General Fund Revenues

The Fiscal Year 2012 General Fund revenue budget is $1.1 billion, which represents an increase of $9.6 million or 0.9 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 0.9 percent or $9.6 million in General Fund annual revenue for Fiscal Year 2012.

Table 1: Fiscal Year 2012 General Fund Revenue Growth Breakdown

	Percent Change from FY 2011 Adopted Budget	Change (in millions)
Major Revenues	2.9%	$ 20.4
Other Revenue Sources	(2.8)%	(10.8)
Total	**0.9%**	**$ 9.6**

The General Fund Revenues 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 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 66.1 percent of the City's General Fund revenue in the Fiscal Year 2012 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 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 Proposed Budget was based on data through January 2011, the most recent data available at the time the budget was prepared.

Index of Revenues

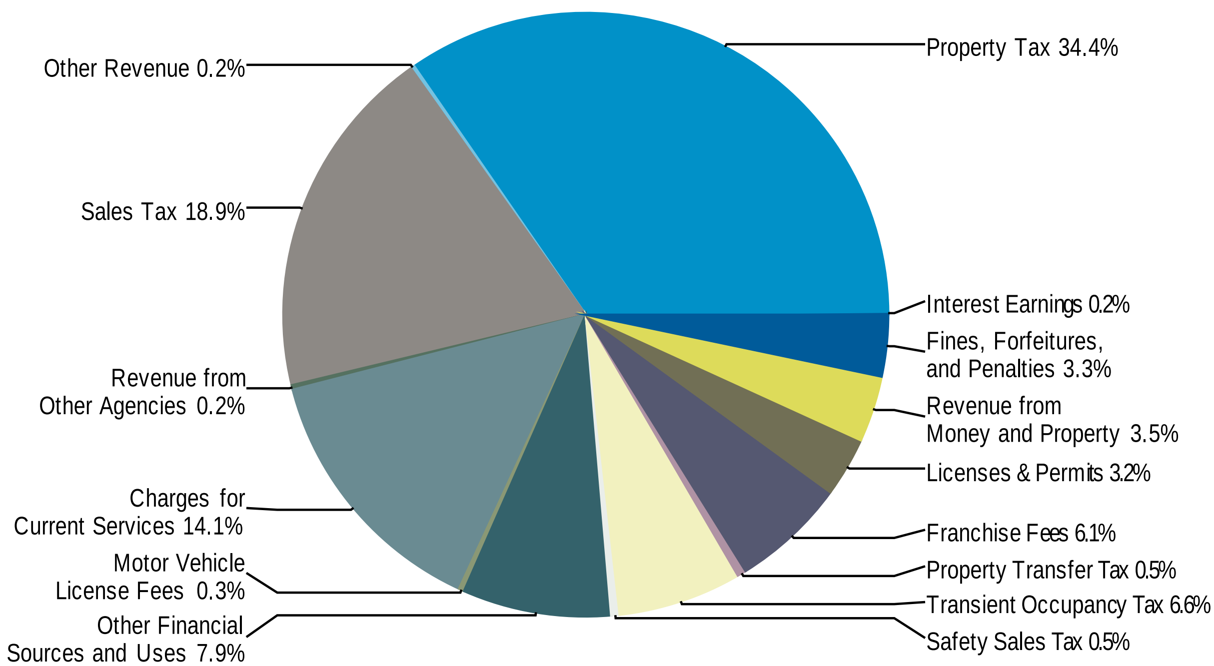
Volume II shows the detailed budgeted revenues that are generated by departments. Each revenue source generated by individual General Fund departments also falls under one of the revenue categories listed to the right and is discussed in this section of the budget document.

General Fund Revenues

Table 2: Fiscal Year 2012 General Fund Revenues - $1.11 Billion (in millions)

Revenue Category	FY 2011 Adopted Budget	FY 2012 Proposed Budget	Change	Percent Change	% of Total General Fund Revenue
Property Tax	$ 390.1	$ 380.9	$ (9.2)	(2.3)%	34.4%
Sales Tax	187.5	209.5	22.1	11.8%	18.9%
Transient Occupancy Tax	66.1	73.0	6.9	10.4%	6.6%
Franchise Fees	67.2	67.8	0.6	0.9%	6.1%
Property Transfer Tax	4.7	5.1	0.5	9.9%	0.5%
Safety Sales Tax	6.3	5.0	(1.3)	(20.1)%	0.5%
Motor Vehicle License Fees	3.1	3.3	0.1	3.9%	0.3%
Licenses & Permits	31.6	35.2	3.6	11.5%	3.2%
Fines, Forfeitures, and Penalties	32.8	36.4	3.6	10.9%	3.3%
Revenue from Money and Property	43.6	39.1	(4.5)	(10.3)%	3.5%
Interest Earnings	1.7	1.7	0.1	4.5%	0.2%
Revenue from Federal & Other Agencies	2.2	2.6	0.4	17.4%	0.2%
Charges for Current Services	145.5	156.2	10.7	7.4%	14.1%
Other Financial Sources and Uses	111.4	87.7	(23.8)	(21.3)%	7.9%
Other Revenue	2.5	2.3	(0.2)	(8.8)%	0.2%
Total	**$ 1,096.2**	**$ 1,105.9**	**$ 9.6**	**0.9%**	**100.0%**

Figure 1: Fiscal Year 2012 General Fund Revenues - $1.11 Billion



San Diego's Economic Environment[1]

The Fiscal Year 2012 Proposed Budget revenue forecast is built on the assumption of slow economic growth.

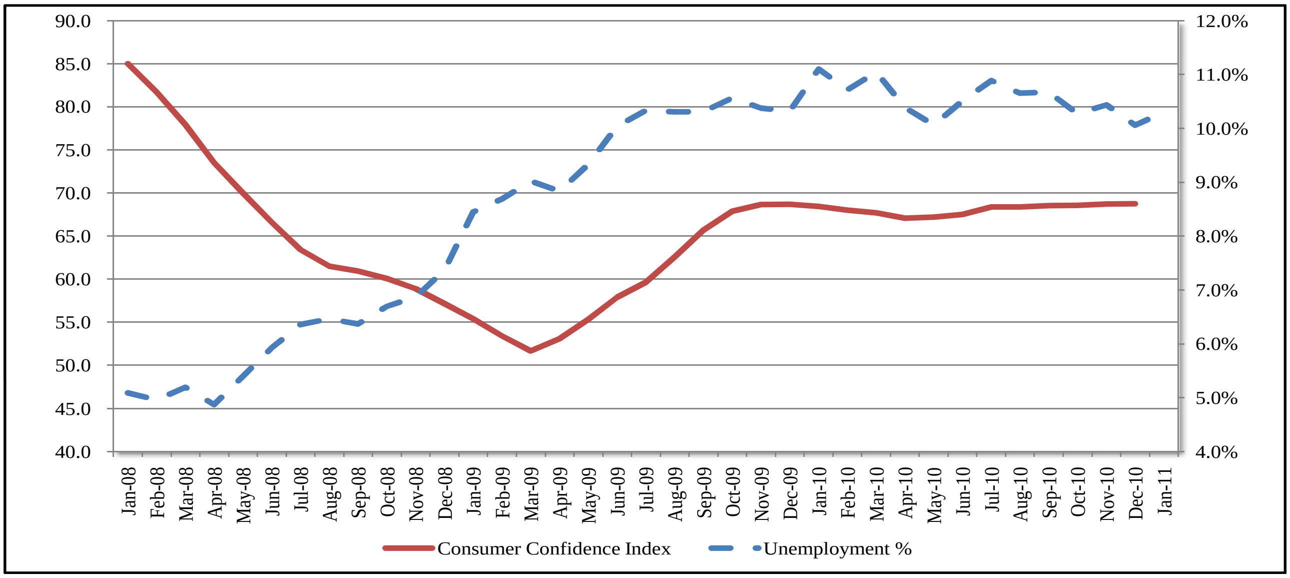
The nation-wide recession that lasted from December 2007 to June 2009 has continued to impact State and local revenues due to the unprecedented pace and scope of declines in economic drivers such as employment, housing, and consumer confidence. While recovery for some of the economic factors has already occurred, this recovery has been slow and inconsistent from month-to-month. Economists predict that the trough in the economy has already passed and the growth that has occurred since June 2009 will continue; however, the rate of recovery to pre-recession growth levels will be lengthy. Due to forecasted slow economic recovery in Fiscal Year 2012 and beyond, conservative growth for most revenues is projected in the City's Fiscal Year 2012 Proposed Budget.

The main economic drivers that contributed to General Fund revenue declines during Fiscal Years 2008 to 2010 were high unemployment, 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, which increased rapidly to 11.1 percent in January 2010. Although still well above average historical levels, the unemployment rate has decreased to 10.3 percent as of January 2011. Local consumer confidence

[1] The following sources were used for the budget publication: National Bureau of Economic Research, California Employment Development Department, United State 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/County Clerk, San Diego Association of Governments, United States Bureau of Labor Statistics.

