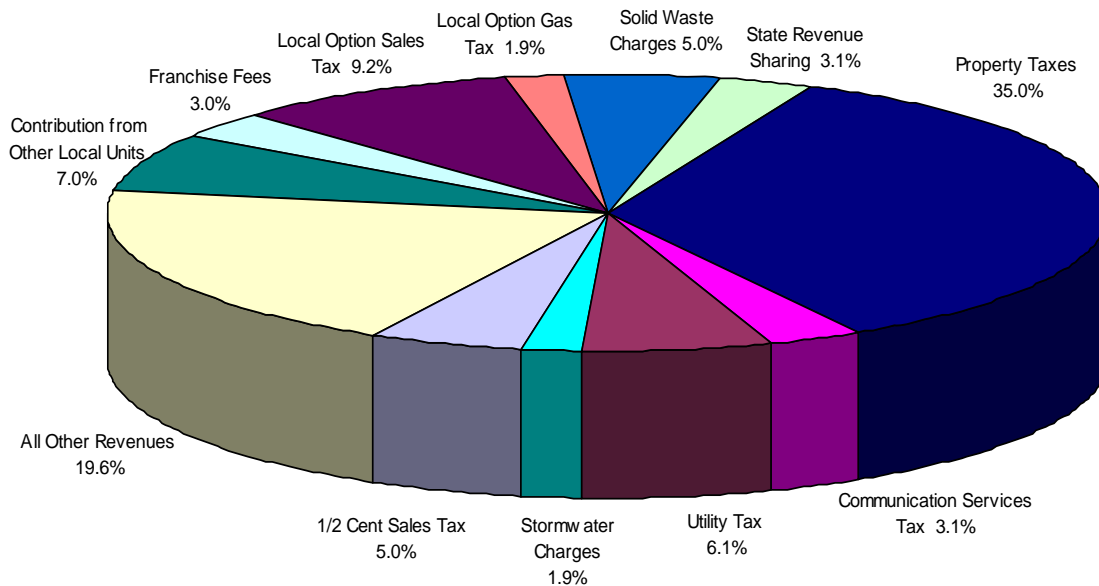


CITY OF JACKSONVILLE, FLORIDA

MAJOR CITY REVENUES

The City of Jacksonville receives a number of revenues to fund the services desired by its constituents. The methods used to project those revenues include historical trends, estimates from the State of Florida for revenues it collects and disburses, and analyzing the current and expected economic conditions for the local area as well as the nation. The budgetary assumptions and trends for the major revenue sources are detailed here. The graph below depicts the major sources of revenues for all funds of the City of Jacksonville. Not including the other category, these revenues account for 80.4% of total revenues.

REVENUES:



MAJOR REVENUE SOURCES

Property Taxes

Property (Ad Valorem) taxes account for 35.0% of overall City of Jacksonville revenues and 51.2% of the General Fund – GSD revenues. The percentage of General Fund revenues derived from property taxes has remained relatively constant at about 50% for several years. Property taxes are levied against real estate and certain tangible personal, non-real estate property held for commercial purposes as well as railway track property owned by railroad companies. Actual revenue estimates calculated for use in the annual budget are a mathematical exercise dictated by state law and driven by factors (assessed values, exemptions, etc.) that are not definitively known at the time the calculations are made.

Under Florida law, each county's property appraiser must certify the ad valorem tax roll to each authority levying taxes within the county by July 1st. The annual tax roll is the sum of all currently assessed valuations net of homestead exemptions, various other exemptions, deletions of any demolitions and the addition of new construction to the property tax roll.

Each levying authority must then adopt a preliminary millage rate by legislative action by August 4 of each year and file this preliminary millage rate with the property appraiser. Millage is an expression of the tax

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rate per thousand dollars of assessed valuation levied. This preliminary millage rate is typically the maximum rate that the jurisdiction will adopt; many jurisdictions will adopt a final millage rate that is less than the preliminary millage rate. The property appraiser will use this preliminary millage rate to prepare a notice of proposed taxes that is mailed out to each taxpayer no later than August 24. The notice of proposed taxes also indicates when the first hearing on property taxes and the budget will be held by each taxing jurisdiction within the county.

Each taxing authority must hold two public hearings on the proposed millage rate and the budget before the tax rate and budget can be formally adopted. At the first public hearing, the jurisdiction will adopt a tentative millage rate and a tentative budget. After the first public hearing, the taxing authority must advertise at least two days before but not more than five days in advance of the second and final public hearing on the proposed tax levy and budget. For purposes of determining whether the jurisdiction is required to publish a notice of a tax increase, the local jurisdiction must calculate its "rolled-back" millage rate. The "rolled-back rate" is the millage rate required to yield the same property tax revenues that were collected in the prior year from the properties that were on the tax roll in the prior year. Any proposed millage rate that is higher than the "rolled-back rate" must be advertised as a tax increase. However, if the tentative millage adopted at the first public hearing is higher than the preliminary millage originally advertised, a notice must be sent to each taxpayer by first class mail indicating the taxes to be paid under the tentatively adopted millage rate as well as the taxes that would be paid under the preliminary millage rate that was originally advertised in the notice of proposed taxes.

The second public hearing is scheduled to take place in September within 15 days of the first public hearing, prior to the beginning of the new fiscal year on October 1. At the final public hearing, the tentative millage and budget are again discussed, then a final millage rate and budget are adopted by the governing body. The final adopted millage rate cannot be higher than the tentative millage rate adopted at the first public hearing. The FY 11 millage rate for the City of Jacksonville is 10.0353 mills, or \$10.0353 per thousand dollars of assessed valuation.

