



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Special Promotional Programs Funding & The Penny for the Arts Five-Year Blueprint

OVERVIEW

The San Diego Commission for Arts and Culture (Commission) will present its Penny for the Arts Five-Year Blueprint (Blueprint) at the October 8, 2012 Economic Development & Strategies Committee meeting. The Blueprint calls for the restoral of Arts, Culture, and Community Festivals allocations within the annual Special Promotional Programs budget to FY 2002 funding levels. An increase in funding would expand the programs, projects, and initiatives supported by the Commission, support annual contributions to the Public Art Fund, and re-establish the Arts and Culture Festival Revolving Fund.

Implementing the Blueprint as proposed would increase current Commission funding from the current \$7.8 million budgeted in FY 2013, to \$17.9 million in FY 2017, an increase of \$10.1 million, or 129.2% over the next four fiscal years as shown in the chart below.

Table with 7 columns: Allocation, FY 2013 Adopted Budget, FY 2013 Budget Adjustment, FY 2014 Budget, FY 2015 Budget, FY 2016 Budget, FY 2017 Budget. Rows include Arts, Culture, and Festivals, Annual Increase, and % Increase over FY 2013.

\* Calculation may reflect rounding.

The increase would bring the total annual Arts, Culture, and Community Festivals allocation to 1.0 cent, from the current 0.5 cent allocation within the Transient Occupancy Tax (TOT) Fund. This report reviews the existing budget allocations for the 5.0 cent allocation to the TOT Fund within the Special Promotional Program budget and identifies potential budgetary tradeoffs that may be necessary to implement the Blueprint as it is currently proposed.

## FISCAL/POLICY DISCUSSION

Per the San Diego Municipal Code, 5.0 cents of the City’s 10.5-cent TOT levy are deposited into the TOT Fund, and allocated for various purposes via the Special Promotional Programs budget. Of the 5.0 cents deposited into the TOT Fund, the Municipal Code requires that 4.0 cents be used solely for the purpose of promoting the City, while the remaining 1.0 cent can be used for any purpose as directed by the City Council. The FY 2013 Adopted Budget for Special Promotional Programs is \$74.4 million. The budget funds debt service payments for visitor-related facilities, economic development programs, operating support for visitor-related facilities, a City Council discretionary transfer into the General Fund, and reimbursements for General Fund tourism and promotions-related expenses.

<b>SUMMARY OF SPECIAL PROMOTIONAL PROGRAMS BUDGET</b>		
	<b>FY 2013 ADOPTED</b>	<b>CENTS*</b>
<b>REVENUE</b>		
Transient Occupancy Tax (5.0%)	\$ 74,282,640	5.0
Special Events Revenue	150,000	
<b>TOTAL REVENUE</b>	<b>\$ 74,432,640</b>	
<b>ALLOCATIONS</b>		
Arts, Culture, & Community Festivals	\$ 7,822,218	0.5
Capital Improvements	15,328,873	1.0
Economic Development	1,805,000	0.1
Major Events Revolving Fund	150,000	0.0
Council Discretionary TOT to GF	14,493,278	1.0
Safety & Maintenance of Visitor-Related Facilities	34,833,271	2.3
<b>TOTAL ALLOCATIONS*</b>	<b>\$ 74,432,640</b>	<b>5.0</b>

\*Total cents calculations display rounding.

Within the FY 2013 Special Promotional Programs budget, the allocation for Arts & Culture is \$7.8 million, comprising 0.5 cents of the total 5.0 cents deposited into the TOT Fund annually. The Arts & Culture allocation funds projects and organizational support totaling \$6.5 million, administration costs of \$948,968, and Mayor/City Council Allocations totaling \$363,250. As displayed in the chart above, of the other major allocations within the Special Promotional Programs budget, Safety & Maintenance of Visitor-Related Facilities comprises 2.3 cents of the 5.0 cents deposited within the TOT Fund, Capital Improvements, 1.0 cent, support for the Council Discretionary Transfer, 1.0 cent, and Economic Development Programs, 0.1 cent.

## DISCUSSION OF CURRENT FUNDING CATEGORIES

In evaluating the Penny for the Arts Five-Year Blueprint, consideration should be given to the potential impact on other expenditure categories within the Special Promotional Programs budget that receive annual allocations. Further information regarding these expenditure categories is detailed in the following sections.

