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OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Revenue Options for the City of San Diego

INTRODUCTION

On October 27, 2009, with the passage of Resolution R-305324, the City Council authorized the establishment of the Citizens' Revenue Review and Economic Competitiveness Commission. Among the Commission's goals is to research and review revenue strategies to support the City's core services and make recommendations for consideration by the Mayor and City Council. The Commission is undertaking this task in a fiscal environment where the City is challenged with addressing a structural budget deficit. After adopting $179.0 million in budget solutions, $96.5 million of which were one-time, the City is potentially facing an additional estimated deficit of $45.0 million in FY 2011. IBA Report 09-90 projected that the FY 2012 deficit will range from $77.0 million to $106.0 million.

On February 22, 2010, the City Council adopted eleven Structural Budget Deficit Elimination Guiding Principles for use as guidance in addressing the City's structural deficit. Among these principles are the following that relate to revenue generation:

> *Eliminate the General Fund structural budget deficit through a balanced approach of ongoing expenditure reductions and revenue generation, including identifying new revenue sources.*
>
> *Achieve 100% cost recovery for programs and services that are intended to be fully cost recoverable through fees.*

The following report is for use by the Commission for reference in identifying new revenue sources that can potentially be implemented in the City as just part of the overarching budget solutions that could include additional reductions, efficiencies, and labor concessions. It is not meant as an endorsement of any of the reviewed revenue

options, but is purposed for use as a resource. The IBA has reviewed a number of General Fund revenue options and recommendations from City reports and other resources. This report highlights those most viable options for consideration.

POLICY CONSIDERATIONS

In reviewing the revenue options in this report, a number of policy considerations must be made in evaluating the viability of specific solutions. For each option, the Commission must give consideration to the intended as well as unintended implications of establishing certain tax or fee revenue options within the City.

In determining the appropriateness of fee or tax alternatives, issues to evaluate include the following:

Beneficiaries and Burden. Imposed taxes or fees can have a varying benefit and burden to residents, businesses, and visitors. Consideration must be given to the appropriateness of the disproportion of the benefit and burden.

Unintended Effects. An unintended result of tax or fee increases can be the discouragement of the use of needed services or reduce the frequency of certain activities. Careful deliberation regarding the suitable level for a fee or tax and appropriate exemptions can mitigate this effect.

Tax vs. Fees. A tax is purposed for revenue generation, while the purpose of a fee is to recover the cost of providing a particular service. Per California Law, a fee cannot be set above the reasonable cost of providing a service. Full cost recovery through fees effectively frees up general tax revenue to support other general services.

Citywide or Localized Solution. District assessments can be appropriate as a localized solution to address needs in specific areas in the City, whereas a property tax levy to support a citywide General Obligation Bond issuance can address citywide capital needs.

Implementation Timing. Implementing a trial period for a tax provides an opportunity to examine its impacts. A formal review of the use of the increased revenue generation and the service objectives that were met, can be an integral component of a trial increase. Voters can elect to make an increase permanent once they are able to fully assess its benefits.

Depending on the factors involved, phasing a fee or tax modification in over a period of time can be appropriate. Conversely, a threshold can be established whereby a tax increase is reduced or phased out in the case of a budget surplus.

Oversight. Establishing a citizen oversight component as part of a tax initiative can insure that the use of tax revenue is consistent with citizen priorities. For example, with the TransNet transportation program supported by a .50% sales tax in San Diego County, an Independent Taxpayer Oversight Committee monitors the use of the program's funds. Periodic monitoring reports can also maintain transparency regarding the use of funds and allow for continual performance information for public review.

Voter Requirements. Per the California Constitution, a tax increase that is purposed for general use requires a majority vote approval. A tax purposed for special use requires a 2/3^{rds} voter approval. A vote for a general purpose tax must take place in the same election as that for the City's legislative body, with exceptions made for emergencies. An emergency allowing for an election separate from the legislative body election can only be established with a unanimous vote of the City Council. The next election where a general use tax can be consolidated with the election of legislative body members will take place November 2, 2010. A regularly scheduled election will take place on June 5, 2012. After this election, the next legislative body election will not take place until November of 2012.

Special Voting Procedures. Though in most cases fees that recover the costs of a service can be established through City Council approval, it is the case that property related fees, as is the case with Storm Water Fees, require a special voter approval procedure as stipulated by California Law.

Annual Adjustments. In general, the costs of services increase overtime due to inflation as well as other economic factors. Integrating automatic annual cost inflators such as consumer price index adjustments in a fee or tax structure can insure that the revenue generated will continue to grow at the same pace as the expenditures that it is meant to support.

TAX REVENUE OPTIONS

The following table summarizes all of the revenue options reviewed in this report, including their potential fiscal impact, and any implementation requirements.

Summary of General Fund Revenue Options		
Revenue Option	**Implementation Requirements**	**Annual Fiscal Impact**
Property Related Taxes & Assessments		
General Obligation Bonds	2/3rds Voter Approval	$34,500,000
Parcel Taxes (District Taxes)	2/3rds Voter Approval	$18,500,000
Benefit Assessments	Majority of Property Owner Approval	TBD
Sales & Use Taxes	Voter Approval	$51,500,000
Utility Users Tax	Voter Approval	$100,200,000
Transient Occupancy Tax	Voter Approval	$13,400,000
Property Transfer Tax	Voter Approval	$8,400,000
Parking Tax	Voter Approval	$31,000,000
Business Taxes	Voter Approval	$13,600,000
Rental Car Tax	Voter Approval	TBD
Refuse Collection Fee	Majority Voter Approval Proposition 218 Procedures	$34,000,000
Storm Water Fee	Majority of Property Owner Approval or 2/3rds Voter Approval, Proposition 218 Procedures	$37,700,000
Parking Fee	Council Approval	TBD
Emergency Response Fees		
First Responder Service Fee	Council Approval	TBD
Accident Negligence Fee	Council Approval	TBD
False Alarm Fee	Council Approval	TBD
9-1-1 Phone Fee	Voter Approval	$16,000,000
General Plan Maintenance Fee	Council Approval	TBD
Comprehensive User Fee Study	Council Approval	TBD
Corporation Sponsorships	Council Approval	TBD
Total		**$358,800,000**

Property Related Taxes & Assessments

Property Taxes are a tax on the assessed value of secured and unsecured property including land, real estate, business equipment, boats, and aircraft. In 1978, California voters passed Proposition 13, which limits the total property tax rate to 1.0% of assessed value. Proposition 13 also limits the growth in the assessed valuation of property to up to 2.0% for properties that have not changed ownership or had structural improvements. Property that changes ownership and/or has structural improvements is subject to reassessment and taxation at market value.

Property taxes are assessed and collected by the County of San Diego. The collected taxes relating to the City are allocated to local taxing agencies within city boundaries including the County, schools, special districts, and redevelopment areas. The allocation received by each taxing agency is in accordance with state allocation laws that have their

basis in the percentage allocation received by local agencies prior to Proposition 13. The City of San Diego receives 17.1% of the base 1.0% property tax collected by the County.

