

# General Fund Revenue

The total Fiscal Year 2010 General Fund Proposed Budget is \$1.15 billion, which represents a decline of \$46.5 million or -3.9 percent from the Fiscal Year 2009 Annual Budget and down \$9.6 million or -0.83 percent from the Fiscal Year 2009 Revised Budget. General Fund revenue pays 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 3.9 percent or \$46.5 million in General Fund revenue for fiscal year 2010:

| TABLE 1<br>FISCAL YEAR 2010 GENERAL FUND REVENUE<br>GROWTH BREAKDOWN |                   |                         |
|--|-------------------|-------------------------|
|  | Percent<br>Change | Change<br>(in millions) |
| Major Revenues   | -2.7%             | \$ (31.9)               |
| Other Revenue Sources  | -1.2%             | \$ (14.6)               |
| <b>TOTAL</b>   | <b>-3.9%</b>      | <b>\$ (46.5)</b>        |

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 2010 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 66.4 percent of the City's General Fund revenue in the Fiscal Year 2010 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 2010 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.

## Revenue Categories

### Property Tax

### Other Local Taxes

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

### Licenses and Permits

### Fines, Forfeitures, and Penalties

### Revenue from Money and Property

- Franchise Fees
- Interest Earnings
- Rents and Concessions

### Revenue from Other Agencies

- Motor Vehicle License Fees
- Miscellaneous Revenue from Other Agencies

### Charges for Current Services

### Transfers from Other Funds

### Other Revenue

# General Fund Revenues

The Fiscal Year 2010 Proposed Budget for the General Fund was prepared using data current as of the end of March 2009 - 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.

## San Diego's Economic Environment<sup>1</sup>

With the current recession now in the beginning of its second year, the continued depressed financial outlook on a national, State, and local level is expected to be more protracted than originally anticipated. The City enjoys a diverse economy, which typically provides greater stability in depressed economic times; however, the economic downturn has begun to affect nearly all portions of City revenue sources.

Retail sales remained very sluggish with the exception of necessary expenditures such as basic groceries, and demand weakened further for service providers. Overall, per capita income growth has begun to stagnate, consumer confidence is at a 40-year low (**figure 2**), and average personal wealth has continued to decline due to the loss of home equity (**figure 1**) and the decline in value of retirement plans. These factors have been the catalyst for the drop in overall consumer spending, which has led to a decline or stagnant growth in the aforementioned largest revenue areas for the City. Consumers continued to reduce discretionary spending and focus on necessary expenditures, reducing their overall spending. The drop in discretionary spending has resulted in a drop-off in tourism and sales tax receipts, while a drop in non-discretionary income has also led to a decline in amounts spent on mortgage or rental payments.

While most emerging economic news has been negative, some relief to consumers is occurring in the form of downward pressure on prices for natural resources, fuel prices, and consumer staples.

### San Diego Region Home Prices

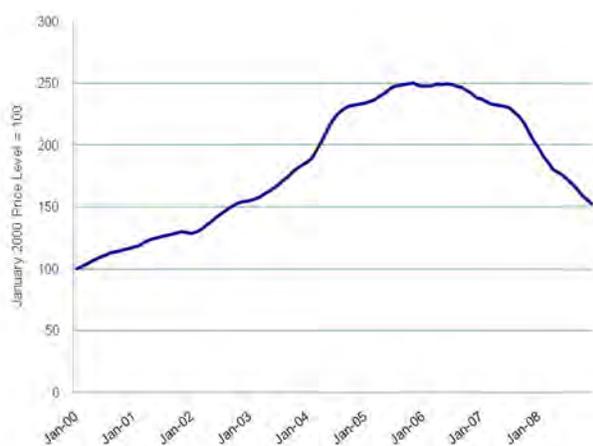


Figure 1. Source: Standard & Poor's

### National Consumer Confidence Levels



Figure 2. Source: Consumer Conference Board

<sup>1</sup> The following sources were used for the budget publication: City of San Diego City Planning and Community Investment Department, San Diego Regional Chamber of Commerce, Economic Bulletin, California Employment Development Department, San Diego Convention and Visitors Bureau, San Diego Union Tribune, US Consumer Confidence Board, and DataQuick Information Systems.

# General Fund Revenues

The following are some of the economic assumptions and indicators that have been used in the preparation of the Fiscal Year 2010 Proposed Budget for the General Fund<sup>1</sup>.

- The median price of homes in San Diego County is estimated to have declined 45.1 percent from its peak in November 2005 (\$518,000) to the end of January 2009 (\$284,345). With the continued economic recession, prices are expected to continue to drop over the next fiscal year.
- National stock indices have dropped 40.0 percent since January 2008 (through March 24<sup>th</sup> as measured by the DJIA), reducing retirement wealth and discretionary income.
- California's unemployment rate at the end of February 2009 was 10.5 percent, from 5.7 percent in February 2008. San Diego County's unemployment level, which is historically below that of the State level, was 8.8 percent in February 2009 compared to 5.0 percent in February 2008.
- National consumer confidence has declined to lowest recorded levels (since 1967), which has led to an increase in consumer savings rates to provide a hedge against fiscal problems. Combined with the drop in housing equity, retirement wealth, and increased unemployment, the increase in savings rate has led to large declines in consumer spending. City consumer confidence has dropped in excess of 47.0 percent in 2008 to the lowest levels since the San Diego Union Tribune started measuring confidence in 1996.
- San Diego's Gross Metro Product (as estimated by the Bureau of Economic Analysis), the estimated value of San Diego metro area's total economic activity, is expected to decline by 0.3 percent in calendar year 2009.
- Leading economic indicators for San Diego have dropped 18.5 percent from the beginning of 2008 to February 2009, and are forecasted to continually decline during 2009 (University of San Diego, Index of Economic Indicators).
- San Diego County tourism is expected to continue to decline in fiscal year 2010, including both recreational tourism and convention or business visitors.
- Initial unemployment claims in January 2009 exceeded 30,000 applications for the first time ever in a single month in the City as the unemployment rate has exceeded 8.0 percent and grown 67.0 percent from March 2008 to February 2009.

While it was estimated in the Fiscal Year 2009 Annual Budget that the fiscal impact of the economic downturn would not be significant to City revenues due to San Diego's economic diversity, the lack of stability in all aspects of the regional and State economy has led to the view that the major revenue sources for the City will continue to decline or experience no growth. With the housing market not reaching a clearly defined bottom, rising unemployment nationwide, a reduction in spending by consumers and businesses, and the credit market crippled, economic expansion and the resulting increase in revenues for the City is unlikely in fiscal year 2010. However, stabilization may occur as federal fiscal stimulus continues to circulate through the economy, job losses stabilize, and the housing market improves.

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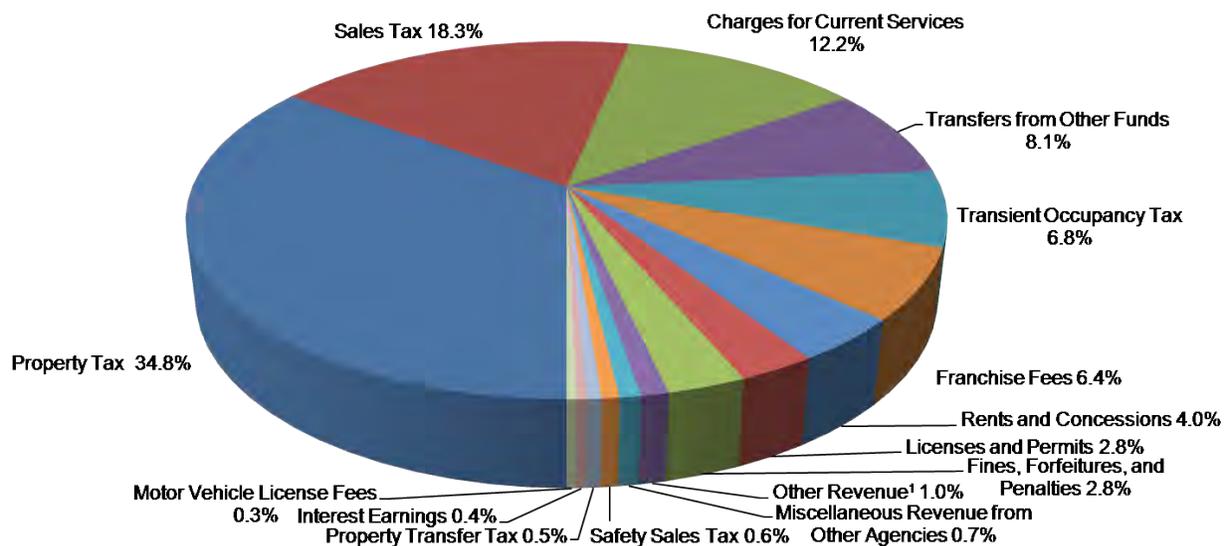
<sup>1</sup> The following sources were used for the budget publication: City of San Diego City Planning and Community Investment Department, San Diego Regional Chamber of Commerce, Economic Bulletin, California Employment Development Department, San Diego Convention and Visitors Bureau, San Diego Union Tribune, and DataQuick Information Systems.

