



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Revenue Options to Address Critical Infrastructure and Affordable Housing Needs

OVERVIEW

This report provides an overview of significant revenue strategies that could support the City's priorities, core services, and goals. During its review of the proposed memorandum of understanding on Workforce Housing, the Smart Growth and Land Use Committee requested our office prepare a report examining potential funding sources that could support affordable housing. Our office believes that ensuring a supply of affordable housing is an important goal for the City, but that it must be considered alongside other important City functions and needs. Our office has repeatedly highlighted the need to make infrastructure improvements and maintenance the City's highest priority going forward.

While the cost for deferred infrastructure funding for just storm drains, streets, and facilities was estimated to be \$898 million in 2012, the current needs are speculated to exceed \$2.0 billion. Detailed condition assessments of the City's infrastructure are currently underway and are expected to be completed in the coming year. Further, as we noted in our review of new stormwater regulations (see IBA report 13-44), costs to the City for complying with new regulatory requirements may approach \$2.7 billion over the next 17 years. Additionally, in light of recent court rulings, should the City wish to proceed with Phase III of the Convention Center expansion, a new funding source would need to be identified.

As the City continues to gain a more accurate estimate of the magnitude of its deferred maintenance and infrastructure requirements, the costs of complying with new stormwater regulations, and the costs of carrying out its policy goals – including, among others, affordable housing and expansion of the City's Convention Center – it is clear that any approach to fund these needs requires development of a full-scale financing strategy and the pursuit of new revenue sources. Accordingly, this report examines the current estimated magnitude of the City's infrastructure demands, along with potential new revenue sources the City could pursue, including increases to sales taxes and transient occupancy taxes, repeal of the People's Ordinance, increasing stormwater fees, establishing a parking occupancy tax, establishing

OFFICE OF THE INDEPENDENT BUDGET ANALYST

202 C STREET MS 3A SAN DIEGO, CA 92101

TEL (619) 236-6555 FAX (619)-236-6556

enhanced infrastructure financing districts, and issuing new infrastructure/general obligation bonds.

While opportunities to find increased efficiencies and savings in current City operations may exist, if the City is to meet all its infrastructure and regulatory funding needs and pursue new policies and programs to better serve the people of San Diego, it is clear that the City must find new revenue sources.

FISCAL/POLICY DISCUSSION

Better Understanding the Magnitude of the City's Infrastructure Funding Needs

In a 2012 City staff report, providing an Infrastructure Condition Update, the estimated backlog of the City's infrastructure needs (for General Fund Departments) was reported as \$898 million. This figure was based on previously conducted condition assessments – including a 2008 and 2009 condition assessment of certain City facilities and a 2011 condition assessment of City streets – and included the estimated backlog of only three asset types: streets, storm drains, and facilities. Additional infrastructure needs that did not fall into those asset types were not included.

Today, that \$898 million backlog figure is outdated and understated. Given the limitations and age of that estimate, it is widely acknowledged that the City's infrastructure needs likely exceed the \$898 million projected backlog significantly. While no comprehensive update to the backlog has yet been released, the City is currently conducting ongoing condition assessments for additional City assets such as sidewalks and Park & Recreation facilities. It has been speculated that the actual backlog could be more than \$2.0 billion when comprehensive condition assessments are completed.

As an example, a condition assessment for sidewalks is currently underway and expected to be completed in January 2015. In September, partial completion of the condition assessment had identified 43,000 possible tripping hazards and over 14,000 non-compliant curb ramps – more may continue to be identified going forward. The cost to remediate those issues will be significant. Additionally, the first phase of a comprehensive updated assessment for the City's General Fund facilities – including Park & Recreation facilities – was conducted in FY 2014. The preliminary results of that assessment were anticipated to be discussed at the Infrastructure Committee in November 2014, but have now been delayed to 2015. The results of all condition assessments that are underway or completed will be vital in determining the extent of the City's deferred capital backlog, and should be made available to the Council and the public as soon as possible.

As shown on the following page, we have attempted to provide a more comprehensive estimate of the City's infrastructure backlog. However, this has been extremely difficult, as accurate information on the City's current infrastructure needs is unavailable. Several of the condition assessments have been delayed, and their release dates are uncertain.

CAPITAL NEEDS FOR GENERAL FUND DEPARTMENTS
\$ in millions

1.) Deferred Capital Backlog Estimate Based on February 2012 Condition Assessment Reports	
Streets	\$ 478
Storm Drains ¹	235
City Facilities	185
TOTAL	898
2.) Condition Assessments Underway	
Updated Street Condition Assessment ²	\$ TBD
Updated City Facilities Assessment ³	TBD
Sidewalks Assessment ⁴	TBD
Parks and Recreation Facilities Assessment ⁵	TBD
3.) Significant Deferred Capital Funding Needs Identified at Other City-Owned Facilities	
Qualcomm Stadium ⁶	\$ 80
Convention Center Phase II ⁷	30
4.) Other Known Infrastructure Funding Needs	
Storm Water Projects to Comply with New Permit Regulations ⁸	\$ 1,055
Facilities Capital Renewal Costs ⁹	483
Convention Center Expansion ¹⁰	520
Affordable Housing ¹¹	63
2011 Citygate Study – New Fire Stations ¹²	43

¹ This amount has subsequently been revised down to \$143 million, but that new figure has not been included on any updated assessment.