Local taxing authorities are required to adopt certain increases in their millage rates with a super-majority vote of their governing body. The taxing authority may adopt a millage rate of the rolled-back rate plus the percentage change in Florida per capita personal income by a simple majority vote. To adopt a millage rate of up to 110% of the rolled-back rate plus the percentage change in Florida per capita personal income, the taxing authority must get the approval of two-thirds of the membership of its governing body. To go above the 110% limit and up to the statutory limit, the taxing authority must receive the unanimous approval of the membership of its governing body; for jurisdictions with a governing body of nine or more members, a three-fourths approval is required rather than a unanimous vote. The taxing authority may also levy an amount above the 110% threshold if approved by referendum. Finally, if the taxing authority levies a millage rate that is less than the majority vote maximum rate in a given year, the savings is factored into the calculation of the maximum majority vote millage rate amount for the following year (the "adjusted rolled-back rate"). The below table illustrates these requirements for the City of Jacksonville for FY 11:

Rolled-back rate:	10.1193
Adjusted Rolled-back rate	10.3811
Change in Florida per capita personal income:	(1.89)%
Maximum majority vote millage:	10.1849
Maximum millage rate with a two-thirds vote:	11.2034

Adopting a millage rate above 11.2034 up to the 20 mills statutory cap for the City of Jacksonville would require a three-fourths vote of the membership of the City Council.

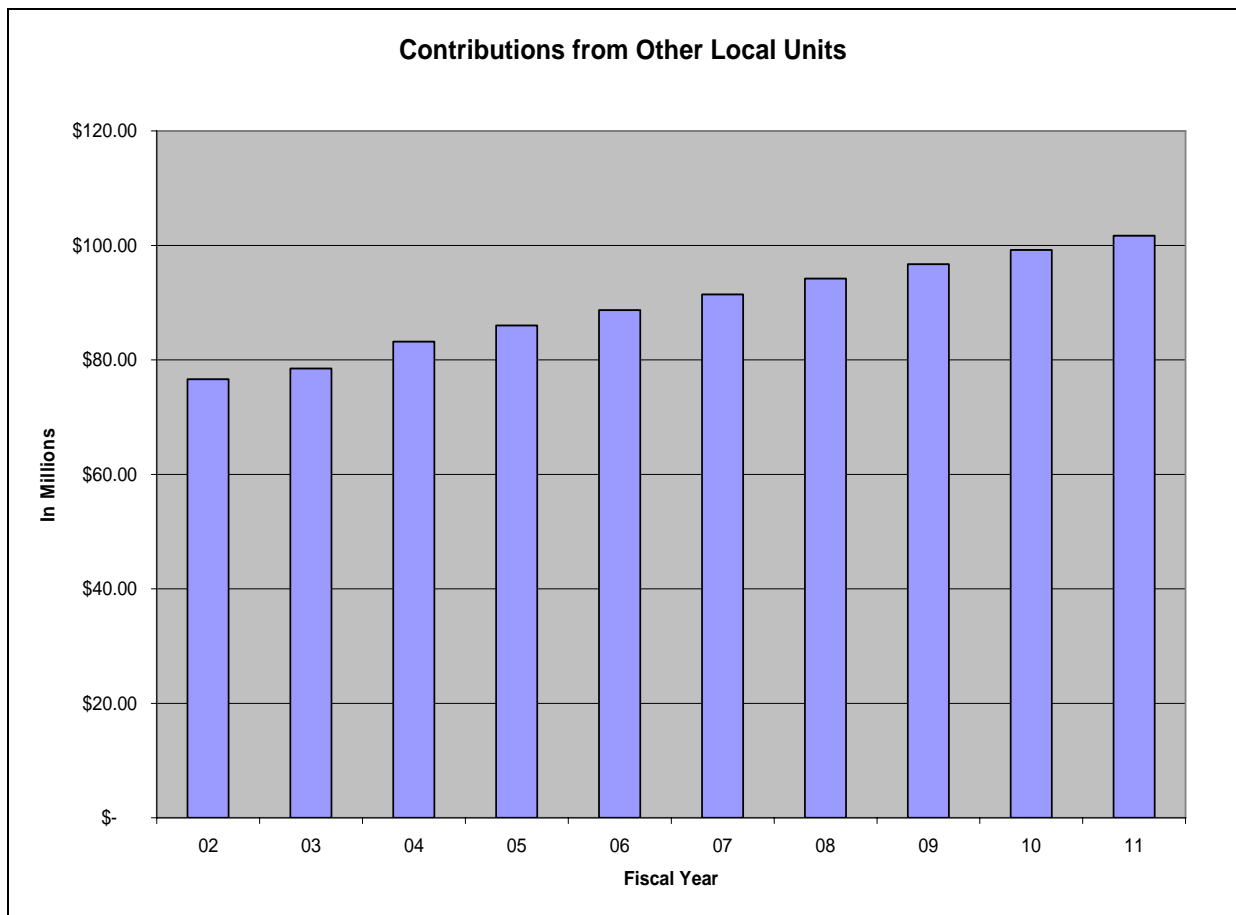
In Florida, tax bills are sent to taxpayers on November 1 and are due by the following March 31. Taxpayers may elect to pay their taxes in November and receive a 4% discount on their tax bill. The discount decreases by 1% per month thereafter (e.g., 3% discount in December), until there is no discount allowed in the month of March. For this reason, taxing authorities in Florida may budget and levy taxes on the basis that 95% of the tax levy will be collected (maximum 4% discount plus 1% allowance for uncollectible accounts). For the City of Jacksonville, the calculation of the new-year ad

