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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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# Submitting to the Voters a Ballot Proposition Amending the City Charter to Designate the Use of Lease Revenues from Mission Bay Park

## OVERVIEW

At the Rules Committee meeting of June 25, 2008, Councilmembers Faulconer and Frye presented a proposal for a ballot measure to amend the City Charter, adding Section 55.2, requiring that annual lease revenue generated in Mission Bay Park in excess of \$20 million be appropriated for public capital improvements in Mission Bay Park (75%) and in current and future Regional Parks (25%).

The Rules Committee voted to refer the item to the full City Council for consideration, with comments by the Rules Committee members noted.

## FISCAL/POLICY DISCUSSION

### Current Municipal Code Requirements

At present, Municipal Code §22.0229, entitled "Preparation of the Annual Budget: Mission Bay Park and Other Regional Park Improvements" is in effect for a period of ten years, terminating with the Fiscal Year 2013 budget. The section states that:

- City Manager (Mayor) is to prepare the annual budget with appropriations for the Mission Bay Improvement Fund and the Regional Park Improvement Fund from Mission Bay Park lease revenues in excess of \$20 million, with 25% of the excess lease revenues allocated to each park improvement fund, up to a maximum of

\$2.5 million each. The remaining 50% of excess lease revenues is deposited in the General Fund.

- City Council may temporarily suspend compliance if City Manager (Mayor) determines that anticipated revenues in any fiscal year will be insufficient to maintain existing City services
- The Mission Bay Improvement Fund is to be used only for permanent public capital improvements and deferred maintenance of existing facilities in Mission Bay Park pursuant to the Mission Bay Park Master Plan, with priority given to Fiesta Island and South Shores
- The Regional Park Fund is to be used only for permanent public capital improvements, planning, deferred maintenance, and land acquisitions for Regional Parks
- Allocation of the Regional Park Fund for specific projects shall be equitably distributed over the effective term to:
  - Balboa Park
  - Mission Trails Regional Park
  - Otay River Valley Park
  - San Diego River Park
  - Multiple Species Conservation Program open space areas
  - Coastal beaches along with coastal parks contiguous thereto

In Fiscal Year 2008, Mission Bay Park lease revenues total \$27.8 million. Based on this, allocations to the Mission Bay Improvement Fund and the Regional Park Fund will total \$1.95 million each, with the net revenue to the General Fund totaling \$23.9 million.

Original estimates for lease revenues for FY 2008 totaled \$30 million, which would have resulted in

allocations to each fund of \$2.5 million, reaching the capped amount for the first time since the ordinance was adopted. This chart shows the allocations made since FY 2005.

<i>Amount in excess of \$20 million split:</i>				
		25%	25%	50%
FY	Actual Lease Revenue	Mission Bay	Regional Parks	Net to General Fund
2005	23,177,612	-	-	23,177,612
2006	27,020,561	-	-	27,020,561
2007	27,383,052	1,940,200	1,940,200	23,502,652
2008	27,800,000	1,950,000	1,950,000	23,900,000

Note: Ordinance suspended in Fiscal Years 2005 and 2006

According to the Mayor’s Five Year Financial Outlook, Mission Bay rents and concessions are projected to increase by 3.0% annually through Fiscal Year 2013. This reflects a reduction from the 5.0% annual growth projected in the earlier 2007 Financial Outlook, and the Outlook assumed compliance with the Mission Bay Ordinance in all years. As a result, increases in Mission Bay lease revenues are already anticipated to be received by the General Fund.

During the recent City Council budget deliberations, a project status was provided for both the Mission Bay and Regional Parks Improvement Funds. As of May 6, 2008,

unexpended funds totaled \$3.0 million for the Mission Bay Fund and \$3.4 million for the Regional Parks Improvement Fund, from funds that were allocated in previous fiscal years.

### Proposed Ballot Measure

As currently drafted, the proposed ballot measure would include Charter language to:

- Define San Diego Regional Parks as those parks that serve regional residents and/or visitor populations as defined in the General Plan, which currently include:
  - Balboa Park
  - Mission Trails Regional Park
  - Otay River Valley Park
  - San Diego River Park
  - **Chollas Creek**
  - Multiple Species Conservation Program open space areas
- Require Mission Bay Park lease revenues up to \$20 million to be deposited to the City's General Fund, with funds in excess of \$20 million to be deposited with 75% to the Mission Bay Park Improvement Fund and 25% to the San Diego Regional Parks Improvement Fund
- Define and prioritize capital improvement projects to be undertaken in Mission Bay Park
- Establish Mission Bay Park Committee and Park and Recreation Board as entities to recommend projects for funding to the City Council
- Require City Auditor to prepare an annual audit
- Require City to increase current annual expenditure levels for park operations and maintenance by an amount at least equivalent to the annual percentage growth of the General Fund
- Establish a start date of July 1, 2009 and an effective period of thirty years, with requirement for ballot measure to extend for an additional thirty years

Comparing to the current municipal code, the Charter amendment does not permit a suspension of the requirements in the event of a fiscal emergency, eliminates the funding cap of \$2.5 million annually for allocation to each park improvement fund, includes Chollas Creek and excludes coastal parks from the definition of regional parks, and allows the addition of future regional parks. The Charter amendment also does not include a requirement to equitably distribute funds among the regional parks, as does the municipal code, nor does it describe how funding for the regional parks would be allocated among the various parks.