² An updated condition assessment for streets is anticipated to be presented by the end of 2015.

³ 349 facilities of 680 have been assessed. It is uncertain when results will be released.

⁴ 62% of sidewalk condition assessments were completed as of October 2014. It is expected the results will be included in the Multi-Year Capital Plan intended for release in January/February 2015.

⁵ Condition assessments for 30 P&R facilities were completed in 2014. It is uncertain when results will be released. An additional 30 P&R facilities will be inspected in FY 2015.

⁶ Qualcomm estimate is based on the most recent condition assessment which was completed in 2011.

⁷ Convention Center Phase II needs have been identified by Convention Center Staff. No formal assessment by the City has been undertaken.

⁸ This \$1.06 billion estimate is based on costs of implementing the next five years of the Watershed Asset Management Plan (WAMP) that are included in the recently released FY 2016-2020 Five-Year Financial Outlook. With the adoption of the new Municipal Stormwater Permit in May 2013, which includes more stringent and costly requirements, the City developed WAMP which includes costs for both permit compliance and flood risk management activities. Funding for compliance was included in the Five-Year Outlook in the amount of \$344 million. Cost estimates are being revised as regulations and technology are evolving and the Storm Water Division continues to negotiate regulatory reforms that may produce cost savings beyond 2018.

⁹ These costs are based on the capital renewal costs noted in the 2008 Staubach and 2009 Parsons facilities assessments. Capital renewal costs typically include the repair or replacement of items such as HVAC systems and roofs as they reach the end of their expected useful lives.

¹⁰ Convention Center Phase III estimate represents the cost of the current expansion plan. Original financing plans were recently rejected by the courts. Alternative funding has not yet been identified.

¹¹ This estimate is based on 1,000 new units. The General Plan Housing Element goal for 2013-202 calls for 9,600 units over an 8 year period. Actual needs are far greater. There are approximately 40,000 people on the Section 8 waiting list with a wait time of 13 years.

¹² The Citygate Report released in 2011 identified the need for 19 new fire stations. The Fire-Rescue Department's four highest priority stations are estimated to cost \$46 million, \$3 million in deferred capital bond funding has been allocated to these projects.

Given that preliminary results of the ongoing facilities condition assessments are not available, we included both the \$898 million backlog as well as additional capital renewal costs through FY 2015 (these are the costs associated with replacing facility elements – such as HVAC systems and roofs – as they reach the end of their usable lives) that were noted in the 2009 facilities assessment. We also included the estimated deferred capital costs for City-owned facilities like QUALCOMM Stadium and Convention Center Phase II, which are not included in the ongoing facility condition assessment. The most recent condition assessment for QUALCOMM Stadium was conducted in 2011 and shows an estimated backlog of approximately \$80 million. A formal assessment has not been conducted for the Convention Center, although Convention Center staff have reported a backlog of \$31 million to the Budget and Government Efficiency Committee.

To further understand the current estimates, it is also important to know that these numbers largely represent the deferred capital backlog of *existing* facilities, and for the most part do not reflect the costs for *new* City structures such as Fire stations, lifeguard stations, branch libraries, swimming pools, parks, recreation centers and Police facilities.

With one exception, there are no updated plans which comprehensively identify new facilities needs for General Fund departments. The Citygate Report, which was issued in 2011, identified the need for 19 new fire stations to eliminate service gaps in areas with response times below the nationally recognized best practice response times. Funding required for the four highest priority stations is \$46 million. Only \$3 million of this \$46 million in needs has begun to be addressed through lease revenue bonds as of this date, as we noted in our review of infrastructure needs for new and existing fire stations (see IBA report 14-39 REV). No comprehensive funding plan for the remainder of the necessary Fire stations has been developed.

We also note that the Five-Year Lifeguard Needs Assessment, presented to Council in March 2014, discusses additional unfunded capital needs, including lifeguard stations, lifeguard headquarters, and garage facilities, among others. However, costs for these facilities have not been determined. The Police Five-Year Plan, issued in 2012, addresses staffing, equipment and vehicle needs but does not address facilities.

Staff has advised that the Multi-Year Capital Plan, currently being developed and anticipated to be issued in January 2015, will include some cost estimates for new infrastructure. However, it is likely that many of the City's needs will lack an existing funding source, and the City has not begun to develop a financing strategy to address these significant infrastructure needs. Such community investments are critical to maintaining service levels for Police and Fire response times, enhancing the quality of life for City residents and contributing to the City's overall economic vitality.

Three other significant areas need to be a part of this discussion, as they will likely compete for revenue sources discussed in this report:

- \$520 million in replacement funding is estimated to be needed in order to move forward with the Phase III Convention Center Expansion (based on existing plans).

