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## **Sales and Use Tax Overview & Other Revenue Options**

Meeting of the City Council  
July 26, 2010

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# Sales and Use Tax Information

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- Retailers pay sales tax for privilege of selling tangible personal property.
- Tax is applied as a percentage of gross receipts.
- Certain exemptions exist in State Tax Code e.g. professional services.
- Governing law is known as Bradley-Burns Local Sales and Use Tax Law.



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# Sales and Use Tax Information

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- Law provides that cities can also impose a district tax rate, not to exceed total 2%.
- Additional district tax requires 2/3 Council approval (6 votes) and vote of the people:
  - Majority voter approval required if used for “general purposes.”
  - 2/3 voter approval required if used for a “specific purpose.”



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# Sales and Use Tax Information

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- “General purposes” means the revenue can be used for any City services supported by the City’s General Fund including Police, Fire, Park and Recreation, Library, and Neighborhood Code Compliance.



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# Sales and Use Tax Information

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- “Specific purpose” means the revenue will be dedicated e.g. to “Public Safety” and the ballot will indicate this to the voters.
- An increase in the tax rate can be either permanent or for a set period of time and the ballot will also indicate this.



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# Sales and Use Tax Information

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- County of San Diego currently has a 0.5% district tax for Transnet.
- Due to 2% limit, any additional district tax would have to be  $\leq 1.5\%$ .



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# Sales and Use Tax Information

- Total current City sales tax rate is 8.75%.
- In FY 2009, the City generated \$206.1 million in sales and use tax revenue.

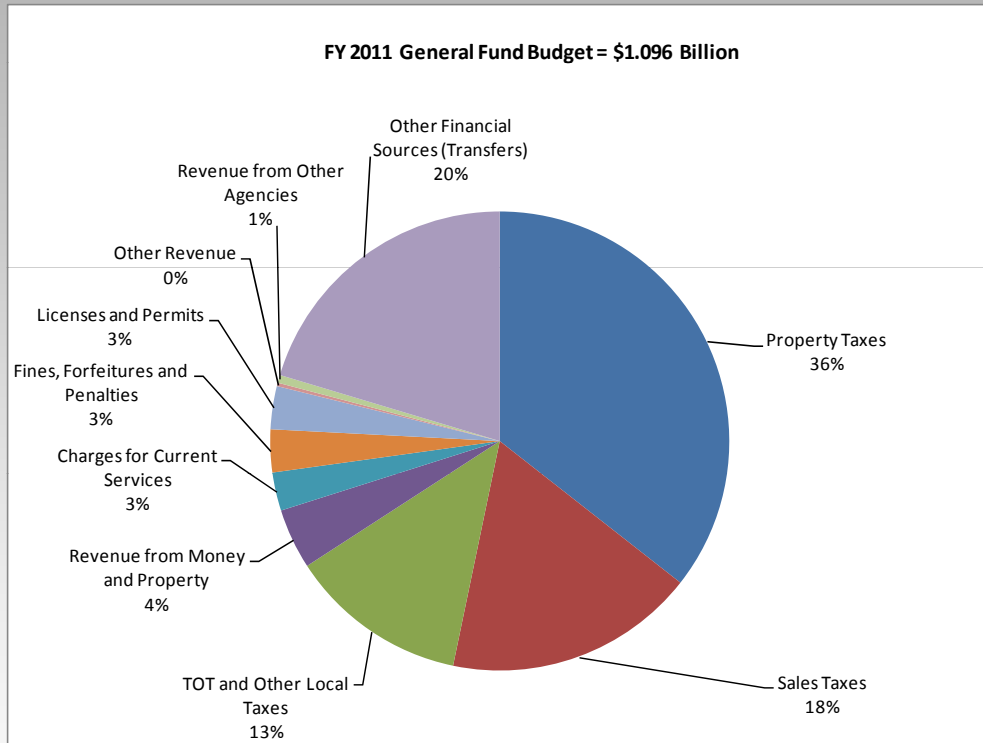
Rate	Jurisdiction
6.00%	State General Fund
0.25%	State (Fiscal Recovery Fund)
0.50%	State (Local Revenue Fund)
0.50%	State (Local Public Safety Fund)
0.25%	County Transportation
0.75%	City
0.50%	TransNet (County & City)
<b>8.75%</b>	<b>Total City Sales Tax</b>



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# Sales and Use Tax Information



Sales Tax revenue is the City's second largest General Fund revenue source following property taxes.