### ***Safety and Maintenance of Visitor-Related Facilities - \$34.8M Allocation***

The Safety and Maintenance of Visitor-Related Facilities expenditures within the Special Promotional Programs Budget comprise 2.3 cents of the 5.0 cents annually deposited within the TOT Fund. Of the 2.3 cents, 0.9 cent, or \$13.1 million is budgeted for operating support to visitor related facilities. This includes operating support to the Convention Center, PETCO Park, Qualcomm Stadium, and the Special Events Department.

<b>Safety &amp; Maintenance of Visitor Related Facilities</b>	
<b>Operating Support</b>	
	<b>FY 2013 Budget</b>
Convention Center	4,375,488
PETCO Park	4,200,000
Qualcomm Stadium	3,827,118
Special Events Department	722,192
<b>Total</b>	<b>13,124,798</b>

1.5 cents, or \$20.7 million, is allocated for promotion-related expenses within the General Fund, such as the maintenance of parks and facilities in frequently visited areas. The majority of this funding is allocated to the Park 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. Other departmental reimbursements to Transportation & Storm Water (Streets Division) support street tree maintenance and General Services (Facilities) for the maintenance of facilities at local parks and beaches.

<b>Safety &amp; Maintenance of Visitor Related Facilities</b>	
<b>General Fund Reimbursements</b>	
	<b>FY 2013 Budget</b>
<b>General Fund Department</b>	
Park & Recreation	\$ 19,671,273
Facilities Division	700,000
Street Division	400,000
Development Services	332,200
Office of the Mayor	180,000
TOT Admin / Various	425,000
<b>TOTAL</b>	<b>\$ 21,708,473</b>

**Council Discretionary TOT- \$14.5M Allocation**

In accordance with the Municipal Code, of the 5.0 cents deposited into the TOT Fund, 1.0 cent can be used for any purpose as directed by the City Council. Within the FY 2013 Budget, as has been the practice within previous budgets, the 1.0 cent discretionary TOT is transferred to the General Fund to support General Fund expenses. In FY 2013, this transfer totals \$14.5 million. This annual transfer is included within the Safety & Maintenance of Visitor-Related Facilities expenditure category within the Special Promotional Programs budget.

**Capital Improvements - \$15.3M Allocation**

Capital Improvements expenditures comprise 1.0 cent of the 5.0 cent deposited within the TOT Fund, totaling \$15.3 million within the FY 2013 Budget. Within this expenditure category are contributions toward debt services payments and other capital improvements-related expenditures to support Balboa/Mission Bay Park Improvements, the Convention Center Phase II Expansion, Qualcomm, and the Trolley Extension. Funding is transferred into respective funds to support the annual expenditures for these improvements. The following chart outlines the current capital improvements expenditures supported within the Special Promotions FY 2013 budget. Where the expenditures are associated with the payment of debt service, the respective maturity dates are provided.

<b>Debt Obligation</b>	<b>TOT Support</b>	<b>Debt Service Payment</b>	<b>Final Maturity</b>
Balboa/Mission Bay Park Improvements	\$ 1,600,000	\$ 753,144	FY 2024
Convention Center Phase II Expansion	8,697,275	12,560,741	FY 2028
Qualcomm	4,752,882	4,752,882	FY 2026
Trolley Extension	278,716	1,153,374	FY 2023

Of note, the TOT Fund support for the debt service for the Convention Center Phase II expansion is anticipated to decrease by \$500,000 annually as a part of an agreement with the former Redevelopment Agency (RDA). There is uncertainty regarding the viability of this agreement given that, with the recent dissolution of the RDA, some enforceable obligations based on agreements between the City and former RDA could be disputed. If this agreement cannot be honored, the City would be responsible for future payments that could come from the TOT or General Fund. Otherwise, an additional \$500,000 budgetary obligation within the TOT Fund will be freed up annually that can be used to support additional expenditures within the TOT Fund.

