



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** August 22, 2016

**IBA Report Number:** 16-21

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**Item Number:** N/A

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# FISCAL IMPACT STATEMENT

## Measure D: Tax and Facilities Initiative

### **Measure D: Tax and Facilities Initiative**

This measure would increase the City's transient occupancy tax (TOT) from 10.5% to 15.5% for hotels with 30 or more rooms, Recreational Vehicle Parks, and Campgrounds. TOT for hotels with less than 30 rooms would increase from 10.5% to 14%. Revenue collected pursuant to these tax increases would be deposited in the City's General Fund and used for general governmental purposes. It is estimated that this TOT increase could generate approximately \$98 million annually beginning in 2017 and increase or decrease thereafter reflecting the growth or decline in the number of visitors to the City.

Additionally, this measure eliminates a 2% assessment that hotels currently charge customers and use to fund a tourism marketing district (TMD). Instead, this measure allows hotels the option to form special assessment districts and retain a portion of collected TOT funds for (a) tourism marketing, and/or (b) a new non-contiguous convention center expansion in the East Village. If hotels retain the maximum amount for both purposes, they would retain up to 4% (\$80 million) annually of TOT that would otherwise be remitted to the City (up to 2% for tourism marketing and 2% for a non-contiguous convention center expansion).

It is uncertain if hotels will elect to participate in these special assessment districts. Depending on how many hotels participate in the special assessment districts and at what level of assessment, the additional TOT revenue initially generated for the City's General Fund could range from \$18 million annually (if all hotels fully participate) to \$98 million annually (if no hotels participate).

If hotels elect to form special assessment districts for tourism marketing and/or a new non-contiguous convention center expansion, it is estimated the City Treasurer would incur administrative costs of approximately \$234,000 in the first year, and at least \$84,000 annually thereafter, to inspect and audit hotel records to ensure proper payment is being made to the City. The City would recover these expenses from special assessment district funds.

The City is currently required to use 4% of the existing 10.5% TOT solely for programs and services promoting the City. This measure repeals this requirement, making the 4% portion of TOT unrestricted and available for any public purpose or service, including promoting the City. This measure prohibits construction of a contiguous bay-front convention center expansion without a public vote. The measure also prohibits public funding from being spent on a new stadium without a public vote.

Should the Chargers stop playing at Qualcomm Stadium in Mission Valley, this measure would authorize the City to sell the site to certain educational or environmental non-profit institutions for low-density development, provided the purchaser implements specified property improvements. The specified development and improvement requirements in this measure could reduce the sale value of the Qualcomm site.

San Diego's current effective TOT rate (the combined TOT and TMD) is 12.5%, below the average of other comparable cities. A 15.5% TOT for most hotels would put San Diego among those cities with higher TOT rates, potentially impacting hotel occupancy.