General Fund Revenue, Detail of Major Revenue Sources

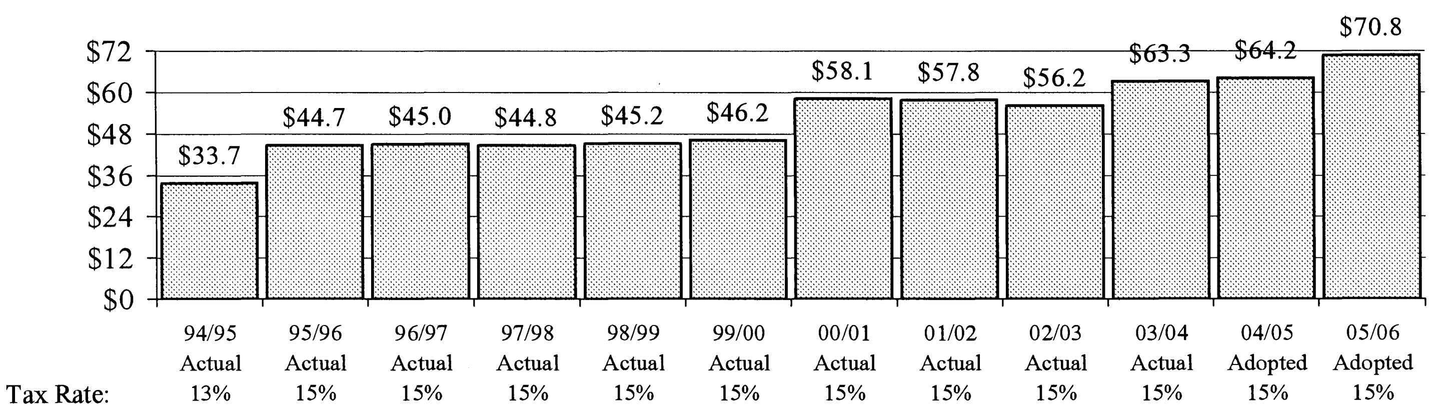
Transient Occupancy Taxes

This revenue is derived from hotel/motel stays of less than thirty days. The transient occupancy tax (TOT) is projected to amount to $70,767,647 in FY 2005/06, which is an increase of $6,573,508, or 10.2% over the adopted FY 2004/05 budget of $64,194,139. FY 2004/05 TOT revenue has been strong through the first three-quarters of the year, and indications from the hotel community point to an even stronger fourth quarter. As a result, we are projecting to complete FY 2004/05 over budget by $2,292,504 and 3.6%.

It is also important to note that increases from Disney hotel properties above an established base are allocated to paying the LPMR. Although raw numbers indicate that TOT is the City's single largest source of General Fund revenue, much of the proceeds from this tax are allotted to specific functions including support to the Visitor and Convention Bureau, debt service on prior Anaheim Convention Center expansions and debt service on the Anaheim Resort improvements. Conversely, when the City experiences a loss in TOT revenue, the loss is shared between all these obligations and partially shields general City services from the entire loss.

As the chart illustrates, there are two major periods of significant increases in TOT over a twelve-year period. The first occurred in FY 1995/96. While improved room sales accounted for some of this increase, much of the growth is directly related to a 2% increase in the TOT rate. This action raised the City's tax rate to 15%. Three percent of the 15% (or 20% of the City's TOT revenues) was allocated to the construction of the Anaheim Resort project and, now that the project has been completed, to the payment of the LPMR. The second significant period of growth began in FY 2000/01, with the opening of Disney's California Adventure as well as the opening of new hotels.