- \$1.06 billion in funding for stormwater projects is estimated to be needed to comply with new permit requirements over the next five years.
- There is an ongoing and serious need for affordable housing – the General Plan Housing Element calls for 9,600 new units to be constructed from 2013 through 2020, and requires an average Housing Commission contribution of \$62,500 per unit. The Smart Growth and Land Use Committee’s consideration of this issue in July was the impetus for this report.

The Need for Alternative Revenues and a More Robust Expenditure Plan

An increased and sustained expenditure plan over the next decade will be required if the City is to meaningfully address an infrastructure backlog of this magnitude. The City has begun steps to provide infrastructure funding through the implementation of Enhanced Option B (discussed below), though additional funding will be necessary to ensure that all city facilities are brought up to appropriate standards and maintained at that level.

Infrastructure Expenditure Commitments to Date

Between 2009 and 2012, the City issued three series of lease revenue bonds totaling \$213 million, known as DC 1, DC 2 and DC 2A. As of June 30, 2014, all DC 1 bond proceeds (\$103.3 million) have been expended. Approximately \$33.3 million of the DC 2 bonds (\$75 million) and \$5.3 million of the DC 2A bonds (\$35 million) have been spent on capital projects. This leaves approximately \$71.4 million in unspent DC 2 and DC 2A bond proceeds.

On March 20, 2012, the Council took a significant step towards providing infrastructure funding when it approved a multi-year capital expenditure plan known as Enhanced Option B. Enhanced Option B called for the annual issuance of lease revenue bonds to fund capital projects totaling \$494 million, as well as to provide annual maintenance and repair expenditures totaling \$370 million over a six year period through fiscal year 2017.

Based on the original infrastructure backlog estimate of \$898 million, full implementation of the Enhanced Option B Plan was designed to slow the rate of deterioration of streets, facilities, and storm drains, so that infrastructure would only deteriorate by 5 to 10 percent over the life of Enhanced Option B. Due to unanticipated legal challenges that may now be resolved, the timing of planned lease revenue bond borrowing was significantly delayed. Enhanced Option B called for issuing approximately \$326 million of the planned \$494 million by FY 2015.

The recently released FY 2016 – 2020 Financial Outlook indicates the City plans to issue lease revenue bonds in FY 2015 (\$120M), FY 2016 (\$84M) and FY 2017 (\$84M). There are no other bond issuances planned beyond FY 2017 in the new Outlook. As shown in the table below, if bonds are issued as planned through FY 2017, the City will be \$96.4 million behind the amount called for in the Enhanced Option B Plan.

\$ in millions	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Total
Council Approved Enhanced Option B Plan (March 20, 2012)	\$75.0	\$80.0	\$81.0	\$90.0	\$84.2	\$84.2	\$494.4
Bonds Issued or Planned in the FY 2016-2020 Financial Outlook:	\$75.0	\$35.0	\$0.0	\$120.0	\$84.0	\$84.0	<u>\$398.0</u>
Enhanced Option B Plan: Bonding Shortfall:							\$96.4

In the FY 2016-20 Outlook, the Mayor has committed to dedicate at least half of new revenue growth (primarily based on the four Major Revenue categories) to infrastructure and neighborhood repair efforts through FY 2020. This commitment resulted in an additional \$22 million being dedicated to infrastructure related projects in the FY 2015 Budget. This represents another noteworthy commitment toward infrastructure funding. However, the amount of this commitment is relatively small compared to total needs, and will fluctuate with the economy each year. Projections in the FY 2016 – 2020 Financial Outlook are as follows:

\$ in millions	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Total
Commitment in New Financial Outlook - 50% of Major Revenue Growth:	\$28.8	\$14.8	\$12.6	\$17.9	\$16.2	\$90.3

Challenges Associated with Continuing to Issue Lease Revenue Bonds

Some have suggested that the City can continue to address its infrastructure needs by annually issuing lease revenue bonds, rather than by pursuing alternative revenue sources. This approach of annually issuing lease revenue bonds, however, is neither a sufficient nor sustainable approach to address the City’s critical infrastructure needs over the next decade. An infrastructure financing plan that continues to rely upon lease revenue bond borrowing raises the following concerns:

- If the City is to continue to use lease revenue bonds as a means of financing infrastructure, it must have additional suitable assets (City property that has an “essential” use) to serve as the leased assets securing that financing. We have previously noted that there is only a finite number of suitable City assets that can sustain the continued use of lease revenue bonds. Staff has responded that sufficient assets exist to secure the sale of lease revenue bonds to meet the borrowing plan called for in Enhanced Option B, but staff has stopped short of saying how much additional financing capacity remains beyond Enhanced Option B.
- The continued use of lease revenue borrowing reduces the future financial flexibility of the City's General Fund to address other critical needs. This is because each new borrowing adds a new annual General Fund debt service payment obligation for a period of 30 years. As an example, the planned \$120 million borrowing for the DC 3 bonds is estimated to add a \$7.5 million payment obligation to the General Fund for 30 years. The FY 2016 – 20 Outlook shows an additional \$18.1 million of debt service will need to be budgeted for the next 30 years just to cover \$288 million of planned infrastructure bonds from FY 2015 through FY 2017. The cumulative effect of continuing to add annual debt service obligations (coupled with other required annual payment obligations like pension and OPEB) reduces the City's budgetary discretion because a significant portion of the revenue available in any given year will have been previously committed.