CITY OF JACKSONVILLE, FLORIDA

valorem revenue is the assessed valuation tax roll multiplied by the millage multiplied by 95.5%, a slightly higher percentage based upon historical collection rates. The City's assessed value in fiscal year 2010-2011 decreased by \$3.9 billion, or 6.7%, from fiscal year 2009-2010, after decreasing by 5.8% the previous year. The reduction in assessed value was due to the continuing fall in real estate prices, both on residential properties and commercial properties. New construction added to the tax rolls amounted to \$0.9 billion, helping to offset decreases in the existing tax base. A combination of property tax revenue limitations approved by the State Legislature and Amendment One passed by the voters flattened the growth of property tax revenues for fiscal years 2008 and 2009. In FY 11, property tax revenues are expected to increase slightly, mainly due to the addition of new construction (noted above) coming onto the tax rolls for the first time. The current troubles in the housing market are expected to result in a contraction of another 2% in the City's assessed value in FY 12, but we anticipate assessed values will stabilize in FY13. This expected reduction for FY 12 is obviously below the historical trend of 6.2% growth annually. We also anticipate the growth in new construction will be below its historical trend of 2.8% growth since FY 99 for the next few fiscal years due to excessive inventory and weaker demand for housing. These growth rates will likely remain below trend through FY 14 before returning closer to their historical growth rates.

Contributions from Other Local Units

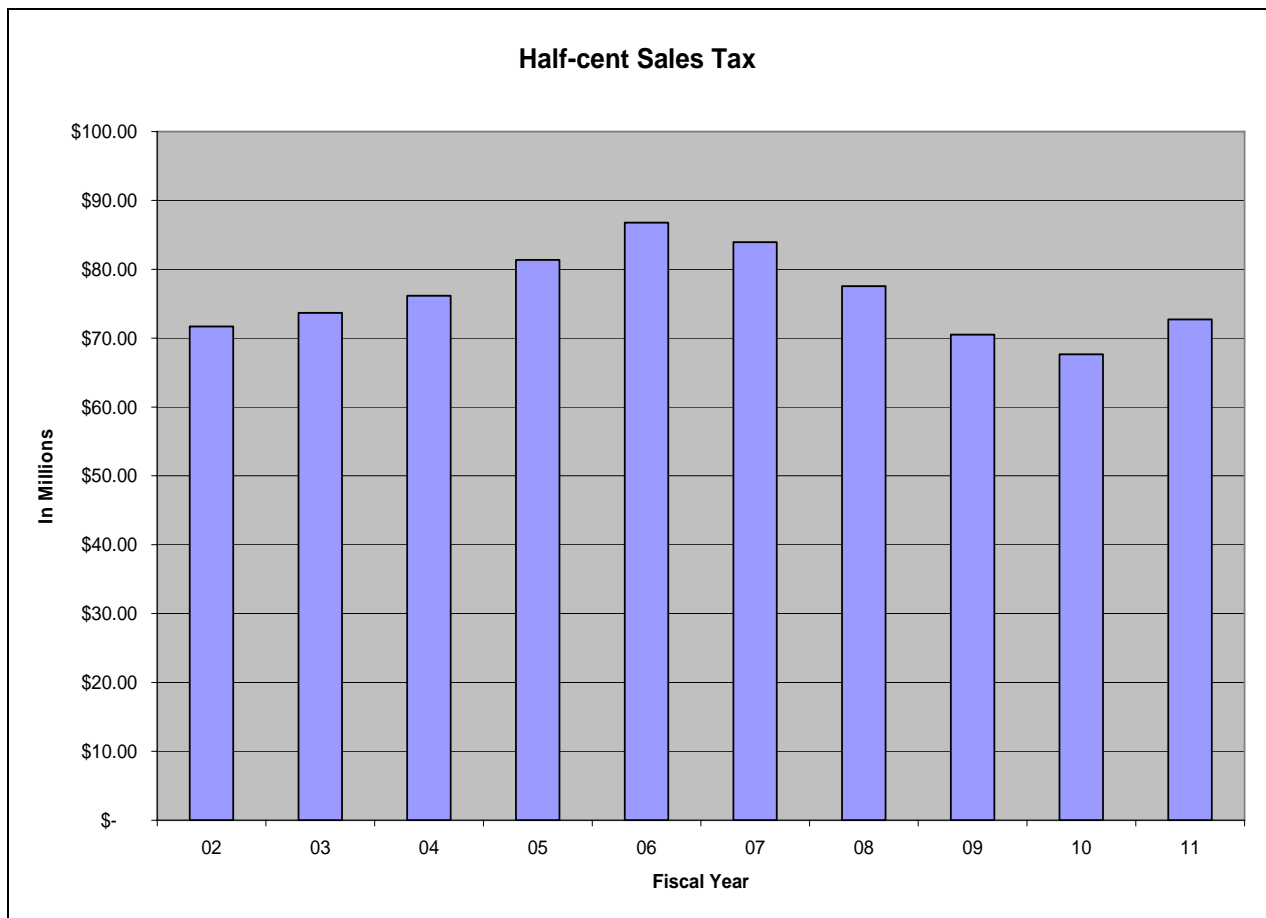
The largest of these is an annual contribution made by the Jacksonville Electric Authority (JEA) that is delineated in an inter-local agreement between the city and JEA. The amount is based upon a complex formula that utilizes the annual May to May kilowatt-hours sales figures expressed in dollars. There is a floor in the formula that provides for the growth of the contribution to equal at least \$2.75 million each year. The increase in this revenue has been at the floor amount (\$2.75 million) each year since fiscal year 2003-2004. For FY 09 through FY 16, the floor amount was changed to \$2.5 million annually. We anticipate receiving the guaranteed increase for at least the next few fiscal years.