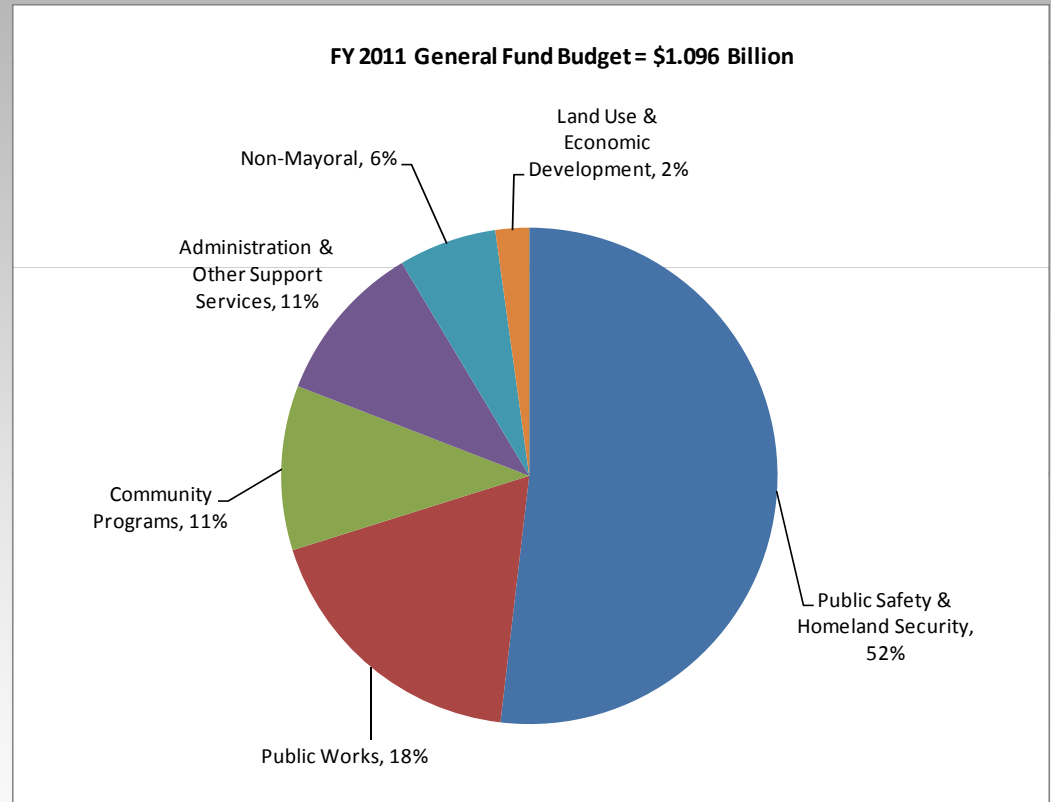
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# Sales and Use Tax Information

- Police and Fire-Rescue make up over 50% of City's General Fund budget.
- With Park & Recreation, Library, Streets and Trash Collection it increases to 81%.



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# Sales and Use Tax Information

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- Fiscal impact of increasing the local sales tax rate:
  - 0.50% would generate an estimated additional \$103 million, based on FY 2009 performance data as of March
  - Based on recent experience, and conservative projections, could generate \$92.5 - \$97.5 million in FY 2012
  - The charts on the next two slides compare the City's current sales tax rate to those of other major cities in California and to those of other cities in the County.



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# Sales and Use Tax Information

<b>SALES TAX RATES</b>	
<b>Major Cities in California</b>	
<b>City</b>	<b>Rate</b>
<b>San Diego</b>	<b>8.75%</b>
Los Angeles	9.75%
Oakland	9.75%
San Jose	9.25%
Sacramento	8.75%
San Francisco	9.50%
Fresno	8.975%
Long Beach	9.75%
Santa Ana	8.75%
Anaheim	8.75%
As of April 1, 2010	
Source: California State Board of Equalization	



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# Sales and Use Tax Information

SALES TAX RATES	
within County of San Diego	
City	Rate
<b>San Diego</b>	<b>8.75%</b>
Carlsbad	8.75%
Chula Vista	8.75%
Coronado	8.75%
Del Mar	8.75%
El Cajon	9.75%
Encinitas	8.75%
Escondido	8.75%
Imperial Beach	8.75%
La Mesa	9.50%
National City	9.75%
Oceanside	8.75%
Poway	8.75%
San Marcos	8.75%
Santee	8.75%
Solana Beach	8.75%
Vista	9.25%
County of San Diego	8.75%
As of April 1, 2010	
Source: California State Board of Equalization	



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# Sales and Use Tax Information

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## City of El Cajon

- Effective April 2009, increased sales tax rate by 0.50%, for a term of 20 years
- City Manager’s Office reports “no measurable difference in sales tax activity from increase to the tax rate”.
- Have discussed this often with their sales tax consultant, MuniServices, and have found no quantifiable evidence that sales have gone elsewhere.



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# Sales and Use Tax Information

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## City of La Mesa

- Effective April 2009, increased sales tax rate by 0.75%, for a term of 20 years
- Director of Finance reports that “there has been no material reduction in overall sales transactions as a result of the increased sales tax rate”.



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# Sales and Use Tax Information

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- A new district sales tax could become operational 110 days after the date of the election and the first date of the calendar quarter.
- If approved November 2010, could be in effect by April 1, 2011.



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# Most Recent City Tax Increases

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## June 1990

### Police and Fire Communications and Dispatch Facilities Bonds

- Increased ad valorem property tax to generate \$2.3 million annually for debt service for \$25.5 million bond issuance, paid over 20 years.
- Construct and equip Police and Fire Communication Center; computer aided dispatch and radio system; and facilities necessary to improve efficiency of 911 system.
- Required 2/3 voter approval, received 68% voter approval
- Tax terminates in FY 2011



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# Most Recent City Tax Increases

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## June 1994

### TOT Increase Adopted by Ordinance

- 1.5% increase in Transient Occupancy Tax for general government purposes.
- Adopted by ordinance; did not require voter approval at that time.
- TOT estimated to raise about \$4.0 million at the time.