Why Pursue Alternative Revenue Sources Now?

Other than lease revenue bonds, no significant alternative revenue options have been identified in support of infrastructure financing. New voter approved revenues would enable the City to either cash fund or borrow to finance critical infrastructure needs without pledging City assets or constraining the Council's ability to address other important General Fund needs in the future. There are several reasons why alternative revenue sources may be worth pursuing:

- Continuing to fund infrastructure at current rates will only slow the rate of its deterioration. If the City is unable to increase its annual capital and maintenance and repair budgets to a level that will at least maintain the current condition of the City's infrastructure assets, the result will be additional capital needs that will continue to grow the infrastructure backlog.
- A continuing state of asset deterioration increasingly has additional costs that are difficult to predict and measure. Infrastructure failure (broadly defined) can: threaten public health and safety; raise public liability exposure; hinder the provision of vital City services; dim the prospects of targeted capital investment and job creation in the City; and increase the ultimate cost of infrastructure needs.
- Many of the City's facilities are between 30 and 50 years old. Several facilities have significantly exceeded their useful lives or been insufficiently maintained. This increases the risk of asset failure or a facility being in a condition that is beyond reasonable repair. For example, City Hall is now 50 years old and houses several important public functions. It is one of several City facilities whose condition and suitability for its required purpose has been the subject of much discussion in recent years. As we stretch aging assets beyond their useful lives, costs for repair, replacement and liability increase significantly.
- City infrastructure such as streets and sidewalks have ongoing maintenance and repair costs and periodic capital replacement costs. As of 2011, City streets had an overall condition index of 54.6 out of 100. While the costs associated with increasing the overall condition of City streets is significant, it results in a significant reduction in annual maintenance and repair costs.
- A recently issued study titled "California Local Streets & Roads Needs Assessment 2014 Update" prepared for various associations of cities and counties in California states that, "As roadway pavement conditions deteriorate, the cost to repair them increases exponentially. For example, it costs twelve times less to maintain a BMP pavement compared to a pavement that is at the end of its service life. Even a modest resurfacing is four times more expensive than maintenance of a pavement in the BMP condition. Employing maintenance practices consistent with BMP, results in treating four to twelve times more road area for the same cost."^{*}

^{*} BMP stands for Best Management Practices: the study refers to the cost effectiveness of maintaining pavements that are in good conditions.

Potential Significant New Revenue Sources

The remainder of this report provides an overview of the following potential revenue sources, regulatory and/or voter threshold requirements to establish those sources, and the amount of revenue each could be expected to generate:

- Increased Sales Taxes
- Increased Transient Occupancy Taxes
- Utility Users Taxes
- Parking Occupancy Taxes
- Repeal of the People’s Ordinance
- Increased Stormwater Fees
- General Obligation Bonds
- Infrastructure Financing Districts

We note that compared to other major cities in California and throughout the country, San Diego’s fees and taxes are low. If the City were to successfully pursue increased revenues by increasing any one of these particular taxes or fees to the average of other comparable cities, the total aggregate of San Diego's taxes and fees would still remain comparatively relatively low.

Should the Council elect to pursue any of the revenue sources discussed below, we would recommend that it include mechanisms to ensure transparent and open good government practices, which may include – but are not limited to – the creation of citizens’ oversight and advisory boards, clear and open accounting practices that provide detail on how revenues are spent, regular and publicly accessible audits, and possible sunset provisions. Any pursuit of additional or increased revenues should include clear communication to the citizens, as well as specific information on what programs and projects that revenue will support.

Sales Tax

Under the State’s Bradley-Burns Local Sales and Use Tax law, retailers pay sales tax on the sale of tangible personal property. The tax is applied as a percentage of the retailers’ gross receipts, and is usually passed through to the consumer. Certain services, industries, and items are exempt from sales and use taxes. State law allocates 1.0% of sales and use taxes to the cities in which they are generated. One of major the benefits of sales tax revenue is that it is recurring. While other sources of revenues like General Obligation bonds represent one-time infusions of revenue and therefore should only be used for one-time expenses, recurring revenue sources can be used to fund ongoing operations and maintenance of projects and programs, and not just one-time capital costs. Opportunities to bond against future sales tax revenue to provide a larger immediate pool of revenue may also exist.

<u>Sales Tax at a Glance</u>	
<i>Existing rate:</i>	8.0%
<i>Potential Revenue:</i>	\$64M annually per 0.25% increase
<i>Voter Threshold:</i>	Two Thirds for Specific Use, Majority for General Use

Per State law, counties and cities can impose district sales tax rates in quarter-percent increments so long as they do not exceed an aggregate of 2.0% in addition to the Bradley-Burns sales tax. These district taxes are similar to Bradley-Burns sales and use taxes, and are allocated to the jurisdiction where purchased goods are delivered or used. The County of San Diego currently

has a district tax of 0.50% for the TransNet transportation improvement program; any additional sales tax increment would therefore have to be 1.50% or less.