Increasing the current property tax rate would require an amendment to the California State Constitution, with a 50% majority vote approval statewide. A change in the allocation of the 1.0% tax among jurisdictions would require new legislation enacted by the California state legislative body.

Though there are legal obstacles to modifying the property tax rate within California cities, there are a number of property related taxes and assessment options that are available. These options include General Obligation Bonds, Parcel Taxes (Facilities Districts), and Benefit Assessments.

General Obligation Bonds

In 1986, California voters approved Proposition 46, allowing for local voter approved increases in property tax to pay debt service on General Obligation Bonds (GOBs). GOBs can be issued by local governments to finance real property acquisition and construction. The additional property tax is levied at an amount appropriate to support the debt service for the life of a bond. A 2/3^{rds} vote of San Diego citizens would be required for the issuance of GOBs. As of year-end FY 2009, the City had $6.5 million in outstanding debt relating to a General Obligation Public Safety Communications Bond. This bond will mature in FY 2012. A 0.00113% levy supports the debt service for this GOB.

Parcel Taxes (District Taxes)

Parcel taxes are authorized by the Mello-Roos Community Facilities Act of 1982. They are a special tax that can be imposed on a parcel of real property, generally at a flat per parcel rate, either citywide or in a specified district. Imposing parcel taxes requires a 2/3^{rds} voter approval. In the case where there are less than 12 registered voters for a district parcel tax, property owners can approve the tax. Parcel taxes can be used for a variety of purposes, ranging from the financing of facilities to the funding of city services.

Benefit Assessments

Benefit assessments are levies for a specific real property benefit. An example of a benefit assessment would be an Assessment District where property owners are charged for street maintenance, landscaping, or street lighting within a particular neighborhood. The assessment has to pay for a benefit that is above a general public benefit supported through general fund taxes. Bonds can be issued to finance maintenance and capital improvements secured by assessment levies.

With benefit assessments, a property owner's assessment is in proportion to his benefit, as determined by an engineer's study. Assessment districts require the approval of 50%

of affected property owners through a mail ballot. If a majority of property owners oppose a benefit assessment, it cannot be established. Votes are weighted based on the benefit of the property owner as determined by the parcel size. The California Constitution stipulates the procedures necessary to create an assessment district.

Fiscal Impact
Base Property Tax (excluding Property Tax in-lieu of Motor Vehicle License Fee and the property tax backfill associated with the Triple-Flip) revenues totaled $291.8 million in FY 2009. The amount of additional revenue that can be generated by the above options would depend on the particular circumstance (e.g. citywide vs. district solution). In the case of a benefit assessment, the service costs would have to be identified to determine the total assessment. For illustrative purposes, the following hypothetical estimate is provided:

A property tax rate of roughly .0002% of assessed valuation (or approximately $20 for every $100,000 of assessed valuation), would generate approximately $34.5 million a year for debt service to support a 30-year GOB issuance of $500 million (assuming a fixed rate and fully amortized, level debt service payments).

A parcel tax of $50 for 370,931 parcels citywide would generate $18.5 million in annual revenue, with a $100 parcel tax generating $37.1 million.

Sales & Use Taxes

In accordance with California Sales and Use Tax Law, retailers pay sales tax for the privilege to sell tangible personal property. The tax is applied as a percentage of a retailer's gross receipts and is usually passed through to the consumer. The State Revenue and Taxation Code provides stipulations regarding the exemption of certain services, industries, and items from the tax. The California law governing local sales tax is known as the Bradley-Burns Local Sales and Use Tax Law.

Per California Law, counties and cities can also impose a district tax rate, not to exceed an aggregate rate of 2.0%, in addition to the Bradley-Burns sales tax. District taxes are similar to Bradley-Burns sales and use taxes, with technical differences relating to the allocation of the tax to the jurisdiction where the purchased goods are delivered or used, as where Bradley-Burns Sales and Use Tax is generally allocated to the "point-of-sale". Implementing an additional district tax requires that the Board of Supervisors or City Council approve the tax by a $2/3^{rds}$ majority (for a county or citywide district tax, respectively), and that it is approved by a majority vote, if the tax revenue is to be used for a general purpose, and a $2/3^{rds}$ vote, if the tax will be used for a specific purpose. District taxes also have to be imposed as a rate of 0.25% or a multiple thereof.

The County of San Diego currently has a district tax of 0.50% for the TransNet transportation improvement program. Due to the 2.0% limitation for district taxes, any additional district tax would have to be 1.5% or less.

The sales tax rate within the City of San Diego is currently 8.75%. Under State law, the Bradley-Burns sales and use tax allocated to cities is 1.0%. Since 2005, the City has received .75% as actual sales and use tax, and .25% through equivalent property tax revenue, for a total sales and use tax collection of 1% of gross sales. The 0.25% of Bradley-Burns sales and use tax previously received by the City is shifted to the State to pay off the 2004 Economic Recovery Bonds.

The following chart details in further how the current 8.75% sales tax is allocated to the State, County, and City.

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)
8.75%	**Total City Sales Tax**

Fiscal Impact

In FY 2009, the City of San Diego generated a total of $206.1 million in sales and use tax revenue. In using $206.1 million as a base assumption, a 0.25% increase in the sales and use tax rate would generate an additional $51.5 million in revenue. A .50% increase in the rate would generate $103.0 million in revenue.

Beyond an increase in the sales tax rate, State sales tax laws could be expanded to include current exempt categories. Such examples are the imposition of a tax on professional services such as accounting, cosmetic surgical procedures, laundering, and dry cleaning. In a 2010 City of New York, Independent Budget Office report, it was estimated that an additional $55.0 million in revenue could be generated from taxing cosmetic surgical procedures and $30.0 million for a sales tax on laundering and dry cleaning. These or other services could be explored to determine the fiscal impact within the City of San Diego. Proposed modifications to sales tax exemptions would be subject to the California Legislative Process to change current California law. An elected representative would have to introduce the legislation.

Another alternative is to impose an additional tax exclusively for certain types of purchases, such as those at restaurants. As such, a restaurant tab could be subject to an additional 0.50% tax. Due to Bradley-Burns sales tax law, it is more appropriate for this type of tax to be dealt with as a separate business tax.

Utility Users Tax

A Utility User Tax (UUT) is a tax on utilities that are applied to the consumption of electricity, telephone, gas, water, sewer, garbage, and cable television services. Approximately 150 cities and four counties within the State of California impose UUTs. The tax rates range from 1 to 11 percent, with variations in the utilities that the tax is applied to. UUTs are a top revenue generator for most California cities. The City of San Diego is unique in not charging the tax.

UUTs are typically collected from customers of utility companies on their bill as a percentage of the total bill. The utility company will then remit the collections to the taxing jurisdiction.

Levying a UUT within the City of San Diego would require voter approval. If the revenue generated were to be allocated for a general purpose, it would require a majority vote; if the revenue is allocated for a specific purpose, a 2/3^{rds} voter approval would be required.