# General Fund Revenues

## General Fund Revenues

| TABLE 2<br>FISCAL YEAR 2010 GENERAL FUND REVENUES – \$1.15 BILLION (IN MILLIONS) |                              |                              |                               |  |   |  |  |
|--|------------------------------|------------------------------|-------------------------------|--|---|--|--|
| REVENUE CATEGORY   | FY 2009<br>ADOPTED<br>BUDGET | FY 2009<br>REVISED<br>BUDGET | FY 2010<br>PROPOSED<br>BUDGET | \$ CHANGE<br>FY '10 -<br>FY '09<br>ADOPTED | % CHANGE<br>FY '10 -<br>FY '09<br>ADOPTED | \$ CHANGE<br>FY '10 -<br>FY '09<br>REVISED | PERCENTAGE<br>OF TOTAL<br>FY '10<br>PROPOSED |
| Property Tax   | \$411.1                      | \$396.6                      | \$399.3                       | \$(11.8)                                   | -2.9%                                     | \$2.7                                      | 34.8%  |
| Sales Tax  | \$222.1                      | \$216.0                      | \$210.1                       | \$(11.9)                                   | -5.4%                                     | \$(5.9)                                    | 18.3%  |
| Safety Sales Tax   | \$8.1                        | \$7.3                        | \$7.1                         | \$(1.1)                                    | -13.0%                                    | \$(0.3)                                    | 0.6%   |
| Transient Occupancy Tax  | \$90.6                       | \$82.2                       | \$78.3                        | \$(12.3)                                   | -13.6%                                    | \$(3.8)                                    | 6.8%   |
| Property Transfer Tax  | \$8.9                        | \$6.5                        | \$6.0                         | \$(2.9)                                    | -32.5%                                    | \$(0.4)                                    | 0.5%   |
| Licenses and Permits   | \$32.6                       | \$32.6                       | \$32.0                        | \$(0.7)                                    | -2.1%                                     | \$(0.7)                                    | 2.8%   |
| Fines, Forfeitures, and Penalties  | \$34.5                       | \$34.5                       | \$32.3                        | \$(2.3)                                    | -6.5%                                     | \$(2.3)                                    | 2.8%   |
| Franchise Fees   | \$69.6                       | \$68.4                       | \$73.7                        | \$4.1                                      | 5.9%                                      | \$5.4                                      | 6.4%   |
| Interest Earnings  | \$9.6                        | \$7.9                        | \$4.1                         | \$(5.5)                                    | -57.4%                                    | \$(3.9)                                    | 0.4%   |
| Rents and Concessions  | \$47.2                       | \$47.2                       | \$46.0                        | \$(1.2)                                    | -2.6%                                     | \$(1.2)                                    | 4.0%   |
| Motor Vehicle License Fees   | \$6.9                        | \$6.0                        | \$3.9                         | \$(3.0)                                    | -43.3%                                    | \$(2.1)                                    | 0.3%   |
| Miscellaneous Revenue from Other Agencies  | \$20.3                       | \$20.3                       | \$8.6                         | \$(11.8)                                   | -57.8%                                    | \$(11.7)                                   | 0.7%   |
| Employee Offset Savings (EOS)  | \$17.7                       | \$10.1                       | \$10.1                        | \$(7.6)                                    | -43.0%                                    | \$0.0                                      | 0.9%   |
| Charges for Current Services   | \$134.1                      | \$133.5                      | \$140.0                       | \$5.9                                      | 4.4%                                      | \$6.5                                      | 12.2%  |
| Transfers from Other Funds (excludes EOS)  | \$78.2                       | \$85.7                       | \$93.0                        | \$14.8                                     | 18.9%                                     | \$7.3                                      | 8.1%   |
| Other Revenue  | \$0.8                        | \$0.8                        | \$1.6                         | \$0.7                                      | 88.6%                                     | \$0.7                                      | 0.1%   |
| <b>TOTAL</b>   | <b>\$1,193</b>               | <b>\$1,156</b>               | <b>\$1,146</b>                | <b>\$(46.5)</b>                            | <b>-3.9%</b>                              | <b>\$(9.6)</b>                             | <b>100.0%</b>                                |

### Fiscal Year 2010 General Fund Revenues – \$1.15 Billion



<sup>1</sup> Other Revenue includes Employee Offset Savings (EOS) and Other Revenue category

# General Fund Revenues

## Property Tax

### Property Tax Background

Property tax revenue is the City’s largest revenue source, representing 34.8 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 fair market value of all real property. Proposition 13, passed by voters in 1979, specifies that an assessed value may increase at the rate of the Consumer Price Index, but cannot exceed 2.0 percent per year based on the 1979 value unless the property is improved or sold to establish a new market 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 City totals \$17.60 (with an additional \$3.10 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 for purposes other than the General Fund. An additional levy over the 1.0 percent rate is collected to pay debt service on voter-approved debt. In June 1990, voters approved a \$25.5 million debt issuance to finance a new public safety communication system for the City which will reach maturity in fiscal year 2012. Additionally, a special tax levy prescribed by the City Charter of \$0.005 per \$100 of assessed valuation is used to fund zoological exhibits within the City.

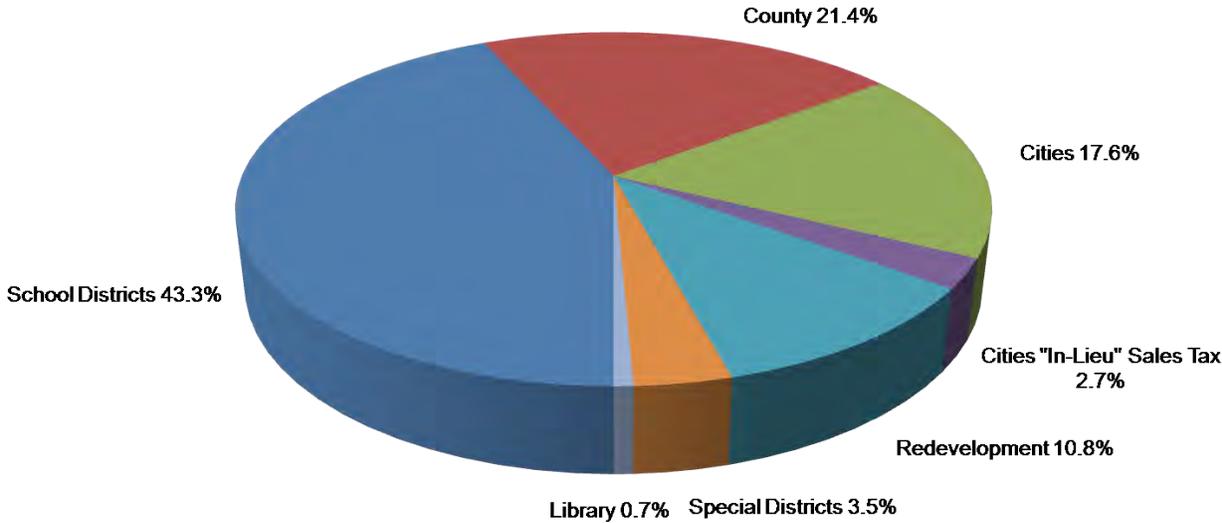
**Total City Budget**  
\$411.0 million

**General Fund Budget**  
\$399.3 million

**Percent of General Fund**  
34.8 percent

| Year | Revenue (Million) |
|------|-------------------|
| '06  | 320.0             |
| '07  | 360.0             |
| '08  | 390.0             |
| '09  | 410.0             |
| '10  | 400.0             |

