

Proposition F: Coronado Transient Occupancy Tax Increase

SDCTA **OPPOSES** Proposition F, the City of Coronado's proposed Transient Occupancy Tax (TOT) increase. Coronado has not demonstrated a need to increase revenue. While the City has a consistently balanced budget, officials claim new sources of revenue are needed due to the end of redevelopment. These same officials have also stated the City has no specific use for the new revenue proposed to be generated. One way the City can help reduce future cost increases is to implement a lower cost retirement plan for new employees.

- A Transient Occupancy Tax, or TOT, is a tax paid on hotel rooms or other similar lodging arrangements.
- The Coronado City Council has moved to place a measure on the November 2012 ballot that would increase the TOT from 8% to 10%.
- The City's current TOT of 8% contributed approximately \$8,800,000 to the City's General fund in FY 2012. Increasing the TOT 2% would generate an additional \$2.2 million per year in revenue to the general fund.¹
- Between FY 2002 and FY 2011 the City's annual pension payments increased by 355 percent, from \$1.1 million to \$5.2 million.
- The City will see a decrease in pension costs beginning in FY 2012 due to the elimination of the City paying the employee's required pension costs.
- The City has yet to implement a second, lower-tier retirement formula for new employees.
- Coronado's Transient Occupancy Tax accounts for 24% of its General Fund revenues.
- The City of San Diego's TOT accounted for 6.6% of its total general fund revenue in Fiscal Year 2012.
- The City of Coronado is projected to have a General Fund budget surplus of \$183,100 for FY 2013, with \$38.8 million in revenue and \$38.6 in expenditures.²

¹ Coronado City Council Staff Report, Special Meeting, Jul 30, 2012.

² City of Coronado Adopted Financial Plan and Capital Improvement Program, Fiscal Year 2012-2013

Proposition F: Coronado Transient Occupancy Tax Increase

Board Action:

OPPOSE

Title: *Proposition F- City of Coronado TOT Increase*

Election: November 2012 General Election

Description: Raise the Transient Occupancy Tax in the City of Coronado from eight percent to ten percent.

Jurisdiction: Local

Type: Municipal Code Amendment

Vote: Simple Majority

Fiscal Impact: A two percentage point increase in the Transient Occupancy Tax would generate \$2.2 million

Rationale:

SDCTA opposes increasing the Transient Occupancy Tax (TOT) from eight percent to ten percent in the City of Coronado because Coronado has not demonstrated a need to increase revenue. While the City has a consistently balanced budget, officials claim new sources of revenue are needed due to the end of redevelopment. These same officials have also stated the City has no specific use for the new revenue proposed to be generated. One way the City can help reduce future cost increases is to implement a lower cost retirement plan for new employees.

Background:

The TOT is a revenue raising mechanism unique to the State of California, which gives municipalities the authority to “levy a tax on the privilege of occupying a room, rooms, or other living spaces in a hotel, inn, tourist home, or house, motel, or other lodging unless the occupancy is for a period of no more than 30 days.”³

Coronado last increased its TOT in May 1995 when the Coronado City Council raised the TOT from 7 percent to 8 percent.⁴ The Coronado Tourism Improvement District, established in 2010, collects a 0.5 percent assessment on top of the TOT from Coronado’s four largest hotels—the Hotel Del Coronado, Loews Coronado Bay Resort, Marriott’s Coronado Island Resort, and the Glorietta Bay Inn. This assessment is used to fund marketing and public relations efforts to increase the number of overnight visitors to the City of Coronado and to positively impact businesses that depend on tourism.⁵

According to the most recent Economic Census, accommodation and food service sales account for \$246.5 million of Coronado’s \$340.8 million GDP, or 72.3 percent of the City’s economy.⁶ The City of Coronado contains eighteen hotels that would be impacted by the TOT increase:

³ California Revenue and Taxation Code Section 7280-7283.51

⁴ Coronado City Council Analysis of Increasing the Transient Occupancy Tax

⁵ Coronado Tourism Improvement District Website

⁶ US Census Bureau Economic Census, 2007

- Admiral at Promenade Coronado
- Beach Village at the Del
- Best Western Suites Hotel Coronado
- Cherokee Lodge Bed and Breakfast
- Coronado Beach Resort Condos
- Coronado Inn
- Coronado Island Inn
- Crown City Inn
- El Cordova Hotel
- Glorietta Bay Inn
- Hotel Del Coronado
- La Avenida Inn
- Loews Coronado Bay Resort
- Marriot Coronado Island Resort
- Oakwood Coronado Bay Club
- SuiteAmerica Coronado Bay Club
- Villa Capri by the Sea
- 1906 Lodge at Coronado Beach

City of Coronado Pension Costs

The City of Coronado has implemented labor contracts with its employee groups that require employees to contribute the full required contribution toward pension costs (eight percent for non-safety employees and nine percent for safety employees). Despite this particular reform to employee pension benefits, the City has yet to implement a second, lower-tier retirement formula for new employees. New safety employees will continue to be enrolled within the “3% @ 50” retirement formula while new non-safety employees will continue to be enrolled within the “3% @ 60” retirement formula.

Between Fiscal Year (FY) 2002 and FY 2011 the City’s annual pension payments increased by 355 percent, from \$1.1 million to \$5.2 million (Figure 1). As previously stated, the City will see a decrease in pension costs beginning in FY 2012 due to the elimination of the City’s paying the employee’s required pension costs.

Figure 1: City of Coronado Pension Costs

Fiscal Year	Required Contribution	"Pick-Up" Costs	Total
2002*	\$ -	\$1,142,487	\$ 1,142,487
2003	\$ 568,170	\$1,257,886	\$ 1,826,056
2004	\$ 888,957	\$1,267,990	\$ 2,156,947
2005	\$ 2,782,708	\$1,236,545	\$ 4,019,253
2006	\$ 3,262,909	\$1,273,126	\$ 4,536,034
2007	\$ 3,401,531	\$1,329,895	\$ 4,731,426
2008	\$ 3,295,118	\$1,351,096	\$ 4,646,214
2009	\$ 3,435,170	\$1,398,217	\$ 4,833,387
2010	\$ 3,522,042	\$1,513,591	\$ 5,035,634
2011	\$ 3,720,705	\$1,480,749	\$ 5,201,454
*City's pension fund was superfunded and did not require a contribution			
Source: City of Coronado 2002 – 2011 CAFRs			

Proposal:

The Coronado City Council has adopted a resolution to formally place a measure on the November 6, 2012 ballot asking voters to approve an increase in the TOT from eight percent to ten percent.⁷ Because revenue generated by the TOT increase would go to the City's General Fund, only a 50% + 1 majority is needed to approve the measure, rather than the 2/3 majority required for revenue raising measures that contribute to specific funds.

The question before voters will read:

“Shall the ordinance amending Coronado’s Municipal Code to increase the City’s Transient Occupancy Tax (Hotel Tax) from eight to ten percent be adopted?”

Coronado Mayor Casey Tanaka cites the elimination of redevelopment funding for “maintenance and replacement” of city buildings such as Coronado’s City Hall, Police Station, Library, and Community Center in his request that the City Council place a measure on the November ballot asking voters to raise the TOT.⁸

Coronado’s redevelopment agency, the Community Development Agency (CDA) had been the City’s main source of funding for construction and maintenance of public facilities before it was eliminated earlier this year when the State of California dissolved all redevelopment agencies⁹.