Fiscal Impact
Per data from a 2010 update to the Center on Policy Initiatives 2005 "The Bottom Line Report", the average UUT collected by selected peer cities in California per capita is $74 annually. (This number is based on the California State Controller 97th Annual Report pertaining to Los Angeles, San Diego, San Jose, San Francisco, Long Beach, Fresno, Sacramento, Oakland, Santa Ana, and Anaheim.) If the City imposed a UUT at the average of $74 per capita, $100.2 million in revenue would be generated annually.

Transient Occupancy Tax (TOT)

Per California Revenue and Taxation Code Section 7280, any city or county can levy a Transient Occupancy Tax (TOT) on visitors occupying rooms at hotels, motels, inns, and other lodging facilities for less than 30 days. The TOT rate in the City of San Diego is 10.5%.

Per the San Diego Municipal Code, Sections 35.0128 – 35.0133, 5.5% of the 10.5% levy is deposited in the General Fund, 4.0% in the Special Promotions Fund for use in promoting the City, and 1% can be used at the City Council's discretion. In FY 2009, the City of San Diego generated $140.8 million in TOT revenue, with $73.8 million going to the General Fund.

In accordance with Council Policy 100-03, future increases to TOT are limited to a rate not greater than the average rate of the 15 major cities delineated in the policy (excluding the highest and lowest rate from the average). The 15 major cities 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 this average rate is approximately 13.5%. This Council Policy may be changed by a Council Resolution.

An increase in the TOT rate would require a majority vote if the revenue were to be used for a general purpose and a 2/3^{rds} vote if the revenue were used for a special purpose.

In 2004, two TOT increase propositions, Proposition C and Proposition J, were placed on the ballot in separate elections for approval by San Diego voters. Each proposition, one for a special tax and one for a general tax, failed to get the required votes for approval. Proposition C was an initiative to increase the TOT rate by 2.5% and earmark the new revenue and some current TOT revenue for use for special purposes including emergency services, park and library capital improvements, and tourism promotion. The March 2004 proposition received a 61.76% vote, just short of the 2/3^{rds} vote required for approval. In November of the same year, Proposition J, a proposal to increase the TOT by 2.5% for general purpose use, failed with a 41.59% yes, 59.41% no vote.

Though initiatives to increase TOT rates for use to support city services were not successful in attaining voter approval, the lodging industry was successful in creating a self-assessment district to help promote tourism. In December of 2007, the San Diego lodging industry voted to establish a Tourism Marketing District (TMD). With the TMD, lodging business owners with 70 or more overnight rooms assess themselves 2.0% of their gross room revenue. The TMD assessment is charged to visitors separately as 2.0% of their total bill. The revenue generated is used to fund programs and services that market and promote San Diego as a tourism destination, and is not available for use in the General Fund. The establishment of the district required a majority approval of the assessed business owners. The district was approved for a five-year term that began in January 1, 2008 and will terminate on December 31, 2012, with an option for renewal. The San Diego Tourism Marketing District (SDTMD), a nonprofit mutual benefit corporation, is the administrator for the district.

Fiscal Impact

Based on FY 2009 General Fund collections of $73.8 million, if the TOT was increased by 1.0%, from 10.5% to 11.5%, with the allocation increase going to the General Fund, an additional $13.4 million would be generated.

Property Transfer Tax

Property transfer taxes, also known as real estate transfer taxes or documentary transfer taxes, are levied on any real property that is sold or transferred. By State law, a county can impose a property transfer tax of $1.10 per $1,000 of the conveyed property. A city within a county that levies a property transfer tax can impose a documentary transfer tax of $0.55 per $1,000, that is credited against the county rate. In these instances, both the county and city receive $0.55 per $1,000 of the sale price of the property. The City of San Diego is one such city, where the property transfer tax is $0.55 per $1,000 of the sale price of real estate.

Cities can levy a property transfer tax rate above $0.55 per $1,000. Other California cities with a tax above this rate include Oakland ($15.00 per $1,000), Los Angeles ($4.50 per $1,000) and San Francisco ($6.80 per $1,000). When a city imposes a property transfer tax above the county rate, the county then gets the full $0.55 per $1,000, with the city receiving the full amount of its separately levied tax.

An increase in the property transfer tax would require a majority voter approval, or a 2/3^{rds} voter approval if the tax is allocated for a specific use.

Fiscal Impact
In FY 2009, at a rate of $0.55 per $1,000, the City of San Diego generated $4.6 million in revenue from the property transfer tax. Using the FY 2009 actual as a base, a $1 increase in the tax would generate a total of $13.0 million in revenue for the City. $8.4 million of this amount is net additional revenue that would be received, since the County would receive the full $1.10 per $1,000, with the City receiving $1.55 per $1,000.

Parking Tax

A parking tax, also called a parking user tax or parking occupancy tax, is charged by some cities for the privilege of occupying a space in a parking facility. Parking taxes are commonly levied as a percentage of the parking fee charged to the occupant. Parking fees are typically defined to include all charges for the occupancy or use of a space in a parking facility, including valet or service labor charges, but do not include charges for gasoline, automobile parts, car wash services or other goods or services that are totally unrelated with the use or occupancy of a parking space. Parking taxes are collected by the parking facility operator and remitted to the city on a periodic basis.

The City of San Diego does not currently levy a parking tax. However, other large jurisdictions in California do levy parking taxes, including the cities of Los Angeles and Oakland, and the City and County of San Francisco. The table below shows the parking tax rates levied by these cities and the revenue that was generated in FY 2009.

Parking Tax, Select CA Cities

City	Tax Rate	FY09 Revenue
Los Angeles	10.0%	$85.4 million
San Francisco	25.0%	$64.5 million
Oakland	18.5%	$14.2 million

Fiscal Impact
In the cities shown above, the average per capita parking tax revenues for each 1% levy was $2.32 in FY 2009. Based on this calculation, if the City of San Diego were to levy a 10% parking tax, it could generate more than $31.0 million per year. A parking tax would need to be approved by a simple majority of voters if used for general purposes, or by two-thirds majority if used for special purposes.

Business Taxes

Business Taxes (BT) are charged to businesses for the privilege of conducting operations within a city's boundaries. These taxes are levied in many different ways, most commonly as a percentage of gross receipts or a fixed charge per employee. Often, rates are tiered depending on the size of the business or number of employees. Different rates are often charged to different types of businesses.

The City of San Diego currently levies a flat annual BT of $34 for small businesses (approximately 92,000 in FY 2009) with 12 or fewer employees. The BT includes home-based businesses, self employed persons, and independent contractors. Larger businesses (approximately 6,000 in FY 2009) with 13 or more employees pay a flat annual BT of $125, plus $5 for every employee. Larger businesses employed approximately 359,000 employees in FY 2009. Additionally, new businesses within the City are required to pay a $17 zoning use clearance fee. A $25 application fee and a $15 renewal fee were discontinued in September 2009.

Prior to the discontinuance of the application/renewal fee, the aforementioned fee structure resulted in approximately $9.2 million for the City's General Fund in FY 2009. Without application/renewal fees to recoup BT administration related expenses that otherwise must be borne by the General Fund, total net BT revenue can be expected to decline to approximately $6.8 million in FY 2010, less than 1% of total General Fund revenue.

