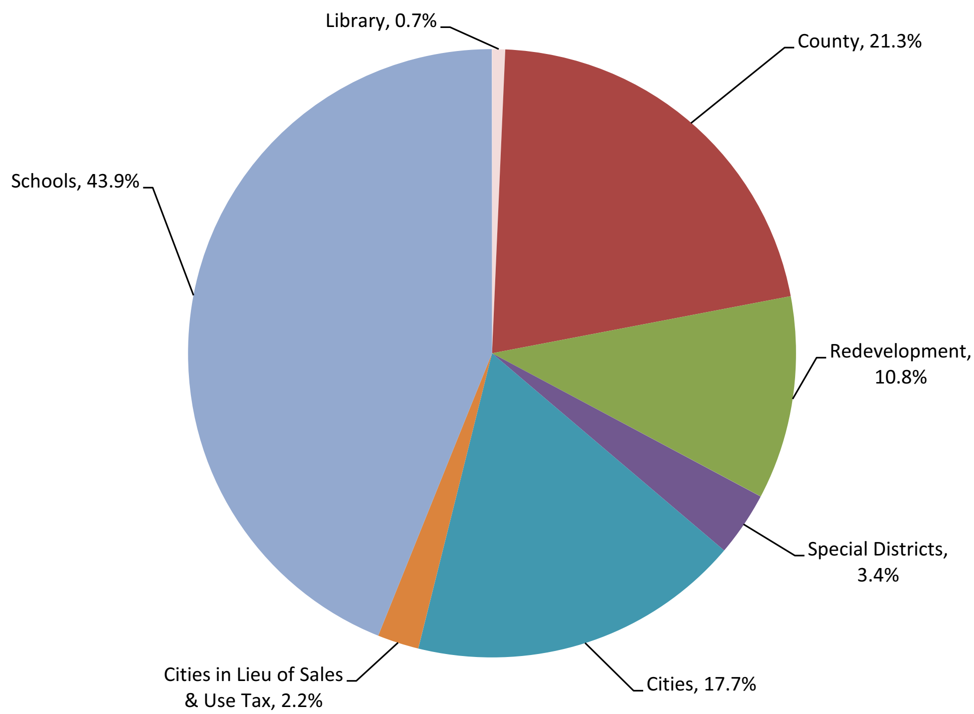
General Fund Budget
$390.1 million

Percent of General Fund
35.7 percent

Property tax revenue is the City's largest revenue source, representing 35.7 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 6: Property Tax Distribution



Source: County of San Diego Assessor's Office

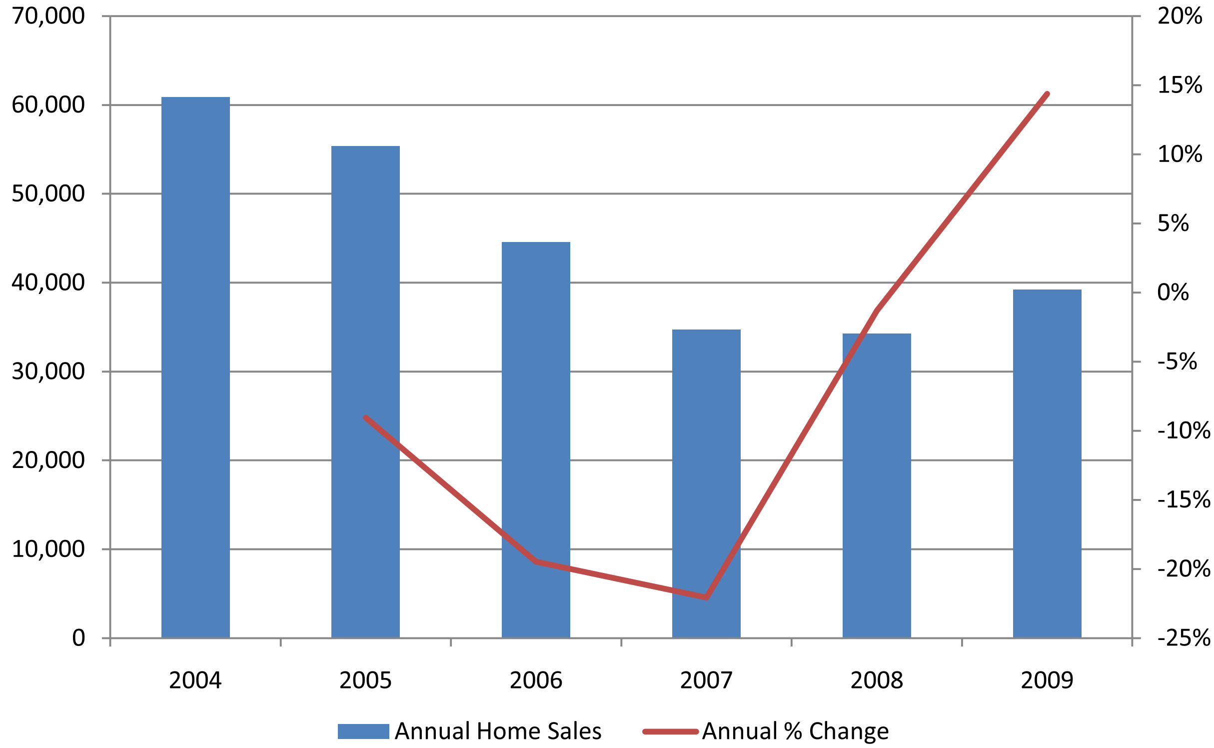
Since the early 1990s, many factors have contributed to changes in the amount of revenue the City has received from property tax:

- 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 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

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 zero percent 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 7: San Diego County Home Sales



Source: MDA DataQuick

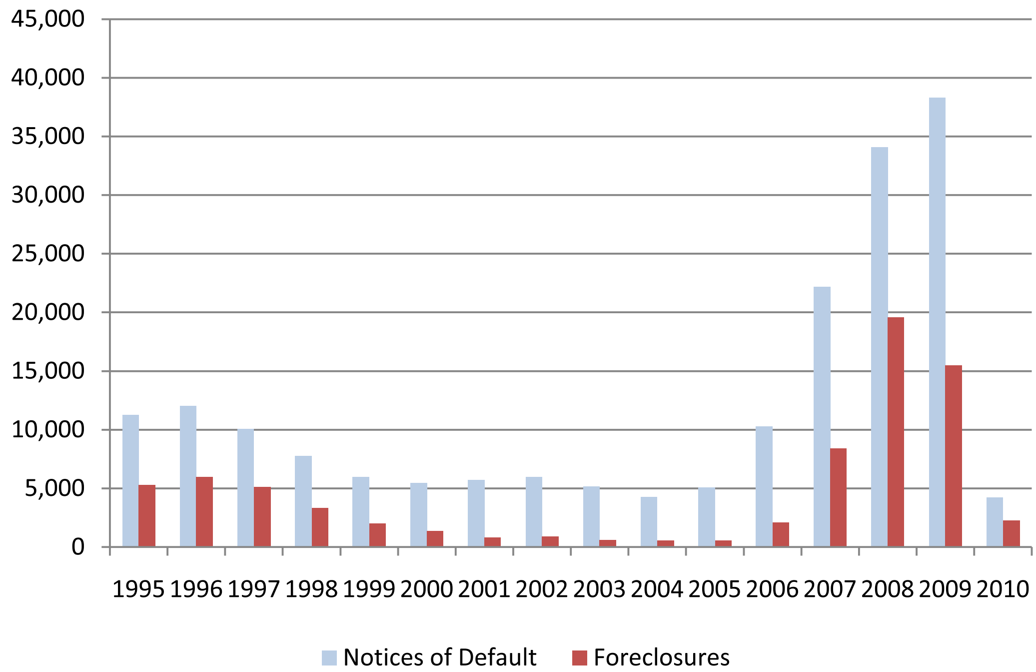
General Fund Revenue

Figure 8: San Diego County Annual Median Home Price

Source: MDA DataQuick

Year-to-date foreclosures in the County of San Diego have been decreasing by an average monthly decline of 18.4 percent from prior year (as can be seen in the following graph). 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. As of February 2010, the County recorded 2,345 notices of default, a 36.7 percent decrease from the February 2009 totaling 3,705 notices. However, the County Assessor's Office expects a potential increase in the number of foreclosed properties in calendar year 2010 due to the five-year high of 38,308 notices of default recorded by the County in calendar year 2009. While the average home price has seen recent stabilization, the number of foreclosures and existing foreclosed properties available on the market would need to further decline to possibly stimulate housing starts.

Figure 9: San Diego Home Foreclosures 1995 — Present



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

While the residential housing market is showing some modest improvements, a zero percent growth is expected in property tax revenues due to a declining commercial real estate market. The San Diego commercial retail market has been historically strong; however, in calendar year 2009, there was a low tenant demand and tenant downsizing. In addition, a decrease in consumer spending has affected the retail market as high unemployment rates shifted consumer priorities which resulted in several major retailers either closing or downsizing the leasing space. San Diego retail vacancy increased to 6.4 percent in the fourth quarter of 2009, compared to 3.4 percent in the fourth quarter of 2008.

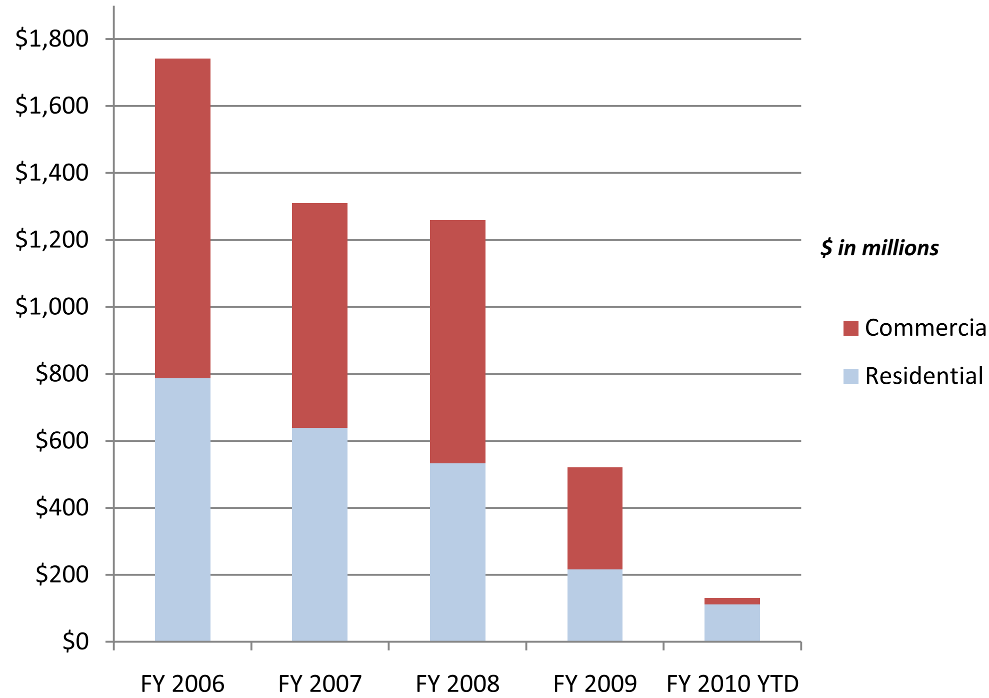
Throughout calendar year 2009, the local commercial real estate market was affected as consumer confidence remained weak and regional unemployment levels climbed. In San Diego, year-to-date net absorption in the office market totaled a negative 95,000 square feet. The San Diego industrial market experienced 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]

