

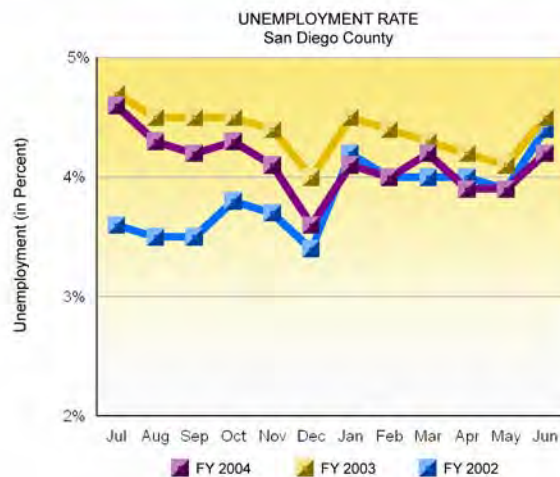
Economic Indicators

Growth in the City's General Fund revenues depends primarily on the state of the economy. When the economy is expanding rapidly, revenue growth is strong; when the economy slows, revenue growth declines. Given this relationship, key economic indicators, such as unemployment rates, housing starts and hotel occupancy rates are helpful in assessing current revenue trends, and how revenues might trend in the future. Although the City's revenues are most directly impacted by the local economy, trends in the State and national economies are also important since they affect such revenues as the Transient Occupancy Tax (TOT) and Motor Vehicle License Fees.

As indicated in the following charts, San Diego region's economy has performed relatively well through Fiscal Year 2004, and appears poised to experience an accelerated rate of growth in Fiscal Year 2005. San Diego should continue to benefit from an improving U.S. economy, as reflected by relatively strong growth in the Gross Domestic Product (GDP). While the pace of new job growth in the U.S. economy since the 2001 recession has been somewhat slow to date, steady declines in initial unemployment insurance claims, recent growth in durable goods orders, growth in the Institute for Supply Management's overall index of non-manufacturing business activity, and a strong job growth report so far in 2004 all point to faster overall employment growth in the months ahead. As the job outlook improves, consumer sentiment should also improve, and businesses are expected to move ahead with investment plans.

Labor Market Trends

The unemployment rate is a critical indicator of relative strength in the local economy. After increasing in Fiscal Years 2002 and 2003, San Diego County's unemployment rate trended lower through Fiscal Year 2004, averaging 4.1 percent, down from 4.4 percent in Fiscal Year 2003. San Diego's unemployment rate also remains relatively low compared with most other areas, with the June 2004 rate of 4.2 percent well below California's 6.4 and the U.S. rate of 5.8 percent.



Through Fiscal Year 2004, nonagricultural wage and salary employment in San Diego County grew by 20,500 jobs, with an increase of 21,800 in private sector employment partially offset by a decline of 1,700 jobs in government employment. This marks a reversal in the trend of the last two fiscal years for relatively slower job growth following the boom years of 1997 to 2000, when the annual increases ranged

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from a low of 40,900 jobs in 2000 to a high of 51,200 jobs in 1998. The accelerated level of job growth during Fiscal Year 2004 portends stronger job growth for the upcoming year.

Manufacturing is the largest component of San Diego's economic base (approximately one-fourth of Gross Regional Product) and a catalyst for growth in other sectors of the economy. While manufacturing employment was slightly down during Fiscal Year 2004, the decrease of only 100 jobs was considerably improved in comparison with the Fiscal Year 2003 loss of 7,900. Based on monthly employment over the past year, manufacturing employment appears to be stabilizing, with small gains reported each month of 2004 through June.

Construction, like manufacturing, is a major source of high wage employment that supports other sectors of the economy. Construction has led all sectors of the San Diego economy in terms of job growth through Fiscal Year 2004, adding 8,500 jobs since Fiscal Year 2003.

Tourism

The trend in average occupancy rates at San Diego hotels and motels is an indicator of the potential growth in Transient Occupancy Tax (TOT) revenue. Following a strong performance in Fiscal Year 2003, highlighted by the hosting of Super Bowl XXXVII in January 2003, the San Diego hotel market continued to be among the industry leaders. Through Fiscal Year 2004, San Diego placed fourth in a ranking of the top 25 hotel markets in the country, with an average occupancy rate of 71.6 percent, up 5.3 percent over Fiscal Year 2003.