According to a report from the Center on Policy Initiatives (CPI) in 2005 entitled "The Bottom Line", the City has the third-highest gross receipts from businesses in California. Despite this fact, the City receives comparatively little BT revenue as compared with

other cities in the state. The CPI report indicated that in proportion to gross business receipts, San Diego's businesses pay the lowest business taxes of the ten largest cities in the state.

Comparative data compiled by the Office of the City Treasurer for FY 2007 (below) shows average tax revenue (including business rental tax receipts) received for each business license issued:

City	Total Business Licenses	Total Revenue ($ in Millions)	Average Revenue per Account
San Francisco	75,000	$394.0	$5,253
Los Angeles	285,000	$365.0	$1,281
Oakland	65,000	$50.0	$769
San Jose	60,000	$14.0	$233
San Diego	178,000	$14.0	$79

In 2002, the financial advisory firm of Kelling, Northcross & Nobriga (KNN) prepared a report analyzing financing options to address infrastructure needs for the Finance Subcommittee of the City's Strategic Framework Citizen Committee. In analyzing the City's BT as it compared with the BT of 11 California peer group cities, KNN found San Diego's BT revenue to be considerably lower when measured both as percent of the General Fund and on a per capita basis. Expressed as a percentage of the General Fund, BT revenue for the 11 peer group cities ranged from 3 to 21 times higher than the City's BT percentage.

Fiscal Impact

Based on the data above, it appears that the City could triple its existing BT structure (resulting in approximately $13.6 million annually in additional revenue for General Fund services) and remain the city with the lowest average BT among peer California cities. Alternatively, the City could generate approximately $3.6 million annually in additional BT revenue if it tripled the per employee fee for large businesses. It should be noted that the City's flat fee structure does not allow BT revenues to grow with increases in gross business receipts. Instead, BT revenue can only increase (or decline) as the number of businesses or employees change.

If the City switched to a BT structure based on gross receipts, the City could generate significantly more annual revenue depending on how rates are structured. Assuming application of the weighted average gross receipts rate for the ten largest cities in California, the 2005 CPI report (using gross receipt data from FY 2001) estimated the City would generate approximately $61 million in additional General Fund revenue.

A change or increase in the City's BT requires majority voter approval. A simple increase to the City's existing BT could be implemented more quickly than a change to

the structure of the BT (i.e., a switch to a gross receipts methodology). Depending on how they are structured, gross receipts tax and flat tax methodologies may be subject to criticism for inequity, inability to measure capacity to pay, and failure to reflect the fiscal impact of business operations on public infrastructure and services. Business tax methodologies can be structured in ways to avoid/address such criticisms; however, more complicated BT structures can be more difficult to administer and be challenging for business owners to comprehend.

Many cities use a combination of a flat fee and a gross receipts structure (including several cities within the County of San Diego). Other cities have considered a BT based on net receipts or business square footage in an effort to develop a more equitable/progressive tax. Although it is difficult to measure, significant business license tax disparity may affect business location and expansion decisions. If the City decides to pursue an alternative BT structure, consideration should be given to simplicity, equity and compliance. Economic Development staff and staff from the City Treasurer's Business Tax Division would be helpful in evaluating considerations associated with different BLT structures.

Rental Car Tax

Levying a rental car tax on vehicles rented within the City of San Diego is a revenue generating option for offsetting the cost of street maintenance and improvements. The tax is collected from the renter and remitted to the City by the rental car company. Previous Attorney General opinions relating to the 1990 implementation of a Transient Transportation Tax (TTT) within the City of San Diego, and in the City of Ontario as related to the imposition of a flat fee on customers renting a vehicle, lay the legal framework for the impermissibility of either a flat fee or percentage of rental price charge in accordance with State law. With the TTT, the State Board of Equalization ruled that it was similar to a sales tax and could conflict with California's Bradley-Burns Act. The State Attorney General affirmed this ruling. In the case of charging a flat fee in the City of Ontario, the Attorney General found the fee to be impermissible.

A 2003 City Attorney report related that a business tax for rental car companies could be imposed instead of a rental car tax. The City Attorney's Office would have to provide an updated legal opinion regarding the imposition of a business tax. If permissible, as new business tax, it would require a majority vote approval.

Fiscal Impact
More research is required to determine the appropriate structure for the tax and the associated revenue.

FEE REVENUE OPTIONS

Refuse Collection Fee for Trash and Recycling Collection Services

San Diego is the only major California city that does not recover at least a portion of its refuse collection expenses. The People's Ordinance[1], adopted by San Diego voters in 1919, requires the City of San Diego to collect, transport and dispose residential refuse, 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.

Recyclables (and greenery materials) are also considered residential refuse under the People's Ordinance. A refuse and/or recycling collection fee could be structured to recover all or a portion of the cost of providing collection services.

Fiscal Impact

For FY 2010, the cost of City-provided trash collection is budgeted at $34.0 million, which is borne by the General Fund. Based on an estimated 305,000 customers receiving weekly trash collection services, $34.0 million would translate into a monthly fee of approximately $9.29. Likewise, the budgeted FY 2010 cost for City-provided recycling and greenery collections – budgeted in the Recycling Enterprise Fund – is $8.7 million and $7.0 million, respectively. Based on an estimated 257,000 customers receiving bi-weekly recycling collection services, $8.7 million would translate into a monthly fee of approximately $2.82. Greenery collection services would be based on an estimated 191,000 customers receiving bi-weekly collection services; and recovery of $7.0 million would translate into a monthly fee of $3.05.

Based upon the above calculations, if the City were to recover the costs for all collections services – trash, recycling and greenery – the total estimated monthly fee for customers receiving all three collections services would be $15.16. The estimated total revenue would be $49.7 million – $34 million to the General Fund and $15.7 million to the Recycling Fund[2]. These estimates are for general discussion purposes, as no cost of service study has been conducted to determine potential refuse collection fees.

Furthermore, the $49.7 million cost recovery estimate does not include the estimated impact for Collection Services' "4/10/5" work schedule/service delivery reorganization, which is planned to be implemented in FY 2011. Savings from the "4/10/5" initiative are

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[1] Municipal Code section 66.0127.

[2]There is an issue regarding the interconnectedness between potential recycling collection fee revenues and AB 939 fee revenues which support the Recycling Fund. If a fee for recycling collection were to be implemented, there would be additional revenues to the Recycling Fund. In such case, a determination should be made as to whether AB 939 fees should be restructured, taking into account the health of the Recycling Fund.

estimated to be $2.4 million for trash collection and $2.0 million for recycling collection services. Alternatively, there are costs that are not included in the $49.7 million cost recovery estimate, including some legal, financial and other citywide administrative support expenses, as well as costs for a billing system.

Currently, a customer service and billing software module for the Water, Wastewater and Storm Water Departments is being integrated into the City's new SAP system. Software development work must be performed to integrate the module with the SAP system. Once the software integration work is completed, a foundation for the module will be established, which could then be used for a refuse collection services billing system. The cost of integrating the collection services billing system cannot be estimated until the scope work has been established and put to bid.