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Half Cent Sales Tax

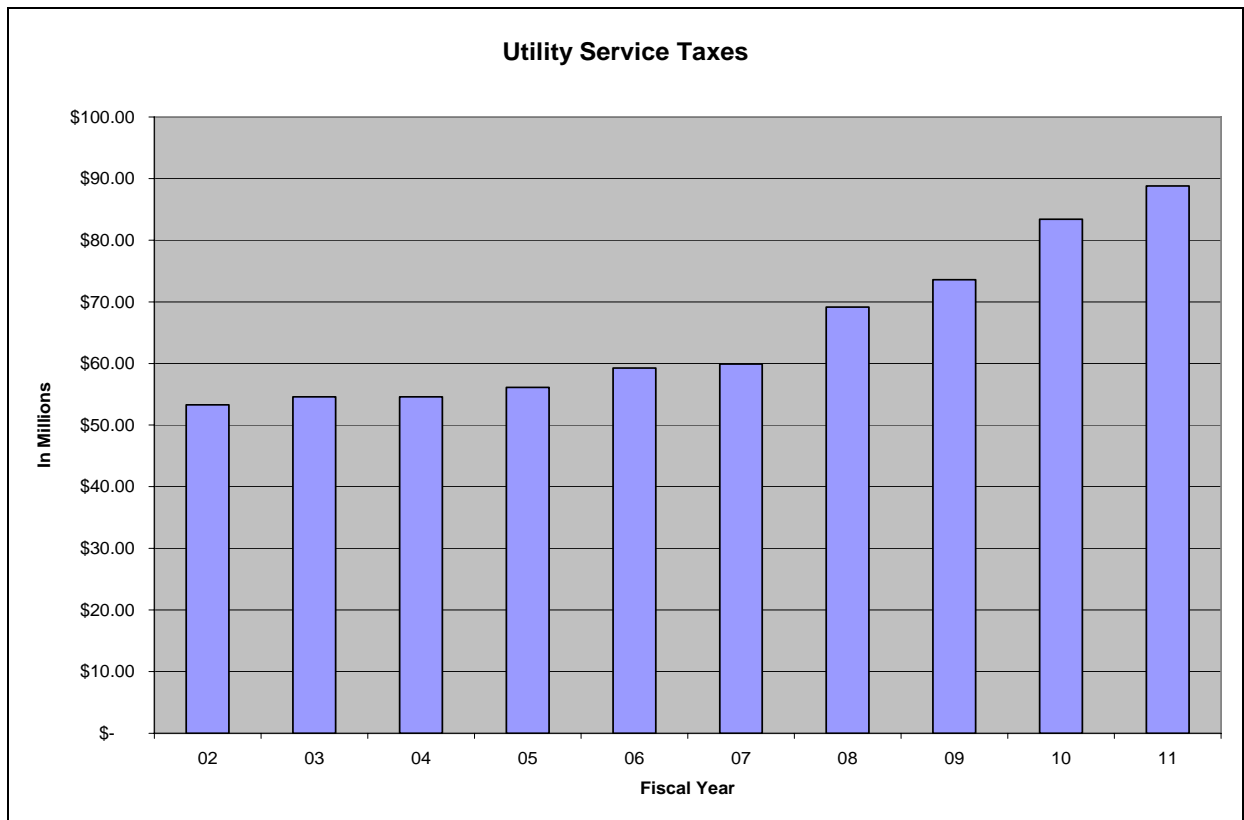
The state levies and collects six cents sales tax on various goods statewide. Approximately fifty-nine hundredths of one cent (known as the Half Cent Sales Tax) is shared with counties and cities based on a formula that takes into account the sales taxes collected within the county and the relative population within the county that lies within an incorporated area as well as within the unincorporated area. The distribution formula provides for the county to receive a proportion based upon the county's unincorporated population plus two-thirds of the county's incorporated population all divided by the sum of the county's total population plus two-thirds of the county's incorporated population. The distribution formula for municipalities is the city's population divided by the sum of the county's total population plus two-thirds of the county's incorporated population. With the consolidation of the City of Jacksonville and Duval County, there are no unincorporated areas within the county. Therefore, the City of Jacksonville receives an overwhelming amount of the half-cent sales tax revenues that are distributed within Duval County (approximately 95%). The state publishes annual estimates of revenue for each jurisdiction in late May or early June. These estimates have not always proven to be particularly accurate in the past, but are used as another input into the analysis for projections in addition to the historical trend and an economic analysis of the local economy. The recession began in Florida earlier than its effects were felt in most of the country, hurting sales tax collections. Collections in FY 11 are projected to be higher than in FY 10, as the economic recovery in Florida most likely began in the second calendar quarter of 2010. The Half Cent Sales Tax is expected to recover yet still be slightly below its long-term average increase of 3.4% for the following few fiscal years.