### Property Tax Distribution



Source: County of San Diego Assessor’s Office

# General Fund Revenues

Since the early 1990s, many factors have contributed to reductions 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, otherwise known as the Educational Revenue Augmentation Fund (ERAF) shifts, resulted in an estimated cumulative loss of over \$582.9 million in property tax revenue for the City through fiscal year 2008<sup>1</sup>.
- The State authorized counties to charge cities for administrative fees in order to collect and distribute property tax, further reducing the City’s annual property tax receipts by approximately \$4.0 million per fiscal year.
- Another ERAF shift was enacted in fiscal year 2005, mandating local agencies to contribute \$1.30 billion per year to the State. This shift ended in fiscal year 2006, resulting in an annual impact of \$16.9 million to the City.
- Beginning in fiscal year 2005, the Motor Vehicle License Fee (MVLFF) backfill was eliminated by the State and was replaced dollar-for-dollar with property tax, resulting in a property tax revenue increase.

## Property Tax Trends and Outlook

The fiscal year 2010 property tax proposed budget is based on the assumption of a continued decline in housing prices and reduced sales and is projected to be \$399.3 million, which represents a 1.0 percent increase in revenue from projections in the Fiscal Year 2009 Mid-Year Report, a \$2.7 million or 0.7 percent from the Fiscal Year 2009 Revised Budget, and -\$11.8 million or -2.9 percent from the Fiscal Year 2009 Adopted Budget.

The \$399.3 million consists of \$291.3 million in base property tax (Proposition 13) and an estimated “in-lieu of MVLFF” payment of \$108.0 million.

| TABLE 3<br>FISCAL YEAR 2010 PROPOSED PROPERTY TAX BUDGET |                         |
|--|-------------------------|
| Base Property Tax  | \$ 291.3 million        |
| Property Tax in-lieu of MVLFF                            | \$ 108.0 million        |
| <b>Total Property Tax</b>                                | <b>\$ 399.3 million</b> |

<sup>1</sup> California Local Government Finance

# General Fund Revenues

Although the median price of a home in San Diego has dropped over 31.5 percent from February 2008 to January 2009,<sup>1</sup> the actual property tax receipts do not reflect the full impact of this drop due to Proposition 13. Homeowners who have owned the same property for an extended period of time have received the benefit of a high rate of annual growth in property value, while their property tax bills were capped at a 2 percent maximum growth rate. These residents, although losing equity in their properties in this declining price environment, are still eligible for a property tax rate increase this year as their current house value exceeds the value of their property based on their assessed value and the 2.0 percent annual compounded maximum growth rate of their taxes. However, a decline in property tax receipts is still forecasted as the number of foreclosures increases (delaying property tax receipts and reducing existing home values), petitions for a reassessment based on current market conditions have doubled from 2006 levels, and more homes are sold for less than their assessed value. Supplemental assessments, where State law requires the County Assessor to reappraise property and issue a supplemental assessment based on a new sale or purchase of a home, have been significantly reduced as more properties are sold for less than their original assessment due to the 45 percent decline in housing prices since the 2005 high levels. This has resulted in supplemental property tax revenue decreasing from a high of \$22.6 million in Fiscal Year 2006 to a Fiscal Year 2010 supplemental property tax projection of \$6.8 million.

Foreclosures in the County of San Diego have remained at the same level for the past year, with the exception of September through December 2008. During this time, State Bill CC 2923.5 required that a lender, before filing a new default notice, conduct an in-person interview with the borrower to assess the borrower's financial situation; provide borrower with a list of HUD-certified credit counselors; explore options for borrower to avoid foreclosure; offer restructuring or other options; and do not file the notice of default until at least 30-days after the in-person meeting. This reduced the amount of foreclosures in the fourth quarter of 2008, which allowed time for the amount of foreclosed properties available on the market to decline as foreclosed properties were purchased without additional properties being foreclosed. However, after this State Bill lapsed at the beginning of 2009, approximately 3,000 new notices of default were sent out in January, which was the same level prior to the effective date of the bill. Of these foreclosed homes, approximately 45.0 percent of properties are re-sold on a monthly basis, while the remaining 55.0 percent unsold inventory of foreclosed homes are increasing the amount of available properties on the market<sup>2</sup>. The number of foreclosed properties available on the market would need to decline to help stabilize the overall residential real estate market. The focus of the Federal Home Loan Modification Program is to reduce the number of foreclosed properties on the market, which may put a floor under declining home prices.

## Property Tax Economic Indicators

Total issued building permits and permit valuation (residential and non-residential) are used as indicators of overall construction activity. The graphs below represent the trends in building permits issued and building permit valuations through the first eight months of fiscal year 2009. Calendar year 2009 commercial new construction permits are down 46.4 percent (\$225.7 million reduction) from 2008, while residential permits are down 39.6 percent (\$159.8 million reduction) from the same time period. The fiscal

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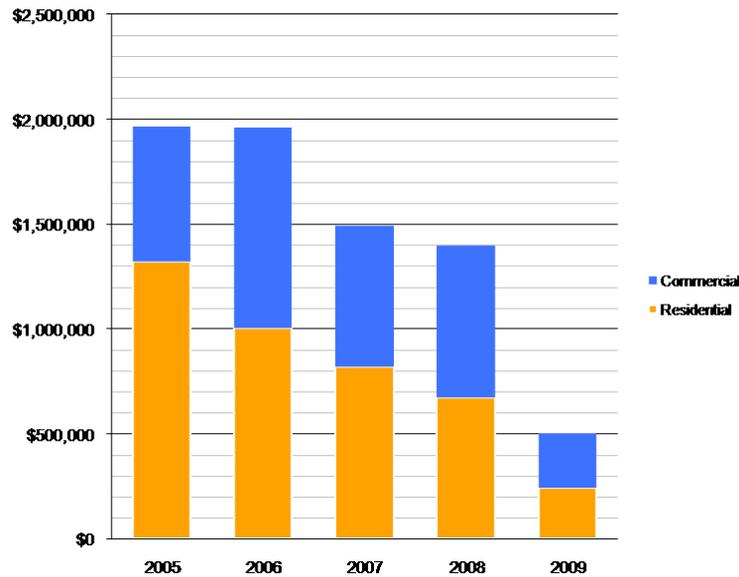
<sup>1</sup> DataQuick Information

<sup>2</sup> San Diego County Recorder's Office

# General Fund Revenues

year 2008 annual figures were down 16.4 percent from fiscal year 2007, and 32.2 percent down from fiscal year 2006 highs. With the illustrated decline in building permits for both residential and commercial construction, the real estate market in San Diego has yet to show any recovery or stabilization.