Implementation

Majority voter approval would be needed to amend the People's Ordinance.[3] In addition, assuming voters approve the amendment, a Proposition 218 notification process would be required (similarly required for increases in water and sewer rates). As part of the Proposition 218 process, if less than a majority of impacted property owners files a written protest, the fee will pass subject to City Council approval.

The next election in which a People's Ordinance amendment could appear on the ballot would be November 2010. City Council has initiative power to place such an amendment on the ballot, or it may be placed on the ballot through a citizens' initiative. A cost of service study is not required to amend the People's Ordinance. However, justification for the proposed refuse collection fee is required as part of the Proposition 218 process.

If it is preferred that a cost of service study be completed before a People's Ordinance amendment vote, the November 2010 election is not feasible. Undertaking a cost of service study is estimated to take over a year and a half – at least a few months for the process to hire a consultant, at least a half year to perform the work, and another half year for public outreach and stakeholder input. If a People's Ordinance amendment is passed by the electorate, a subsequent Proposition 218 process could take another few months. Additionally, a billing system would need to be implemented. Given these considerations, it is likely that a refuse collection fee could not be implemented until at least FY 2013.

Policy Issues

The People's Ordinance prohibits the City from entering a private street to collect residential refuse, unless a hold-harmless agreement is in place. Because it is impractical

[3]The requirement that the People's Ordinance be amended to allow a refuse collection fee is based on a June 13, 2005 City Attorney report to the Mayor and City Council, which has not been updated since that time.

for most multi-family[4] and some single family residences to place their refuse at the curb line of a public street, these residences are ineligible for City-provided refuse collection services. Since they are not eligible for City collection services, these residences, as well as most businesses, pay for private collection services.

Because private haulers pass the cost of collection services onto their customers, their customers (City residents/businesses that are ineligible for City-provided collection services) are effectively paying AB 939 recycling fees. These recycling fees partially subsidize[5] City-provided recycling collection services for eligible residents/businesses. Similarly, private haulers' customers effectively pay refuse hauler franchise fees that support the General Fund. Any amounts paid to private haulers by residents/businesses that are ineligible for City-provided collection services are in addition to General Fund taxes and fees they pay as members of the public (such as property and sales taxes).

Storm Water Fee

The City of San Diego collects and discharges storm water and urban runoff containing pollutants through the storm water drainage system. The Storm Water Department is the lead office for the City's efforts to reduce pollutants in urban storm water runoff and to preserve the City's beaches and bays.

The 1972 Clean Water Act established the National Pollutant Discharge Elimination System (NPDES) permit program, which regulates the discharge of pollutants from "point sources" (such as municipal sewage plants and industrial facilities) to waterways of the United States. In 1987, Clean Water Act amendments were made to address "non-point source" pollution (pollution not traceable to a specific source) from land runoff, which established a framework for regulating urban storm water runoff.

In California, the State Water Resources Control Board implements and enforces the NPDES permit program through a system of Regional Water Quality Control Boards (RWQCB). The RWQCB is responsible for issuing the required NPDES permit (more commonly referred to as the Storm Water Permit or Municipal Permit) to storm water dischargers within their jurisdictions. The NPDES permit is updated every five years. The current permit became effective in March 2008 and will expire March 2013. The NPDES Permit requires jurisdictions to implement programs and activities to reduce pollutants in storm water and urban runoff. Since the program was established in 1987,

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[4]Multi-family housing units comprise about 44% of total housing units in San Diego, according to January 1, 2009 Population and Housing Estimates from SANDAG.

[5]The partial subsidy is based on a prorated amount. The FY 2010 budgeted recycling and greenery collection services expenditures are $15.7 million, which is 72% of the $21.7 million in budgeted Recycling Fund expenditures. FY 2010 budgeted AB 939 fee revenues from private haulers to the Recycling Fund are $7.1 million. Prorating the budgeted AB 939 fee revenues, 72% of the $7.1 million, or $5.1 million, would cover recycling collection expenditures.

storm water regulations under the NPDES permit program continue to be significantly revised and expanded.

Fiscal Impact
The FY 2010 Operating Budget for the department is $37.7 million. The Department is also receiving $12.7 million in proceeds from the $102.2 million Deferred Maintenance Bond for storm drain maintenance.

The primary source of funding for the Storm Water Department is the City's General Fund. The City of San Diego currently collects a storm drain fee from water and sewer utility customers for the purpose of reimbursing the General Fund in funding for the operation and maintenance of the City's storm drain infrastructure, including compliance with the Municipal Storm Water Permit. The current rate, which was established in July 1996, is $0.95/month for single-family residence meters and $0.0647 per hundred cubic feet of water use for multi-family, commercial, industrial and other types of utility accounts. This generates revenue of $6 million per fiscal year, which for FY 2010 constitutes about 12% of the budgetary cost of the department, which includes the operating budget and the proceeds from the Deferred Maintenance Bond.

The Storm Drain fee rate, at the time it was created in 1990, was $0.50 per month for "single family residential dwelling account" and an average of $0.04 per month, per hundred cubic feet (HCF) of water consumed by multi-family, commercial or industrial accounts. According to a January 11, 1990 City Manager's report, these rates were able to fully offset the costs of storm drain maintenance to the General Fund, which were estimated to total $800,000 for the last six months of FY 1990 and $2.0 million for a full year in FY 1991. The report also recognized that "costs for the Storm Drain Program in future years will increase dramatically." Fee rates rose in 1992, and again to its current level in 1996. Increasing the fee prior to enactment of Proposition 218 required a resolution established by the City Council and posted by the City Clerk at least ten days prior to consideration of the resolution.

Since 1990, storm water regulations under the NPDES permit program have been significantly revised and expanded. Furthermore, as discussed above, the current permit is set to expire in 2013, and a new permit with potentially more regulations, which will require additional costs to comply, will be issued by the RWQCB. The Storm Water Department indicated that they are currently projecting future costs of complying with the current and future storm water regulations.

In addition to costs to comply with the permit, there is also a storm drain deferred maintenance backlog. IBA Review of the Mayor's Five-Year Financial Outlook, FY 2011-2015 (IBA Report No. 09-75) includes an estimate by City staff totaling this backlog to $100 million. As mentioned previously, in FY 2010, the Department received $12.7 million from the $102.2 million deferred maintenance bond to begin addressing this cost.

The Water Department is responsible for billing and collecting the storm drain fee. According to the latest information from the department's billing system, there are 220,519 single family resident water meter connections to the Water System. The storm drain rate for these customers is a flat fee of $0.95/month, which creates $2.5 million in revenue a year. In addition, other types of accounts including commercial, multi-family residences, and industrial accounts, pay according to water consumption, or usage, which is measured in hundred cubic feet (HCF). In FY 2009, this usage totaled approximately 62 million HCF. The storm drain rate for these accounts is $0.0647 per HCF, and therefore, generates $4.0 million in revenue. This generated approximately $6.5 million in revenue for FY 2009.