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 February 2010. According to 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 February 2010, Fiscal Year 2010 total new residential permit

[1] All commercial real estate references sourced from the CB Richard Ellis Market View, San Diego 4th Quarter 2009

valuations have declined by 16.2 percent, while total new commercial permit valuations are down 76.8 percent from the same period in Fiscal Year 2009 as demonstrated in the following figure and tables.

Figure 10: 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 (as of February 2010)
Total Single Family	**$ 377.8**	**$ 257.5**	**$ 210.7**	**$ 138.7**	**$ 90.2**
Apartment	$ 189.0	$ 73.4	$ 202.7	$ 69.2	$ 20.4
Condominium	$ 221.5	$ 307.9	$ 120.8	$ 9.3	$ 0.8
Total Multi-Family	**$ 410.5**	**$ 381.4**	**$ 323.5**	**$ 78.5**	**$ 21.2**
Total Residential	**$ 788.3**	**$ 638.8**	**$ 534.2**	**$ 217.3**	**$ 111.4**
Total Commercial	**$ 953.7**	**$ 670.5**	**$ 724.8**	**$ 303.9**	**$ 192**

Table 4: New Residential Permits Issued

Description	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 (as of February)
Total Single Family	**1,290**	**903**	**719**	**490**	**260**
Apartment	106	72	72	32	71
Condominium	72	192	48	12	11
Total Multi-Family	**178**	**264**	**120**	**44**	**82**
Total Residential	**1,468**	**1,167**	**839**	**534**	**342**

Source: City of San Diego, Development Services Department

Fiscal Year 2011 Proposed Budget

The Fiscal Year 2011 proposed 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 and reflecting a 2.2 percent decrease from the Fiscal Year 2009 actual revenue. 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 Proposed 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

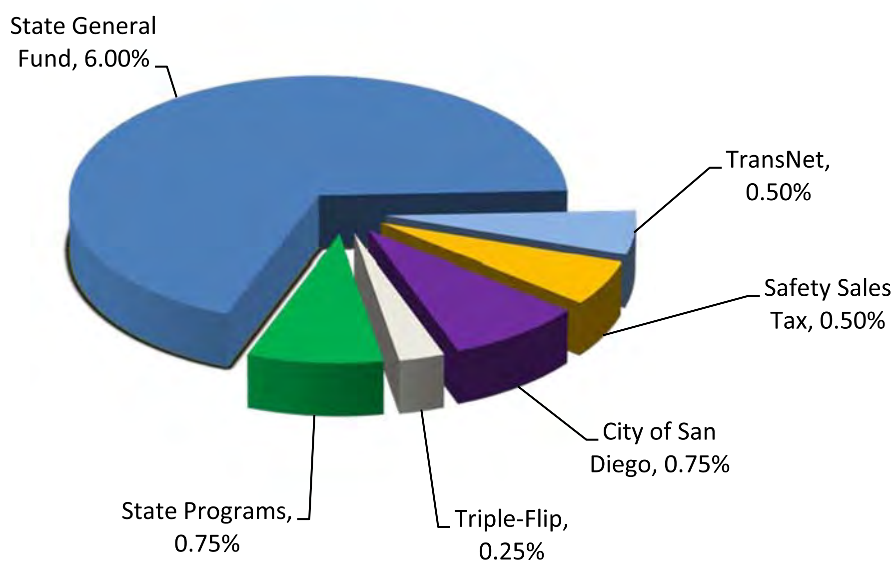
Percent of General Fund
17.2 percent

Sales tax is the City’s second largest revenue source, representing 17.2 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

[1] State Board of Equalization, New Tax Rate Notice, March 2009

expenditures. The revenue from this half-cent sales tax, known as the safety sales tax, is discussed in the following section.

Figure 11: City Sales Tax Rate (8.75 percent)

