



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: TBD

Utilization of Revenues from Transient Occupancy Tax for Special Promotional Programs

OVERVIEW

On January 10, 2018, the Rules Committee considered a ballot measure proposed by Councilmember David Alvarez which would dedicate a portion of the revenue generated from the City’s Tourism Occupancy Tax (TOT) to fund homelessness services. More specifically, the portion of TOT under consideration is currently required by the City’s Municipal Code to be used “solely for the purpose of promoting the City.” In this report, our Office summarizes how these TOT revenues that are restricted for special promotional purposes are currently being utilized.

BACKGROUND

The City currently imposes a tourism occupancy tax equal to 10.5% (or 10.5¢ per \$1.00) of the taxable rent paid by occupants of lodging facilities in the City for stays of less than one month. As shown in the table below, the TOT was first imposed at a rate of 4% in 1964 and has gradually increased over time through 1994 when it reached the current rate of 10.5%.

History of TOT Rates (¢ per \$1.00 rent)

Table with 8 columns: TOT Increase date, June 1964, April 1968, June 1973, Jan. 1985, Aug. 1988, June 1989, Aug. 1994. Rows include Incremental Increase, Utilization of Revenues, and Aggregate Rate.

As stated in Municipal Code section 35.0128 – 35.0133, the utilization of 10.5 cents TOT is to occur as follows:

- a) **5.5 cents** is to be deposited in the General Fund and be used for *general governmental purposes*.
- b) **4 cents** is to be deposited in the Transient Occupancy Tax Fund and be used *solely for the purpose of promoting the City* (hereafter referred to as “Special Promotional Purposes”)
- c) **1 cent** is to be deposited in the Transient Occupancy Tax Fund and be used *for any purpose the City Council may direct*.

Funds deposited in the Transient Occupancy Tax Fund are budgeted in the Special Promotional Programs Department. Historically, the City Council’s 1 cent discretionary share is budgeted as a transfer out of Special Promotions Programs to the General Fund.

Direction regarding eligible programs that may be funded with Special Promotional Purposes revenue is prescribed through Council Policy 100-03, “*Transient Occupancy Tax*.” According to this policy, eligible programs should fall into one of five major categories in order to achieve a stated purpose.

Category	Purpose
Arts, Culture and Community Festivals	To enhance the economy and contribute to San Diego’s reputation as a cultural destination by nurturing and maintaining art and culture institutions of national and international reputation; by supporting programs and projects that provide access to excellence in culture and the arts for residents and visitors; and by funding programs and events which enrich the lives of the people of San Diego and build healthy, vital neighborhoods
Capital Improvements	To provide funding for the renovation, construction and expansion of visitor-related facilities and projects
Economic Development	To promote the City as a visitor destination and advance the City’s economy by increasing Tourism and attracting industry
Safety and Maintenance of Visitor Related Facilities	To provide supplemental funding for public safety and the maintenance of visitor related facilities
Major Events	To provide funding for the attraction and production of major events and conventions that generate Transient Occupancy Tax and other revenues

DISCUSSION

The FY 2018 Adopted Budget for Special Promotional Programs is \$116.3 million, including the 4 cent TOT for Special Promotional Purposes, 1 cent City Council discretionary TOT, a one-time transfer from the General Fund to supplement Arts & Culture funding, and use of TOT fund balance. The budget funds arts and culture programs, debt service payments for visitor-related facilities, economic development programs, operating support for visitor related facilities, a transfer of the City Council’s 1 cent discretionary TOT to the General Fund, and reimbursements for General Fund tourism and promotions-related expenses.

Summary Special Promotional Programs Budget	FY 2018 Budget
Revenue	
Transient Occupancy Tax (5¢)	\$110,085,646
One-time Transfer from General Fund for Arts & Culture	\$4,213,942
Special Events Revenue	\$75,000
Use of TOT Fund Balance	\$1,875,663
Total Revenue:	\$116,250,251
Allocations	
Arts, Culture, & community Festivals	\$14,609,885
Capital Improvements	\$29,326,332
Economic Development	\$1,710,000
Safety and Maintenance of Visitor-Related Facilities	\$48,994,050
1¢ Discretionary TOT (Transfer Out to General Fund) ¹	\$21,609,984
Total Allocations:	\$116,250,251

¹ Excludes \$400,000 of 1¢ Discretionary TOT which is allocated within Arts, Culture & Community Festivals for Mayor/City Council Allocations.

Arts, Culture and Community Festivals - \$14.6M Allocation

The Arts, Culture and Community Festivals programs that are funded within the Special Promotional Programs budget fall into two subcategories: Creative Communities San Diego and Organizational Support Programs. In FY 2018, the Creative Communities San Diego category provides funding for 45 organizations that support neighborhood arts programs and community festivals, with allocations ranging from \$5,000 for organizations such as Cabrillo Festival, Inc. and Bodhi Tree Concerts, up to \$117,000 for organizations such as San Diego Film Foundation and San Diego LGBT Pride. The Organizational Support Programs category provides funding in FY 2018 for 89 nonprofit arts and culture organizations, with allocations ranging from \$5,000 for organizations such as the Choral Club of San Diego and San Diego Pro Arte Voices, up to \$520,000 for the La Jolla Music Society and the Theatre Arts Foundation of San Diego County.

In addition to Creative Communities San Diego and Organizational Support Programs, funding is also provided for the Commission for Arts and Culture Department, allocations for the Mayor and City Council, an allocation for the Commission for Arts and Culture, and the Public Arts Fund.