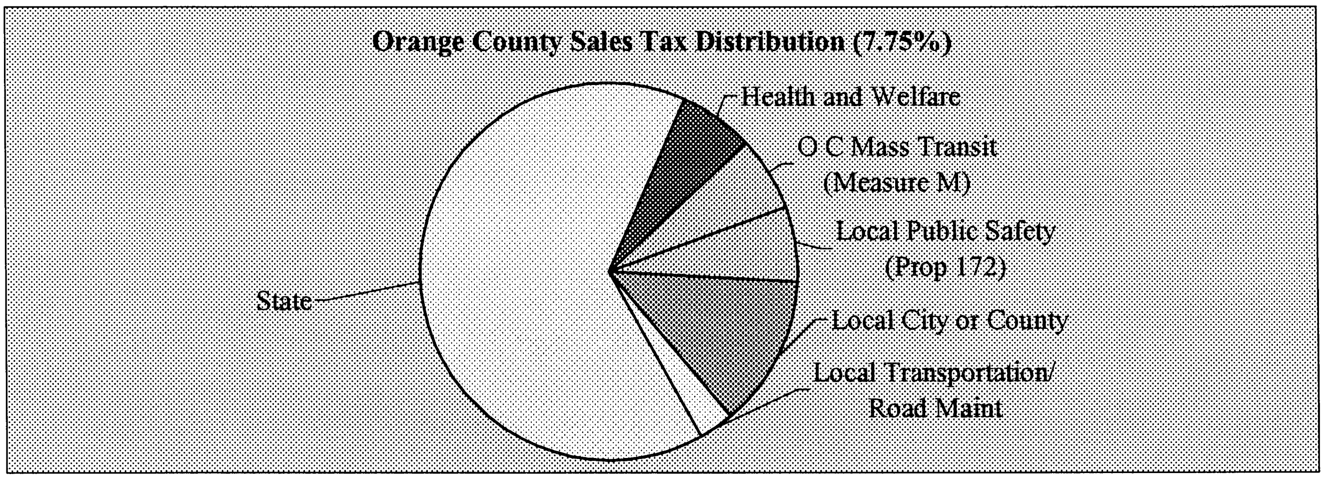
Transient Occupancy Tax Revenue
(in millions)



General Fund Revenue, Detail of Major Revenue Sources

Sales and Use Taxes

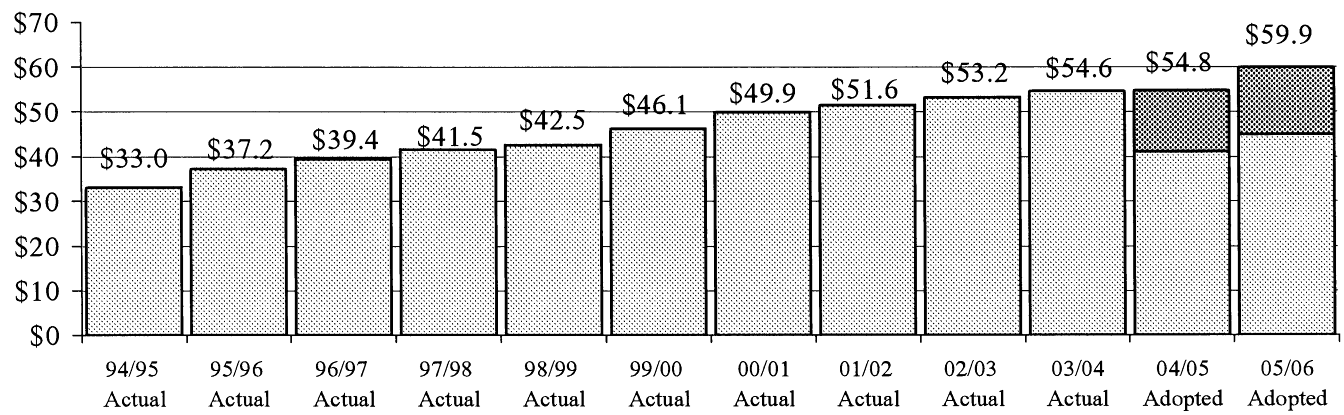
The City's share of sales and use tax is equal to 1% of total taxable sales generated within the City (or 1.00% of the 7.75% sales tax rate). The balance of the sales tax rate is distributed as follows: Orange County Transportation Authority (0.75%), Health and Welfare (0.5%), Local Public Safety (0.5%), and the State of California (5%).



This tax is projected to total $59,853,921 in FY 2005/06, which is an increase of $5,094,550 or 9.3% over the FY 2004/05 adopted budget. Annual increases in sales and use taxes are on the rise as indicated by quarterly returns for the first three quarters. The promising outlook for FY 2005/06 is based on an overall improvement in retail sales and particularly strong results from the construction and transportation (including retail sales of gasoline) sectors. As with transient occupancy tax revenues, sales tax revenues from Disney properties above an established base are allocated to paying the LPMR.

The shaded portion of fiscal years 2004/05 and 2005/06 in the graph below, illustrate the portion of sales tax revenue that is impacted by the Triple Flip.