## Total Building Permits Valuation (In Thousands)



Source: City of San Diego, Development Services Department

| DESCRIPTION                | FY 2005      | FY 2006      | FY 2007      | FY 2008    | FY 2009 YTD |
|----------------------------|--------------|--------------|--------------|------------|-------------|
| <i>Total Single Family</i> | 1,271        | 1,290        | 903          | 719        | 306         |
| Apartment                  | 242          | 106          | 72           | 72         | 9           |
| Condominium                | 164          | 72           | 192          | 48         | 7           |
| <i>Total Multi-Family</i>  | 406          | 178          | 264          | 120        | 16          |
| <b>GRAND TOTAL</b>         | <b>1,677</b> | <b>1,468</b> | <b>1,167</b> | <b>839</b> | <b>322</b>  |

| DESCRIPTION                | FY 2005           | FY 2006         | FY 2007         | FY 2008         | FY 2009 YTD     |
|----------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
| <i>Total Single Family</i> | \$ 349.5          | \$ 377.8        | \$ 257.5        | \$ 210.7        | \$ 89.1         |
| Apartment                  | \$ 321.4          | \$ 189.0        | \$ 73.4         | \$ 202.7        | \$ 39.6         |
| Condominium                | \$ 394.7          | \$ 221.5        | \$ 307.9        | \$ 120.8        | \$ 4.2          |
| <i>Total Multi-Family</i>  | \$ 716.0          | \$ 410.5        | \$ 381.4        | \$ 323.5        | \$ 43.8         |
| <b>GRAND TOTAL</b>         | <b>\$ 1,065.5</b> | <b>\$ 788.3</b> | <b>\$ 638.8</b> | <b>\$ 534.2</b> | <b>\$ 132.9</b> |

Source: City of San Diego, Development Services Department

# General Fund Revenues

## Other Local Taxes

## Sales Tax

### Sales Tax Background

Sales tax is the City’s second largest revenue source, representing 18.3 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 the form of monthly payments. According to the Bradley-Burns Sales and Use Tax law, cities are to receive one cent of the total 7.25 cent statewide 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 7.75 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. 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.

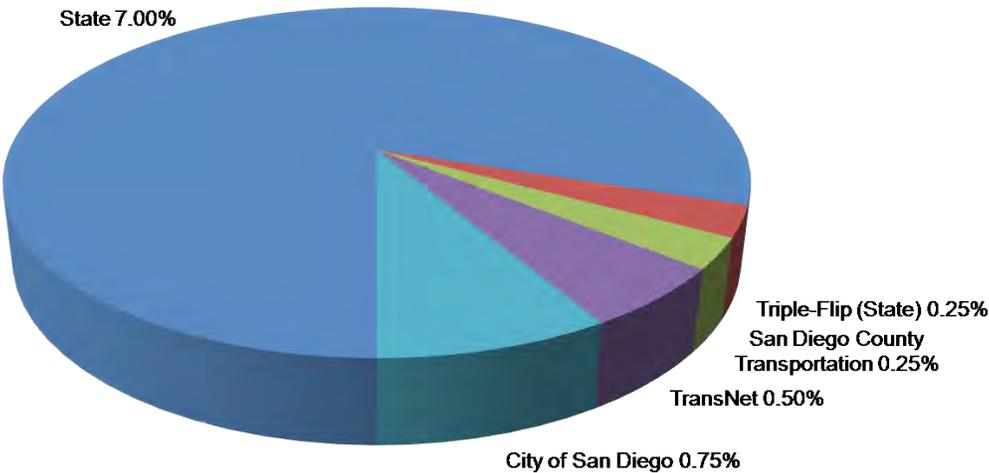
**Total City Budget**  
\$210.1 million

**General Fund Budget**  
\$210.1 million

**Percent of General Fund**  
**18.3 percent**

| Year | Revenue (\$ million) |
|------|----------------------|
| '06  | 150                  |
| '07  | 225                  |
| '08  | 240                  |
| '09  | 220                  |
| '10  | 210                  |

### City Sales Tax Rate (8.75 percent)<sup>1</sup>



<sup>1</sup> California’s State sales tax was increased 1% effective April 1, 2009

# General Fund Revenues

## Sales Tax Trends

Consumer and business spending within the City determines sales tax receipts. Consumer spending depends upon numerous factors, of which, growth in per capita income and percent of income spent on goods and services can be the strongest predictor of sales tax revenue trends. Per capita income growth has slowed to less than 3.0 percent as of February due to rising unemployment, reduced hiring by new and existing business, and reduced business profits. The average consumer savings rate has risen to 5 percent (compared to 0.1 percent the year prior) due to greater uncertainty in the economy and greater need for savings, and the direct result is that spending as a percent of income has declined<sup>1</sup>. Business spending is directly linked to consumer spending on goods and services, and in a recession, business spending is reduced and job creation slows.

As per capita income growth slows and perceived wealth in the form of home equity decreases, it is anticipated that consumer spending will continue to slow. National consumer spending was buoyed by over 3.0 percent per year<sup>2</sup> due to the increased valuation of homes which has declined during the recession.

## Sales Tax Outlook

The projected sales tax revenue for the Fiscal Year 2010 Proposed Budget is \$210.1 million, a decline of \$5.9 million or 2.8 percent less than the projection in the Fiscal Year 2009 Mid-Year Report. The fiscal year 2010 sales tax projection also includes the property tax reimbursement that the City will receive 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). The State of California Board of Equalization, which controls the distribution of sales tax to individual jurisdictions, issues guidance on growth in statewide taxable sales. The quarterly average growth estimate in fiscal year 2010 for the State of California as issued by the Board of Equalization projects a decline in revenue of -5.1 percent for the first quarter, -2.7 percent in the second quarter, a near flat rate of -0.1 percent in the third quarter, and an improvement in the last quarter of the fiscal year with 3.1 percent estimated growth. While San Diego has historically been economically stronger than the State of California in aggregate as previously mentioned, growth estimates for the City's sales tax receipts are estimated to decline -5.0 percent in the first quarter, -3.0 percent for the second quarter, and then remain flat for the third and fourth quarters of fiscal year 2010.

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.

|                            |                         |
|----------------------------|-------------------------|
| Sales Tax Revenue          | \$ 159.2 million        |
| Property Tax Reimbursement | \$ 50.9 million         |
| <b>Total Sales Tax</b>     | <b>\$ 210.1 million</b> |

<sup>1</sup> US Federal Reserve & Bureau of Economic Analysis compiled information

<sup>2</sup> Federal Reserve

# General Fund Revenues

## Safety Sales Tax

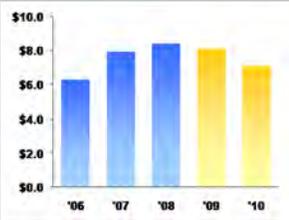
### Safety Sales Tax Background

Safety sales tax revenue is derived from a half-cent sales tax resulting from the passage of Proposition 172 in November 1993, and must be used solely for local public safety purposes. The State Controller’s office disburses safety sales tax revenue to the County Local Public Safety Fund for distribution. Cities receive 5.0 percent of the amount of the fund, which is allocated based upon a city’s proportionate loss of property tax revenue in the 1993-1994 ERAF Shift. Subsequent legislation (Senate Bill 8) changed the allocation system for Proposition 172 revenue and lifted the cap on the share that the City of San Diego and other cities within the County could receive. Total revenues reflect additional funds received by the City as a result of this legislation.

**Total City Budget  
\$7.1 million**

**General Fund  
Budget  
\$7.1 million**

**Percent of  
General Fund  
0.6 percent**



### Safety Sales Tax Trends

Safety sales tax receipts generally follow the same economic trends as sales tax receipts including taxable sales, per-capita income levels, and employment rates. The primary difference is that safety sales tax is first allocated to counties in proportion to their share of taxable sales and then distributed to the cities within the County based upon the individual cities’ proportion of taxable sales in the County. Safety sales tax revenue entirely depends on the County’s share of total statewide taxable sales, not on taxable sales within the City.

### Safety Sales Tax Outlook

The Fiscal Year 2010 Proposed General Fund Budget projects \$7.1 million in safety sales tax revenue, a 3.5 percent decrease over projections in the Fiscal Year 2009 Mid-Year Report. Proposition 172 funds are used for local public safety activities, including police and fire protection. In fiscal year 2010, approximately \$1.6 million will be allocated to the Fire and Lifeguard Facilities Fund for debt service payments on the fire facility improvements, while the remaining \$5.5 million is allocated for public safety expenditures within the General Fund.

# General Fund Revenues

## Transient Occupancy Tax

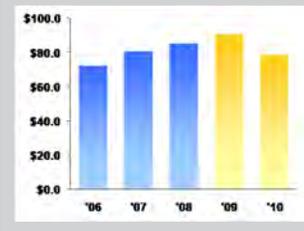
### Transient Occupancy Tax Background

The transient occupancy tax (TOT) 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 allocation of TOT is at the discretion of the Mayor and City Council with guidelines provided by the City Council Policy 100-3. The policy stipulates that of the 10.5 cents of collected TOT, 4.0 cents shall be applied toward promoting the City as a tourist destination; 5.5 cents shall be applied toward general government purposes, and the remaining 1.0 cent to be allocated for any purposes approved by the City Council.