**Economic Development Programs - \$1.8M Allocation**

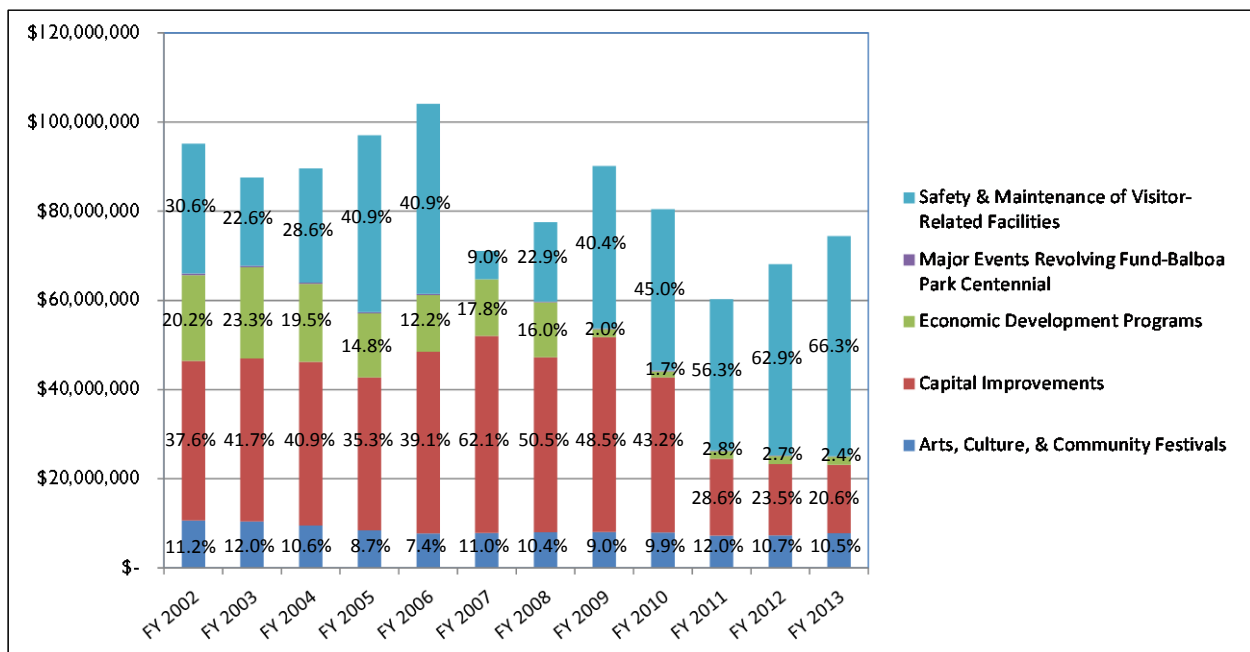
The Economic Development Programs funded within the Special Promotional Programs budget fall into one of four categories: Citywide Economic Development; Economic Development & Tourism Support; Business Expansion, Attraction, and Retention (BEAR); and Economic Development Program Administration. The Citywide Economic Development category provides funding support for programs, initiatives, and organizations such as CleanTECH San Diego, CommNexus San Diego, the Horton Plaza Theatre Foundation, the Mission Trails Regional Park Foundation, Inc, and the San Diego Regional Economic Development Corporation. The Economic Development and Tourism category provides funding to support fourteen associations, ranging from the Adams Avenue Business Association, to the Travelers Aid Society of San

Diego, with allocations ranging from approximately \$23,000 to \$49,000 for these organizations. In total, the allocations to Economic Development Programs comprises 0.1 cents of the 5.0 cent allocation to the TOT Fund. The chart below summarizes the Economic Development Programs allocations.

Economic Development Programs		FY 2013 Budget
Citywide Economic Development	\$	570,000
Economic Development and Toursim Support		540,000
Business Expansion, Attraction, and Retention (BEAR)		515,000
Economic Development Programs Administration		180,000
<b>Total</b>		<b>1,805,000</b>

### BUDGETARY IMPACT OF PENNY FOR THE ARTS FIVE-YEAR BLUEPRINT

An increase in the Arts, Culture, and Community Festivals allocation could impact the percentage of funding available for all of the aforementioned expense obligations within the Special Promotional Programs budget. These annual expenses could otherwise fall to the General Fund if TOT funding was not available or reduced. The chart below displays the total budgeted expenditures since FY 2002<sup>1</sup> for the various categories within the Special Promotional Programs budget, highlighting historical funding patterns that will have to be modified to accommodate the Penny for the Arts Five-Year Blueprint.



\*The percentage allocation for the Major Events Revolving Fund/Balboa Park Centennial category is not identified due to the small proportion of the allocation.

<sup>1</sup> Over the years, expenditures within the TOT Fund have also been supported to a varying extent by other funding sources such as sales tax and redevelopment loan repayments.