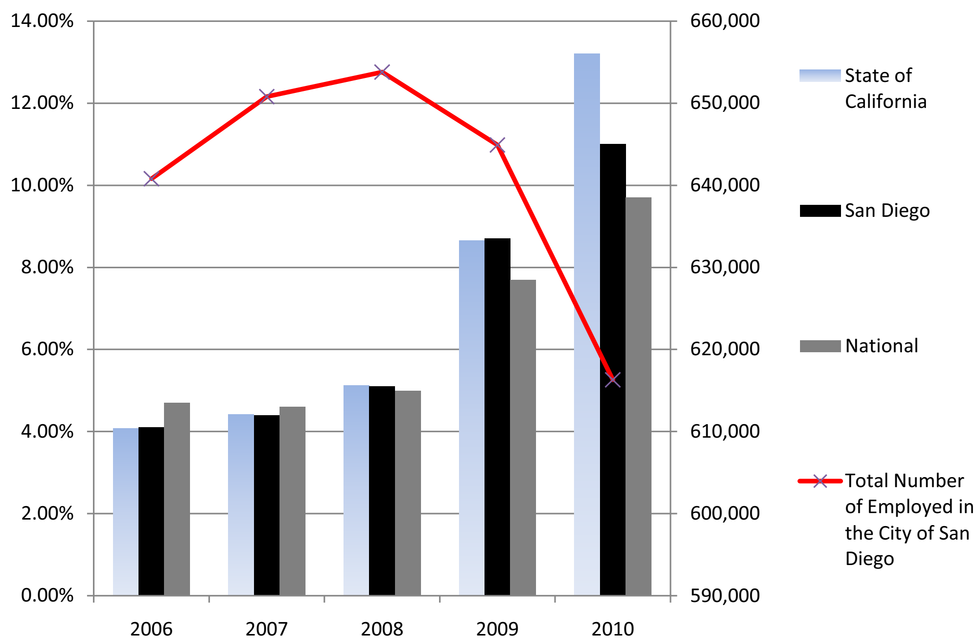


Economic Trends

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, if any, are expected throughout the remainder of Fiscal Year 2010, as unemployment rates rose to 11.0 percent in San Diego during January 2010, and remained high at 10.6 percent in February 2010.[1] A zero percent growth in sales tax revenue is forecasted for Fiscal Year 2011, due to high unemployment throughout the county. High levels of unemployment increases the likelihood of less discretionary spending as consumers are forced to focus on essential purchases and have less discretionary income to spend.

[1] California Employment Development Department

Figure 12: Unemployment Rates



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. With evidence of a continued decrease in discretionary spending throughout the remainder of the fiscal year, a zero net gain in sales tax revenue is being forecasted for Fiscal Year 2011 while economic recovery remains slow and tentative.

Table 6: Quarterly Sales Tax Revenue (in millions)

Economic Category	1st-4th Quarter CY 2008	1st-4th Quarter CY 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

Proposed FY 2011 Budget

The Fiscal Year 2011 proposed sales tax budget of $187.5 million is based on the Fiscal Year 2010 year-end projection assuming no growth in taxable sales (with 1.3 percent growth in total revenue due to the triple-flip) for Fiscal Year 2011 and reflecting a 9.0 percent decrease from the Fiscal Year 2009 actual revenue. The Fiscal Year 2011 annual 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
MVLF "In-Lieu" Property Tax	$ 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, and increased consumer spending would need to occur to increase sales tax revenues to pre-recession levels.

Safety Sales Taxes

Background

Total City Budget
$6.3 million

General Fund Budget
$6.3 million

Percent of General Fund
0.6 percent

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 Proposed Budget

The Fiscal Year 2011 proposed safety sales tax of $6.3 million is based on the Fiscal Year 2010 year-end projection assuming 0.9 percent growth for Fiscal Year 2011 and reflecting a 8.4 percent decrease from Fiscal Year 2009 actual revenue. 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)

Total City Budget
$126.2 million

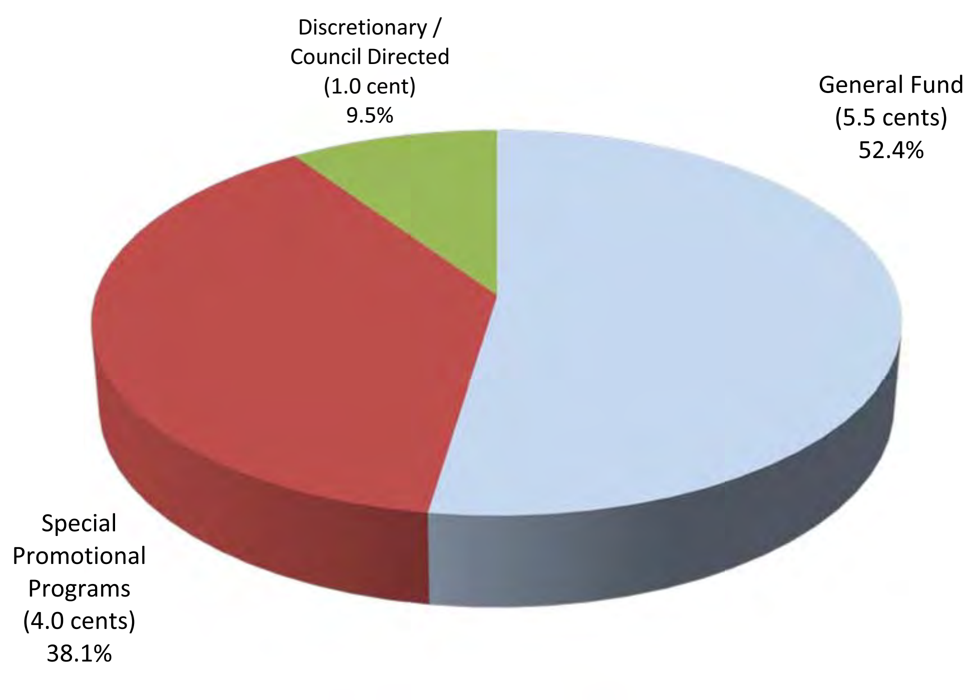
General Fund Budget
$66.1 million

Percent of General Fund
6.1 percent

Background

Transient occupancy tax (TOT) makes up 6.1 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 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.