The table below outlines the current collection rates for the City's storm drain fee based on the Water Department's collection figures. Also included in the bottom half of the table are hypothetical rates if the City were to fully recover the FY 2010 operating costs for the program (excluding the Deferred Maintenance bond proceeds), which is $37.7 million.

Customer Type	Fee Type	Rate	Usage		Revenue Generated	Percentage of Total Revenue
Single Family Residential	Flat fee Per Single Family Residence Meters	$0.95/month	220,519 customers		$ 2,513,917	38.60%
Commerical and Other	Per Hundred Cubic Feet (HCM)	$0.0647/HCM	61,791,356 HCF		$ 3,997,900	61.40%
				TOTAL:	$ 6,511,817	100%
Customer Type	Fee Type	Cost Recoverable Rate (approximately)	Potential Usage		Revenue Generated	Percentage of Total Revenue
Single Family Residential	Flat fee Per Single Family Residence Meters	$5.49/month	220,519 customers		$14,533,382	38.60%
Commerical and Other	Per Hundred Cubic Feet (HCM)	$0.374/HCM	61,791,356 HCF		$23,117,866	61.40%
				TOTAL:	$37,651,248	100%

Implementation

As a "property-related fee" any modification to the storm drain fee must meet Proposition 218 requirements. Proposition 218, approved in November 1996, restricts property-related fees, or those that are imposed "as an incident of property ownership." Therefore, any storm drain fee modification requires approval in an election by either (a) a majority of property owners, or (b) two-thirds of the general electorate for this measure to pass.

Proposition 218 also requires that property-related fees comply with the measure's "calculation requirements." Specifically, the City must make sure that no property owner's fee is greater than the proportionate cost to provide the property-related service to his or her parcel. When the fees were first implemented, there was no evaluation of fee proportionality or equity issues, as is now required by Proposition 218.

A fee may also not exceed the cost of government to provide the service. Therefore, to ensure that revenue collected does not exceed the cost of performing Storm Water-related functions, the department must determine the costs to fully comply with current and

future storm water regulations, which includes any deferred maintenance of the storm drain system.

To determine an accurate fee calculation, a cost of service study is necessary. A cost of service study includes determining a storm water rate structure that is adequate to fund the City's costs of repairing and rehabilitating the storm water drainage infrastructure and complying with the City's NPDES permit as well as a fee structure that is in conformance with requirements of Proposition 218.

In 2002, the City of San Diego entered into an agreement with professional engineering consultant Brown and Caldwell for the development of a cost of service study. However, because of funding issues, the study was not completed until 2005. According to the Storm Water Department, the 2005 study could be utilized and updated instead of commencing a new study. Updating the study would take an estimated six months to complete.

Once the cost of service study is complete and a fee amount is identified, the next step is to move forward with a "public awareness and understanding program" to inform property owners of the proposed fee changes and why the changes are occurring. The Storm Water Department indicated that based on discussions with other agencies that have been through this process, this type of outreach would take between six to twelve months to complete.

Once the cost of service study and public awareness process is complete, Proposition 218 requires local governments to complete the following prior to placing the proposed fee on the ballot:

- Mail information regarding the proposed fee to every property owner.
- Hold a hearing at least 45 days after the mailing.
- Reject the proposed fee if written protests are presented by a majority of the affected property owners prior to the hearing.

Based on the timing estimates for the cost of service study and public outreach, as well as the protest period for property owners, it would take an estimated thirteen to nineteen months before a measure is ready to be placed before the voters, which at the earliest would be for the election in June 2012.

Beach, Bay, Balboa Park, and San Diego Zoo Parking Fee

Instituting a parking fee at Balboa Park, the San Diego Zoo, and City beaches, bays and parks has been a recurring suggestion at public forums as a possible option for the City to raise revenue.

In June 1993, the City Council considered the imposition of parking fees at beaches and at Balboa Park, which was estimated at that time to generate $10.7 million annually, and approximately $5.0 million in its first six months, based on a proposed $5-a-day fee.

Concerns were raised about the impact on attendance at museums and other cultural institutions as well on those that volunteer their time to those organizations in Balboa Park. Several public meetings were held throughout the community, and it was reported that public comment was strongly opposed to the proposed fees. Proponents of the fee said that much of the money would come from nonresidents, who account for as much as 50% of users, and fees would also serve as a deterrent for those out late. At the time, it was estimated that 10,300 public parking spaces would be affected. In considering the fees, some Council members discussed ensuring that city maintenance at the beaches and coastal areas would not be reduced in future years if a parking fee were to be implemented. However, ultimately the parking fees were not adopted, and other fee increases and service reductions were implemented to offset the lost revenue in finalizing the FY 1994 budget.

In May 2005, City staff proposed a non-city resident fee for seasonal beach/bay parking. Estimates at that time suggested annual revenue of $1.15 million. It was noted that implementation of a fee for paid parking would require approval by the California Coastal Commission. In preparing the proposal, staff identified 63 parking lots (approximately 8,880 parking spaces) within the beach and bay area from Mission Bay Park to La Jolla Shores. Within this inventory, 44 lots containing approximately 8,000 spaces, which are highly utilized during the peak season of Memorial Day through Labor Day as well as weekends and holidays in March, April, May, and September, were recommended to be subject to the fee.

Implementation of a Non-City Resident Fee for use of these lots was described to recover costs associated with the maintenance of facilities throughout the beach and bay area. Additionally, it was discussed that paid parking programs typically encourage a more efficient use of limited parking spaces, which in the case of heavily utilized beach and bay lots, should result in increased access to the beach area through parking turnover. The fee proposal was structured to exclude City of San Diego residents, and fees would be charged only from 8:00 a.m. until 7:00 p.m. Use of the parking lots would be free before and after these times. Fees of $6 for up to four hours (with a $10 maximum per day) would be charged daily from Memorial Day through Labor Day as well as weekends and holidays in March, April, May and September. It was proposed that a parking management company be utilized for fee collection.

The 2005 proposal failed to receive City Council approval. Since that time, during review of other park and recreation fees, City Attorney advice has been received that the State Public Resources Code (Section 5162) states that: "any beach or seashore recreation area owned, leased, operated, controlled, maintained or managed by a city or county which is open to the use of residents of such city or county shall be open to all members

of the public upon the same terms, fees, charges and conditions as are applicable to the residents of such city or county. This section would seem to preclude the City's ability to charge a non-resident fee for areas adjacent to the beaches.

In addition, following the passage of Proposition C related to the use of Mission Bay Lease Revenues in 2008, Mission Bay Park Lease Revenues are now defined to mean:

... all revenues collected by the City of San Diego from commercial and non-profit sources within Mission Bay Park, including but not limited to all monetary consideration received under leases of city owned property within Mission Bay Park, as well as revenue collected from contracts for concessions or any other revenues collected for the use of city owned property within Mission Bay Park. The term does not include revenue from the Mission Bay Golf Course, unless privately leased; mooring fees; any revenues from taxes including but not limited to Transient Occupancy Taxes, sales taxes, possessory interest taxes, property taxes; or permit fees such as park and recreation fees or special event fees to the extent those fees are levied to recover actual costs incurred by the City of San Diego.

