PART III – REVIEW REVENUE ENHANCEMENT OPTIONS THAT COULD BE UTILIZED TO ADDRESS CRITICAL FISCAL ISSUES

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Strategic Budget Prioritization Process: Revenue Enhancement Options

1. Across-the-Board Percentage Reductions

The City has historically asked General Fund departments to make fixed percentage reductions in their budgets as a means of addressing budgetary shortfalls. With some exceptions (e.g., public safety departments), across-the-board revenue percentage reductions have typically been applied to all General Fund departments. For example, all departments may be required to take a 5 percent budget reduction, and identify which services will be impacted. As the Police and Fire-Rescue departments comprise over 50% of the total General Fund, exempting public safety from across-the-board reductions significantly limits potential savings associated with this approach.

Across-the-board reductions otherwise provide for discretionary revenue that can be reallocated to other budgetary priorities on an ongoing basis provided that the budget reductions are not restored in future years. Although arguably equitable, the problem with this revenue option is that it is not always based on thoughtful analysis of the associated service reductions and/or organizational priorities.

2. Elimination or Reduction of Non-Core Programs/Services

Elimination or reduction of non-core programs/services involves expenditure reductions in targeted areas. This option allows high priority service areas and core programs to be maintained, while non-core programs and services are reduced or eliminated. However, this option requires thoughtful analysis of which programs/services are considered non-core, and a determination as to whether these programs/services can be eliminated or significantly reduced.

Elimination or reduction of non-core programs/services would result in on-going budgetary savings as long as the eliminated or reduced programs/services are not restored. As with most expenditure reduction strategies, the elimination or sharp reductions in certain programs will likely involve staff reductions.

3. Program Cost-Recovery

Administrative Regulation 95.25 established that it is the policy of the City to recover the cost of providing certain services. While fees are currently charged for many of these programs and services, such as fees for library services or facility rentals, few if any are fully cost recoverable. In addition, there may be certain cost-recoverable programs or services for which no fees are currently charged. Setting fees at a level that recovers all or a majority of the costs associated with providing these programs and services would provide an ongoing revenue source for the General Fund.

4. New or Increased Fees

This option refers to implementing new or increased fees where there is not necessarily a cost-recovery component. Examples might include implementing a car rental surcharge or increasing the refuse hauler franchise fee. This option would provide a source of ongoing revenue, and depending on the type of fees implemented, may be an opportunity for significant revenue enhancement. One consideration to this option is that new fees are often subject to legal review, particularly in cases where there is not a cost-recovery component. The IBA will be providing additional detail on this topic in a future report in our series reviewing the Five-Year Financial Outlook.

5. New or Increased Taxes

Taxes are the broadest form of revenue generation in that they apply to nearly every segment of the population. Taxes may be used for general or specific purposes, and are distinct from other fees and charges in that voter approval is required in order to implement new taxes or increase existing tax rates. General taxes require a majority approval, while special taxes (those designated to be used for specific purposes) must pass by a two-thirds majority. Taxes currently employed by the City of San Diego include the following:

- Property tax
- Sales tax
- Safety sales tax or Proposition 172 sales tax
- Transient Occupancy Tax (TOT)
- Property transfer tax
- Business License taxes

Of these existing taxes, the City has the greatest flexibility in increasing the TOT, property transfer tax and business license taxes. Both property tax and sales tax rates are set by State law, although local governments do have the ability to impose an additional sales tax. There are a number of taxes not currently used by the City of San Diego that are common in other cities, including parking taxes, utility taxes, and refuse collection fees. Refuse collection fees would typically be considered a cost-recovery fee, much like water and sewer fees; however, we have included it with the New or Increased Taxes option since voter approval would be required to amend the City Charter. New or increased taxes are an ongoing source of revenue, and likely provide the greatest degree of revenue enhancement.

6. Land Sales

The City of San Diego has extensive real estate holdings in its investment portfolio. One option for generating revenue would be to sell off a portion of those holdings. According to the Mayor's Five-Year Financial Outlook, the Real Estate Assets Department has identified properties including vacant land that could be sold. The total General Fund benefit over the five-year period is estimated to be $102.5 million. Revenue from land sales would be considered a one-time revenue. Per the City Charter, proceeds from all land sales must be used for capital projects.

7. New or Renegotiated Lease Revenues

This option contemplates the possibility of charging market rates for all future City leases that do not have an equivalent and offsetting public benefit. As mentioned in the previous section on Land Sales, the City has extensive real-estate holdings, and many of these parcels are either not leased at all or leased at below-market rates. Although it can be difficult, if not impossible, to renegotiate the City's outstanding (below market) leases, there are periodically opportunities to either renegotiate outstanding leases or pursue new leasing opportunities (e.g., telecommunication sites) to generate revenue for the City.

Historically, the City has not always maximized lease revenue opportunities for various policy reasons, such as negotiating sub-market rate leases with non-profit or charitable organizations that otherwise act to benefit the public. In the case of non-profit or charitable organizations, it may be an option to lease at reduced, but nearer market rates. The City's real estate holdings are public assets that should garner market rate rents whenever there isn't an equivalent and offsetting public benefit. Leases are sources of ongoing public revenue, and ensure that the City is being fairly compensated for use of its assets.