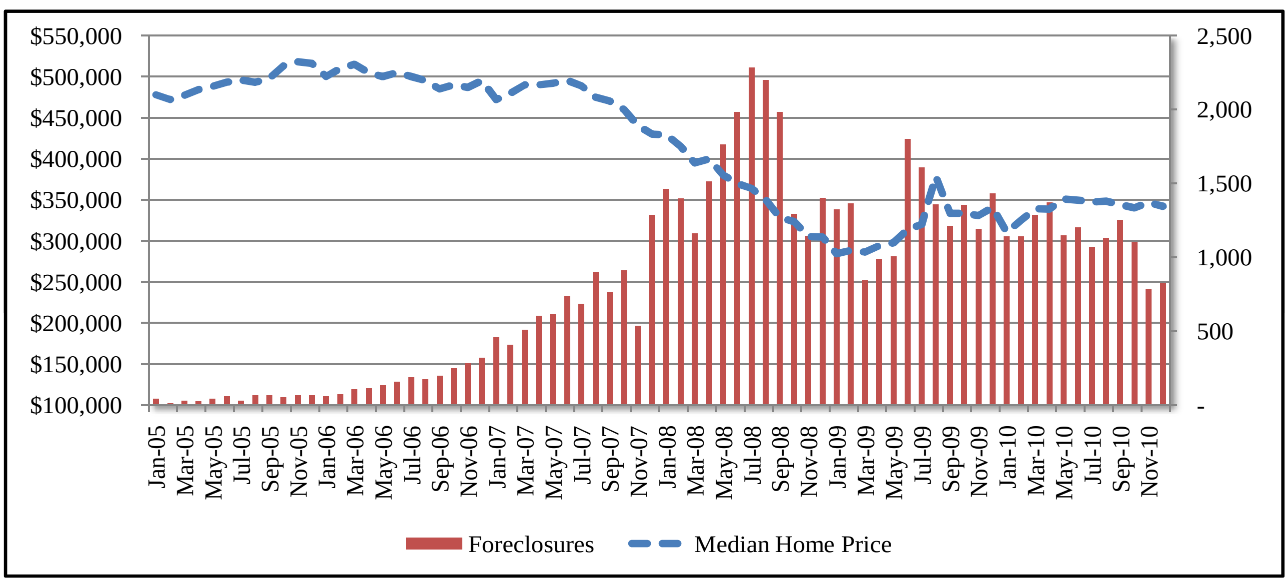
declined 41.2 percent from December 2007's index level of 87.8, to the lowest level in March 2009 of 51.7. Subsequently, consumer confidence has increased 33.1 percent from this low, to the December 2010 index level of 68.7.

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/County 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, which decreased to the low of $284,435 in January 2009, and subsequently increased $342,258 as of December 2010.

Uncertainty on the pace and scope of the economic recovery still exists due to mixed economic indicators, however, the City will continue to monitor economic information and revenue distribution amounts to adjust forecasted revenue levels for the General Fund in Fiscal Year 2012.

The following are some of the economic indicators and assumptions that have been used in the preparation of the Fiscal Year 2012 Proposed Budget for the General Fund:

- As of December 2010, the Index of Leading Economic Indicators for San Diego County has increased slightly from the beginning of calendar year 2010, increasing 3.3 percent from an index level of 107.2 to 110.7. The Index of Leading Economic Indicators level has not decreased for 21 consecutive months (April 2009 - December 2010) after 24 consecutive months of decline (April 2007- March 2009) (University of San Diego, Index of Leading Economic Indicators).
- San Diego County's consumer confidence index has increased 0.1 percent from the beginning of calendar year 2010 to December 2010, and has increased marginally 8 consecutive months (May 2010 - December 2010) (University of San Diego, Index of Leading Economic Indicators).
- Consumer spending in the City of San Diego on taxable items in the first three quarters of Fiscal Year 2011 increased 6.4 percent as compared to the first three quarters of Fiscal Year 2010. Consumer spending on taxable items also increased four consecutive quarters (March 2010 - February 2011) after declining the previous seven consecutive quarters (California State Board of Equalization).
- San Diego's unemployment rate is 10.3 percent (as of January 2011). This is compared to a 12.7 percent unemployment rate for the State of California and 9.8 percent for the nation (California Employment Development Department and US Bureau of Labor Statistics).
- Total home sales in San Diego (as of January 2011) for the twelve month period totaled 36,569, which is a decline of 6.4 percent from 39,074 home sales from the same period in prior year (San Diego County Assessor/Recorder/County Clerk).
- The median countywide home price as of December 2010 is $342,258, which is an increase of 0.5 percent from December 2009 (DataQuick Information Systems).
- Countywide foreclosures (as of January 2011) for the twelve month period totaled 13,380, which is a decline of 12.6 percent from 15,302 in the prior year. Notices of default, an indicator of potential future foreclosure levels, totaled 25,002 (as of January 2011), a decline of 32.7 percent from 37,121 notices of default in the prior year (San Diego County Assessor/Recorder/County Clerk).
- 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 State Bureau of Labor Statistics).

General Fund Revenues

Property Tax

Background

Total City Budget
$403.3 million

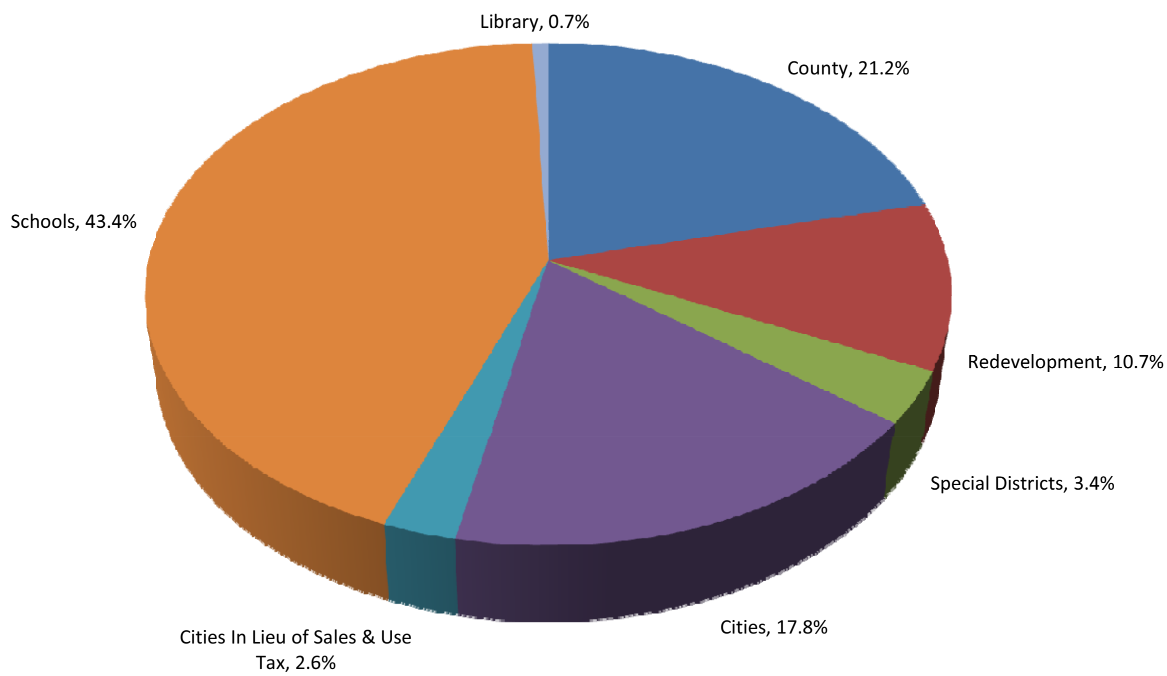
General Fund Budget
$380.9 million

Percent of General Fund
34.4 percent

Property tax revenue is the City's largest revenue source, representing 34.4 percent of total General Fund revenue. Property tax revenue is collected by the San Diego County Tax Collector and 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 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 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 $17.80 (with an additional $2.60 also going to cities 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 (non-General) funds. Those include an additional levy collected to pay debt on a $25.5 million debt issuance approved by voters in June 1990 for a public safety communication system (the bond matures in Fiscal Year 2012), and a special tax levy of $0.005 per $100 of assessed value (per City Charter requirement) 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 revised by the State and was replaced dollar-for-dollar with property tax, resulting in a property tax revenue increase.