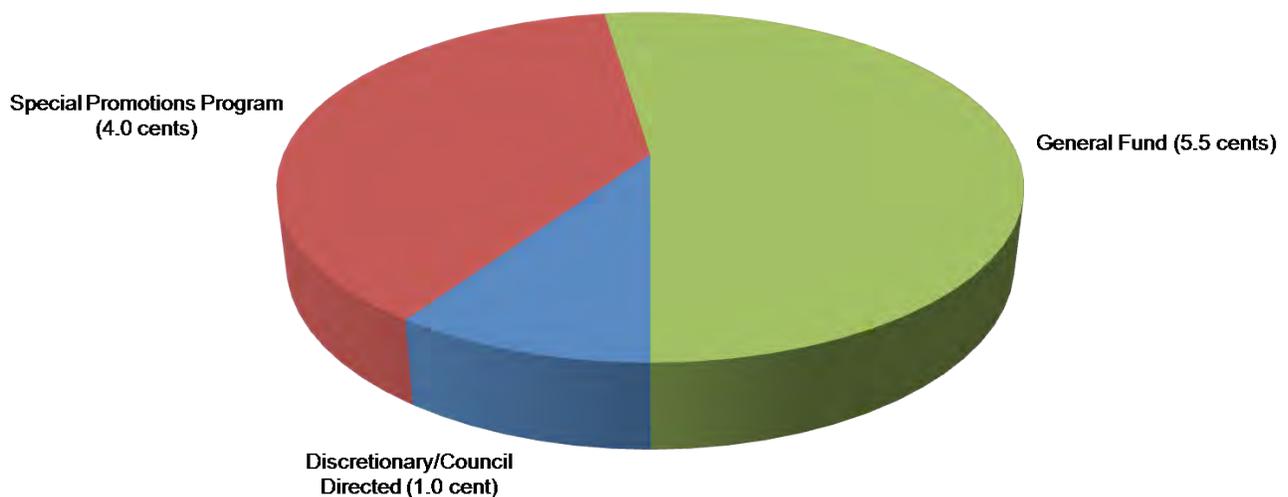
**Total City Budget**  
**\$149.6 million**

**General Fund Budget**  
**\$78.3 million**

**Percent of General Fund**  
**6.8 percent**



### Transient Occupancy Tax Allocation<sup>1</sup>



<sup>1</sup> Distribution according to Council Policy 100-3

# General Fund Revenues

## Transient Occupancy Tax Trends

San Diego's local attractions, natural amenities, and proximity to other popular tourist sites continue to make the area a top destination. According to estimates from the San Diego Convention and Visitors Bureau, total visitors to San Diego in 2008 totaled 31.0 million, compared to 2007 totals of 31.6 million visitors and the historical high point of 2006, where there was a total of 32.2 million visitors. Although the region remains a popular vacation spot, the economic recession has had a negative effect on tourism over the last two years. **Table 7** illustrates a breakout of hotel and motel performance in San Diego over the last four years:

|                          | Projected<br>2009 | 2008     | 2007     | 2006     | 2005     | % Projected<br>Change<br>'08-'09 | % Change<br>'07-'08 | % Change<br>'06-'07 | % Change<br>'05-'06 |
|--------------------------|-------------------|----------|----------|----------|----------|----------------------------------|---------------------|---------------------|---------------------|
| Total Visitors           | 29,800            | 31,102   | 31,563   | 32,200   | 31,777   | -4.2%                            | -1.5%               | -2.0%               | 1.3%                |
| Overnight Visitors       | 14,300            | 15,160   | 15,356   | 15,812   | 15,724   | -5.7%                            | -1.3%               | -3.0%               | 0.6%                |
| Day Visitors             | 15,500            | 15,942   | 16,207   | 16,388   | 16,053   | -2.8%                            | -1.7%               | -1.1%               | 2.0%                |
| Supply - Room Inventory* | 20,900            | 20,195   | 19,715   | 19,683   | 19,733   | 3.5%                             | 2.4%                | 0.2%                | -0.3%               |
| Demand - Rooms Sold*     | 12,900            | 14,040   | 14,378   | 14,428   | 14,267   | -8.1%                            | -2.4%               | -0.3%               | 1.1%                |
| Average Occupancy*       | 61.9%             | 69.5%    | 72.9%    | 73.3%    | 72.3%    | -10.9%                           | -4.9%               | -0.5%               | 1.4%                |
| Average Daily Rate*      | \$130.50          | \$141.96 | \$138.89 | \$130.75 | \$122.00 | -8.1%                            | -2.2%               | 5.9%                | 6.7%                |

\*San Diego County Information

The forecast for San Diego's visitor industry is a continued negative growth in calendar year 2009, and in combination with an increase in the supply of available rooms by 3.5 percent in 2009, average occupancy is forecasted to decline to a five-year low. Room demand is anticipated to drop by 8.1 percent during calendar year 2009 and the hotel occupancy rate is anticipated to be 61.9 percent, compared to 69.5 percent in 2008 (totaling 14.0 million visitors). Improvement in demand from recreational tourists, business travelers, and conventions are not expected until calendar year 2010<sup>1</sup>.

## Transient Occupancy Tax Outlook

Total TOT revenue in fiscal year 2010 is projected at \$149.6 million, of which \$78.3 million will be allocated to the General Fund and \$71.3 million allocated to the Special Promotional Programs. This assumes a growth rate of negative 2.0 percent or \$1.6 million decline from the projections in the Fiscal Year 2009 Mid-Year Report. The average daily room rate for 2009 is anticipated to decrease by 8.1 percent over calendar year 2008 to \$130.5 per night, which may positively affect demand for rooms.

Factors such as the housing crisis and the recession are influencing consumer spending, forcing cutbacks on vacation plans and other discretionary spending. Economic activity in key United States visitor destinations is expected to remain weak in 2009. In addition, the recent strengthening in the value of the U.S. dollar as compared to other foreign currencies will likely have a negative impact on foreign travel to the United States.

<sup>1</sup> San Diego Convention and Visitors Bureau

# General Fund Revenues

## Property Transfer Tax

### Property Transfer Tax Background

Property transfer tax 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 transferred. The City charges 55 cents per \$1,000, which is credited 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 for property transfers occurring within City limits and then transferred to the City in 13 payments throughout the year.

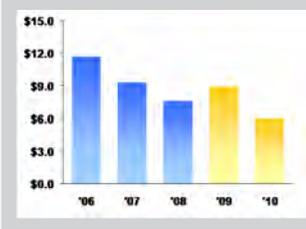
### Property Transfer Tax Trends

The Fiscal Year 2010 Property Transfer Tax Proposed Budget reflects the same trends that were discussed in the property tax revenue section. The economic factors that affect property tax also influence the transfer tax as it is assessed upon the transfer of ownership on new construction, existing home sales, and foreclosed properties. The total amount of deeds transferred to new home buyers in the County of San Diego has averaged 9,628 per month in 2008 as compared to 11,113 per month in 2007, 13,745 in 2006, and 16,704 in 2005<sup>1</sup>. This decline is forecasted to continue, as evidenced by the total amount of properties sold in January 2009, being the third lowest monthly total since 1990. This low amount of turnover in home sales directly affects the amount of revenue received by the City in addition to the decline in home prices. As home prices decline, the amount of property transfer tax received also declines since it is assessed based on sales price. With local home prices declining both 30 percent in the last year and down 64 percent from 2005 highs, the downward trend in budgeted revenue will continue until prices stabilize and the amount of home sales in the City increase to historical levels.