Figure 13: 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. The last quarter of calendar year

[1] Distribution according to Council Policy 100-3

2009 showed signs of stabilization, and with some signs of recent economic improvement, industry analysts cautiously expect San Diego's travel to improve in calendar year 2010. This recovery, however, is expected to be slow; group hotel bookings are expected to be significantly lower due to declining business travel until calendar year 2011. 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 $120, a 3.0 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 $126, or 4.9 percent. Room demand is expected to grow by 4.9 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 65.8 percent in calendar year 2010, from 63.1 percent in calendar year 2009, with a further increase to 68.4 percent in calendar year 2011. The 2008 level of occupancy is not expected to be reached until calendar year 2013.[1]

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

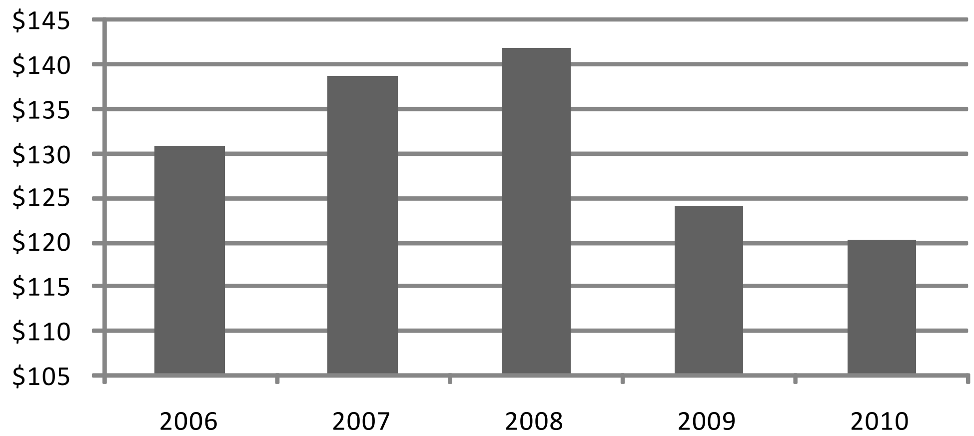
Table 8: 2006 - 2010 San Diego Tourist Information

	Projected 2010	2009	2008	2007	2006		% Projected Change 09-10	% Change 08-09	% Change 07-08	% Change 06-07
Total Visitors (in millions)	30.4	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)	15.5	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	65.8%	63.1%	69.5%	72.9%	73.3%		4.2%	-9.1%	-4.8%	-0.5%
Average Daily Rate	$ 120.3	$ 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, March 2010, CONVIS San Diego County Visitor Industry Summaries 2006-2009

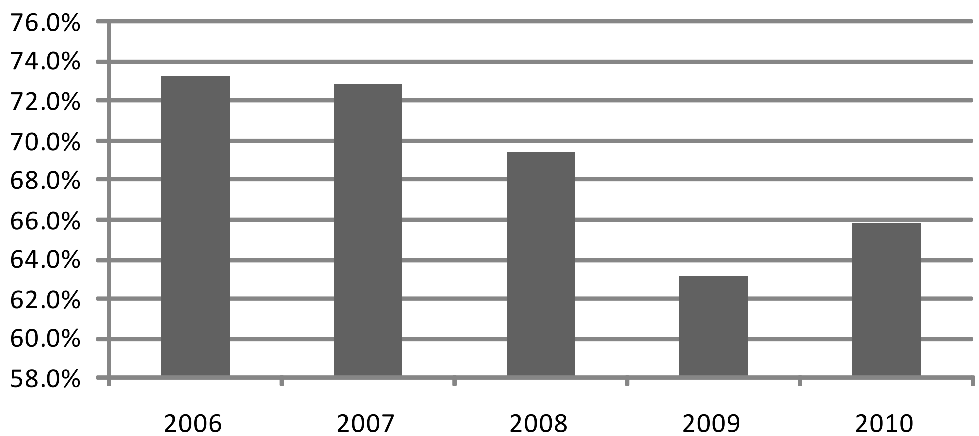
[1] CONVIS Quarterly Travel Forecast, March 2010

Figure 14: San Diego Hotel Average Daily Rate



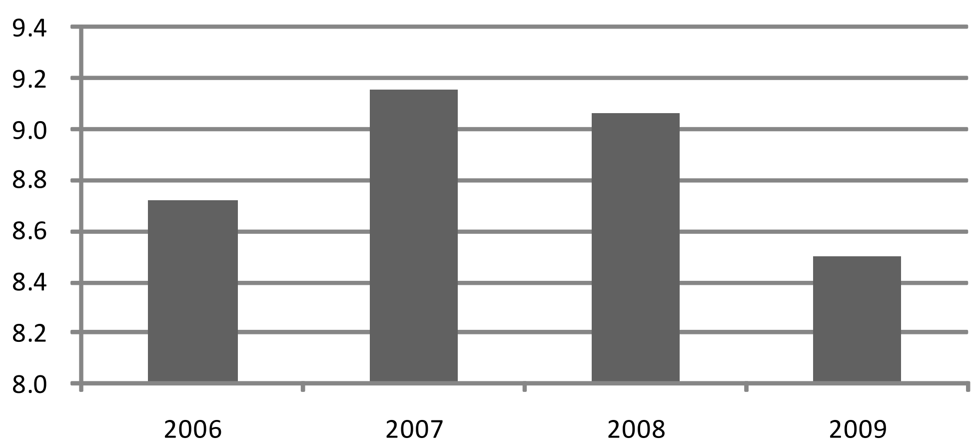
Source: CONVIS Quarterly Travel Forecast, March 2010