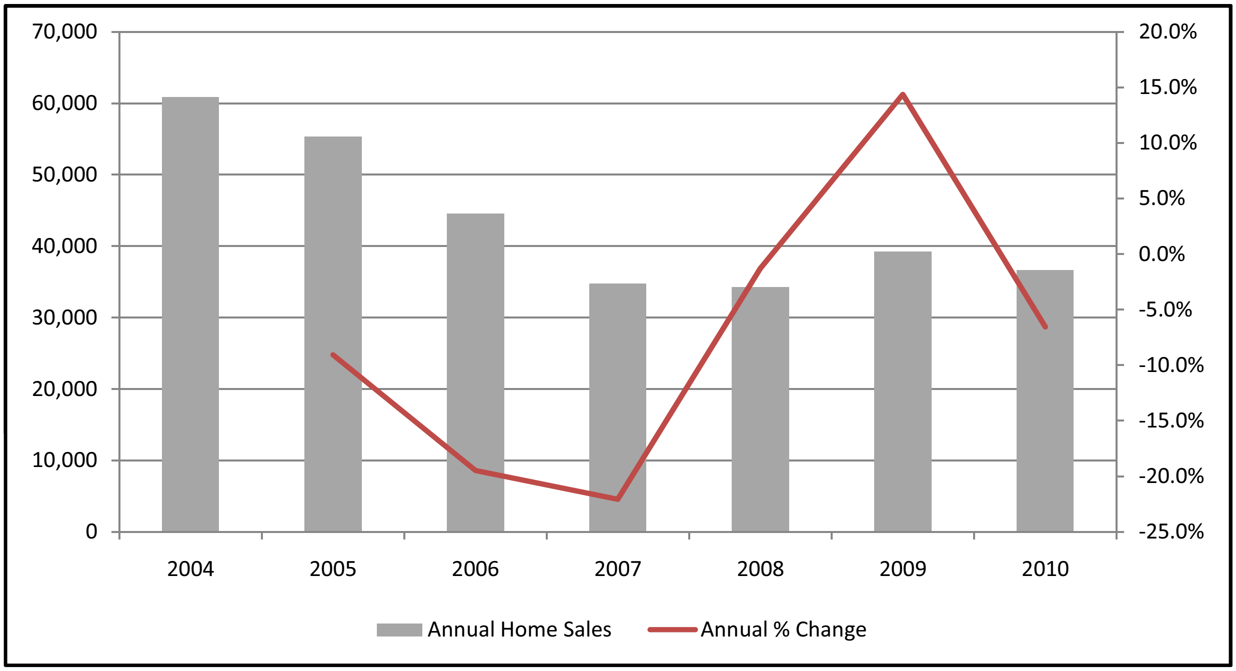
Economic Trends

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 drive property tax revenue forecasts have led to stabilization in the local real estate market, including a 0.8 percent increase in the California Consumer Price Index (CPI), a decline in the foreclosure rate and notices of default, and stabilization in countywide median home values.[1] Foreclosures in 2008 totaled 19,577 and declined 31.2 percent to 13,466 foreclosures in calendar year 2010. Furthermore, notices of default, which are an indicator of potential future foreclosures, have declined 27.1 percent, from 34,069 in calendar year 2008 to 24,835 in calendar year 2010.[2] While still above pre-recession levels, the decline in foreclosures and notices of default translate to a decrease in delinquent payments of property tax revenue to the City. In addition, moderate increases in median countywide home values further support the stabilization within the local real estate market. In calendar year 2010, the 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]

[1] California Department of Industrial Relations, Consumer Price Index - California Notice, February 2011.
[2] County of San Diego Assessor, Foreclosure Comparison Notice, December 2010.
[3] DataQuick Information Systems.