### Issues for Consideration

During the Rules Committee discussion, concerns were raised about the proposal's negative impact to the City's General Fund, the term of effectiveness of the dedication of these revenues, the division of lease revenues to the various uses/funds, and the inability of the City to suspend the requirements to deal with a fiscal or other emergency.

***Earmarking of Discretionary Revenues***

This proposal earmarks discretionary General Fund revenues. As a policy, earmarking of City revenues is not desirable or recommended. It reduces budgetary flexibility by committing current revenues for specific and enhanced purposes, and in this case, will cause an immediate and increasingly negative impact to the City’s General Fund, which is already facing serious budgetary challenges.

<i>Assumes annual growth of 3%; FY 2009 based on adopted budget</i>					
FY	Estimated Lease Revenue	General Fund	Mission Bay	Regional Parks	Proposal Annual Loss to General Fund
			25%	25%	
2009	29,867,208	24,933,604	2,466,802	2,466,802	-
			75%	25%	50%
2010	30,763,224	20,000,000	8,072,418	2,690,806	5,381,612
2011	31,686,121	20,000,000	8,764,591	2,921,530	5,843,060
2012	32,636,705	20,000,000	9,477,528	3,159,176	6,318,352
2013	33,615,806	20,000,000	10,211,854	3,403,951	6,807,903

***Creating New Financial Commitments***

The Charter amendment requires the City to commit an increased level of resources each year for the annual operations and maintenance of parks. This requirement is an effort to ensure that new funds dedicated for park improvements supplement current funding levels, and would not be permitted to supplant current budget allocations for park operations and maintenance. According to the proposed language, this funding level will be required to increase by the same percentage of growth in the City’s General Fund. However, the ballot language does not clearly delineate the sources of funding to be included in these calculations, and whether it is limited to the General Fund, or would include other sources of City funding, which may include grants from other agencies, the City’s Environmental Growth Fund or various other sources. As this amount is not stated, the ongoing commitment of funding to ensure the increased requirement will be met is not estimated, but needs to be in order to fully identify the impact of the measure.

***Staffing and Workload Implications***

The dedication of significant funding for new park improvements will create additional workload and will likely require the addition of staffing to various City departments, including Park Planning within City Planning and Community Investment, and Engineering and Capital Projects. These costs should be estimated to allow the City Council and the public to have a clear understanding of the fiscal considerations and effect on future budgets, and if the funding of staffing costs will be permitted from these dedicated funding sources. Given the current levels of funding on hand for park improvements, additional staffing may already be needed in order to complete existing projects in a timely manner.

***Ability to Use Long-Term Financing***

The effective term of thirty years together with a dedicated, irrevocable revenue stream is designed to permit the use of long-term financing options to fund significant park improvement projects. In the past, the City increased the Transient Occupancy Tax to fund improvements for Balboa Park and Mission Bay Park, and long-term debt was issued, with these funds utilized for annual debt repayment. The FY 2009 budget includes \$6.6 million for debt repayment for Balboa Park and Mission Bay Park Improvements. One series of these bonds will be fully repaid in Fiscal Year 2011. The City could consider the issuance of additional long-term debt, at that time, utilizing a portion of this source of existing funding totaling \$3.5 million, without negatively impacting the General Fund. As was discussed at the Rules Committee meeting, the Charter amendment is not necessarily required in order for the City to issue long-term debt for park improvements.

**Alternatives**

- 1) To mitigate the impact to the General Fund, the \$20 million allocation to the General Fund could be increased to the current level of \$25 million, eliminating the \$5 million reduction that would otherwise occur in FY 2010.
- 2) The \$20 million General Fund allocation could be phased in over a period of time, possibly starting at the current level of \$25 million, with reductions of \$2.5 million each year for two years, allowing other General Fund resources to grow during that period in order to offset the revenue loss.
- 3) The \$20 million allocation to the General Fund could be allowed to increase each year by some factor, such as the annual increase to the Consumer Price Index (CPI), or by the annual percentage growth in the General Fund.
- 4) Consideration could be given to the issuance of long-term debt for park improvements utilizing General Fund or other discretionary resources, without a Charter amendment. However, a discussion of priorities should occur that could assist to determine the relative importance and urgency for the initiation of capital improvement projects for public safety, libraries or park improvements.

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