In recent years, the Safety & Maintenance of Visitor-Related Facilities budget category has comprised the largest percentage of the Special Promotional Programs budget expenditures, with annual increases in its share of available funding since FY 2007. Meanwhile, other expenditure categories have seen a reduction in their share of available funding since FY 2007. Capital Improvements has comprised the second largest share since FY 2010, followed by Arts, Culture, & Community Festivals, and Economic Development Programs.

**TOT Growth**

The Commission anticipates that the additional revenue necessary to support the Penny for the Arts Five-Year Blueprint will come from TOT revenue growth, projected at 5.0% for each year of the Blueprint, with a projection of an additional \$1.0 million in TOT collections above budget within FY 2013. The Commission assumes that a large share of the TOT revenue growth would be dedicated to funding the Blueprint, effectively reducing the potential increase in the budgeted levels for the other expense categories within the Special Promotional Programs budget. In FY 2014, the arts and culture increase would comprise of 100% of the growth in TOT revenue from the previous year budget, with outer years ranging from approximately 40%-60% of the growth. The chart below summarizes the requested annual incremental increases to the Arts, Culture, and Community Festivals allocation that will bring the total allocation to 1.0 cent by FY 2017.

<b>Penny for the Arts Five-Year Blueprint</b>						
<b>(in millions)</b>						
<b>Allocation</b>	<b>FY 2013 Adopted Budget</b>	<b>FY 2013 Budget Adjustment</b>	<b>FY 2014 Budget</b>	<b>FY 2015 Budget</b>	<b>FY 2016 Budget</b>	<b>FY 2017 Budget</b>
Arts, Culture, and Festivals \$	7.8	\$ 8.9	\$ 11.6	\$ 13.8	\$ 15.4	\$ 17.9
Annual Increase*		1.0	2.7	2.2	1.5	2.6

\* Calculation may reflect rounding.

This growth projection is based on information provided to the Commission for Arts and Culture from the Financial Management Department. The actual availability of this funding will depend on continued improvements within the economy over the period of the Blueprint, supported by an increase in occupancy and room rates at San Diego lodging establishments. Currently there is not enough data available for actual TOT performance in FY 2013 to support an expectation of an additional \$1.0 million in revenue to the TOT Fund, although, at this time, the projected growth rates in outer years are reasonable given current available economic data and forecasts.

**TOT Fund Balance**

For FY 2013, the TOT Fund has a projected fund balance of \$10.7 million carried over from previous fiscal years resulting from TOT collections above budget that were not reallocated to special promotional programs and expenses during the fiscal year. Financial Management stated in their FY 2013 May Revise issued May 23, 2012, that this funding will be kept in the TOT Fund balance to be available for any obligations that may come up related to the dissolution of the former Redevelopment Agency, such as debt service on Petco Park and the Convention Center Expansion. Council Policy 100-03 and the Adopted Budget Appropriations Ordinance, limits the use of TOT Fund revenue to tourism and promotions related expenses.

### ***City Financial Outlook***

The Mayor's FY 2014-FY 2018 Five-Year Outlook will be presented at the October 24, 2012 Budget & Finance Committee meeting. Given uncertainties relating to Prop B implementation costs, the impact of lower investment earnings on the annual ARC payment, redevelopment dissolution impacts, and revenue performance, the near term fiscal outlook for the City remains tepid, with deficits possible in the near term. The overall financial outlook for the City will constrain the ability to meet the goals outlined in the Blueprint as funding needs create more of a demand on the TOT Fund to continue to support qualifying promotions related activities that would otherwise be supported by the General Fund. Allocating anticipated TOT growth within the TOT Fund to enhance support to arts and culture activities will have to be weighed within the context of other competing needs within the City.

## **CONCLUSION**

The Penny for the Arts Five-Year Blueprint calls for the restoral of Arts, Culture, and Community Festivals allocations within the annual Special Promotional Programs budget to FY 2002 funding levels, thereby increasing the total annual allocation to 1.0 cent, from the current 0.5 cent. This report reviews the existing budget for the 5.0 cents allocation to the TOT Fund within the Special Promotional Program budget, and the potential budgetary tradeoffs that may be necessary to implement the Blueprint. In evaluating this funding plan, consideration must be given to the potential budget tradeoffs that would likely if a large percentage of TOT Fund revenue growth through FY 2017 is dedicated to implementing the Blueprint.



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