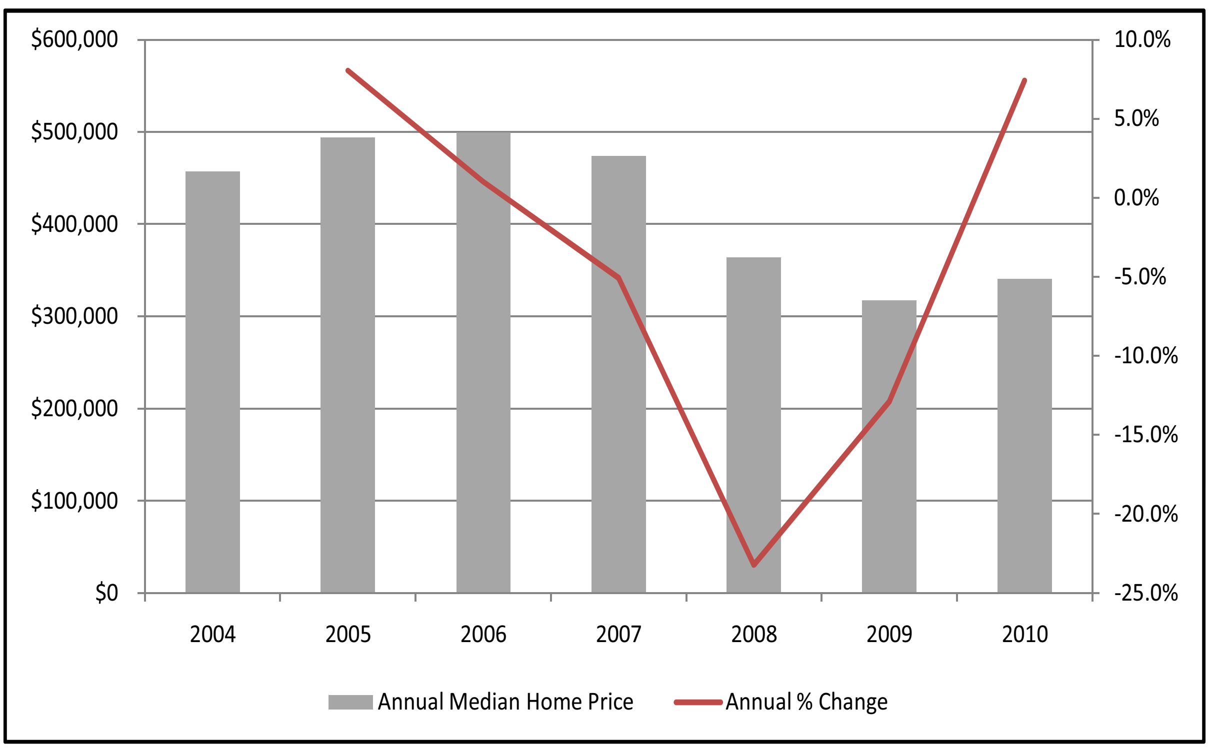
General Fund Revenues

Figure 5: San Diego County Home Sales



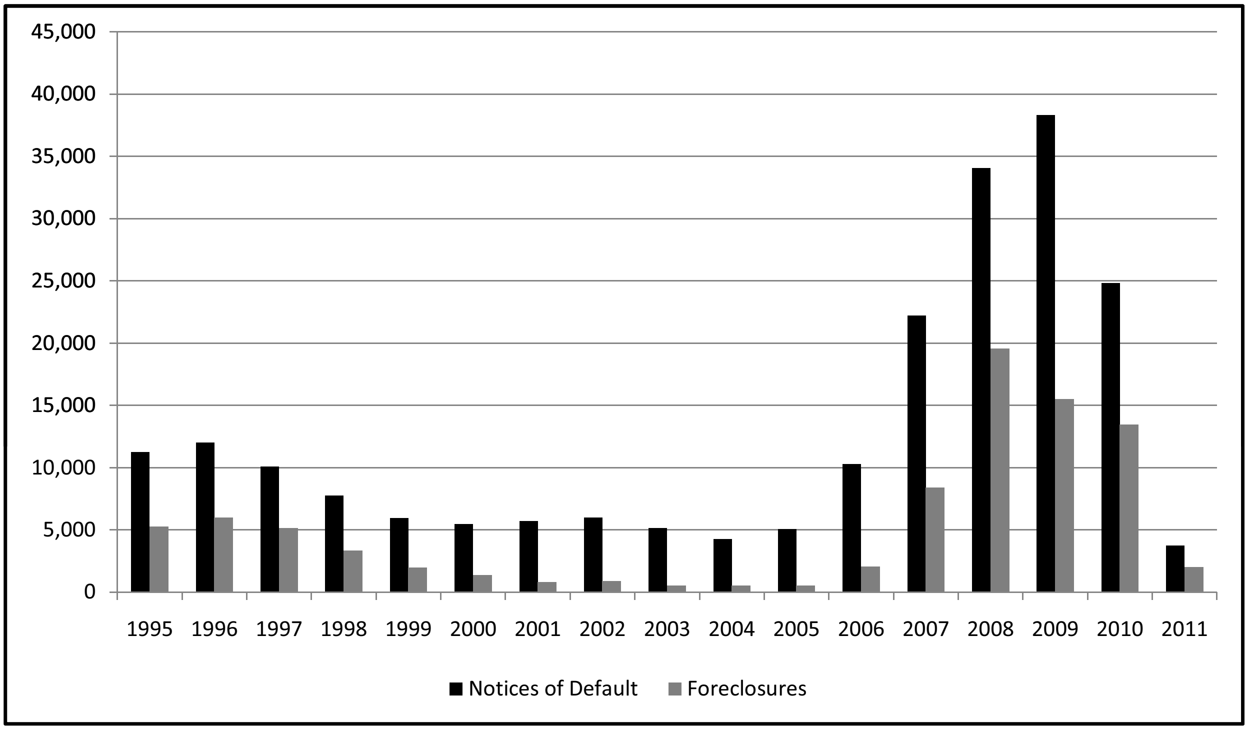
Source: DataQuick Information Systems

Figure 6: San Diego County Annual Median Home Price



Source: DataQuick Information Systems

Figure 7: San Diego Home Foreclosures 1995 — 2011



Source: San Diego County Assessor/Recorder/County Clerk

Despite these stabilizing indicators in the local residential real estate market, high unemployment levels are projected to remain in the region. As of January 2011, the unemployment rate is 10.3 percent, which is a decline of 0.8 percent from the high of 11.1 percent in January 2009; however, the City's unemployment rate has not dropped below 10.0 percent since June 2009. The State of California's unemployment rate was 12.7 percent as of January 2011, and economists predict slow growth in job creation and a double-digit unemployment rate until 2012.[1]

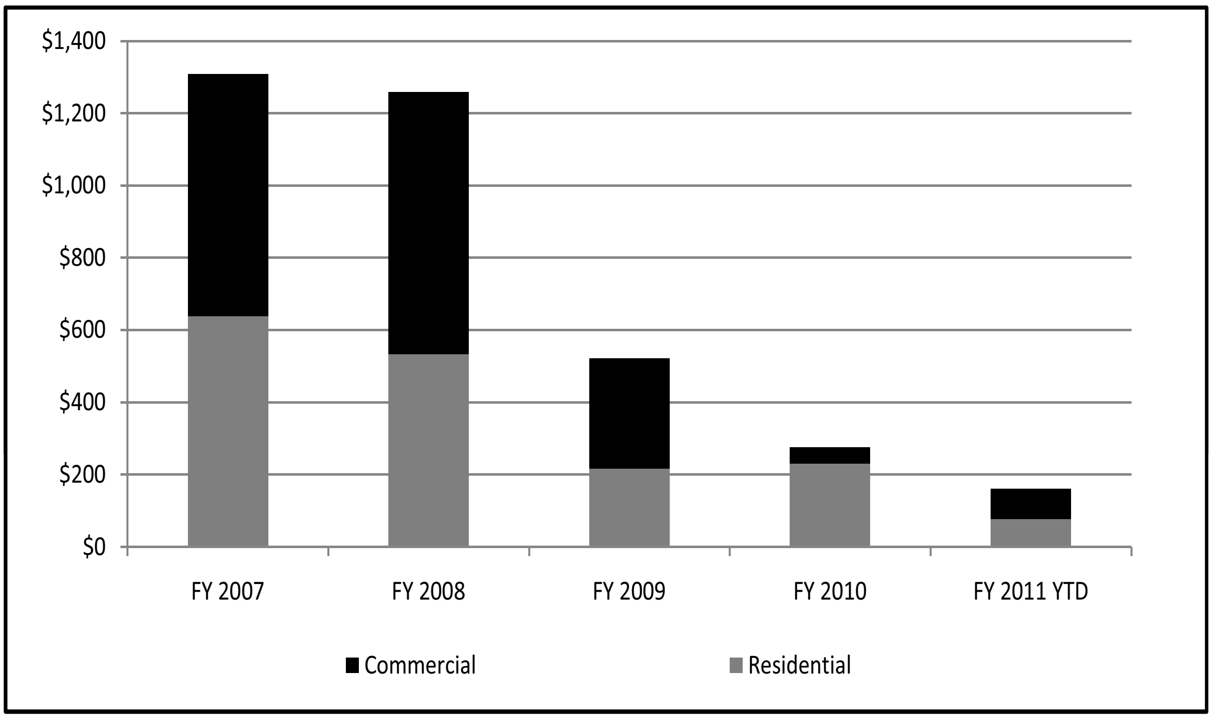
Another factor offsetting the stabilization of the residential housing market is a delayed recovery in the local commercial real estate market. According to CB Richard Ellis, throughout calendar year 2010, the local commercial real estate market experienced slight signs of improvement but this was tempered by a continued lack of construction activity, as comparable to pre-recession levels. In the fourth quarter of 2010, the overall vacancy rate in the county-wide office market dropped for the fifth straight quarter to 19.1 percent, which is a 1.6 percent decline from the same period last year. Due to positive net absorption and slightly improved employment in the fourth quarter, CB Richard Ellis reports that the San Diego industrial market seems to have stabilized; adding that trade, transportation and utilities gained 3,100 jobs in November. Indicators are mixed, however, with construction and manufacturing sectors within the industrial market seeing losses of 2,100 and 1,900 jobs, respectively. Vacancy within the retail market experienced a slight decrease to 6.8 percent in the fourth quarter of 2010, compared to 6.9 percent in the third quarter, but is still up when compared to 6.4 percent this time last year. CB Richard Ellis states that county-wide construction activity was reported to be minimal in all three commercial real estate markets during the fourth quarter. Due to low levels of demand for commercial space, vacancy rates have increased and an excess supply of

[1] UCLA Anderson Forecast, March 2011.

available square footage is preventing increased rental rates and new construction. As a result, improvements in residential properties are tempered by delayed improvement in commercial real estate.[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 December 2010. 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 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

[1] All commercial real estate references sourced from the CB Richard Ellis Market View, San Diego 4th Quarter 2010.

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

Description	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 (as of Dec 2010)
Total Single Family	**$ 257.5**	**$ 210.7**	**$ 138.7**	**$ 161.5**	**$ 49.4**
Apartment	73.4	202.7	69.2	65.1	23.5
Condominium	307.9	120.8	9.3	4.9	5.3
Total Multi-Family	**$ 381.4**	**$ 323.5**	**$ 78.5**	**$ 70.0**	**$ 28.8**
Total Residential	**$ 638.8**	**$ 534.2**	**$ 217.3**	**$ 231.5**	**$ 78.2**
Total Commercial	**$ 670.5**	**$ 724.8**	**$ 303.9**	**$ 44.9**	**$ 83.5**

Table 4: New Residential Permits Issued

Description	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 (as of Dec 2010)
Total Single Family	**903**	**719**	**490**	**566**	**194**
Apartment	72	72	32	76	20
Condominium	192	48	12	23	109
Total Multi-Family	**264**	**120**	**44**	**99**	**129**
Total Residential	**1,167**	**839**	**534**	**665**	**323**

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, these positive economic indicators do not impact the growth rate for the Fiscal Year 2012 Proposed Budget due to a lag time between the time assessed valuation is set by the County Assessor's Office 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 2008 and 2009. The increases in home sales and prices experienced in 2010 and 2011 may provide for moderate growth in upcoming fiscal years as the economy continues to recover from the negative impacts of the recession that began in December 2007.

The Fiscal Year 2012 proposed 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. Even though the CPI for Fiscal Year 2012 is reported to be 0.8 percent, which should translate into a positive assessed valuation (AV) to the City as determined by the County Assessor's Office, there are concerns that the declines in the local commercial market (which lags the residential market by almost two years) will counterbalance the increase in AV as well as improvements in other indicators as described earlier.[1]

[1] California Department of Industrial Relations, Consumer Price Index - California Notice, February 2011.

Table 5: Fiscal Year 2012 Proposed Property Tax Budget

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

Sales Tax

Background

Total City Budget
$249.2 million

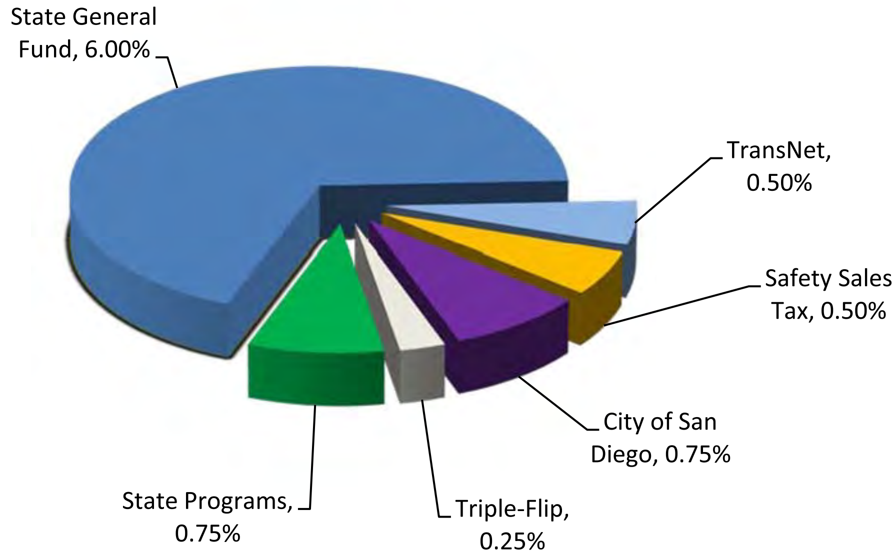
General Fund Budget
$209.5 million

Percent of General Fund
18.9 percent

Sales tax is the City's second largest General Fund revenue source, representing 18.9 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.[1] To mitigate the State's Fiscal Year 2012 projected budget deficit, the Governor's Fiscal Year 2012 Proposed Budget had included a provision for a five-year extension of the one percent tax increase. It is not known whether this extension (requiring voter approval) will be part of the Fiscal Year 2012 State budget solutions. Sales tax also includes a half-cent tax approved by California voters in 1993 for the purpose of funding local public safety expenditures. The revenue from this half-cent sales tax, known as the safety sales tax, is discussed in the following section.