The current effective sales tax rate in the City is 8.0%. No city in San Diego County has a lower sales tax rate, though the following five cities in the County have aggregate rates above 8.0%:

- El Cajon – 9.0%
- La Mesa – 8.75%
- National City – 9.0%
- Vista – 8.5%
- Vista Park – 8.5%

Many comparable cities in California and the United States also have higher sales tax rates:

- San Jose – 8.75%
- San Francisco – 8.75%
- Los Angeles – 9.0%
- Phoenix – 8.3%
- Austin – 8.25%
- Seattle – 9.5%



Sales taxes are second only to property taxes in generating City revenue. Sales tax receipts in FY 2015 are expected to generate \$257.1 million for the City’s General Fund. Accordingly, each quarter percent increase to the local sales tax rate would be expected to generate an additional \$64.2 million in annual revenue.

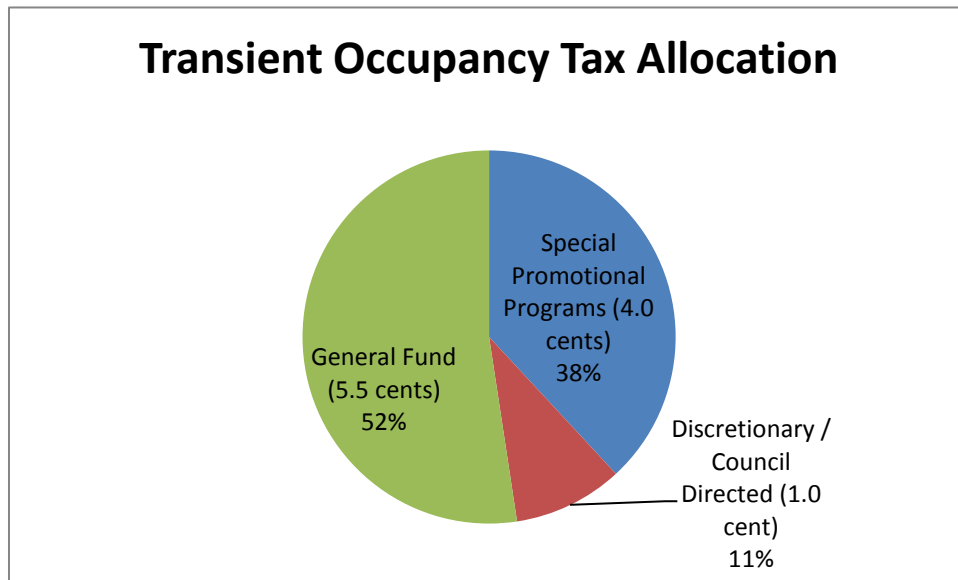
State law requires a public vote before sales tax can be increased, with different voter thresholds depending on how potential revenue would be used. If sales tax revenue is to be used for particular purposes or is dedicated to specific projects or types of projects, any increase must be approved by a two-thirds vote of the public. If revenues are instead to be used for general purposes and are not dedicated to any particular use, they must be approved by a simple majority of voters.

Transient Occupancy Tax

California law allows cities and counties to levy a Transient Occupancy Tax on visitors occupying rooms at hotels, motels, inns, and other lodging facilities, and who stay for less than 30 days. The current TOT rate in San Diego is 10.5%; an additional 0.55% to 2.0% Tourism Marketing District assessment⁺ brings the highest total fees paid by those occupying hotel rooms in the City to 12.5%.

<u>Transient Occupancy Tax at a Glance</u>	
<i>Existing rate:</i>	10.5%
<i>Potential Revenue:</i>	\$16.6M annually per 1.0% increase
<i>Voter Threshold:</i>	Two Thirds for Specific Use, Majority for General Use

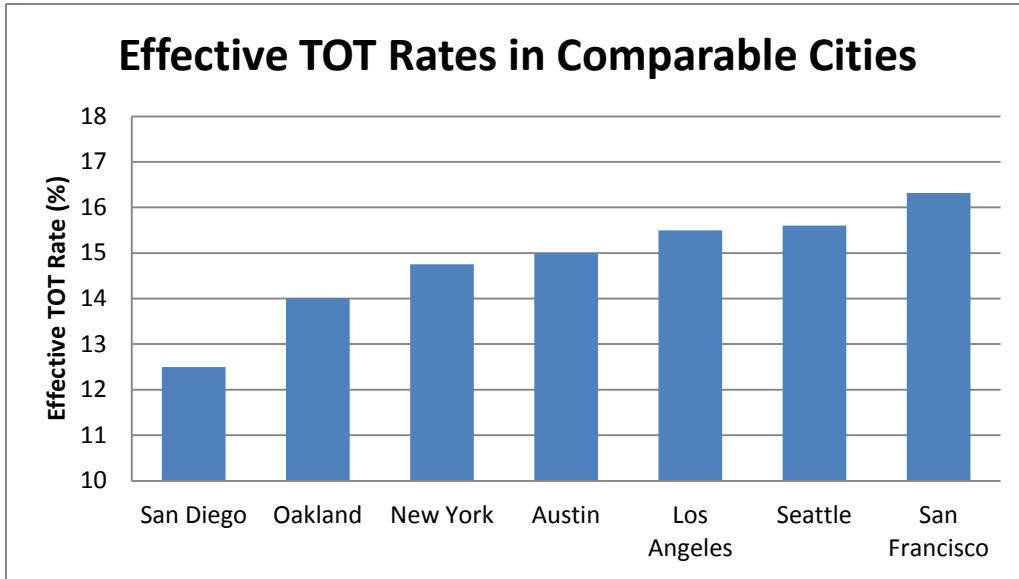
TOT revenue is split among the Special Promotions Fund, which receives 4%, the General Fund, which receives 5.5%, and Discretionary/Council directed accounts, which receive 1%.