Figure 15: San Diego Hotel Occupancy Rate



Source: CONVIS Quarterly Travel Forecast, March 2010

Figure 16: San Diego International Airport Arrivals (in millions)



Source: CONVIS San Diego County Visitor Industry Summaries 2006-2009

Fiscal Year 2011 Proposed Budget

The Fiscal Year 2011 proposed transient occupancy tax budget for the City of San Diego of $126.2 million is based on the Fiscal Year 2010 year-end projection assuming no growth for Fiscal Year 2011 and reflecting a 10.3 percent decrease from the Fiscal Year 2009 actual revenue. The Fiscal Year 2011 General Fund Proposed TOT Budget is $66.1 million, a $7.7 million or 10.4 percent decline from Fiscal Year 2009 actual revenue.

Concerns about the high level of unemployment and low consumer confidence, despite the slow improvement in economic sectors, still impact tourism trends. As previously mentioned, this trend is expected to persist until mid-calendar year 2010. According to the latest information from industry experts, a slow recovery is expected to begin later in calendar year 2010 but a return to calendar year 2008 levels is not expected until calendar year 2011.

Property Transfer Tax

Background

Property transfer tax makes up 0.4 percent of the General Fund revenue budget and is levied on the sale of real property. The County of San Diego collects $1.10 per $1,000 of the sale price when any real property is 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.

Total City Budget
$4.7 million

General Fund Budget
$4.7 million

Percent of General Fund
0.4 percent

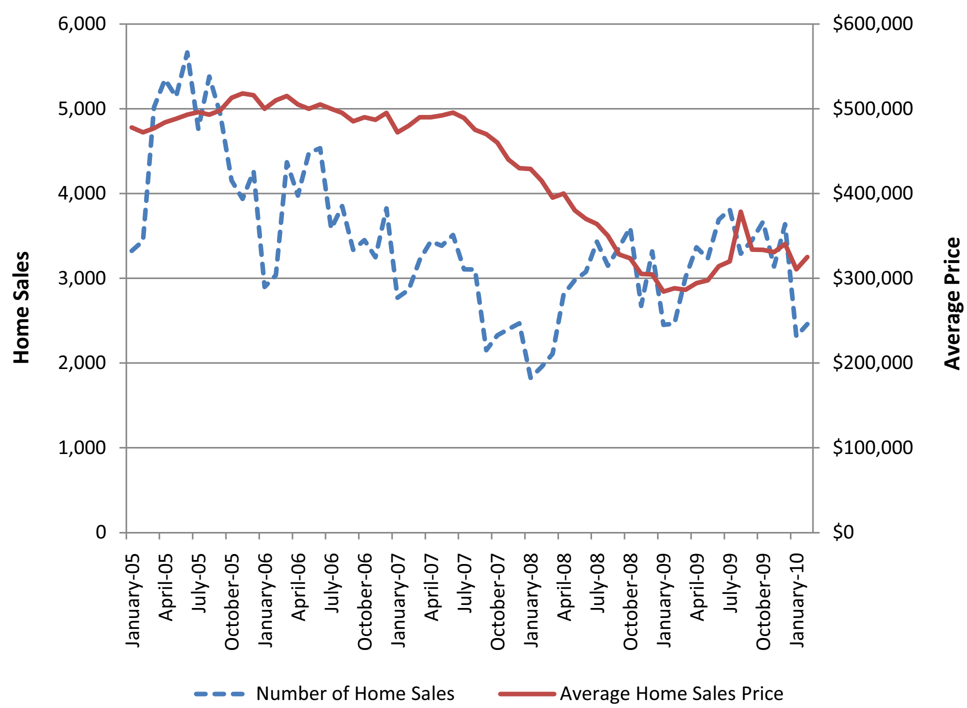
Economic Trends

The proposed property transfer tax budget reflects the market conditions and trends as of March 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 prices for an average home in the County. Prices have dropped 37.3 percent since the November 2005 high of $518,000. The average countywide home price was $316,846 for calendar year 2009, a 12.9 percent decrease from the 2008 average home price of $363,680. As of August 2009, average countywide home prices have increased an average of 7.9 percent over the last seven months, which is due in part to the reduction in foreclosures. The rebound in home sales as well as the steady increase in average home prices is evidence of a potentially stabilizing market and a possible growth in 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 Proposed Budget

The Fiscal Year 2011 proposed property transfer tax budget of $4.7 million is based on the Fiscal Year 2010 year-end projection assuming a 5.2 percent growth for Fiscal Year 2011 and reflecting a 2.0 percent increase from the Fiscal Year 2009 actual revenue. It is expected that the average countywide home price will continue to grow modestly, which would allow home sales to remain constant until the foreclosure inventory has normalized to pre-recession levels. This anticipated modest growth trend in revenue is forecasted to continue throughout Fiscal Year 2010 and into Fiscal Year 2011.

