

EXECUTIVE SUMMARY

San Diego has experienced the most economic growth among the largest cities in California over the last decade. The level of services offered by a municipality – such as police, fire fighting, and street maintenance – wields a significant impact on economic development. In turn, rapid growth in businesses and population densities creates a significant demand for municipal services. However, in order to keep up with this demand, there is a reciprocal expectation for businesses and individuals to pay their fair share for the services from which they benefit.

This report finds that there is a significant discrepancy between the growth in business revenues and personal incomes, and the proportional contributions to municipal revenues to ensure adequate provisions of city services. This growth is unparalleled by any other large city in California in key sectors like construction, tourism and real estate. Yet businesses and households in the City of San Diego contribute far less as a proportion of their revenue or income to the provision of general city services than do the average businesses and households in the ten largest cities in California.

Summary of Principal Findings

1. The City of San Diego has an outdated general revenue tax structure.

Although the bedrock of city financing is still sales taxes and property taxes, since the passage of Proposition 13 (1978) and other measures California cities have moved toward raising revenues by other means, such as Business License Tax and Utility Taxes, to pay for core local services. San Diego still lacks access to several of these revenue sources used by other cities.

- Sales and property taxes constitute almost two-thirds (67 percent) of San Diego's general revenue sources. In comparison, less than half (47 percent) of the average general revenue sources of the ten largest cities in California come from sales and property taxes.
- The City of San Diego raises \$38.67 per month per resident to pay for general services. This is far less than the average of the ten largest California cities, at \$57.75 per month per resident. The City of San Diego raises the least General Revenue per household, as percentage of household income, of any of the ten largest cities in California.
- Taxes on utilities, such as electricity and gas, are used in other cities as sources to fund additional municipal services. San Diego does not have any utility taxes.
- San Diego is the only city, among the ten largest cities in California, which does not charge for residential refuse/trash collection.
- Local businesses pay the least among any of the cities for Business License Fees for any type of business, at an average of 1/5 of the amount paid in the ten largest cities in California.

2. The City of San Diego's general revenues have not benefited from overall economic growth.

San Diego leads in economic indicators among other cities in the nation. The County of San Diego's gross regional product (GRP), the estimated total value of the economy, reached a record \$129.2 billion in 2003, with the highest growth rate of any region in California. Some of the leading industries have been the tourism industry, the real estate industry and the construction industry. However, because of its tax structure San Diego has not been able to benefit from the growth of these industries.

- Last year, San Diego had the highest hotel occupancy rate (71.5 percent) in California. The City of San Diego also has the second largest hotel industry in California, behind only San Francisco. An average San Diego hotel charges \$15 higher in room rates than comparable rooms in Los Angeles and Anaheim. However, San Diego has the lowest Hotel Room Tax (Transient Occupancy Tax @10.5%) among all these major tourism destinations in California.
- San Diego had the highest value of real estate transactions of any city in California. The median price of a single-family home rose 23.85 percent over the past year alone. Both sales and median prices are making national records. Yet the City of San Diego charges the lowest rate (0.055 percent) in real estate transfer fees among the ten largest cities in California.
- The value of new construction exceeded \$1.7 billion in the city of San Diego in 2003. This is the second largest in California, behind only Los Angeles. The relative value of construction permit revenues to the value of new construction is below the average of California's largest cities.

3. \$279 million in revenue could be generated annually if the City of San Diego were to charge average California rates.