In December 2007, the lodging industry in San Diego successfully created a self-assessment district to help promote tourism through a Tourism Marketing District (TMD). Through that TMD, lodging businesses assess an additional 0.55% to 2.0% charge on visitors' bills as a line-item separate from the TOT. Revenue from that charge is used by the TMD to fund programs and services that market and promote San Diego as a tourist destination, and is not available for use in the General Fund.

Council Policy 100-03 limits future increases to TOT to a rate no greater than the average of 15 major cities delineated in the policy, excluding the highest and lowest rate from that average. The cities included in that policy are: Atlanta, Boston, Chicago, Denver, Honolulu, Houston, Las Vegas, Los Angeles, Miami Beach, New Orleans, New York, San Francisco, Santa Fe, Seattle, and Washington D.C. Currently, the average rate for those cities is approximately 15%.

⁺ The TMD levies an assessment of 0.55% for lodging businesses with 1-29 rooms, and 2% for lodging businesses with 30 or more rooms.



Revenues from the 10.5% TOT are expected to generate a total of \$174 million in FY 2015. An increase of 1.0% in the TOT would therefore be expected to generate \$16.6 million in additional annual revenue.

State law requires a public vote before TOT can be increased. If TOT revenue is to be used for specific purpose, increases must be approved by a two-thirds vote of the public. If they are to be used for general purposes they must be approved by a simple majority of voters.

Parking Occupancy Tax

A Parking Occupancy Tax is charged by some cities for the privilege of occupying a space in a paid parking facility, and is commonly levied as a percentage of the parking fee paid by the occupant. Parking fees typically include all charges for the occupancy or use of a space in a parking facility, including valet and service labor charges, but not charges for gasoline, parts, car washes, or other services. Parking taxes are collected by parking facilities and remitted to cities on a periodic basis.

Parking Occupancy Tax at a Glance

Existing rate: **N/A**

Potential Revenue: **\$38.6M annually per 10% tax**

Voter Threshold: **Two Thirds for Specific Use, Majority for General Use**

San Diego does not currently levy a parking tax, though other large cities in California do, including Los Angeles, Oakland, and San Francisco. The table below shows the parking tax rates levied by those cities and the revenue that was generated in FY 2014.

<i>Parking Tax in Select California Cities</i>		
<i>City</i>	<i>Tax Rate</i>	<i>FY 2014 Revenue</i>
Los Angeles	10%	\$96.6 million
Oakland	18.50%	\$16.3 million
San Francisco	25%	\$83.2 million

In the cities shown above, the average per capita parking tax revenue for each 1% was \$2.87 million. Based on this calculation, if the City were to levy a 10% parking tax, it could expect to generate roughly \$38.6 million per year; a more accurate estimate would require a survey of the number and size of paid parking lots and structures in the City.

A parking tax would need to be approved by a simple majority of voters if revenues were used for general purposes, or a two-thirds majority if they were to be used for specific purposes.

Utility Users Tax

A Utility User Tax (UUT) is a tax on utilities that is applied to the consumption of electricity, gas, water, sewer, telephone, and/or cable television services. Roughly 150 cities and four counties in California impose various UUTs, with rates ranging from 1% to 11% depending on the utility being taxed. San Diego is unique in not charging any UUTs.

UUTs are typically applied as a percentage of a utility customer's bill and collected by the utility company, which then remits its collections to the taxing jurisdiction. In 2010, the total UUTs collected by similar California cities (Anaheim, Fresno, Long Beach, Los Angeles, Oakland, Sacramento, San Francisco, and Santa Ana) amounted to \$74 per capita. If the City were to impose a UUT at the \$74 average, it would generate \$99.6 million annually. As UUTs are established on individual utilities and the \$74 per-capita average represents an average of the aggregate UUTs customers in other cities pay, the amount any one UUT would generate would be significantly lower.

Establishing any UUT in San Diego would require voter approval, with a two-thirds threshold if revenues were to be used for a specific purposes and a majority threshold if they were to be used for a general purpose.