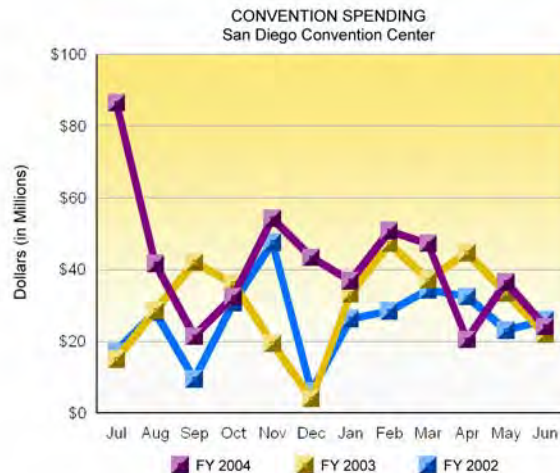
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The average daily room rate is another determinant of TOT revenue. Through Fiscal Year 2004, the average daily room rate for San Diego hotels was \$110.89, down slightly by 0.3 percent from Fiscal Year 2003. The decrease was due to a substantial 16.3 percent drop of rates between January 2004 and the Super Bowl month of January 2003. Excluding the January statistics, San Diego's average room rates were up 1.4 percent for Fiscal Year 2004.



The hosting of conventions is a key factor in the long-term growth of San Diego's tourism industry. During Fiscal Year 2004, the San Diego Convention Center far exceeded the previous year's record performance, with total delegate spending of \$497.0 million, up 36.5 percent from the previous year.

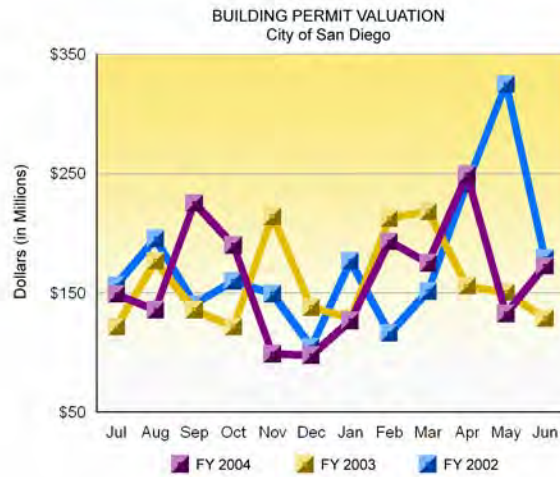


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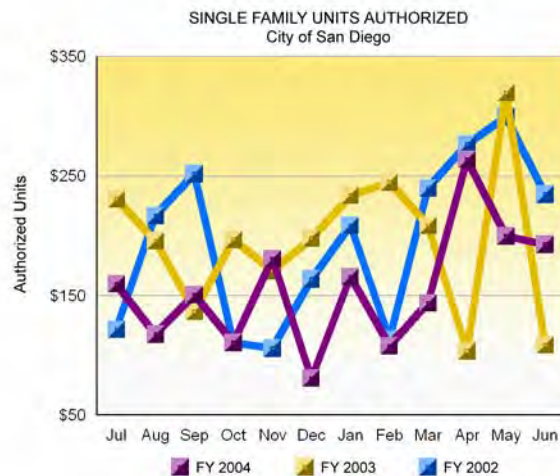
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Construction and Real Estate Trends

Total building permit valuation (residential and nonresidential) is an indicator of overall construction activity. During Fiscal Year 2004, the total valuation of permits issued totaled more than \$1.9 billion, 2.2 percent more than in Fiscal Year 2003.



New residential construction is an indicator of trends in both the construction industry and in the overall economy. Permits were issued for 1,877 single family units during Fiscal Year 2004, down 20.2 percent from Fiscal Year 2003.



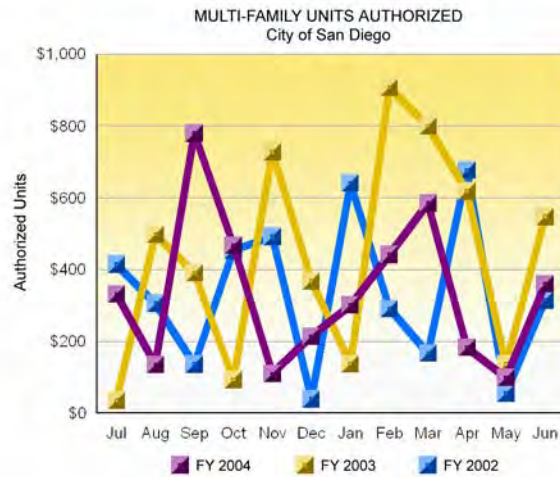
The volume of new multi-family units authorized is the other major component of residential activity. Permits were issued for a total of 4,021 multi-family units in Fiscal Year 2004, down 23.7 percent from Fiscal Year 2003. The total for all residential units authorized (single family and multi-family) during Fiscal Year 2004 was 5,898 units, a level of activity below the rate of recent years, but still well above the depressed levels of most of the 1990s, and a rate sufficient to support a relatively high level of construction related employment into Fiscal Year 2005.