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Utility Service Tax

The City levies a 10% public service tax on the sales of water, electric, and natural gas. Estimates are typically based on historical trends which take into consideration the effects of weather upon the various utilities as well as the growth in the number of users. For FY 11, as was the case for the previous two fiscal years, a more important factor is the 43.5% hike in the base electricity rate for residential customers that was phased in over a four year period beginning October 1, 2007 by JEA and increased annually every October 1 through October 1, 2010. These increases were the first base rate hikes since 1994. For FY 08, the base increase was 12.5%; for FY 09, it was 10.5%; for FY 10, it was 9.7%; for FY 11, it was 5.3%. Commercial customers saw increases in their base rates that were approximately 1% higher in each of the first three years as residential customers and the same rate of increase (5.3%) in the final year. These increases will have a negative impact on electricity demand as consumers reduce their usage in the wake of higher costs. These reductions in demand are factored into the projections for utility service tax revenues. In addition to the electricity rate increases, JEA has approved increases of approximately 44% over a four year period in water and sewer rates effective each October 1, beginning in 2009 (FY 10), with the last annual increase to be effective October 1, 2012. As with the increase in electric rates, some decrease in demand is anticipated on water consumption, which is factored into the revenue projections. JEA provides utility tax revenue estimates based upon water and electric sales estimates. Since the base rate component of the bill is what is taxed under the public service tax, revenue growth is expected to be robust in fiscal year 2011, with much slower growth (1%) expected for the next few fiscal years. Utility taxes on natural gas are relatively stable due to the purchase of exempt gas out of state even though natural gas demand is increasing locally. The tax on natural gas makes up just under 1% of the total utility tax collected. For FY 11, we anticipate utility tax revenues to reach \$88.8 million, an increase of 6.5% over the FY 10 amount, most of which is attributable to the earlier mentioned rate increases.



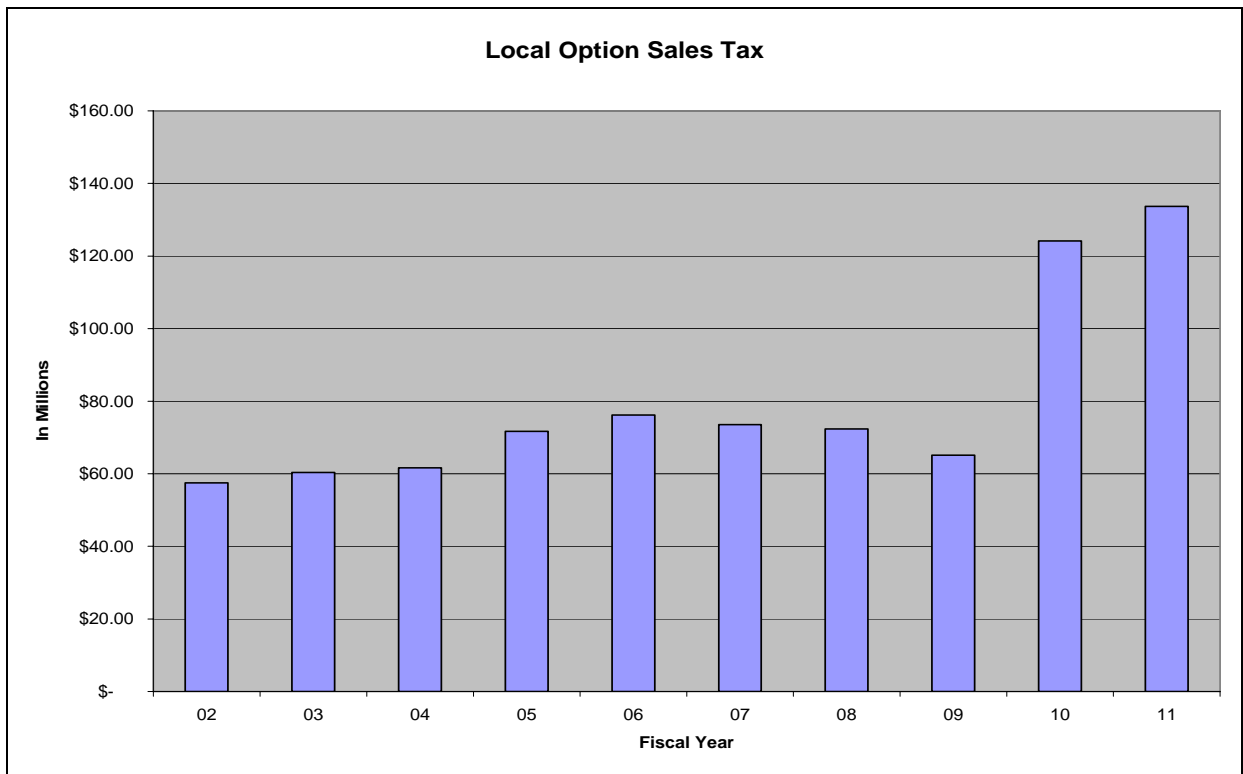
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Franchise Fees

The city has had franchise fees resulting from franchise agreements for natural gas and manufactured gas distributors for several years. Beginning in FY 08 (April 2008), the city began collecting a 3% franchise fee on electric, water and sewer services. The revenues from the new franchise fee represent the vast majority (97%) of the revenue that is projected from this source in FY 11. The estimates for the franchise fee are provided by the city's utility, JEA, for the electric, water and sewer revenues. The natural and manufactured gas revenues are estimated based upon historical trends coupled with an analysis of current conditions in the energy markets.