**Total City Budget  
\$6.0 million**

**General Fund  
Budget  
\$6.0 million**

**Percent of  
General Fund  
0.5 percent**



### Property Transfer Tax Outlook

The Fiscal Year 2010 Proposed Budget projects a property transfer tax revenue of \$6.0 million, which represents a \$120,000 increase or 2 percent growth from the projections in the Fiscal Year 2009 Mid-Year Report. The Fiscal Year 2009 Mid-Year Report amount of \$5.9 million was revised from the Fiscal Year 2009 Adopted Budget amount of \$8.9 million as the housing market continued to deteriorate and the assumptions used to prepare the Fiscal Year 2009 Adopted Budget figure changed rapidly. With housing prices still falling, the lack of availability of credit, and the amount of foreclosures increasing, the amount of property transfer tax revenue will continue to be comparatively low to historical levels of revenue received. However, the City of San Diego may be better poised for a recovery in the housing market than the majority of other California cities due to lower unemployment, diversity in the local economy, and the narrowing of the gap between average home prices and average per capita income for San Diego.

<sup>1</sup> San Diego County Recorder's Office

# General Fund Revenues

## Licenses and Permits

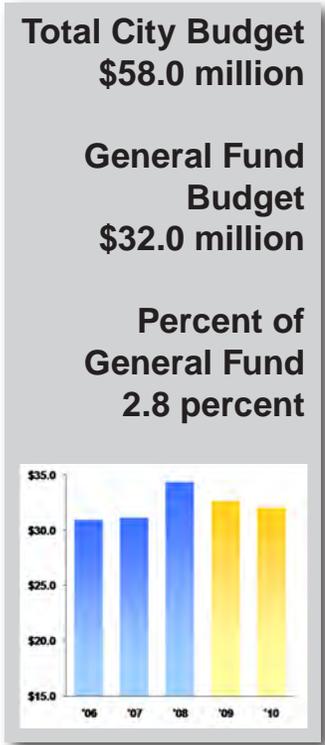
### Licenses and Permits Background

Licenses and permits generate revenue for the purpose of recovering the costs associated with regulating an activity. These regulatory functions are typically performed by the City in the interests of promoting public safety. Included in this category are business licenses, rental unit taxes, parking meter collections, and referral fees received from the City's towing operators.

Business and rental unit business tax, parking and Police permits are captured under the license and permits allotment class. The business tax is a tax levied on any businesses operating within the City of San Diego based on the number of employees. Those with 12 or fewer employees pay an annual flat tax of \$34 and businesses with 13 or more employees pay an annual flat tax of \$125 plus an additional \$5 per employee. The rental unit business tax is calculated as a flat rate plus a per-rental unit fee. Currently, the rental unit business tax has three rate tiers for residential properties and two rate tiers for hotel/motel properties. City parking meters attempt to maximize revenues base on location and turnover of on-street parking in commercial districts.

### Licenses and Permits Trends and Outlook

For fiscal year 2010, the licenses and permits revenue budget is \$32.0 million, a decrease of \$0.7 million or -2.1 percent from the Fiscal Year 2009 Revised Budget due to a budgeted decline in business taxes.



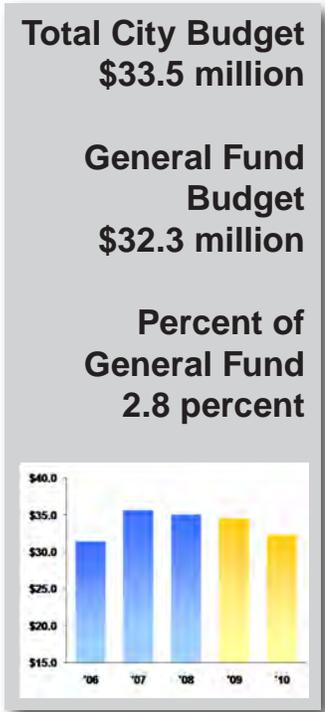
## Fines, Forfeitures, and Penalties

### Fines, Forfeitures, and Penalties Background

Fines, forfeitures, and penalties include revenue generated from monetary sanctions associated with the violation of a law or regulation such as California Vehicle Code violations, City parking and ordinance violations, and litigation awards. City parking violations represent approximately half of this revenue category.

### Fines, Forfeitures, and Penalties Trends and Outlook

The Fiscal Year 2010 Proposed Budget for fines, forfeitures, and penalties is \$32.3 million, a \$2.3 million or a 6.5 percent decrease from the Fiscal Year 2009 Revised Budget due mostly to an estimated \$2.1 million decrease in parking citation revenue.



# General Fund Revenues

## Revenue from Money and Property

### Franchise Fees

#### Franchise Fees Background

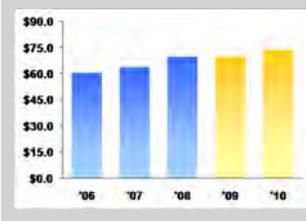
Franchise fees revenue results from agreements with private utility companies in exchange for the City's rights-of-way. Currently, San Diego Gas and Electric (SDG&E), Cox Communications, Time Warner Cable, and AT&T are the franchises that pay the City. In addition, the City collects franchise fees from 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, is charged 3.0 percent of the gross sales of gas and electricity within the City of San Diego - which is split between General Fund (75 percent) and Environmental Growth Fund (25 percent), according to the City Council Policy. 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. 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 75,000 tons per year) or Class II haulers (more than 75,000 tons per year).

Total City Budget  
\$137.0 million

General Fund  
Budget  
\$73.7 million

Percent of  
General Fund  
6.4 percent



#### Franchise Fees Trends and Outlook

**SAN DIEGO GAS & ELECTRIC.** The projected revenue for fiscal year 2010 from SDG&E franchise fees is \$55.2 million, reflecting 2.8 percent growth over the projections in the Fiscal Year 2009 Mid-Year Report. In accordance with City Council policy, 25.0 percent of revenue received from SDG&E or \$13.8 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 \$41.4 million received from SDG&E franchise fees is allocated to the General Fund.

**CABLE COMPANIES.** The projected revenue for fiscal year 2010 from cable franchise fees is \$18.1 million. This figure reflects a \$738,000 or 4.3 percent growth rate over the projections in the Fiscal Year 2009 Mid-Year Report. The majority of cable franchise fees are from Cox Communications and Time Warner Cable. Franchise fee revenue from AT&T, which the City began receiving in FY 2008 when the company started providing services, has grown steadily for the past two years and is expected to grow as the company continues to expand in the San Diego market.

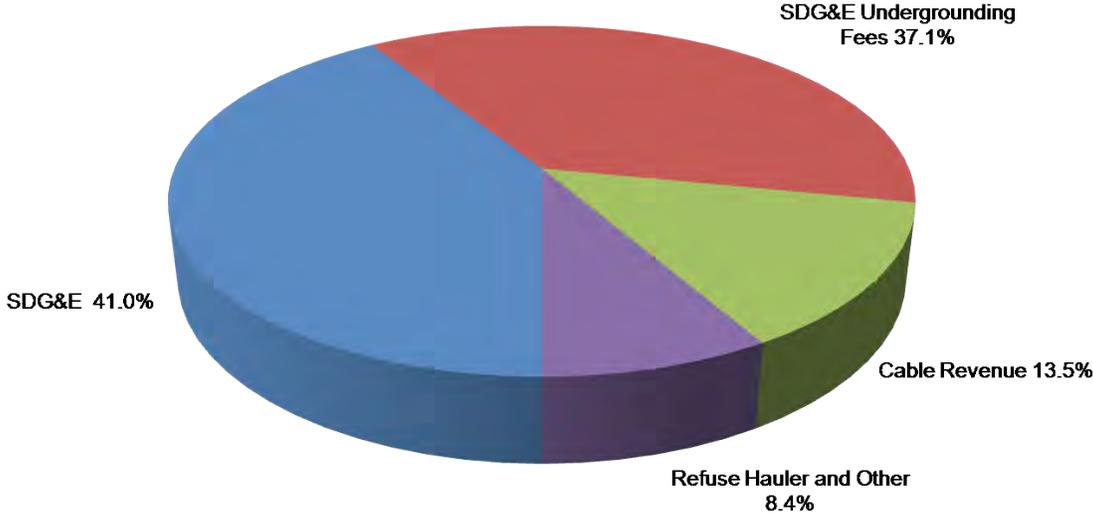
**REFUSE HAULERS AND OTHER FRANCHISES.** Revenue from private refuse haulers is based on the total amount of refuse hauled annually. The City projects fiscal year 2010 revenue at \$11.3 million, a \$2.2 million increase or 24.5 percent from the projections in the Fiscal Year 2009 Mid-Year Report. The large increase in projected revenues from the Fiscal Year 2009 Mid-Year Report is due to a proposed fee increase of \$4 per ton increase in the City's Non-Exclusive Solid Waste Collection Franchise Fee for class I and II refuse haulers.