As measured by the growth in median home prices, San Diego builders should continue to have a strong incentive to keep building. During 2003, the median home price in San Diego County was \$421,000, up

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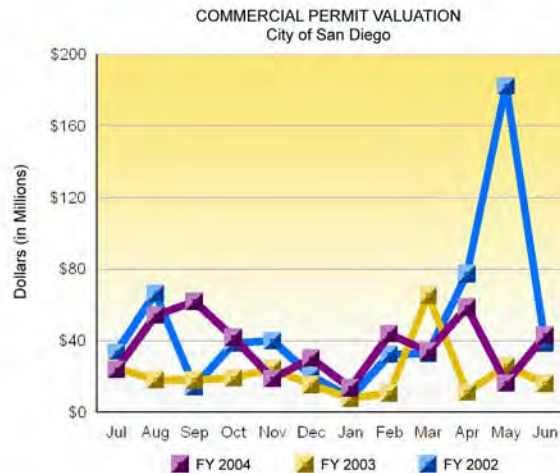
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17.4 percent over 2002, and 35 percent above the 2001 median of \$312,500. During the first half of calendar year 2004, the median home price accelerated by an annual rate of 28.8 percent to \$515,000.



Contributing to the surge in housing prices is the shortage of available supply, as growth in demand due to population growth, historically low interest rates, and an expanding economy continues to exceed additions to inventory. For example, during 2003, the City’s population grew by 12,650 (despite a loss of 2,007, for primarily military deployments), while the number of single-family units authorized during Fiscal Year 2003 totaled only 2,351 units.

The total value of permits for commercial construction, including retail, office, and industrial buildings, is a key economic indicator of present and future economic conditions. New commercial construction recorded very strong growth during Fiscal Year 2004, with the valuation of permits issued totaling approximately \$442 million, nearly 71 percent higher than the total of \$259.1 million in Fiscal Year 2003.

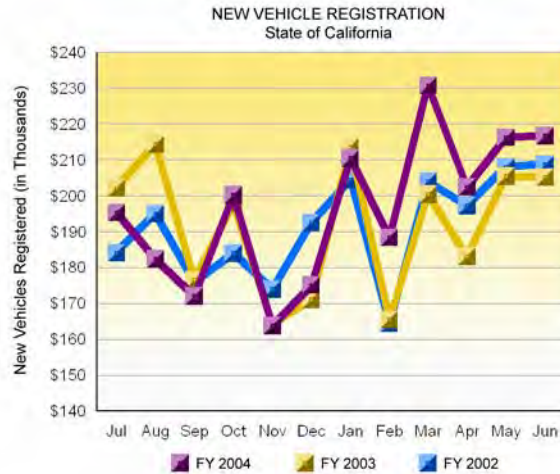


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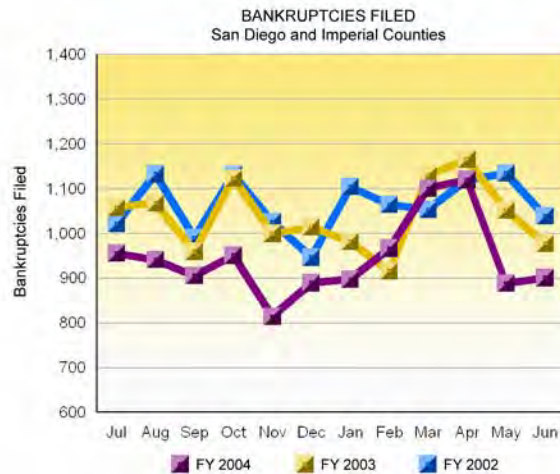
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Other Indicators

The number of statewide new vehicle registrations is one of the factors determining the amount of Motor Vehicle License Fees. The volume of new vehicle registrations increased 2.4 percent during Fiscal Year 2004.



Bankruptcy filings are another measure of economic well-being. Bankruptcies continued to decline in Fiscal Year 2004, with total filings down 8.9 percent from Fiscal Year 2003.



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The number of new business tax certificates issued is an indicator of general business activity. The number of new certificates issued during Fiscal Year 2004 totaled 16,336, up by 9.6 percent from Fiscal Year 2003.