Figure 17: San Diego County Home Sales



Source: DataQuick Information Systems

[1] Home sales/prices, MDA DataQuick

General Fund Revenue

Franchise Fees

Background

Total City Budget
$130.0 million

General Fund Budget
$67.2 million

Percent of General Fund
6.2 percent

Franchise fees revenue makes up 6.2 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 Proposed Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2011 Proposed Budget for SDG&E franchise fee revenue of $49.8 million is based on the Fiscal Year 2010 year-end projection assuming a 9.9 percent decline for Fiscal Year 2011 and reflecting a 7.5 percent decrease from Fiscal Year 2009 actual revenues. The projected decline in Fiscal Year 2011 is based on the projection that natural resource prices in Fiscal Year 2011 will remain at current levels, which have resulted in a decrease in revenue to SDG&E, and therefore less revenue to the City.

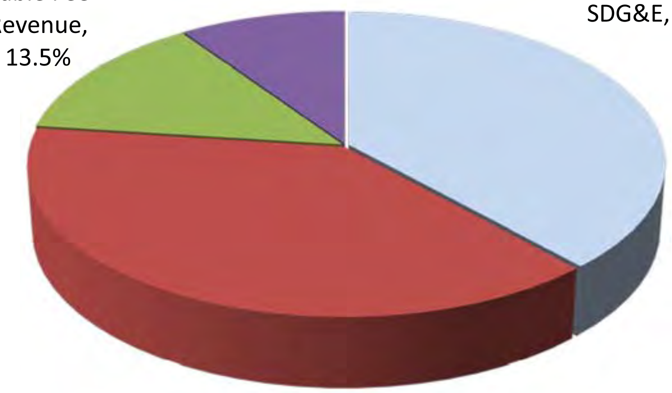
In accordance with the City Charter, 25.0 percent of revenue received from SDG&E or $12.5 million is to be deposited into the Environmental Growth Fund (EGF). One-third of the EGF is used to finance the maintenance of parks; the remaining two-thirds are used for the annual interest payments for debt 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 Proposed Budget for cable franchise fee revenue of $17.5 million is based on the Fiscal Year 2010 year-end projection assuming a 2.5 percent growth for Fiscal Year 2011 and reflecting a 3.5 percent increase from Fiscal Year 2009 actual revenues.

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2011 Proposed Budget for refuse hauler franchise fee revenue from private refuse haulers of $12.4 million is based on the Fiscal Year 2010 year-end projection assuming an 5.7 percent growth for Fiscal Year 2011. The City also anticipates an additional $2.6 million in franchise fees from the Sycamore Landfill Facility and $200,000 from other franchise fee sources.

UNDERGROUNDING UTILITY FEE. The Fiscal Year 2011 Proposed Budget for Underground Utility Fee revenue of $50.3 million is based on the Fiscal Year 2010 year-end projection assuming no growth for Fiscal Year 2011.

Figure 18: Franchise Fee Revenue Breakdown



Licenses and Permits

Background

Total City Budget **$55.5 million**
General Fund Budget **$31.0 million**
Percent of General Fund **2.8 percent**

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 Proposed Budget

License and permit revenues make up 2.8 percent of the Fiscal Year 2011 Proposed General Fund revenue budget. The Fiscal Year 2011 Proposed Budget for licenses and permits is $31.0 million, which represents a $1.5 million or 4.6 percent decrease from the Fiscal Year 2010 Annual 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 for Fiscal Year 2011 pending further review. This decline is offset by a projected increase of $2.6 million in parking meter collections based on an updated parking study completed in Fiscal Year 2010.

General Fund Revenue

Fines, Forfeitures, and Penalties

Total City Budget
$32.6 million

General Fund Budget
$31.4 million

Percent of General Fund
2.9 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 Proposed Budget

The Fiscal Year 2011 Proposed Budget for fines, forfeitures, and penalties revenue is $31.4 million or 2.9 percent of the General Fund revenue budget. This represents a $1.0 million or a 3.2 percent decrease as compared to Fiscal Year 2010's Annual Budget. This decrease is due to a reduction in civil litigation awards revenue to the City of $1.4 million, offset partially by increases in collection of delinquent revenues and parking citation fees. The forecast for civil litigation award revenue was revised to a more conservative position for Fiscal Year 2011 due to the highly volatile nature of the revenue and dependence on the cases the City Attorney's Office pursues and their outcomes.

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 Annual 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 category makes up 4.0 percent of the General Fund revenue budget. The largest component of this category is revenue from Mission Bay Park rents and concessions, the majority of which is generated from leases with Sea World, the Marina Village Conference Center, and the hotels and marinas within Mission Bay Park. Another significant contributing component in the Rents and Concessions category is revenue from lease agreements 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 Proposed Budget

The Fiscal Year 2011 Proposed 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 Annual 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 Annual 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. The $7.7 million excess above the threshold amount will then be split between the San Diego Regional Park Fund and the Mission Bay Park Fund according to the formula above. Twenty five percent of this revenue does not meet the minimum dollar threshold established for the San Diego Regional Park Fund, so the amount allocated to this fund will be $2.5 million. The remaining $5.2 million will go to the Mission Bay Park Fund.

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 have 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 has picked up and the credit markets have begun to thaw. Although the Federal Reserve recently increased the discount rate by 25 basis points, it was explained as a removal of liquidity support to the banking system and does not signal a policy shift. Federal Reserve Chairman Bernanke reiterated this during his February Humphrey Hawkins testimony in front of Congress, stating that "the federal funds rate is likely to remain exceptionally low for an extended period."