<u>Utility Users Tax at a Glance</u>	
<i>Existing rate:</i>	N/A
<i>Potential Revenue:</i>	Up to \$99.6M annually*
<i>Voter Threshold:</i>	Two Thirds for Specific Use, Majority for General Use
<small>* \$99.6M is based on average total rates in other cities and may overstate potential revenue. See report for more information.</small>	

People's Ordinance

San Diego is the only major California city that does not recover at least a portion of its refuse collection expenses from those provided collection services. The People's Ordinance, adopted by San Diego voters in 1919, requires the City to collect, transport, and dispose of residential refuse, recyclables, and green waste, and prohibits the City from charging a fee for this service. To be eligible for City-provided refuse collection, residential refuse must be placed at the curb line of a public street in a City-approved container.

<u>People's Ordinance at a Glance</u>	
<i>Existing rate:</i>	N/A
<i>Potential Revenue:</i>	\$47.3M annually (\$31.3M General Fund)
<i>Voter Threshold:</i>	Simple Majority

The People’s Ordinance prohibits the City from entering a private street to collect residential refuse, though hold-harmless waivers can provide for some exceptions. This makes it impractical for most multi-family residences to place refuse at the curb line of a public street, and makes these residences ineligible for City-provided refuse collection services. Multifamily residences, like most businesses, therefore pay separately for private collection services.

The FY 2015 budget includes \$47.3 million in expenditures related to collection services for refuse, recyclables, and green waste. Of that \$47.3 million, \$31.3 million comes from the General Fund and provides for refuse collection. The remaining \$16.0 million comes from the Recycling Fund and provides for collection of recyclables and green waste. The Environmental Services Department (ESD) currently provides collection services for 285,000 households. Charging those households fees to provide cost recovery for all collection services would result in an average monthly bill of \$13.83 per household.

Should the People’s Ordinance be repealed and single-family residences be required to pay the costs associated with providing them refuse, recyclable, and green waste collection services, the City could free up existing General Fund revenues that currently subsidize the Environmental Services Department’s refuse collection services.

As the People’s Ordinance was adopted by voters, a public vote would be necessary to repeal the ordinance. Repeal of the ordinance would require a simple majority vote. Should the People’s Ordinance be repealed, the City would need to conduct a full Cost of Service Study for refuse collection, and follow a Proposition 218 notification process before it could begin assessing fees for refuse collection services. Additional public votes, however, would not be required.

Stormwater Fees

As we reported in IBA Report 13-44, new stormwater regulations and enhanced compliance requirements are likely to create an increasing strain on the City’s General Fund over the next several decades, with total costs to ensure compliance with regulations approaching \$2.7 billion over the next 17 years.[±] The FY 2015 budget includes \$44.8 million in General Fund support for the City’s stormwater program, though going forward this amount will be insufficient to meet the additional costs that new regulatory requirements represent. The recently released Five-Year Financial Outlook notes that from FY 2016-2020, an additional \$710 million will be required to ensure compliance with stormwater regulations above and beyond amounts that are already anticipated to be funded through the General Fund and planned bond issuances.

<u>Stormwater Fees at a Glance</u>	
<i>Existing rate:</i>	\$0.95 per household per month
<i>Potential Revenue:</i>	\$6M annually per \$1 monthly increase
<i>Voter Threshold:</i>	Two Thirds in General Election, Majority of Property-holders

[±] These costs could decrease should anticipated regulatory requirements be changed, or should technology advance to the point where stormwater treatment costs substantially decrease. Even given significant reductions, however, absent increased stormwater fees ongoing General Fund support of the program will be necessary.

San Diego currently collects a fee of \$0.95 per month from single-family residences to provide for storm drain maintenance and stormwater projects, and usage-based fees from multi-family residences. These fees generate \$5.7 million per year, and are extremely low compared to other major California cities and cities in the western United States. As comparisons, Los Angeles households pay \$1.92 per month, Monterey households pay \$5.44 per month, Santa Monica households pay \$10.00 per month, and Sacramento households pay \$11.31 per month. Coastal cities in other western US states pay even larger fees: Seattle households pay \$12.58 per month, and Portland households pay \$16.17 per month.

If San Diego were to increase its stormwater fees from \$0.95 per household per month to \$5.00 per month, it would generate an additional \$24.3 million annually; increasing the rate to \$10.00 per household per month would generate an additional \$54.3 million (total \$78.6M). Even in these scenarios, continued ongoing support from the General Fund would likely be necessary, though the required amount of that support may decrease.

As stormwater fees are considered property-related fees, any increase requires either a majority vote of affected property-holders or a two-thirds vote of the general public.

General Obligation Bonds

In 1986, California voters approved Proposition 46, which allows cities and counties to issue General Obligation bonds (GO bonds) upon the approval of voters in order to finance large capital projects and the acquisition of real property. As the issuances of GO bonds represent one-time funding sources, they cannot be used for ongoing operations and maintenance of existing projects and infrastructure, or for the purchase of equipment.