Arts, Culture, and Community Festivals	FY 2018 Budget
Creative Communities San Diego	\$1,168,789
Organizational Support Programs	\$10,632,147
Commission for the Arts and Culture Department	\$1,392,608
Mayor/City Council Allocations	\$400,000
Commission for Arts and Culture Allocation	\$220,915
Public Arts Fund	\$795,426
Total:	\$14,609,885

Capital Improvements - \$29.3M Allocation

Capital Improvement expenditures within this category are contributions towards debt service payments for Mission Bay Park/Balboa Park Improvements, the Convention Center Phase II Expansion, SDCCU (formerly Qualcomm) Stadium, PETCO Park, and the Trolley Extension. Funding is transferred into respective funds to support debt service for these improvements. The following table outlines the current capital improvements expenditures supported within the Special Promotions FY 2018 budget.

Capital Improvements	FY 2018 Budget
Convention Center Phase II Expansion	\$12,556,450
Mission Bay Park/Balboa Park Improvements	\$1,670,166
PETCO Park	\$9,288,975
SDCCU Stadium	\$4,755,491
Trolley Extension	\$1,055,250
Total:	\$29,326,332

Economic Development - \$1.7M Allocation

The Economic Development programs funded within the Special Promotional Programs budget fall into one of four subcategories: Citywide Economic Development; Economic Development and Tourism Support; Business Expansion, Attraction, and Retention (BEAR); and Economic Development Program Administration. In FY 2018, the Citywide Economic Development category provides funding support for programs, initiatives, and organizations such as CleanTECH San Diego, Downtown San Diego Partnership Foundation, CyberHive Inc., Maritime Alliance Foundation, and the Mission Trails Regional Park Foundation. The Economic Development and Tourism Support category provides funding to support eighteen organizations ranging from the Adams Avenue Business Association, to the US Green Building Council SD Chapter, with allocations ranging from \$10,000 to \$50,000, per organization. The table below summarizes the Economic Development Programs allocations.

Economic Development Programs	FY 2018 Budget
Citywide Economic Development	\$315,000
Economic Development and Tourism Support	\$700,000
Business Expansion, Attraction, and Retention (BEAR)	\$515,000
Economic Development Programs Administration	\$180,000
Total:	\$1,710,000

Safety and Maintenance of Visitor Related Facilities - \$49.0M Allocation

The Safety and Maintenance of Visitor Related Facilities expenditures within the Special Promotional Programs budget includes operating support to the Convention Center, PETCO Park, SDCCU (formerly Qualcomm) Stadium, Mission Bay Park/Balboa Park improvements, Special Events and Filming Department and the Trolley Extension.

Additional expenditures in the Safety and Maintenance of Visitor Related Facilities are allocated for reimbursement for promotion-related expenses within the General Fund, such as maintenance of parks and facilities in frequently visited areas. The majority of this funding is allocated to the Parks and Recreation Department to support expenditures in areas that draw visitors to the City, such as Balboa Park, Mission Bay Park, and beach and shore parks, and the Fire-Rescue Department for lifeguard services. The table below summarizes all General Fund reimbursements by department.

Safety & Maintenance of Visitor Related Facilities	FY 2018 Budget
Operating Support	
Convention Center	\$3,883,543
Mission Bay Park/Balboa Park Improvements	\$359,059
PETCO Park	\$4,045,773
SDCCU Stadium	\$2,958,838
Special Events and Filming Department	\$1,216,251
Trolley Extension	\$3,000
Subtotal:	\$12,466,464
General Fund Reimbursements	
Parks & Recreation	\$26,245,150
Fire-Rescue Lifeguards	\$9,139,336
Development Services Department	\$332,200
Community & Legislative Services (Mayoral)	\$180,000
Facilities Division	\$50,000
TOT Fund Administration	\$580,900
Subtotal:	\$36,527,586
Total:	\$48,994,050

Major Events – No Allocation

The Major Events category receives funding on an as-needed basis when major events are planned to occur in the City. Previously, \$150,000 has been funded in past fiscal years for events such as the 2016 Major League Baseball All-Star Game and the 2015 Balboa Park Centennial Celebration. No funding for Major Events is included in the FY 2018 Adopted Budget.

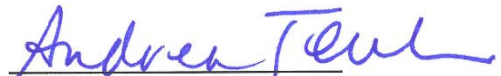
CONCLUSION

Of the City’s overall 10.5 cent TOT, 4 cents are restricted by the City’s Municipal Code to be used “solely for the purpose of promoting the City.” In the FY2018 Adopted Budget, this 4 cent portion is projected to be \$88.1 million.

It is proposed by Councilmember Alvarez that a ballot measure be included on the November 2018 ballot asking voters to dedicate 1 cent of the 4 cents meant for Special Promotional Purposes to fund homeless services. This 1 cent portion would amount to \$22 million based on the FY 2018 Adopted Budget, \$14.4 million more than total homelessness related expenditures projected to be funded by from the General Fund in FY 2018 (approximately \$7.6 million). **However, considering that this proposal is not generating new revenue, this dedicated funding source would come at the expense of several of the components described above, requiring a reduction to Special Promotional Programs budget, or some other corresponding reduction elsewhere to the General Fund.** The resulting budgetary impact would range between \$14 – 22 million, depending on whether this dedicated funding source is programmed to be utilized in addition to, or in displacement of, current funding levels.



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