

To: San Diego Union-Tribune  
From: League of Women Voters San Diego  
Re: Transient Occupancy Tax  
Date: Feb. 4, 2004

Proposition C on the March ballot is named "Emergency Services, Roads, Parks, Tourism and other Specified Uses Ordinance." It sounds like something worth supporting. So why has the League of Women Voters issued this warning: Prop.C is bad for the city's health! Let us explain.

Prop.C proposes three changes to city law and rolls them into a single package. The first change would raise TOTs (city taxes on hotel room bills) from 10.5% to 13%. The second would take half of the entire TOT income and earmark the money according to a mathematical formula. The third would reduce the legislative powers of the mayor and councilmembers to pay for city-wide and unexpected public needs.

Right off, there's an obvious problem. This is a package deal, which means we're given only one choice – all or nothing. What are voters supposed to do if they support one or even two of Prop.C's changes but strongly oppose the other(s)? Is this a responsible way to make important changes in the way we run city government? Is it even legal?

There's another major problem, but it's more hidden. It's focused on the real beneficiary of Prop.C – the tourism industry. For years, tourism interests fiercely opposed hiking the city's rock-bottom TOTs. Now, prodded by the inevitability of a TOT increase, they've taken control of shaping this initiative and cloaking the extravagant increases they give themselves, \$7M in the first year on top of the \$19M in public funds they already get. To do this, they play on our fears about inadequate fire and police funding. After all, who wouldn't support a new pot of money for public safety? We certainly do, which is all the more reason to evaluate Prop.C piece by piece.

First, is an increase in the TOT warranted? Definitely. The proposed 2.5 cent increase is modest enough to maintain San Diego's competitive edge over comparable cities. In fact, we have the latitude to increase it even more.

Second, should we earmark, that is, appropriate half of all TOT revenues to designated organizations through set-in-stone percentages? True, this would provide a welcome new income source for the fire department and more funds for the police department, and it would reassure current TOT beneficiaries that their funding would not fall below a minimum level. But the quid pro quo, the blood being exacted, comes at a high price. Locking in an irrevocable and munificent 36% increase in funding to the tourism industry, already bloated with public money, would transfer the anticipated gains from a 2.5 cent TOT increase right into the deep pockets of Convis, the Convention Center, and even a private promotional business operating outside city limits (San Diego North Convention and Visitors Bureau). It fully eclipses the benefits to traditional TOT recipients like major parks, city streets, the arts, and our library system.

Third, should we tie the hands of our elected officials to prevent any discretionary allocation of more than \$68M in general funds, half the TOTs? Based on established policy, the League opposes any reduction in legislative responsibility through the earmarking of general fund revenues unless offset

by demonstrable and compelling benefits. Does a proposition requiring six new fund entities, each with attendant administrators, in addition to a new "tourism promotion review board" with five out of six appointed members picked from the hotel and tourist business upper management echelons, bode well for our city? Or would these new entities further bloat our bureaucracy, increase costs, and prevent centralized responsibility – an unacceptable fallout under any circumstances, and now more than ever in light of present threats to the city's economy and credit rating.

In defiance of "conventional wisdom" that says voters won't muster a 2/3 vote to pass a tax increase unless every penny is accounted for, Proposition C should be rejected. It can and should be replaced in the near future by a straightforward proposal to increase tourist hotel taxes without paralyzing city government. And without preventing us from cutting subsidies to corporations that ought to be standing on their own. And without formulas that prevent us from sending windfall gains to our fire, police, infrastructure, and other central city services.

[NB: A couple of years ago the League undertook an objective review of San Diego's TOT. We analyzed years' worth of city budgets, conducted interviews, and compared information from many cities. We concluded that the public interest would be better served if the following conditions were met: 1) a transparent and accessible TOT budget, overseen by a responsible TOT administrator; 2) a collaborative planning process establishing funding priorities; 3) restoration of Housing Trust Fund financing by TOTs; 4) a TOT rate mirroring that of comparable cities; and 5) readjustment of TOT allocations from programs that market tourism industry growth and toward greater cost-recovery for tourist-related impacts. It is self-evident that, aside from #4, Proposition C fails to meet these criteria.]