The City of San Diego raises the least general revenue per household in proportion to the average household income. If the City of San Diego raised revenue at the same rate as the average of the ten largest California cities, it would generate \$358 million in additional revenue annually. Table 1 illustrates examples of revenue sources from which \$279 million in general revenue could be generated annually if the City were to charge average California rates.

| Table 1 Potential Revenue Generation from Selected Sources | | | |
|---|---|--|---|
| | San Diego | Average of ten largest California cities | Additional Revenue if San Diego were to charge @ average California rates |
| Transient Occupancy Tax | 10.5% | 12.4% | \$9.9 million |
| Real Estate Transfer Tax | 0.055% | 0.328% | \$41.4 million |
| Business License Fee | \$34 for small business; \$125 for businesses over 12 employees + \$5/employee (0.20% of gross revenue) | Overall 0.108% of gross revenue | \$60.9 million |
| Refuse Collection Fee | \$0 | \$9.80/month/hhld | \$54.3 million |
| Utility Users' Taxes | \$0 | \$92 per person | \$112.6 million |
| Total | | | \$279.1 million |

These rates are the weighted average for the ten most populated cities in California. The weight is selected appropriately based on the category of revenue.

4. The provision of General Services has not kept pace with regional economic growth.

Growth of population and business generates a demand for general services such as police, fire fighting, libraries, parks and road maintenance. During the 1990-2000 period, when personal income rose by 33.9 percent and the annual payroll for all businesses in the City rose by 58.8 percent, the spending by the city on general services increased by only 16.0 percent. This resulted in the City's workforce being stretched thin.

- Annual expenditure on police per person in the city of San Diego (\$239) is far lower than the average of what is spent by the ten largest California cities (\$317). As a result, San Diego has fewer police officers as a proportion of the population (1.69 officers per 1,000 people) than the average of the ten largest cities in California (2.11 officers per 1,000 people).
- Annual expenditure on fire fighting per person in the city of San Diego (\$101) is the third lowest among the ten largest California cities, above

only Fresno and Santa Ana. Although expenditures on fire fighting increased 18.75 percent in the last budget following the Cedar fires, expenditure per person is still among the lowest in the State and far below the state average of \$140. The number of firefighters per 1,000 people (0.69) is the lowest in San Diego among any city in California for which data are available.

- San Diego has invested heavily in library books (3.71 books per capita) and facilities, higher than the average of the ten largest cities (2.35 books per capita). This also creates a greater burden on librarians in San Diego: at 10,032 books per librarian; San Diego has the highest ratio among any large city in the state. This is far greater than the average of 6,129 books per librarian.
- As a result of its natural heritage, San Diego has the largest park acreage (31.87 acres/1000 people) among the eight largest cities in California (10.98 acres/1000 people) for which data are available. However, San Diego's expenditures as a proportion of park acreage is the lowest (\$2,610 per park acre) among all of the cities, far below the state average (\$6,442 per park acre).

Recommendations

We are now seeing the consequences of the growing gap between the expectations for local services such as police, fire fighting, parks, libraries, roads and infrastructure; and the availability of funds to pay for them. In order to move the city out of its fiscal crises, and into a sustainable state, we recommend the following:

1. **Create a public awareness campaign to inform residents and businesses on the role of city services and the need to raise funds for providing them.**

Local officials, media and advocacy organizations can do a better job of educating voters about revenues and expenditures. There needs to be greater awareness of the role of the City's general services in the lives and functioning of individuals and businesses. This will not only educate taxpayers, it will also increase employee morale in the municipal workforce.

2. **Introduce ballot measures to raise taxes and fees at least to the average California level.**

A majority voter approval is needed for increase in general taxes such as transient occupancy tax, business license tax, utility users' tax and real property transfer tax. In order to collect refuse collection fees, a majority voter approval is needed to amend the charter (pursuant to Proposition C, 1986).

3. **Raise revenues through fees that can be implemented through Council ordinances.**

Although Propositions 62 and 218 limited the ability of the City to raise taxes without voter approval, the city does have some leeway to collect fees for the cost of providing a service. Therefore some of the current

governmental fund services should be converted to full cost-recovery services so that the city can levy fees for the usage of the service. These include the cost-recovery portions of business licenses, planning and building services. Some of these may be implemented through emergency ordinances.

4. **Prioritize expenditures based on overall needs, using departmental goals and productivity as benchmarks.**

Departmental productivity, rather than employee efficiency, should be used as a measure of performance. This will lead to major savings from programmatic improvements and accountability, rather than minor savings from targeting individual employees.