Local Option Sales Tax

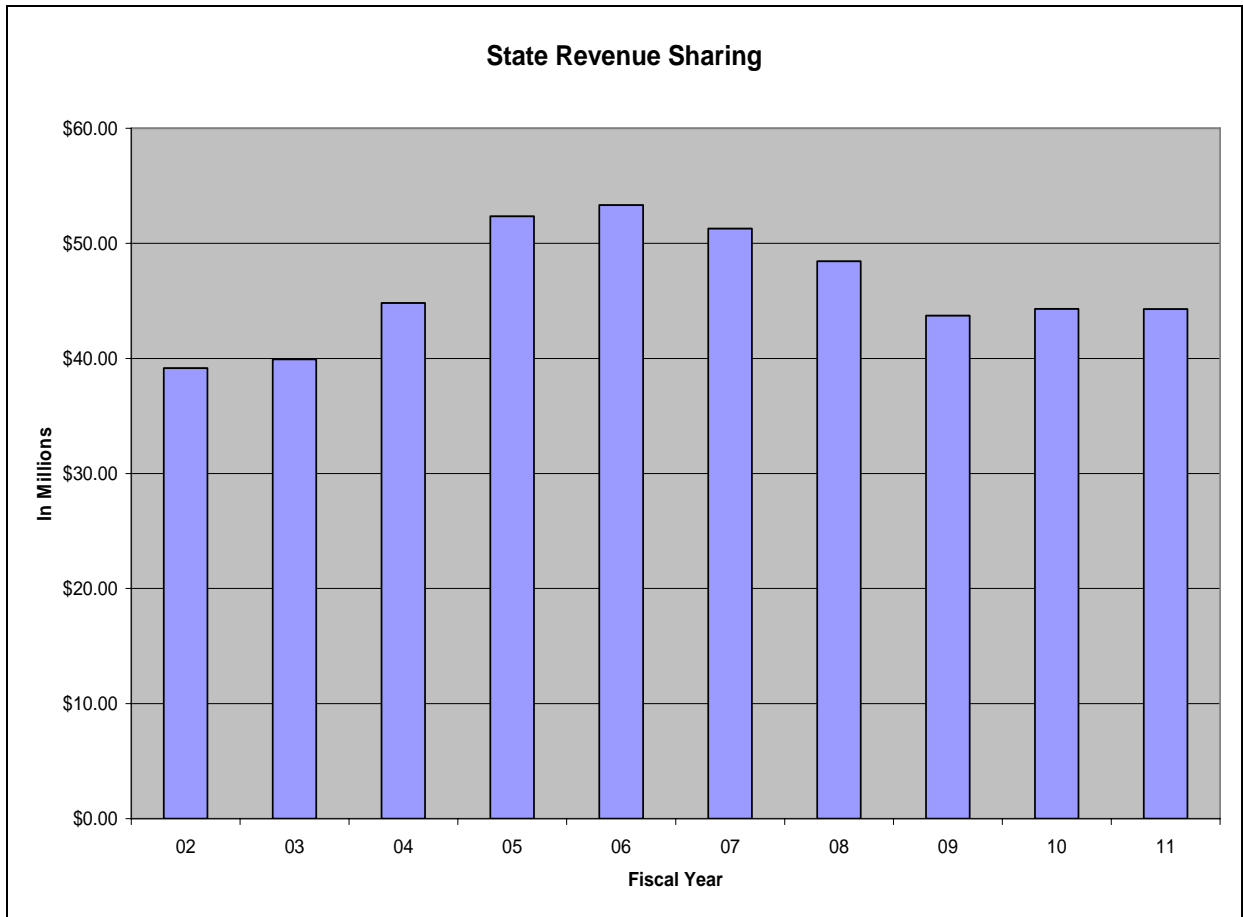
On August 11, 1989, Jacksonville citizens voted for the removal of all tolls from city bridges and certain roads and replaced the toll revenues with a local option half-cent transportation sales tax. This tax provides a permanent source of funds for the construction and maintenance of the city's roads and bridges as well as the operation and maintenance of the bus system and other public transportation efforts. The state collects all sales taxes and remits to the City the actual collections for this tax, which is then forwarded to the Jacksonville Transit Authority (JTA). On September 5, 2000, the city's voters approved a referendum to authorize a second half-cent sales tax for various infrastructure improvements, including an arena, a minor league baseball stadium, road and drainage improvements, a new main library and improvements to several branch libraries, environmental land preservation and parks improvements, improvements to the Jacksonville Zoo and Cecil Field and economic development. The state publishes annual estimates of sales tax collections following its annual revenue estimating conference in March. The City compares these estimates with the City's own projections of sales tax revenues to arrive at a final estimate. Growth in the local option sales tax began to slow after FY 06, with decreases in collections experienced through FY 09. Beginning in FY 10, the city chose to appropriate within the annual budget the portion of the infrastructure half-cent sales tax that is utilized for paying debt service, thus the jump from FY 09. We anticipate that sales tax revenues will continue a modest recovery by historical standards over the next few years.