This definition appears problematic if fees were to be charged for parking at Mission Bay Park, and could result in parking fee revenue to be subject to the Charter language requiring it to be dedicated to park improvements, instead of treated as revenue to the City's General Fund. If parking fees were to be designed to recover costs, and possibly excluded from the definition, an analysis of eligible costs would be necessary to support the amount of the fee, and the locations where a fee would be instituted.

A legal opinion on these issues would be necessary to determine the applicability of these legal requirements, and how the City could proceed to ensure compliance with the law. Because of the many candidate locations and considerations needed to designing access restrictions and appropriate enforcement mechanisms, the services of a parking consultant would be desired to seriously evaluate options, update previous assumptions, and determine a realistic estimate of revenues to be generated under various scenarios.

Zoo & Balboa Park Parking

The San Diego Zoo is owned by the City of San Diego and is operated by the nonprofit Zoological Society of San Diego through a 55-year lease-operating agreement through 2034. The Zoo's leasehold currently consists of 124.1 acres consisting of 99.43 acres of zoological gardens and 24.67 acres of the public parking lot in front of the Zoo. The City, as a matter of public policy, does not regulate the programs and activities of the various park institutions within their facilities except as stipulated by lease agreements. The Zoo parking lot is subject to the leasehold and is under the control of the Zoological Society. Any revenue generated by a parking fee at the Zoo would belong to the Zoological Society, and would not benefit the City of San Diego.

The City has approved plans for the Zoo to remove several surface parking lots and to expand its exhibit and garden space, in conjunction with the construction of a four-level, underground parking structure.

Separately, the Balboa Park Committee has begun work to identify alternative methods related to the funding, management and governance of Balboa Park, and to plan for the park's future. Parking and user fees at Balboa Park have been identified among the sources of funding for needed improvements, along with funding allocations expected from Mission Bay Lease Revenues (Proposition C), to address issues of transportation, circulation and parking. These plans, like the Zoo, are expected to include the construction of underground parking structures, which may ultimately be funded or financed with parking fees.

The institution of parking fees in these areas as a means to generate revenue for the City's General Fund appears to be incompatible with longer-term plans under development for the San Diego Zoo and Balboa Park.

Fiscal Impact
Implementing a parking fee at Balboa Park, the San Diego Zoo, and City beaches, bays and parks would require additional research to address many of the aforementioned legal and logistical issues. Due to this, the total fiscal impact of parking fees is currently unknown.

Emergency Response Fees

First Responder Service Fee
A First Responder Service would be a fee assessment to recover the costs of providing emergency medical services by the Fire-Rescue Department. In a medical emergency, the San Diego Medical Services Enterprise (SDMSE) and Fire-Rescue Department paramedics are both available to provide an emergency response. Approximately 60% of the time, a Fire & Rescue paramedic is the first on scene to provide a medical response. SDMSE will arrive on the scene and transport the patient to a medical facility. SDMSE is reimbursed for transporting the patient at an average charge of $892 per patient. With a First Responder Service Fee, Fire & Rescue would be able to recover the costs for the medical response, in addition to SDMSE.

To support the high costs associated with the provision of quality medical response, other municipalities have fee systems in place. The City of Anaheim has an Anaheim Fire Department Paramedic Membership Program where patients pay $350 per response, per person for each medical aide response. As an alternative to a payment per incident, residents and businesses can opt to pay $3 per month ($36 annually) as a type of insurance coverage for incidents. The payments are in addition to the costs of ambulance transport. Arcadia has a program where residents and businesses can pay an annual

amount ($40 and $42 respectively) for coverage against having to incur the costs of an emergency medical response.

In 2004, City of San Diego staff explored the establishment of a First Responder Service Fee, but the fee proposal was not approved by Council. The proposal was for the implementation of a $175 fee for all Advance Life Support (ALS) services and $125 for all Basic Life Support (BLS) services. At the time of the proposal, it was estimated that a First Responder Service Fee would generate $2.1 million in net new revenue for the General Fund. Our office has been unable to get an updated estimate for a possible new proposal of a First Responder Service Fee at this time.

Accident Negligence Fee

Another variation of cost recovery for emergency response was recently considered and approved within the San Miguel Consolidated Fire Protection District in San Diego County. In January of this year, the District Board approved a fee to recover the costs of emergency response from residents and non-residents at fault in traffic accidents. The fees range from $390 to $2,100 depending on the level of response required. At the lower range, the fee covers the cost of securing the safety of the accident scene and investigation; at the higher end, the range covers costs that include helicopter transport.

False Alarm Fee

The Police Department charges a false alarm penalty fee to recover the annual costs of false alarms. The fee schedule discourages repeat offenses with penalties that increase with the number of offenses. The department's burglar alarm permit fee also recovers the cost of one false alarm per permit. The burglar alarm permit fee is expected to generate $3.1 million annually, which would recover approximately 79% of the costs of administrative and false alarm response. Residential permits are $100.25 and commercial permits, $173.25 annually, with the commercial permit rate being higher since commercial alarms comprise nearly 70% of alarm calls. The following chart details the burglar alarm penalties.

Burgular Alarm Penalites	Amount
1st Revocation	$110
2nd Revocation	$220
3rd Revocation	$440
4th Revocation	$2,200
Penalty for not obtaining permit	$146.75

The Fire Department has no such fee structure to recover the costs associated with false alarms.

Fiscal Impact
Per Council Policy 100-05, fee amounts can be established to recover the cost of a service provided. Setting any type of emergency response fee within the City of San Diego would require the determination of the actual direct and indirect costs associated with the service through a fee study. The fee would have to be approved by the City's Chief Operating Officer, reviewed by the Budget and Finance Committee, and approved by the City Council.

The fiscal impact of these fees is currently unknown given that a cost of service study would have to be undergone to determine the costs associated with particular emergency response services, and thus the rate to be imposed for cost recovery.

9-1-1 Phone Fee

A 9-1-1 Phone Fee has been considered by a number of cities as way to support emergency response and dispatch systems. There is a statewide telephone surcharge to support local 911 systems, but this funding covers only a fraction of the costs associated with 9-1-1 systems. The City of San Francisco was the first city within California to implement the fee, at $2.75 per month per phone line, $20.62 per month per truck line, and $371.15 per month per high capacity line. A 2008 court of appeals ruling in a Union City case regarding its 9-1-1 fee maintained that the fee is a special tax that requires a 2/3^{rds} voter approval since it applies to all customers irrespective of their usage of 9-1-1 services, and therefore could not be deemed a user fee.

Since this ruling, San Francisco placed a proposition on the ballot where voters approved the 9-1-1 phone fee as a tax. The tax revenue is allocated to support police, fire, and emergency services as determined by the Board of Supervisors.

Fiscal Impact
Per past IBA estimates, a $3 per month tax on land lines would generate $16.0 million revenue.