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

Figure 9: City of San Diego Sales Tax Rate (8.75 percent)



Economic Trends

Due to the recession, no growth in sales tax revenue was experienced in San Diego from Fiscal Years 2008 to 2010. However, positive growth occurred in the first three quarters of Fiscal Year 2011 with gains reported in all economic sectors except construction. The growth was reported in the general retail, food products, transportation, and business to business sectors. The City's sales tax consultant, MuniServices, LLC (MuniServices), projects that broad recovery is expected to continue for the remainder of Fiscal Year 2011 and 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 indicates that this 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 a growth of 3.9 percent for the final quarter of Fiscal Year 2011. A conservative growth rate of 3.0 percent is forecasted for the City's Fiscal Year 2012 budget due to high unemployment levels throughout the county. This is supported by the analysis prepared by MuniServices, which forecasts a 3.0 percent growth for Fiscal Year 2012, based on their projections for taxable sales in the general retail, food products, transportation, business to business, and construction categories. In January 2011, the California Employment Development Department reported San Diego's unemployment rate at 10.3, which is still above the national unemployment rate of 9.8 percent. Growth for taxable sales is forecasted at 3.0 percent, which is lower than the historical average.

[1] MuniServices, City of San Diego, Sales Tax and Economic Review 3Qtr 2010.

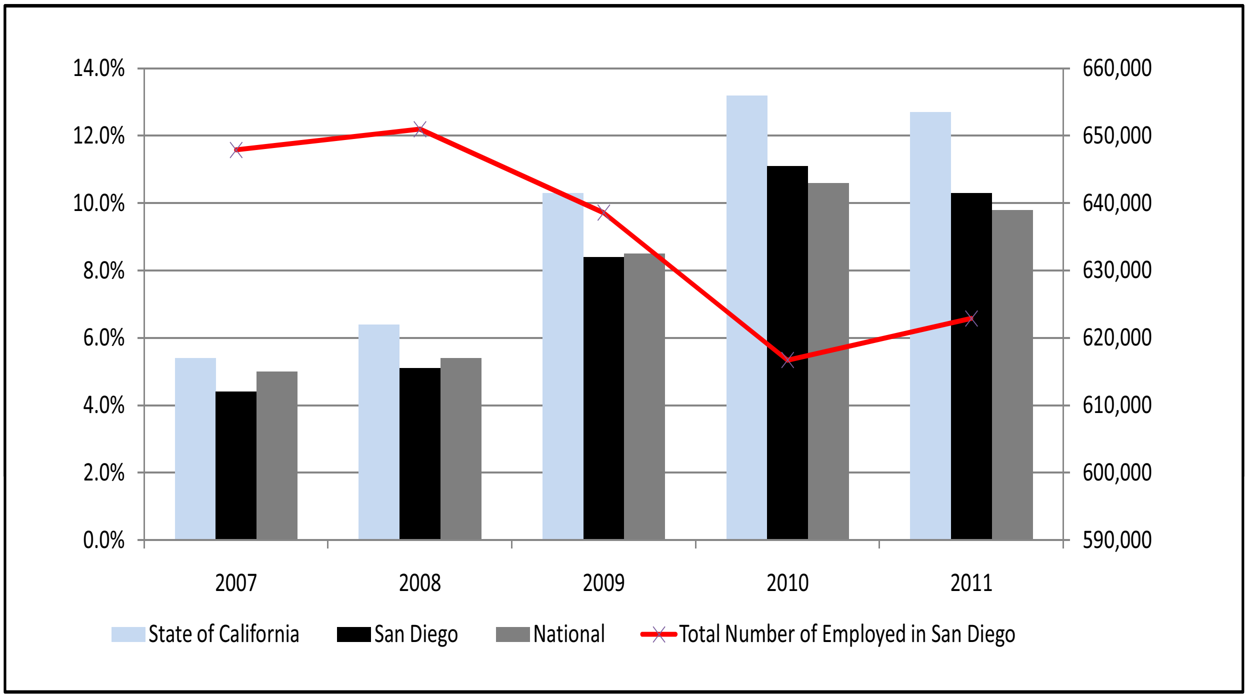
General Fund Revenues

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

Economic Category	1Qtr 3Qtr Calendar Year 2009	1Qtr 3Qtr Calendar Year 2010	% Change
General Retail	$ 39.2	$ 40.7	3.8%
Food Products	$ 30.1	$ 30.1	0.2%
Transportation	$ 23.6	$ 25.7	8.9%
Business to Business	$ 21.4	$ 22.0	2.7%
Construction	$ 9.8	$ 9.0	(7.5)%

Source: MuniServices, LLC

Figure 10: Unemployment Rates (as of January 2011)



Source: State of California, Employment Development Department

Fiscal Year 2012 Proposed Budget

The Fiscal Year 2012 proposed sales tax budget of $209.5 million is based on the Fiscal Year 2011 year-end projection assuming 3.0 percent growth in taxable sales. The Fiscal Year 2012 proposed 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 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 these Economic Recovery Bonds.

Table 7: Fiscal Year 2012 Proposed Sales Tax Budget

	(in millions)
Sales Tax Revenue	$ 157.2
Triple Flip Property Tax Reimbursement	52.3
Total Sales Tax	**$ 209.5**

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, economic recovery has been slow and tentative State-wide, with adverse affects of the recession still apparent in California's cities. 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[1]

Background

Total City Budget
$6.7 million

General Fund Budget
$5.0 million

Percent of General Fund
0.5 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 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. For Fiscal Year 2012, the Public Safety Needs and Debt Service Fund was set up as a special revenue fund, specifically to track expenditures for public safety needs. Debt service for the Fire and Lifeguard Facilities Fund will be paid first 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 depend on the County's share of total statewide taxable sales and allocations do not depend on taxable sales within the City.

Fiscal Year 2012 Proposed Budget

The Fiscal Year 2012 proposed safety sales tax budget of $6.7 million is based on the Fiscal Year 2011 year-end projection assuming a 2.5 percent growth for Fiscal Year 2012. In Fiscal Year 2012, approximately $1.7 million will be allocated to the Fire and Lifeguard Facilities Fund for debt service payments on facility improvements, while the remaining $5.0 million General Fund amount will be equally distributed between Police and Fire-Rescue Departments' budgets to support public safety

[1] Total City revenue budget is $11.7 million due to budgeting practices associated with the newly created Public Safety Needs and Debt Service Fund; however, total net revenue available to support public safety needs is $6.7 million.

