

DATE ISSUED: July 14, 2004

REPORT NO. 04-155

ATTENTION: Committee on Rules, Finance and Intergovernmental Affairs
Docket of July 14, 2004

SUBJECT: Financial Analysis of Proposed Transient Occupancy Tax Ballot Measure

REFERENCE: Recommendations for Proposed Transient Occupancy Tax Ballot Measure

SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE COMMITTEE OR THE CITY COUNCIL.

BACKGROUND

On June 30, 2004 at the Rules Committee meeting, there was discussion of increasing the Transient Occupancy Tax. During this discussion, the Committee asked several questions about how to best use and generate Transient Occupancy Tax (TOT) to help sustain and improve tourism in the City of San Diego.

DISCUSSION

It is in the interest of the City of San Diego to maintain a strong tourism economy and thus ensure fiscal strength through the maintenance and growth of TOT revenues. A two-part, balanced approach is recommended to achieve these goals.

Marketing

The first part would be to continue to support the San Diego Convention Center Corporation (SDCCC) and the San Diego Convention and Visitors Bureau (ConVis). Through SDCCC and ConVis, the City of San Diego is marketed to target audiences and competes with top destination

cities for the business of tourists and conventioners. The City provides funding to the SDCCC for operating requirements of the Convention Center and contributes to the debt service payments for the Center's recent expansion. Funding is also provided to ConVis to market the City of San Diego as a travel destination.

Similar funding allocations to local Convention and Visitors Bureaus vary among popular tourist destination cities. Attached is a requested comparative analysis which reflects the amount of TOT funds allocated by various jurisdictions to their local Convention and Visitors Bureaus and Convention Centers. Funding provided to each local Convention Center is slightly more uniform, based on the data available, with the San Diego Convention Center requiring a smaller subsidy, second only to the Anaheim Convention Center, which does produce profit. In a March, 2003, report commissioned by the City of San Diego, compiled by Public Financial Management, Inc. the report noted that Anaheim benefits from significant parking revenues.

Both SDCCC and ConVis provide performance information and related financial reports regularly to the City, allowing opportunities to assess the effectiveness of funding allocations made by the City of San Diego. Continual monitoring of the performance of the agencies and the funding allocated, as is done each fiscal year, should allow the City to modify funding allocations as needed to ensure that San Diego is marketed to its highest potential.

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The second part in a balanced approach to maintaining a strong tourism economy, is to maintain the attractions and attributes that heighten visitor experience and encourage repeat travel to San Diego. San Diego may achieve this through endeavoring to be a safe, clean and friendly city with stimulating opportunities for travelers.

According to *City Crime Rankings*, San Diego is the 5th safest large city in America and the commitment to public safety by the City Council should ensure that San Diego continues to be one of the safest cities in America.

Public resources should also be a priority for the City, including Balboa Park, Mission Bay Park, beaches, Mission Trails Regional Park and our municipal golf courses. Additionally, the City invests in arts and culture programming and economic development for local businesses which enhance the experience of tourists and the tourism economy of San Diego. As reported in the Commission for Arts and Culture's Economic Impact Report, it is estimated that the cultural tourist spends more time in San Diego than the average tourist and spends more money each day. These positive impacts on the San Diego economy should be supported through enhancement of cultural resources.

CONCLUSION

An increase in the TOT rate would assist the City in executing these strategies and maintaining our strong tourism economy. A general tax is recommended, which would require a majority

vote of the citizens and minimize the use of earmarking of funds consistent with the City's Budget Principle #6, which was supported by the Blue Ribbon Committee on City of San Diego Finances:

“Discretionary General Fund revenues should not be earmarked, thereby allowing maximum flexibility in funding decisions on an annual basis.”

Earmarking of revenues and Maintenance of Effort Requirements were significant fiscal concerns regarding Proposition C on the March 2004 ballot and it is recommended that any new ballot measure minimize these concerns to enhance the City's fiscal position.

Similar to the current Council Policy 100-03, *Transient Occupancy Tax*, the City Council may wish to establish guidelines, versus earmarking, for the use of any new TOT funds to allow the greatest flexibility to meet the priorities of the Mayor and City Council. Uses for these funds could include allocations for marketing San Diego as a tourist and convention destination, improvements to tourist attractions, both natural and cultural, and provisions for public safety, which will ensure that San Diego will remain a desirable destination.

Respectfully submitted,

Lisa Irvine
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Approved: P. Lamont Ewell
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Attachment : [Transient Occupancy Tax: Comparative City Information](#)