CITY OF JACKSONVILLE, FLORIDA

State Revenue Sharing

The state shares a portion of its levies on sales taxes, motor fuels, and cigarettes with local governments, with different formulas and different taxes being shared with municipalities and counties. For example, municipal revenue sharing is expecting to receive 70.98% of its total revenue from sales tax revenues, 29.01% from gas taxes and the remaining .01% coming from a special fuel tax. For counties, revenue sharing is projected to derive 97.55% of its funding from sales tax revenues and 2.45% from cigarette taxes. The consolidation of the City of Jacksonville and Duval County allows the city to share in both formulas and revenue streams. In addition, the city receives revenue equivalent to \$6.24 per capita as Duval County. As with other revenues collected by the state and remitted to local governments, the state annually issues projections of these revenues by jurisdiction. These projections are reviewed along with historical trends going back as far as eight years. This data, along with other available information, is then used to predict the revenues from this stream for the upcoming fiscal year. The effects of the recession has been evident with sales tax and gas tax revenues struggling in FY09 and FY 10. We anticipate revenue sharing to be relatively flat from the FY 10 amount during FY 11, with modest recovery anticipated for future years. This fits into our projections for the economic recovery to be stronger in Jacksonville compared to the State of Florida as a whole.



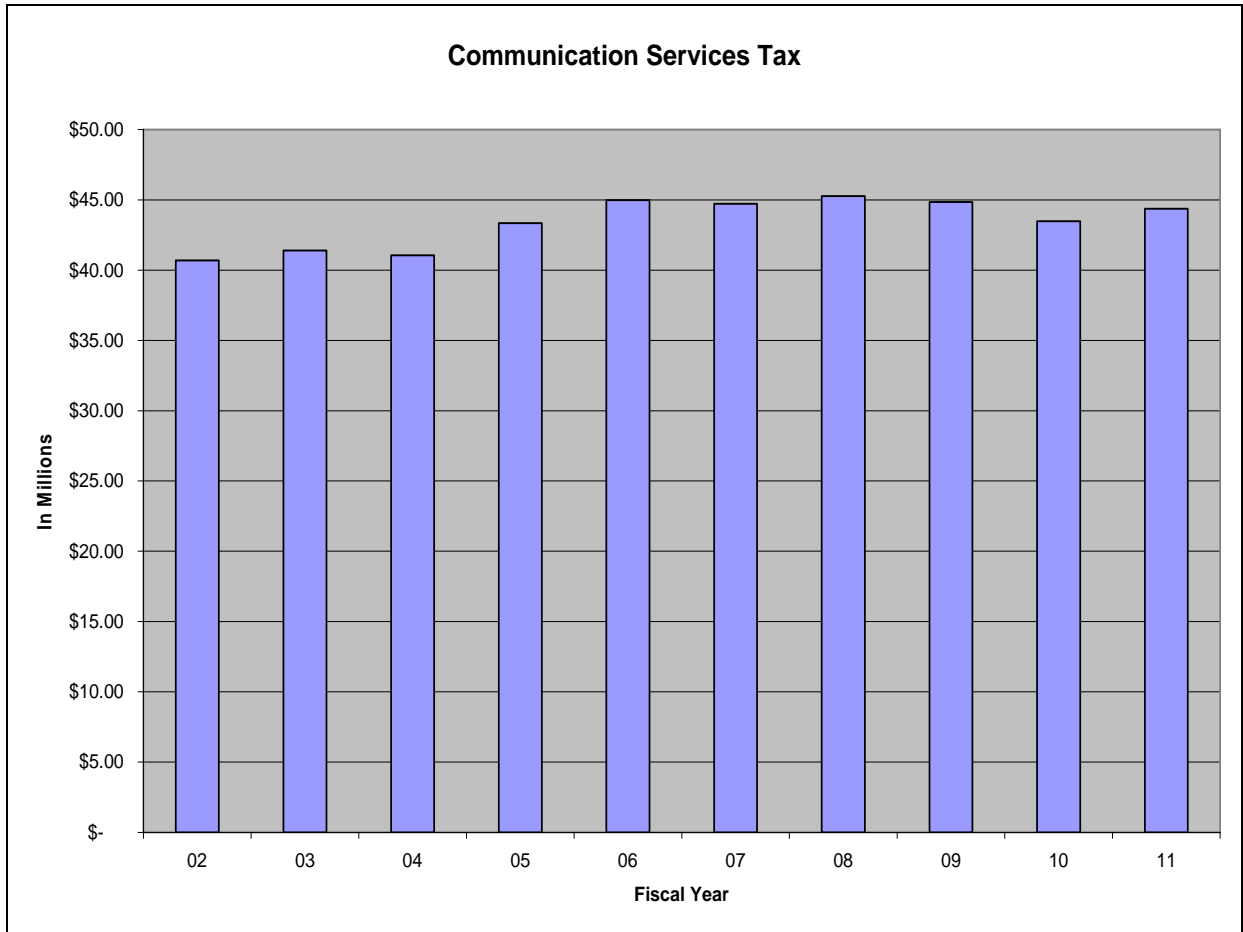
Stormwater Charges

The City of Jacksonville launched a new stormwater management fund in FY 08 (July 2008) to provide monies for drainage improvements and to improve the quality of the stormwater that ultimately flows into the St. Johns River. The stormwater fee is \$5 per month for an average household. For FY 11, the stormwater fee is expected to yield \$29 million for these purposes. Revenues are estimated based upon the billing units (equivalent residential units) within the city.

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Communication Services Tax

The City levies a Communication Services Tax at the rate of 5.22% on the purchase of communication services (generally, telephone, wireless and cable television services) as defined by Florida Statute 202. The tax is collected by the state and then remitted to the city, after deducting an administrative fee. The state publishes annual estimates of collections each June generated via its annual revenue estimating conference. The City compares these estimates with the City's own projections of communication services tax collections based upon historical revenues to arrive at a final estimate. The recent trend by residents during the recession to forgo the use of landline phones and exclusively rely on cellular phones for communications continues to negatively impact this revenue source. Yet as the economic recovery continues, we expect a slight pickup in this revenue from the FY 10 actual revenues.