General Plan Maintenance Fee

A General Plan Maintenance Fee (GPMF) is a fee or charge levied on development permits applications for the purpose of funding General Plan Updates (GPU) and other planning services. The City of San Diego currently levies a flat rate GPMF of $88 on certain permit application in order to partially recover costs associated with reviewing development plans for consistency with the General Plan or other Land Development Code provisions. The GPMF currently generates approximately $600,000 per year. In recent years there has been discussion about increasing the GPMF in order to provide a sufficient funding stream for the timely and routine update of the City's more than 40

community plans. As a result, Community Plan Updates (CPU) are primarily funded by the General Fund.

State law allows cities and counties to establish fees in order to support planning efforts, provided that such a fee shall not exceed the reasonable cost of providing the service for which the fee is charged. Numerous other jurisdictions throughout the state levy General Plan Maintenance Fees in order to fund a variety of planning services and activities. In addition, these fees are structured differently. For instance, the City of Sacramento levies a GPMF of $2.00 per $1,000 of building permit valuation, with a maximum fee of $20,000, which is estimated to generate approximately $13.1 million over 10 years. This fee is intended to support regular five-year updates to the General Plan, regular five-year master environmental reviews, updates to community plans, and staff costs for five Long Range Planners.

Fiscal Impact

The City Council may increase the GPMF by legislative action, subject to certain public noticing and hearing procedures as specified under State law. In order to increase the General Plan Maintenance Fee, the City would first need to identify what planning services are to be funded with fee revenue, and estimate the cost of such services. The cost of a community plan update varies. The Barrio Logan CPU is estimated to cost approximately $2.5 million; however, other multi-community CPU efforts range from $2.5 million to $3.3 million. Prior to implementing a fee increase, numerous factors would need to be considered such as the total cost of the planning services to be funded, appropriate fee methodology and structure, and cost recovery targets.

Comprehensive User Fee Study

On March 10, 2009, the City Council approved the General Fund User Fee Policy. The purpose of the policy is to provide general guidelines and to incorporate best practices in establishing user fees to ensure that the City adequately recovers costs for services it provides to the public. The two objectives of the policy are:

a. Establish a comprehensive User Fee Policy which will allow the City to identify the full cost of services for activities that charge user fees in order to develop target costs recovery rates.
b. Bring existing fee levels in-line with service costs to ensure that all reasonable costs incurred in providing these services are being recovered.

Following the adoption of the Policy, the Council adopted new and/or revised fees for the following departments:

- City Clerk

- City Treasurer
- Community and Legislative Services
- Development Services/Neighborhood Code Compliance
- Engineering and Capital Projects
- Fire-Rescue
- Library
- Park and Recreation
- Police

The FY 2010 Budget included $6.5M in total user fee revenue increases from the above departments. The Policy calls for regular annual changes to user fees in the General Fund to be proposed to the City Council during the annual budget process. In addition, approved changes are to be published in the City's user fee rate book and posted on the City's website, both of which shall be maintained by the Office of the City Clerk.

Prior to Council adoption of the Policy and the subsequent adoption of new and/or revised fees, the IBA noted in Report No. 09-08, "General Fund User Fee Policy":

> *A comprehensive user fee study should also be conducted and presented to Council in addition to the proposed user fee policy. Only a comprehensive study of all general fund fees and recovery rates will provide to the Council complete information on present cost recovery rates and will allow for full consideration of all fees. This analysis is necessary for Council to determine any further changes.*

The Policy states that although fees should be reviewed on an annual basis, an annual comprehensive user fee study "may not be cost-effective" due to the volume of work involved in reviewing all fees. According to the policy, in-depth user fee studies should be undertaken every two to five years and annual adjustments should be based on changes in the Consumer Price Index (CPI) or other annually adjusted inflators.

At the February 25, 2009 meeting of the Budget and Finance Committee, the Committee recommended that Financial Management staff return to the Committee on September 9, 2009 with a draft comprehensive fee study. At the time, the Chief Financial Officer (CFO) noted fees had been updated comprehensively and that the completion of a comprehensive user fee study was not desirable at the time due to the impending implementation of the OneSD program. The CFO noted that this new system will provide better data on service costs and revenue in FY 2010.

As part of the FY 2011 budget development process, Financial Management has requested that all General Fund departments with user fees revise revenue projections for the current user fees using a CPI adjustment or other reasonable inflator.

Fiscal Impact
The completion of a comprehensive user fee study remains an opportunity that may be explored in the future. A comprehensive study would review the services of all departments, beyond those with existing fees that will be reviewed on an annual basis. We are unable to estimate the fiscal impact of a comprehensive study at this time.

OTHER REVENUE OPTIONS

Corporate Sponsorships

In 1999, the City established a Municipal Marketing Partnership Program. The purpose of the program is to explore business partnerships that can generate revenue for the City to support facilities, projects, programs, and activities, while limiting these partners to those that meet City objectives. The Program has been credited with the generation of over $20 million in revenue, in-kind services, and products since its inception. The City has existing partnerships with Verizon Wireless, the San Diego Metropolitan Credit Union, Cardiac Science, Pepsi Bottling Group, Inc., and the Qualcomm Stadium.

Council Policy 000-40, provides guidance for the development and management of marketing partnerships. In the policy, the specific procedures for the establishment of marketing sponsorships are delineated. Marketing partnership opportunities valued at $250,000 and above must participate in a Request for Sponsorship (RFS) process involving open competition and be approved by City Council. Partnerships of less than $50,000 only require approval by a Department Head or Director. Partnerships from $50,000 to $250,000 require mayoral approval.

Council Members have recently expressed a desire to further explore sponsorship and advertising opportunities to support lifeguard services within the City. These opportunities would involve the sponsorship of lifeguard uniforms and advertising on beach trashcans, lifeguard towers, and information boards.

Sponsorships to support lifeguard services have been attained by the City in the past. In 2002, the city secured a two-year agreement with General Motors for 29 vehicles for use by City lifeguards. As a part of the agreement, General Motors was able to place company graphics on the vehicles and advertise as the City's lifeguard services partner.

The particular lifeguard sponsorship proposals relating to advertising on beach trashcans, lifeguard towers, and information boards, violate current signage regulations within the City of San Diego Municipal Code. Implementing these options within the City would require Council approval of amendments to the Municipal Code.

Fiscal Impact
Sponsorship revenue can vary based on the level and type of marketing involved. For the particular opportunities relating to lifeguard services, the competitive RFS process would determine the potential revenue impact. RFS participants would determine a value for the sponsorship based on conditions within the San Diego market. The City of San Diego would be able to select the best pricing option among the bidders. The potential fiscal impact for the sponsorship opportunities is currently unknown.

CONCLUSION

This report provides the Citizens' Revenue Review and Economic Competitiveness Commission with a number of revenue generating options for possible consideration in addressing its revenue review mandate. In reviewing the revenue options in the report, beyond the fiscal impact, the Commission will have to evaluate the viability of specific options based on a number of policy considerations, including impacts to tax payers and implementation concerns. Since many of the options outlined require voter approval, the Commission's recommendations will contribute to a larger discussion involving citizens, stakeholder groups, and city officials that will ultimately determine the feasibility and realization of any of the revenue solutions.

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