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

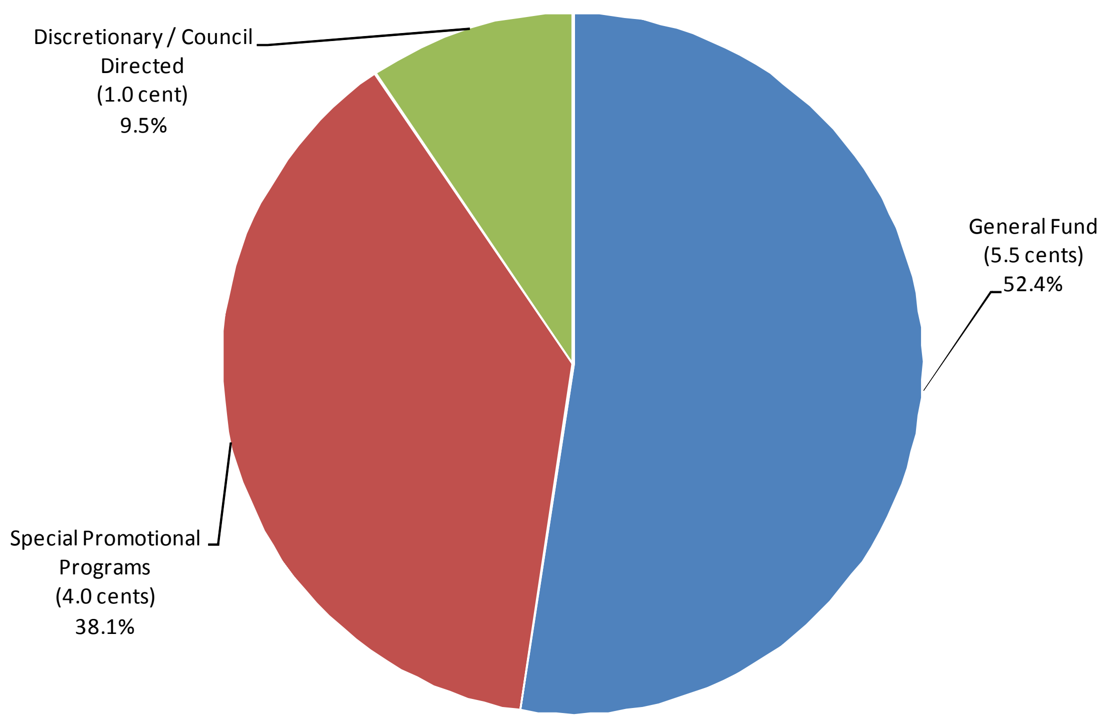
Total City Budget
$139.4 million

General Fund Budget
$73.0 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 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.

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 forecasted to continue through calendar year 2012, according to the December 2010 Quarterly Travel Forecast from the San Diego Convention and Visitors Bureau (CONVIS). Locally, travel is estimated to continue to grow by 3.5 and 2.0 percent in calendar years 2011 and 2012, respectively, and is reflected in CONVIS tourism industry projections such as room demand, average daily rate (ADR), and total occupancy. Room demand growth of 2.4 percent is projected in calendar year 2011 and 2.3

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 $132 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 68.0 percent in calendar year 2011, from 66.6 percent in calendar year 2010. Total occupancy is also projected to increase to 69.4 percent in calendar year 2012, which is equivalent to the occupancy rate in 2008, prior to the onset of the economic recession.[1]

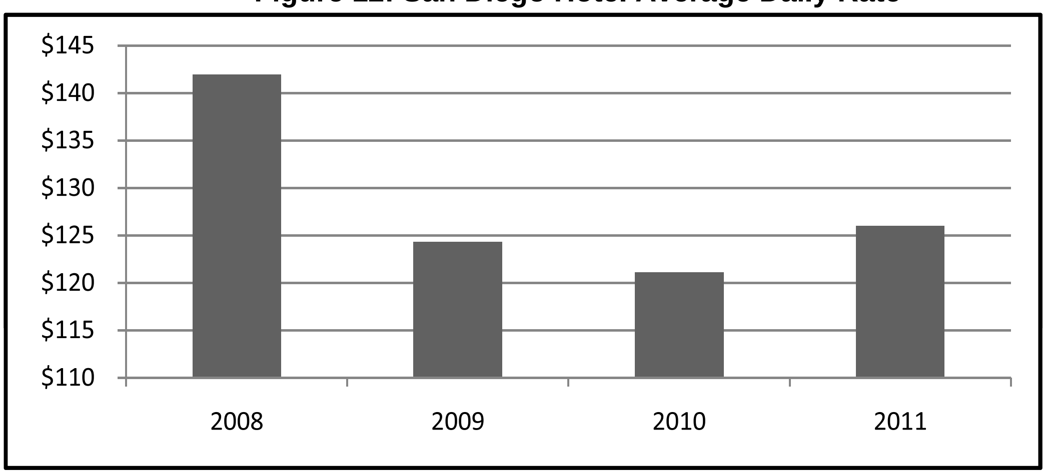
Table 8 illustrates hotel performance in San Diego since calendar year 2008 and projections for calendar year 2011:

Table 8: 2008 - 2011 San Diego Tourism

	Projected CY 2011	CY 2010	CY 2009	CY 2008	Projected % Change '10 - '11	% Change '09-'10	% Change '08-'09	% Change '07-'08
Total Visitors (in millions)	31.0	30.0	29.6	31.1	3.5%	1.3%	-4.8%	-1.5%
Overnight (in millions)	15.5	15.1	14.4	15.2	2.6%	4.3%	-5.3%	-1.3%
Day (in millions)	15.6	14.9	15.2	15.9	4.4%	-1.5%	-4.4%	-1.6%
Supply - Room Inventory	21.2	21.1	20.9	20.2	0.3%	0.9%	3.8%	2.2%
Demand - Rooms Sold	14.4	14.1	13.2	13.9	2.4%	6.8%	-5.6%	-2.9%
Average Occupancy	68.0%	66.6%	62.9%	69.2%	2.1%	5.9%	-9.1%	-5.1%
Average Daily Rate	$126.0	$121.1	$124.3	$141.9	4.0%	-2.5%	-12.4%	2.4%
Airport Arrivals (in millions)	N/A	8.4	8.5	9.1	n/a	-0.8%	-6.2%	-1.0%

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

Figure 12: San Diego Hotel Average Daily Rate

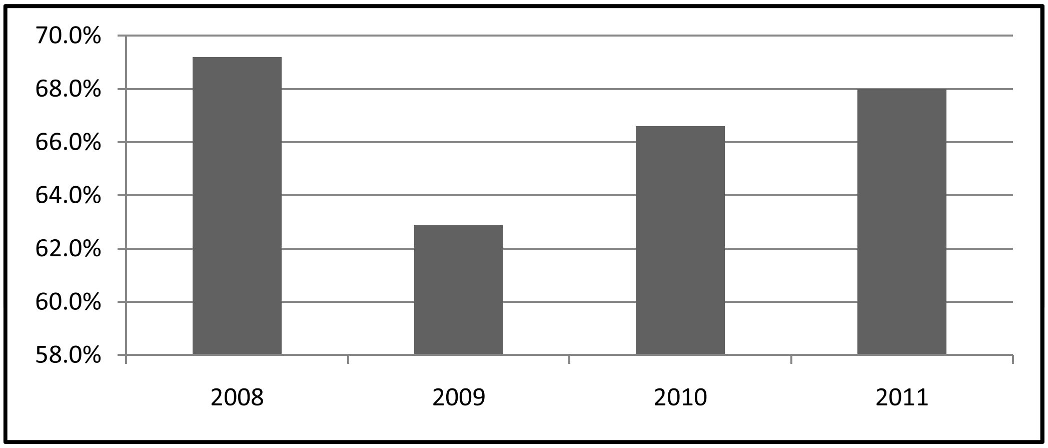


Source: CONVIS Quarterly Travel Forecast, December 2010

[1] CONVIS Quarterly Travel Forecast, December 2010.

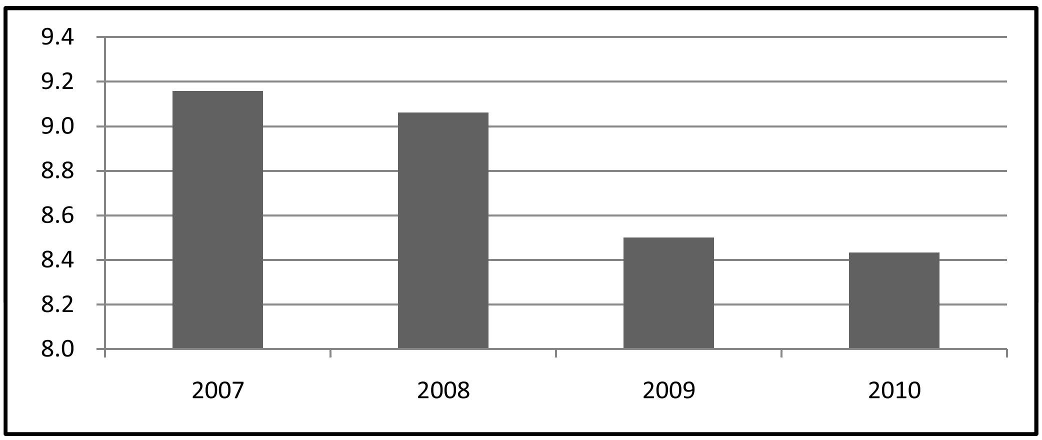
General Fund Revenues

Figure 13: San Diego Hotel Occupancy Rate



Source: CONVIS Quarterly Travel Forecast, December 2010

Figure 14: San Diego International Airport Arrivals (in millions)



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

Fiscal Year 2012 Proposed Budget

The Fiscal Year 2012 total proposed transient occupancy tax budget for the City of San Diego is $139.4 million, a 3.0 percent growth over the Fiscal Year 2011 year-end projections. Of the $139.4 million, $73.0 million will be allocated to the General Fund with the remaining funds allocated to Special Promotional Programs.