# General Fund Revenues

**UNDERGROUNDING UTILITY FEE.** The utility undergrounding surcharge is estimated to be \$50.0 million in fiscal year 2010. This revenue will be deposited into the Underground Utility District Fund to be used solely for the purpose of placing utility lines underground. This money is budgeted outside of the General Fund.

Franchise fees also include a \$2.6 million franchise payment from the Sycamore Canyon Landfill Facility. This revenue item was transferred from the Enterprise Fund to the General Fund for 2010.

## Franchise Fee Revenue Breakdown



## Interest Earnings

### Interest Earnings Background

The City Treasurer, in accordance with the Charter and authority granted by the City Council, 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 facilitate increased flexibility in the management of 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. Major deviations in returns from one fiscal year to the next can generally be attributed to changes in market interest rates or the actual average amount invested during the fiscal year. Past interest earnings performance is no guarantee or indicator of future results.

# General Fund Revenues

## Interest Earnings Trends

Interest rates have decreased dramatically during fiscal years 2008 and 2009, due to the ongoing global economic recession and credit crisis. During fiscal year 2009, the Federal Reserve cut the Federal Funds rate from 2.00 percent to its current target of 0.00 – 0.25 percent in response to the financial market crises and an economy that has officially been in a recession since December 2007. In the Federal Open Market Committee meeting in January, the Federal Reserve indicated it remains committed to keeping interest rates low for an extended period of time. The dramatic decrease in rates has helped the Pooled Investment Fund generate superior returns in fiscal year 2008 through the realization of capital gains. Earnings in fiscal year 2009, however, will be lower as the Pooled Investment Fund reinvests its cash flows at the significantly lower interest rates. The Fiscal Year 2010 Proposed Budget includes \$4.1 million in interest earnings, down \$3.9 million or a 48.5 percent decline from the Fiscal Year 2009 Revised Budget due to the reduced interest rate environment.

## Interest Earnings Outlook

Recent Federal Reserve statements have indicated that they are likely to keep rates at historical lows for the remainder of this fiscal year and through the majority of fiscal year 2010. Any action by the Federal Reserve before the end of the year is highly unlikely since the economy is still very weak, and any interest rate hikes could throw it into a deeper recession. As a result, a more likely scenario is that the Federal Reserve keeps rates at current levels through the remainder of fiscal year 2009 and into fiscal year 2010. This will result in a significant drop off in interest earnings compared to fiscal year 2009, as we are starting from a low yield environment and will not have the same capital gains effect enjoyed in fiscal year 2009. Additionally, if the economy were to recover more quickly than expected, the Federal Reserve may be forced to start raising rates quickly during fiscal year 2010 to prevent runaway inflation. Although this seems unlikely at this point, if that were to happen, it would negatively impact interest earnings in fiscal year 2010 further as realized capital losses would detract from earnings. It should be noted that interest rates are market driven and subject to a number of uncontrollable or unpredictable factors, and the primary risk to the constant interest rate forecast is that inflation accelerates further, causing the Federal Reserve to increase rates sooner than expected.

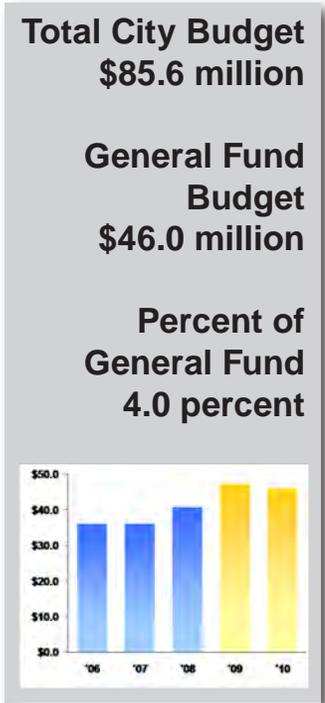
# General Fund Revenues

## Rents and Concessions

### Rents and Concessions Background

The rents and concessions category includes General Fund 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 Conference Center, and the hotels and marinas within Mission Bay Park. Other contributing components in the Rents and Concessions category include lease agreements for City Pueblo lands.

The new Mission Bay Ordinance changed the minimum threshold of revenue to be placed into the general fund for use in any municipal purpose. The minimum threshold amount to be placed into the General Fund without restriction is \$23 million. This threshold amount will remain at the same level until fiscal year 2015, when it will be reduced to \$20 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. 25.0 percent of revenues in excess of this threshold amount or \$2.5 million, whichever is greater, will be allocated to the San Diego Regional Park Improvement Fund, with 75.0 percent or the remaining amount allocated to the Mission Bay Park Improvement Fund. The prior ordinance specified a minimum General Fund threshold of \$20.0 million, a \$2.5 million maximum allocation for the Mission Bay Improvement Fund and Regional Park Improvement Fund, with the remaining funds above these allocations placed back within the General Fund.



### Rents and Concessions Trends

The Mission Bay Park rents and concessions are projected to generate \$28.0 million in fiscal year 2010. The threshold amount for the General Fund allocation will be \$23.0 million as stipulated in the Mission Bay Ordinance. The \$5.0 million excess above the threshold amount will then be split between the San Diego Park Fund and Mission Bay Park Fund according to the formula previously outlined. The 25.0 percent allocation to the San Diego Regional Park Fund does not meet the minimum dollar threshold of \$2.5 million, so the amount allocated to this fund will be the minimum contribution of \$2.5 million. The remaining \$2.5 million will go to the Mission Bay Park Regional Park Improvement Fund.

### Rents and Concessions Outlook

The Fiscal Year 2010 Proposed Budget for rents and concessions is \$46.0 million, a decrease of \$1.2 million or 2.6 percent from the Fiscal Year 2009 Revised Budget. The majority of this decrease is due to lower expected revenues from Mission Bay Park rents caused by the decline in actual fiscal year 2009 lease revenues.

# General Fund Revenues

## Revenue from Other Agencies

### Motor Vehicle License Fees

#### Motor Vehicle License Fees Background

Motor vehicle license fees (MVLFF) 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.

#### Motor Vehicle License Fees Trends

Beginning in 1999, the MVLFF 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 MVLFF rate, from 2.0 percent of a vehicle's 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 MVLFF backfill. As part of the 2004-2005 Budget agreement, the MVLFF rate was statutorily reduced to 0.65 percent, thereby eliminating the MVLFF backfill. As described in the property tax section, cities were compensated for the loss in MVLFF revenue with increased property tax revenues.

The State budget package that was passed in February 2009 includes an increase to the MVLFF tax rate from 0.65 percent to 1.15 percent beginning May 19, 2009. 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. Since no portion of the increase is dedicated to the cities' MVLFF allocation, there will be no effect on the City's revenue as a result of this change.

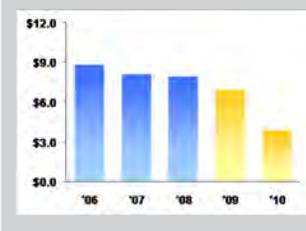
#### Motor Vehicle License Fees Outlook

The Fiscal Year 2010 Proposed Budget for MVLFF is \$3.9 million, which represents a 0.7 percent increase over the projections in the Fiscal Year 2009 Mid-Year Report. The outlook is based on moderately improved State wide auto sales activity over fiscal year 2009. Statewide revenues are distributed on a per capita basis for local governments and, therefore, growth in the amount of local vehicle sales does not directly translate into an increase in the City's MVLFF revenue. The number of vehicles in the State, the ages of those vehicles, and their most recent sales price affect the amount of MVLFF raised and the amount allocated to the City. The total number of vehicles in California - autos, trucks, trailers, and motorcycles - is estimated to be 30.9 million in fiscal year 2010, remaining mostly flat over the projections in the Fiscal Year 2009 Mid-Year Report<sup>1</sup>. It is projected by the State that there will be 1.9 million new vehicles registered in fiscal year 2010. It should be noted, however, that this does not necessarily translate into increased revenue for the City as numerous factors controlled by the State can often reduce the allocation to the City.