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# Sales and Use Tax Information

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- The Citizens Revenue Review and Economic Competitiveness Commission was established by the City Council in December.
- The Commission has been meeting for the past six months, has held 12 public hearings and has undertaken comprehensive studies.



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# Revenue Options Prepared for CRRECC

## Summary of General Fund Revenue Options for the City of San Diego

Could be Implemented by Late FY 2011/ Early FY 2012

Tax Revenue Options	Potential Rate	Implementation Requirements	Annual Fiscal Impact
Sales & Use Tax	0.50%	Voter Approval	\$103,050,000
Utility Users Tax	\$74 per capita (approximately 5%)	Voter Approval	\$100,200,000
Sales & Use Tax	0.25%	Voter Approval	\$51,500,000
General Obligation Bonds	.02% of Assessed Valuation	2/3 <sup>rd</sup> s Voter Approval	\$34,500,000
Parking Tax	10%	Voter Approval	\$31,000,000
Parcel Taxes (District Taxes)	\$50 per parcel cityw ide	2/3 <sup>rd</sup> s Voter Approval	\$18,500,000
Business Tax	\$102 for small businesses \$375 for large businesses, plus \$15 per employee	Voter Approval	\$13,600,000
Transient Occupancy Tax	1.00%	Voter Approval	\$13,400,000
Property Transfer Tax	\$1.55 per \$1,000 property sales value	Voter Approval	\$8,400,000
Benefit Assessments	TBD	Majority of Property Ow ner Approval	TBD
Rental Car Tax	TBD	Voter Approval	TBD



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# Revenue Options Prepared for CRRECC

## Summary of General Fund Revenue Options for the City of San Diego

### Could be Implemented by Late FY 2011/ Early FY 2012

Fee Revenue Options	Potential Rate	Implementation Requirements	Annual Fiscal Impact
9-1-1 Phone Fee	\$3/month on land lines	Voter Approval	\$16,000,000
Beach, Bay, Balboa Park, and Zoo Parking Fee	TBD	Council Approval	TBD
Emergency Response Fees			
First Responder Service Fee	TBD	Council Approval	TBD
Accident Negligence Fee	TBD	Council Approval	TBD
False Alarm Fee	TBD	Council Approval	TBD
General Plan Maintenance Fee	TBD	Council Approval	TBD
Comprehensive User Fee Study	na	Council Approval	TBD

### Could be Implemented by 2013 or Sooner (Depending on Cost of Service Study and Public Outreach Completion Dates)

Storm Water Fee	Single Family Residential: \$5.49/month Commercial and Other: \$0.374/hundred cubic feet	Majority of Property Owner Approval or 2/3 <sup>rd</sup> s Voter Approval, Proposition 218 Procedures	\$37,700,000
Refuse Collection Fee	\$15.16/month ((\$9.29 General Fund, \$5.87 Recycling Fund)	Majority Voter Approval Proposition 218 Procedures	\$34,000,000



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# Options Identified by CRRECC

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- In the area of potential new revenues, six revenue options have been identified by the Commission for further study and soliciting community input, including:
  - 1/2¢ sales and use tax
  - Residential trash collection fee
  - Beach parking lot fees
  - Mission Bay park and recreation parking fees
  - Business tax
  - Corporate Sponsorships



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# Options Identified by CRRECC

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- Sixteen economic competitiveness ideas have also been identified as part of this process.
- Proposals have been narrowed in both areas to those they believe are most worthy of community debate.
- These proposals do not yet constitute recommendations from the Commission.



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# City's Structural Budget Deficit

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## **Council-Adopted Guiding Principles for Eliminating the City's Structural Budget Deficit**

### Principle #1

“Eliminate the General Fund structural budget deficit through a balanced approach of ongoing expenditures and revenue generation, including identifying new revenue sources.”



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# City's Structural Budget Deficit

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- With the exception of \$5.0 million in increased fee revenue to achieve cost recovery, the focus for four years has been on reducing expenditures and reforming City practices



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# City's Structural Budget Deficit

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- **Examples of Annual Expenditure Reductions**

– 6% Across-the-Board Salary/Benefit Reductions	\$41.0 M
– 450 General Fund Position Reductions	\$45.0 M
– Pension ARC Savings Due to Salary Reductions, Cutting Drop Interest Rate	\$12.0 M
– Shift Ballpark Debt to CCDC	\$11.3 M
– IT Help Desk Outsourcing	\$3.0 M
– Tourism Marketing District Relief to General Fund	\$10.0 M
– 4/10 Trash Collection Schedule	<u>\$3.0 M</u>
	\$125.3 M



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# Anticipated Reforms/Studies Underway

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- Retiree Health Care Study
- DROP Neutrality Study
- Managed Competition
- Full IT Outsourcing
- Ongoing Pension Reform
- Corporate Sponsorships
- Sale/Lease of City Assets



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