The TOT revenue estimate remains conservative for Fiscal Year 2012. Growth in tourism demand is expected through the remainder of calendar years 2011 and 2012. This growth is expected to be steady based on promising signs in some economic indicators; however, until improvement can be observed over an extended period of time, conservative growth estimates are prudent, particularly with continued high unemployment and cautious consumer spending impacting tourism trends.

Property Transfer Tax

Background

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.

Total City Budget
$5.1 million

General Fund Budget
$5.1 million

Percent of General Fund
0.5 percent

Economic Trends

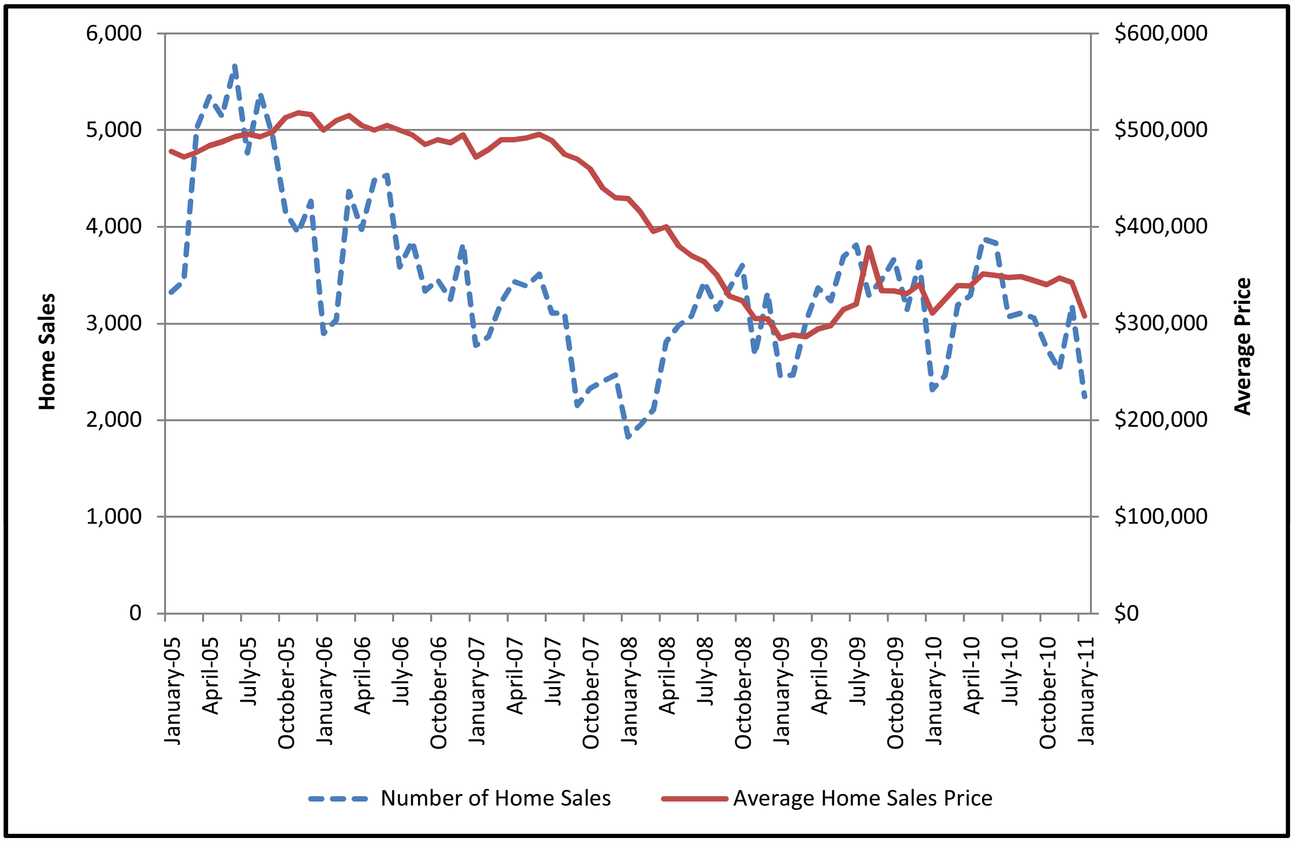
The Fiscal Year 2012 proposed property transfer tax budget reflects the market conditions and trends as of February 2011. San Diego County's home sales increased for two consecutive fiscal years since the low levels experienced in Fiscal Year 2008. Total home sales for the County in Fiscal Year 2010 were 39,950, a 5.8 percent increase over the Fiscal Year 2009 totals of 37,751.[1] However, the Fiscal Year 2011 year-to-date home sales are slightly below Fiscal Year 2010 levels,[2] possibly due to the elimination of the federal tax credit for first time home buyers. The average median countywide home price was $337,636 for Fiscal Year 2010, an 8.3 percent increase from the Fiscal Year 2009 average median home price of $311,692. As of December 2010, the median home price is $342,258, a 0.5 percent increase over the December 2009 median home price of $340,417. Additionally, notices of default and foreclosures in the County have been showing signs of stabilization. As of December 2010, Fiscal Year 2011 totals for notices of default and foreclosures have decreased 27.6 and 24.3 percent, respectively, from the same period in prior fiscal year. 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 thus improving the forecast for property transfer tax revenue.

Fiscal Year 2012 Proposed Budget

The Fiscal Year 2012 proposed 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 attributed to projected growth in median prices and decreases in local notices of default and foreclosures.

1 DataQuick Information Systems.
2 As of December 2010.

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
6.1 percent

Franchise fees revenue makes up 6.1 percent of the General Fund revenue budget and results from agreements with private utility companies in exchange for the City's rights-of-way. Currently, San Diego Gas and Electric (SDG&E), Cox Communications, Time Warner Cable, and AT&T are the franchises that pay the City. In addition, the City collects franchise fees from private refuse haulers that conduct business within its borders. The revenue received from the above agreements is based on a percentage of gross sales.

SDG&E, the single largest generator of franchise fee revenue in the General Fund, is charged 3.0 percent of the gross sales of gas and electricity within the City of San Diego, which is split between the General Fund (75.0 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: 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 Proposed Budget

SAN DIEGO GAS & ELECTRIC. The Fiscal Year 2012 Proposed Budget for SDG&E franchise fee revenue of $48.2 million is based on the Fiscal Year 2011 year-end projection assuming 3.0 percent growth for Fiscal Year 2012. The Fiscal Year 2012 budget is based on a projected return to historic growth levels.

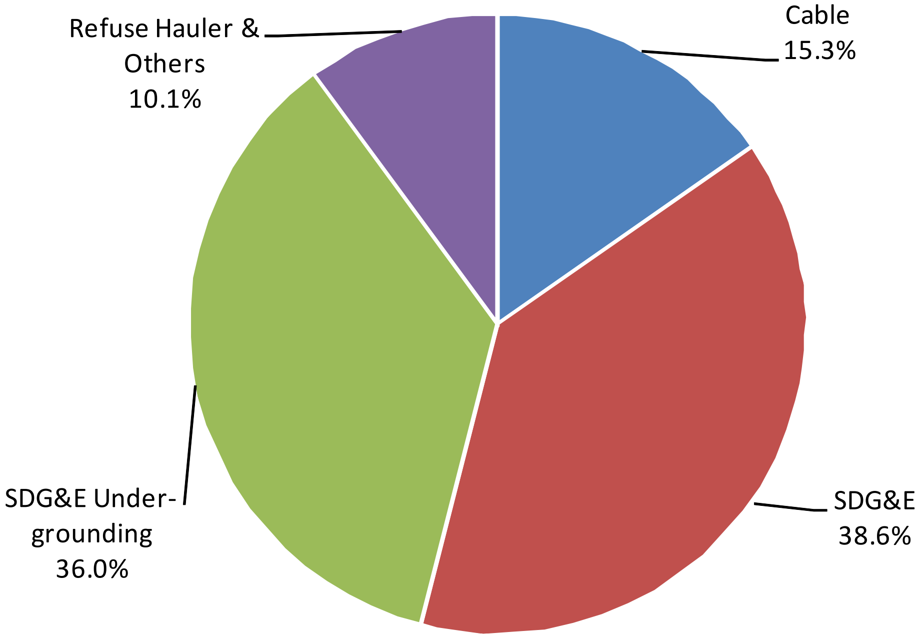
In accordance with the City Charter, 25.0 percent of revenue received from SDG&E or $12.1 million is to be deposited into the Environmental Growth Fund (EGF). One-third of the EGF is used to finance the maintenance of parks; the remaining two-thirds are used for the annual interest payments for debt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

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

REFUSE HAULERS AND OTHER FRANCHISES. The Fiscal Year 2012 Proposed Budget for refuse hauler franchise fee revenue from private refuse haulers is $9.6 million, an increase of $269,000 over the Fiscal Year 2011 year-end projection resulting from a projected increase in refuse tonnage from operating efficiencies to be implemented in Fiscal Year 2012. The City also anticipates an additional $2.9 million in franchise fees from the EDCO and Sycamore Landfill Facility and $200,000 from other franchise fee sources.