**Total City Budget**  
**\$3.9 million**

**General Fund**  
**Budget**  
**\$3.9 million**

**Percent of**  
**General Fund**  
**0.3 percent**



<sup>1</sup> 2009-10 California Budget: Governor's Proposed Budget, January 2009.

# General Fund Revenues

## Miscellaneous Revenue from Other Agencies

### Miscellaneous Revenue Background

A significant amount of revenue paid to the City is initially collected by other agencies and then returned (or subvended) to the City. Within the General Fund, revenues from other agencies include federal and State grants and reimbursements for general City services provided to the San Diego Unified Port District and other cities in the region such as emergency fire dispatch services for the City of Chula Vista.

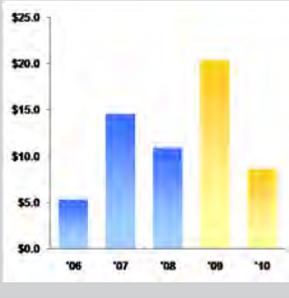
### Miscellaneous Revenue Trends and Outlook

The Fiscal Year 2010 Proposed Budget for miscellaneous revenue is \$8.6 million, an \$11.8 million or 57.8 percent decrease from the Fiscal Year 2009 Revised Budget. The large decrease in revenue from fiscal year 2009 is due to the elimination in Fiscal Year 2010 of Federal Emergency Management Agency (FEMA) reimbursements related to the October 2007 wildfires, Mount Soledad emergency road reimbursements, and Proposition 1B funding for street and storm drain deferred maintenance (all of which were budgeted in fiscal year 2009). Included in this category is \$1.3 million from the State for the Citizens' Option for Public Safety (COPS) Program, \$460,000 from the Chula Vista Dispatch Contract (which provides fire communication operations for dispatching emergency services), and other federal and State grants or reimbursements.

**Total City Budget**  
**\$59.7 million**

**General Fund Budget**  
**\$8.6 million**

**Percent of General Fund**  
**0.7 percent**



# General Fund Revenues

## Charges for Current Services

### Charges for Current Services Background

Charges for current services revenue is generated by General Fund departments from 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 City Auditor, City Comptroller, City Attorney, City Clerk, and Financial Management to all City departments by means of a rate based on the General Government Services Billing (GGSB) standard. The amounts allocated to Non-General Fund departments are billed and received into the General Fund as revenue to offset the cost of the services provided by these central service departments.

Included in current services is a User Fee Policy (adopted March, 2009) that has been proposed to help recoup the cost of services provided to people in the City of San Diego.

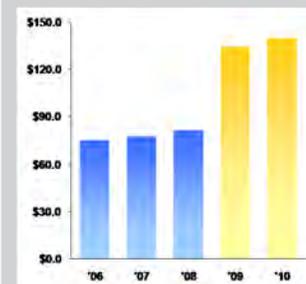
### Charges for Current Trends and Outlook

The Fiscal Year 2010 Proposed General Fund Budget for charges for current services within the General Fund is \$140.0 million, a \$5.9 million or 4.4 percent increase over the Fiscal Year 2009 Revised Budget due to newly added or increased user fees. This category includes an additional \$7.0 million in user fee revenue that the City anticipates to receive in Fiscal Year 2010.

**Total City Budget  
\$954.8 million**

**General Fund  
Budget  
\$140.0 million**

**Percent of  
General Fund  
12.2 percent**



# General Fund Revenues

## Transfers from Other Funds

### Transfers from Other Funds Background

Transfers from other include transfers to the General Fund from Capital Improvement Programs, Special Promotional Programs, Environmental Growth Fund, TransNet Fund, Gas Tax Fund, Storm Drain Fund, and other funds.

Also included in this category is Employee Offset Savings (EOS) revenue. In fiscal year 2006, the City securitized \$10.1 million of the revenues it received under the Master Settlement Agreement with tobacco companies (Tobacco Settlement Revenues or TSRs). Due to securitization, TSRs that supported a variety of City programs, including the General Fund, were backfilled by EOS revenue.

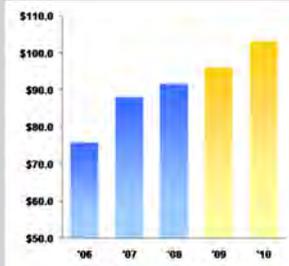
### Transfers from Other Funds Trends and Outlook

The Fiscal Year 2010 Proposed Budget for transfers from other funds is \$103.1 million, a \$7.2 million or 7.5 percent increase from the Fiscal Year 2009 Revised Budget. This includes revenue from the Transient Occupancy Fund, Environmental Growth Fund, Employee Offset Fund, and Rate Stabilization Reserves.

**Total City Budget**  
**\$354.3 million**

**General Fund Budget**  
**\$103.1 million**

**Percent of General Fund**  
**9.0 percent**



## Other Revenue

Other revenue is mainly composed of refunds and revenue generated from the sale of publications, excess inventory, and auctioned police items. The Fiscal Year 2010 Proposed Budget includes other revenues totaling \$1.6 million.

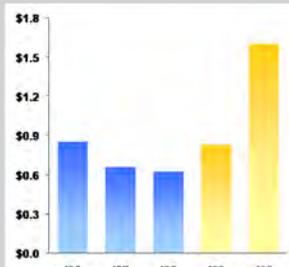
## State of California Budget Impacts

California's Proposition 1B (known as the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act), passed in 2006 for the improvement of roadway infrastructure throughout the State, has allocated and distributed \$550.0 million to cities throughout the State; of which, the City received \$21.2 million in Fiscal Year 2008. The second round of disbursements was expected to occur in Fiscal Year 2010; however, with the deterioration in the national credit markets, the \$187.0 million in Proposition 1B bonds that were to be issued by the State to raise the monies for this distribution were not sold. These bonds that were attempted to be sold on the open market in December 2008 faced difficulties due to California's budget shortfalls and downgraded credit ratings. The State is expected to issue the bonds once the State's credit rating and the overall debt market improves. The City of San Diego does not expect any Proposition 1B funds from

**Total City Budget**  
**\$305.3 million**

**General Fund Budget**  
**\$1.6 million**

**Percent of General Fund**  
**0.1 percent**



# General Fund Revenues

this \$187 million second round of State distributions in Fiscal Year 2010; however, the City may receive Proposition 1B funds in Fiscal Year 2011.

The City is expected to receive State funds related to Proposition 42 in Fiscal Year 2010. These funds, like Proposition 1B, are set aside for the improvements of local streets and roads as well as interstate highways. The City expects to receive \$15.5 million in Proposition 42 payments in Fiscal Year 2010. The Proposition 42 funds have been budgeted in the Special Revenue Fund AB 2928.

In Fiscal Year 2010, 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) was reduced from \$2.1 million to \$1.3 million. This money will support public safety programs in the Police Department.

Staff will closely monitor the State's budget for further impacts to the City's budget and will incorporate any known changes or reasonable projections in the May Revise to the Mayor's Fiscal Year 2010 Annual Budget.

## Annual Tax Appropriation Limit (Gann Limit)

In November 1979, California voters approved Proposition 4 (Gann Initiative) and added Article XIII B 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 XIII B. 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 XIII B. 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 2008 that established the Tax Appropriations Limit for Fiscal Year 2009 at \$1,181,182,812. Using the Fiscal Year 2009 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 \$838.1 million, which was \$343.1 million lower than the Gann Limit.

The Fiscal Year 2010 Gann Limit calculation will be presented to City Council in June 2009 because adjustment factors used for the computation are not released by the California Department of Finance until May, and therefore will not be established before the release of the Fiscal Year 2010 Proposed Budget.