Solid Waste Charges

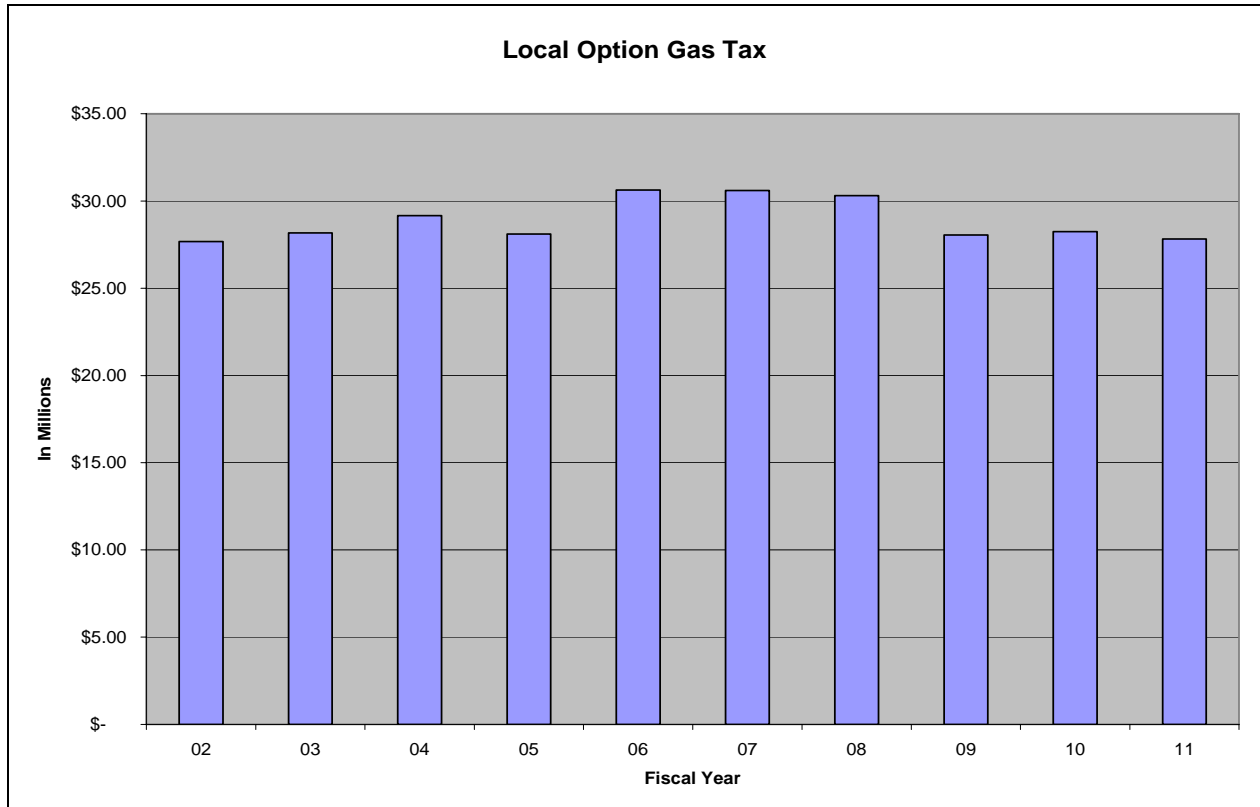
The primary source of solid waste fees is a per ton landfill tipping fee. Tonnage is projected to match levels seen in FY 08 after dropping in FY 09, as the economic recovery is expected to increase the amount of refuse collected and disposed of within the county. Franchise Fee revenues in FY 10 will be slightly higher in FY 09 as a result of more tonnage as well. The franchise fee is based upon 17% of the haulers gross revenues collected within the city boundaries for garbage, yard waste and recycling collection.

Effective October 1, 2010, the solid waste fee will increase from \$5 per month to \$12.65 per month for residential garbage, yard waste and recycling collection. The fee is expected to generate \$38.1 million in revenue for FY 11.

CITY OF JACKSONVILLE, FLORIDA

Local Option Gas Tax

The city levies a local option gas tax six cents per gallon. In the past, this tax has provided funding for transportation services including roadway improvements and reconstruction, associated drainage for roadways and mass transit. Beginning in fiscal year 2000-2001, in accordance with the Better Jacksonville Plan (BJP) and the Interlocal Agreement between the city and the JTA, the revenue in this fund is transferred to JTA as a mass transit subsidy and for debt service. The local option gas tax saw growth in much of the past decade but has now dropped back to FY 05 levels. While gas prices peaked in the summer of 2008, the deepening of the recession led to a 7% decline in revenues in FY 09 and has remained relatively flat since that time. We anticipate that gas tax revenues will continue to be flat or at best a slow growth in future fiscal years.



Other Revenues

The revenue streams discussed thus far constitute 80.4% of all revenues anticipated to be received by the City of Jacksonville. The remaining 19.6% of revenues are individually projected using historical trends, input from departments and data from a variety of other sources. These revenues include, but are not limited to, such items as Tax Collector Fees, Court Costs, Regulatory and Inspection Fees, Ambulance and E911 Charges, and Licenses and Permits.