Sales and Use Tax Revenue
(in millions)



General Fund Revenue, Detail of Major Revenue Sources

Property Taxes

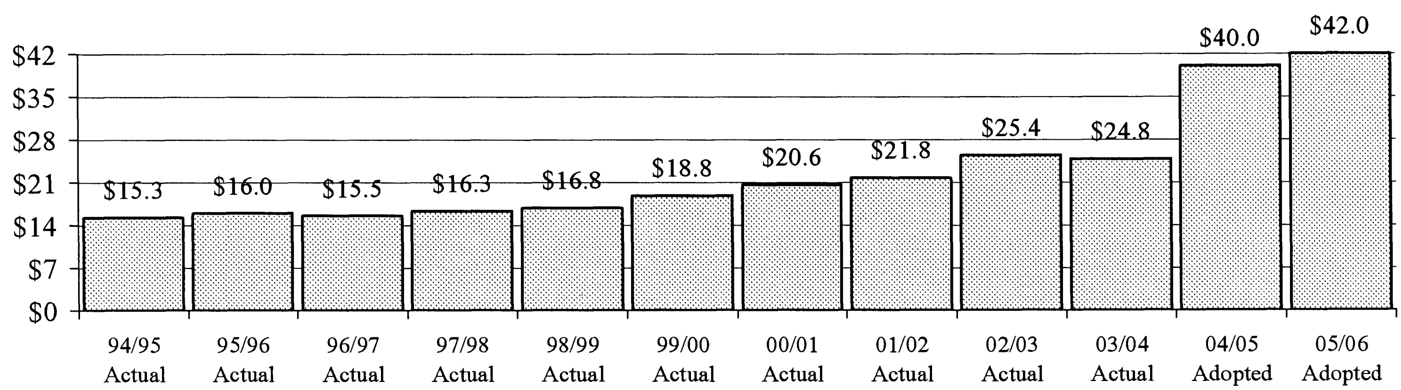
All real and tangible personal property in the state is subject to a property tax equal to 1% of its "full cash value". Valuations of real property are frozen at the value of the property in 1975, with an allowable adjustment up to 2% per year for inflation. However, property is reassessed to its current value when a change of ownership occurs. New construction, including tenant improvements, is assessed at its current value.

This tax is projected to total $41,966,578 in FY 2005/06, which is an increase of 1,948,291 or 4.9% over the FY 2004/05 adopted budget. The increase in property tax revenue is partially offset by the second year of a two-year additional ERAF payment that cities must contribute to the State for redistribution to schools. The State implemented the Educational Revenue Augmentation Fund (ERAF) in 1992, during a statewide recession, as a means to help the State fund its obligation to schools. Without the increase, ERAF was projected at $6.3 million for FY 2005/06. The latest increase will add to the total ERAF contribution by another $3.7 million. Although ERAF has never been repealed by the State, the recent increase represents the second of two years at the increased contribution rate of approximately $10.0 million.

This revenue is projected to be strong due to the continued demand for housing in Orange County and the continued low (but rising) interest rates. Tenant improvements and new construction have provided additional strength and stability to this revenue source. As with transient occupancy tax revenues and sales tax, property tax revenues from Disney properties above an established base are allocated to paying the LPMR. In FY 2005/06, the property tax base (excluding Disney properties) is projected to increase as a result of construction and to include turnover of 1975 baseline properties resulting in reassessment to current market value.

The material increase in revenue in FY 2004/05 is the result of a structural change in the allocation of vehicle license fee (VLF) and property tax revenue, often referred to as the VLF swap. This change results in no net revenue increase to cities.

Property Tax Revenue
(in millions)



General Fund Revenue, Detail of Major Revenue Sources

Motor Vehicle License Fees

This revenue category reflects the City's share of motor vehicle license fees (VLF). Prior to the 2004 budget act, the VLF tax rate was 2% of the value of the vehicle. The State general fund "offset" 67.5% of this tax, resulting in an effective tax rate of 0.65%. VLF taxpayer revenues were supplemented with a backfill from the State general fund to provide cities and counties with revenues equivalent to a full 2% VLF tax rate. The 2004 State budget included a permanent reduction of the VLF rate from 2% to 0.65%. The VLF backfill was eliminated and replaced with a like amount of property taxes. Subsequent to the FY 2004/05 and FY 2005/06 base years, each city's property taxes in lieu of VLF will increase in proportion to the growth in gross assessed valuation in that jurisdiction.

Under the new law, the remaining VLF after the repeal of the VLF backfill first goes to maintain full funding of health and welfare programs largely provided by counties under a state-local realignment shift in the early 1990's. In this way the VLF continues to provide the same level of funding for these programs. For this reason, the City's share of VLF revenue decreased by more than the 67.5% change in the rate (which decreased from 2% to 0.65%).

Motor vehicle license fee revenue is projected to total $1,751,739 in FY 2005/06, which is an increase of $346,149, or 24.6% over the FY 2004/05 adopted budget. This projected revenue increase anticipates continued strength in car sales throughout the State.

Motor Vehicle License Fee Revenue
(in millions)