Interest Earnings Outlook

Recent statements by the Federal Reserve have indicated they are likely to keep interest rates at historical lows through the remainder of Fiscal Year 2010 and 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 the time being. However, it is widely expected by economists that they will begin to raise the rate at some point during Fiscal Year 2011. If this assessment is correct, longer term interest rates may begin to move up during Fiscal Year 2011 as the market anticipates the 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

Total City Budget
$3.1 million

General Fund Budget
$3.1 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 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 VLF revenue declines over the past four fiscal years. New vehicle registrations during the first six months of calendar year 2009 fell 39.6 percent compared to a year earlier, but improved in the second half to a decline of 13.7 percent as reported by the California New Car Dealers Association.

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 Proposed Budget

The Fiscal Year 2011 proposed motor vehicle license fees budget of $3.1 million is based on the Fiscal Year 2010 year-end projection assuming a 2.0 growth for Fiscal Year 2011 and reflecting a 32.4 percent decrease from Fiscal Year 2009 actual revenues. This revenue outlook is based on a modest recovery expected in the auto industry after an underperforming calendar year 2009. Auto sales activity is expected to remain soft as consumers recover from higher unemployment, depressed household asset values, and a cautious outlook from the economic downturn.

Revenue from Federal & Other Agencies

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.

Total City Budget **$35.5 million**
General Fund Budget **$2.1 million**
Percent of General Fund **0.2 percent**

Fiscal Year 2011 Proposed Budget

Revenue from other agencies make up 0.2 percent of the Fiscal Year 2011 Proposed Budget revenue for the General Fund. The Fiscal Year 2011 Proposed Budget for revenue from other agencies is $2.1 million, which represents a $1.2 million or 36.4 percent decrease from the Fiscal Year 2010 Annual Budget. Federal grant revenues in Fiscal Year 2011 declined by $500,00, from $2.2 million in Fiscal Year 2010 to $1.7 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 the full elimination of excess tobacco settlement revenues ($700,000) paid to the City due to the volatile nature of this revenue source, which is based on tobacco shipments and consumption.

Charges for Current Services

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.

Total City Budget **$1,113.0 million**
General Fund Budget **$144.9 million**
Percent of General Fund **13.3 percent**

Included in charges for current services 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 Proposed Budget

The Fiscal Year 2011 Proposed Budget for charges for current services revenue is $144.9 million, an $8.7 million or 5.6 percent decrease from Fiscal Year 2010 Annual Budget received in the General Fund. This decrease in revenue is attributable to a combined $7.5 million decrease in reimbursements for services from other departments and funds to the General Fund, including GGSB revenues.

Other Financial Sources & Uses

Background

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 Annual Budget, but was reorganized to exclude several revenue sources that are now under the Charges for Current Services category.

Total City Budget
$184.7 million

General Fund Budget
$110.2 million

Percent of General Fund
10.1 percent

Fiscal Year 2011 Proposed Budget

The Fiscal Year 2011 Proposed Budget for Other Financial Sources & Uses is $110.2 million or 10.1 percent of General Fund revenues, which represents a $10.0 million or 10.0 percent increase from the Fiscal Year 2010 Annual 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

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 Proposed Budget for other revenues total $2.5 million, which is a $1.6 million or 39.4 percent decrease from the Fiscal Year 2010 Annual Budget. The decline in revenue is mainly attributable to a decrease in certain private donations and contributions to the City.

Total City Budget
$235.5 million

General Fund Budget
$2.5 million

Percent of General Fund
0.2 percent

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 adjustment factors used for the computation of the Tax Appropriations Limit are released by the California Department of Finance in May and released by the County of San Diego in October. The City is then required to establish the Tax Appropriations Limit on or before June 30 of each fiscal year.

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

The Fiscal Year 2011 Gann Limit calculation will be presented to City Council in June 2010. Adjustment factors used for the computation are released by the California Department of Finance in late May. Therefore, the Fiscal Year 2011 Gann Limit will not be established before the release of the Fiscal Year 2011 Proposed Budget.

State of California Budget Impacts

The State of California adopted fiscal measures prior to the beginning of Fiscal Year 2010 to eliminate an estimated $40 billion budget deficit. These measures included the suspension of Proposition 1A, which allowed the State to borrow local revenues once every three years to help stem the shortfall in revenues, increasing the state-wide sales tax rate by one percent, and increasing personal income taxes for certain citizens. However, after addressing this $40 billion deficit, the continuing drop in the State’s general fund revenues from projections due to a decline property tax, sales tax, and other revenue sources, the State is currently facing an estimated $20 billion deficit. The State is facing a current Fiscal Year 2010 deficit of $1.2 billion in addition to a projected $18.7 billion deficit in Fiscal Year 2011.

The measures to eliminate the State’s initial Fiscal Year 2010 $40 billion budget deficit had the potential to place additional pressures on the City’s budget due to the suspension of Proposition 1A, which redirected local property tax revenue from the City to the State’s General Fund. The City of San Diego received a repayment obligation from the State in return for $35.8 million in property taxes that were redirected to the State. While the State cannot borrow additional property tax revenue in Fiscal Year 2011, it is considering additional measures to increase General Fund revenue to address the current $20 billion budget deficit that could place additional pressures on the City of San Diego’s budget for Fiscal Year 2011. This includes the possibility of redirecting local gas tax revenues, dedicated to road improvement projects, to the State’s general fund.

For Fiscal Year 2010, these City of San Diego 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. As in Fiscal Year 2010, with the suspension of Proposition 1A, the City would 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, unlike the suspension of Proposition 1A, the State would not have to pay interest based on these borrowed funds, and could do 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.

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 Fiscal Year 2011, 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.