<p><u>General Obligation Bonds at a Glance</u></p> <p><i>Existing rate:</i> N/A</p> <p><i>Potential Revenue:</i> \$100M per 0.0032% increase in Property Tax Assessments</p> <p><i>Voter Threshold:</i> Two-Thirds</p>

Issued bonds are backed by the full faith and credit of the issuing municipality, and are paid for by increasing local property taxes above the limit imposed by Proposition 13. Cities have a maximum GO debt limit of 15% of the assessed valuation of all property within their boundaries. San Diego's total assessed value for FY 2015 is roughly \$206 billion. For reference, each \$100 million in GO bonds would represent an annual property tax assessment 0.0032% of a property's valuation over the life of a 30 year bond. This represents an annual assessment of \$14.24 on a home valued at \$445,000, which is the median home price in the City as of August 2014 and reported by real estate tracker CoreLogic DataQuick.

Successful GO bond programs in other cities are generally designed to meet the funding needs of a specified list of necessary projects and capital improvements. Such bond programs are approved by voters once and include the total amount of bonds that cities are authorized to issue. Cities generally make several rounds of bond issuances to generate associated revenue as they have the capacity to spend it. In that way, GO Bond programs can provide funding for capital projects over multiple years, though we also emphasize that they ultimately still represent a one-time funding source and cannot be used to fund ongoing operations and maintenance of existing projects and infrastructure.

As GO bonds are paid for through local property taxes, a two-thirds vote of the general public is required before they can be approved and issued. Should Council choose to pursue a bond measure, it should also consider identifying funding sources for continued operations and maintenance of financed projects prior to any bond issuance.

Enhanced Infrastructure Financing Districts

SB 628 was recently adopted by the California state legislature. Beginning in 2015, the bill will allow local governments to create Enhanced Infrastructure Financing Districts (EIFDs) to finance public capital facilities and other projects of community-wide significance and benefit. These EIFDs could be financed in one or more ways:

- Collection of property tax increments from participating taxing entities;
- Allocation of a portion of RPTTF distributions payable to the entity that forms the EIFD;
- Issuance of tax increment bonds;
- A levy of assessments or fees on landowners within the EIFD;
- Government or private loans; and
- Grants

Formation of an EIFD requires that local governing bodies wishing to participate in the EIFD adopt a resolution of intention and prepare a detailed financing plan. That plan must include the proposed EIFD's boundaries, a description of the public facilities and other forms of development or financial assistance proposed, and a financing section. The financing section must include:

- The maximum amount of incremental tax revenues that will be dedicated to the EIFD
- Revenue projections
- A financing plan for public facilities
- A limit on the total revenues that may be allocated to the EIFD
- The date on which the EIFD will cease to exist
- The fiscal impacts of the EIFD on participating entities.

Upon formation, EIFDs are permitted to issue tax increment bonds with the approval of 55% of voters living in the EIFD's boundaries. Previously, any bond issuance by an infrastructure financing district required an affirmative vote of two-thirds of residents. As SB 628 has not yet been implemented, EIFDs have not yet been formed in any other jurisdiction and information regarding the best practices of EIFDs is unavailable.

Good Government Mechanisms

Ensuring good governing practices, openness, transparency, and public accountability is an important goal for the City that is continually pursued. As all the revenue sources discussed above require public votes, should Council pursue any of them, it may be especially appropriate to consider establishing mechanisms that enhance good-government and public-accountability over those revenues.

Such mechanisms could include the creation of citizen oversight boards that both advise how new revenues should be spent and provide periodic progress reports on capital expenditures. They could also include mandatory audits to ensure proper management and accounting of revenues, and/or public access requirements that ensure the public can view revenue information, data, and accounts. Additionally, given that many of the revenues discussed above represent *ongoing* revenue sources, should the City determine that a revenue source is needed for a specific immediate or short-term need, it may be appropriate to consider establishing sunset provisions to ensure that the revenue is not collected in perpetuity.

This is far from an exhaustive list of good government mechanisms. However, given that the revenue sources discussed require voter approval, these mechanisms may help to gain the confidence and support of the public.

CONCLUSION

The City faces substantial ongoing costs to maintain its infrastructure and existing service levels. The cost of deferred infrastructure needs likely exceeds \$2.0 billion. Additional costs for complying with stormwater regulations, providing affordable housing, and paying for *new* infrastructure only increase that amount. While our office continues to stress the importance of making infrastructure maintenance the City's number one priority, we also recognize the need for other ongoing services and programs. Over the past several years the City has reduced expenditures and identified several operational efficiencies, but these savings alone cannot fund the total financial needs facing City going forward. In the past the City has been able to provide financing through the issuance of lease-revenue bonds, but these bonds represent neither a sustainable source of revenues going forward, nor a sufficient source of revenues to tackle present and future needs.

It is clear that if the City is to fully maintain its infrastructure, ensure compliance with state and federal regulations, and provide continued and increased services to the citizens of San Diego, additional revenue sources will be necessary. It may be useful for Council to consider these potential revenue sources as it determines how best to meet the needs of the City and its citizens.



Charles E. Modica, Jr.
Fiscal & Policy Analyst



Jeff Kavar
Deputy Director



Andrea Tevlin
Independent Budget Analyst