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

Figure 16: Franchise Fee Revenue Breakdown



Licenses and Permits

Background

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.

Total City Budget
$59.3 million

General Fund Budget
$35.2 million

Percent of General Fund
3.2 percent

Fiscal Year 2012 Proposed Budget

The Fiscal Year 2012 Proposed Budget for licenses and permits is $35.2 million or 3.2 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 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 more fully 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

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.

Total City Budget
$37.6 million

General Fund Budget
$36.4 million

Percent of General Fund
3.3 percent

Fiscal Year 2012 Proposed Budget

The Fiscal Year 2012 Proposed Budget for fines, forfeitures, and penalties revenue is $36.4 million or 3.3 percent of the General Fund revenue budget. This represents an approximate $3.6 million or a 10.9 percent increase as compared to the Fiscal Year 2011 Adopted Budget. The increase in the Fiscal Year 2012 Proposed 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. 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

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.

Total City Budget
$64.5 million

General Fund Budget
$39.1 million

Percent of General Fund
3.5 percent

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 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 2012 Proposed Budget

The Fiscal Year 2012 Proposed Budget for rents and concessions revenue is $39.1 million or 3.5 percent of the General Fund revenue budget. This represents a $4.5 million or 10.3 percent decrease from the Fiscal Year 2011 Adopted Budget. This decrease is primarily attributable to the elimination of $4.3 million of a one-time transfer from the Mission Bay Park Improvement Fund ($2.5 million in prior year balance and $1.8 million in savings from delayed capital improvement projects).

The 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 (excluding the $4.3 million one-time revenue increase). 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. In Fiscal Year 2012, pursuant to the Mission Bay Ordinance, 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

After decreasing during Fiscal Years 2008 and 2009, interest rates have remained historically low throughout Fiscal Years 2010 and 2011. 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 mixed, but seem to support that the domestic economy is building a base for a sustained recovery, assuming no further global economic shocks. Many economists believe that the eventual federal funds rate hikes may begin in early to mid-2012. In its January statement, the Federal Open Market Committee (FOMC) reiterated that conditions "are likely to warrant exceptionally low levels of the federal funds rate for an extended period."

Interest Earnings Outlook

Recent statements by the Federal Reserve have indicated they are likely to keep interest rates at historic lows well into Fiscal Year 2012. Despite this, longer term interest rates have begun to move up in anticipation of potential FOMC action to increase interest rates in Fiscal Year 2012. 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

Total City Budget **$3.3 million**
General Fund Budget **$3.3 million**
Percent of General Fund **0.3 percent**

Background

Motor vehicle license fees (MVLF) are levied as a percentage of an automobile's purchase price, subject to depreciation, and are paid annually to the California Department of Motor Vehicles as part of the owner's registration. The fees are then forwarded to the State Controller's Office, which allocates the funds to local governments per capita on a monthly basis after administrative costs are deducted.

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 have been compensated for the 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. In the Governor's Fiscal Year 2012 Proposed Budget for the State of California, the MVLF tax rate remains at 1.15 percent; the Governor is proposing to extend this rate for an additional five years starting in Fiscal Year 2012, pending voter approval of the rate during a special election to be held in June 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 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 calendar year 2010, new vehicle registrations in the State were up 13.1 percent from calendar year 2009 and the California New Car Dealers Association's Outlook is projecting a similar increase in calendar year 2011. The car market share in California exceeded national levels in 2010.

The number of vehicles in the State, the age of those vehicles, and their most recent depreciated value affect the amount of MVLF raised. The 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 Proposed Budget

The Fiscal Year 2012 proposed motor vehicle license fees budget of $3.3 million assumes a 3.6 percent growth over the Fiscal Year 2011 year-end projection. This revenue outlook is 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. Modest growth in MVLF revenues is anticipated as consumers recover from higher unemployment, depressed household asset values, and a cautious outlook from the economic downturn.

General Fund Revenues

Revenue from Federal & Other Agencies

Background

Total City Budget
$66.1 million

General Fund Budget
$2.6 million

Percent of General Fund
0.2 percent

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 Proposed Budget

The Fiscal Year 2012 Proposed 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

Background

Total City Budget
$1,160.6 million

General Fund Budget
$156.2 million

Percent of General Fund
14.1 percent

Charges for current services revenue is generated by payments for services provided to the public and other City funds. The City's General Fund pays for basic City services such as public safety, parks, and libraries. In addition, the City allocates the costs associated with central service departments, such as the City Auditor, City Comptroller, City Attorney, City Clerk, and Financial Management to all City departments by means of a rate based on the General Government Services Billing (GGSB) standard. The amounts allocated to non-General Fund departments are billed and received into the General Fund as revenue to offset the cost of the services provided by these central service departments.

Fiscal Year 2012 Proposed Budget

The Fiscal Year 2012 Proposed Budget for charges for current services revenue is $156.2 million or 14.1 percent of the General Fund revenue budget. This represents a net increase of $10.7 million or 7.4 percent from the Fiscal Year 2011 Adopted Budget.

The increase of $10.7 million is primarily attributable to a $5.1 million transfer of Emergency Medical Services fund balance to the General Fund ($4.1 million in one-time revenue and $1.0 million on-going), and a $6.1 million federal grant from the American Recovery and Reinvestment Act. Offsetting these revenue gains are revenue decreases related to the restructuring of the Transportation & Storm Water and City Planning & Community Investment Departments, as well as reclassification of some revenues that were previously budgeted in the Other Financial Sources and Uses category.

Other Financial Sources & Uses

Background

Total City Budget
$172.0 million

General Fund Budget
$87.7 million

Percent of General Fund
7.9 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 Proposed Budget

The Fiscal Year 2012 Proposed Budget for Other Financial Sources & Uses is $87.7 million or 7.9 percent of General Fund revenue budget. This represents an approximate $23.8 million or 21.3 percent decrease from the Fiscal Year 2011 Adopted Budget.

A decrease of $38.2 million is due primarily to one-time revenue transfers budgeted in the Fiscal Year 2011 Adopted Budget and eliminated from the Fiscal Year 2012 Proposed Budget. The one-time revenue transfers include $24.6 million of property tax revenue set aside from Fiscal Year 2010 deficit mitigation in Fiscal Year 2011; $9.5 million release of 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 $0.8 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 the revenue increase of $14.4 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; $1.3 million increase in the 1.0 cent TOT 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 for convention center debt payments; and other miscellaneous revenue adjustments and transfers.

Other Revenue

Total City Budget
$142.4 million

General Fund Budget
$2.3 million

Percent of General Fund
0.2 percent

Fiscal Year 2012 Proposed Budget

The Fiscal Year 2012 Proposed Budget for other revenue is $2.3 million or 0.2 percent of the General Fund revenue budget. This represents an approximate $0.2 million or 8.8 percent decrease 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 decline in revenue is mainly attributable to a decrease in private donations and contributions to the City and the elimination of refuse disposal reimbursement from capital improvement projects.

Annual Tax Appropriation Limit (Gann Limit)

In November 1979, California voters approved Proposition 4 (Gann Initiative) and added Article XIIIB to the California State Constitution. In 1980, the State Legislature added Division 9 (commencing with Section 7900) to Title I of the Government Code to implement Article XIIIB. This legislation required the governing body of each local jurisdiction in California to establish an Annual Tax

Appropriations Limit (Gann Limit) on or before June 30 for the following fiscal year. The Tax Appropriations Limit was based on actual appropriations during the fiscal years 1978-79, and was increased each year using the growth in population and inflation.

On June 5, 1990, California voters approved Proposition 111, amending Article XIIIB. Proposition 111 allowed local jurisdictions to choose the annual adjustment factors. The adjustment factors include the growth in the California per capita income, or the growth in the non-residential assessed valuation due to construction within the city and the population growth within the county or the city.

The Tax Appropriations Limit is applicable only to proceeds of taxes. Appropriations not subject to the limit are debt service on voter-approved debt and qualified capital outlays (a fixed asset, including land, with a useful life of more than 10 years and a value that equals or exceeds $100,000).

The San Diego City Council adopted a resolution in June 2010 that established the Tax Appropriations Limit for Fiscal Year 2011 at $1,375,737,264. Using the Fiscal Year 2011 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 $715.0 million, which was $660.7 million lower than the Gann Limit.

The Fiscal Year 2012 Gann Limit calculation will be presented to City Council in June 2011. Adjustment factors used for the computation are released by the California Department of Finance in late May. Therefore, the Fiscal Year 2012 Gann Limit will not be established before the release of the Fiscal Year 2012 Proposed Budget.