⁷ Coronado City Council Staff Report, Special Meeting, Jul 30, 2012

⁸ Casey Tanaka, Mayor of Coronado, “Memorandum requesting consideration of a proposal to put an item before the voters of the City of Coronado to increase the Transient Occupancy Tax”. Jul 6, 2012

⁹ Casey Tanaka, Mayor of Coronado, “Memorandum requesting consideration of a proposal to put an item before the voters of the City of Coronado to increase the Transient Occupancy Tax”. Jul 6, 2012

Fiscal Impact:

The City's current TOT of eight percent will contribute approximately \$8.8 million to the City's General fund in Fiscal Year (FY) 2011-2012. Increasing the TOT two percentage points would generate an additional \$2.2 million per year in revenue to the General Fund.¹⁰

Coronado's Transient Occupancy Tax accounts for 24 percent of its General Fund revenues¹¹, while the City of San Diego's TOT accounted for 6.6 percent of its total general fund revenue in FY 2012.¹²

The City of Coronado is projected to have a General Fund budget surplus of \$183,100 for FY 2013, with \$38.8 million in revenue and \$38.6 million in expenditures.¹³

The City of Coronado has been ranked 16th in the nation in local government spending on current operations of parks and recreation and 22nd in the nation in local government spending on current operations of libraries per resident.¹⁴

Policy Discussion:

Impact of TOT Increase

Local governments are inclined to increase the TOT as a way to raise revenue without burdening local taxpayers, as tourists and other out-of-town visitors pay for the rate increase. In addition to increasing funding for maintenance of public facilities such as the library and community center, Mayor Casey Tanaka also cites protection of the City's finances against future threats and unforeseen responsibilities as justification for the proposed TOT increase.

While a TOT increase would have no direct impact on many Coronado residents, the tax hike would negatively affect those connected to the hospitality, restaurant, and tourism industries in Coronado; sectors that account for the largest share of the City's economic activity. More expensive lodging bills would negatively impact visitor spending on dining and tourist attractions. Visitors to Coronado presumably have a finite amount of money to spend and thus higher fees tacked on to hotel bills mean fewer dollars spent on meals and activities. This effect could spill over into the City of San Diego and could lead to reductions in spending by visitors staying in Coronado on attractions such as SeaWorld and the San Diego Zoo.

Conversely, an increase in Coronado's TOT would enable hotels in the City of San Diego and other parts of the county to better compete with Coronado hotels. Coronado is one of just four local governments in San Diego County with a TOT below ten percent. A higher TOT in Coronado would help hotels in the City of San Diego. The benefit could offset reduced visitor spending on tourist attractions in the City of San Diego.

¹⁰ Coronado City Council Staff Report, Special Meeting, Jul 30, 2012.

¹¹ City of Coronado Adopted Financial Plan and Capital Improvement Program, Fiscal Year 2012-2013

¹² City of San Diego General Fund Revenues, Fiscal Year 2012

¹³ City of Coronado Adopted Financial Plan and Capital Improvement Program, Fiscal Year 2012-2013

¹⁴ City-Data.com 2004

Coronado’s Pension Plan

The Mayor’s concern over future threats and unforeseen responsibilities may be a reference to Coronado’s growing unfunded pension liability. Between FY 2012 and FY 2013, Coronado held the largest increase in its unfunded liability of any city in San Diego County at 12.9 percent, well ahead of second place Oceanside, which saw an 8.8 percent increase in its unfunded liability during the same period.¹⁵

The City has yet to adopt a new lower-tier retirement plan for new employees as a means to help reduce future pension costs. While the City has eliminated paying the employee’s share of pension costs, new employees are continuing to be enrolled within the current expensive pension plan.

Redevelopment Funding

Before the elimination of redevelopment in California earlier this year, Coronado used loose definitions of “blight”—the City of Coronado has a median household income of \$91,071—to collect redevelopment funds from the state, allowing the City to initiate expensive development projects in the City.¹⁶ Recent projects include \$1.6 million for an expansion of the Coronado Rotary Plaza in 2009, \$1.7 million for a Glorietta Bay Promenade in 2009, and \$41 million for ongoing upgrade and construction projects including improvements to the City’s tennis center and Village Theatre.¹⁷

Figure 2: Redevelopment Agency Expenditures

CDA Expenditure Item	FY2008	FY2009	FY2010	FY2011
City Projects	\$1,267,872	\$1,258,913	\$2,334,809	\$3,656,606
Marina Projects & Operations*	\$2,241,778	\$4,757,040	\$532,400	\$1,218,746
Restaurant Operations	\$3,421	\$21,870	\$22,500	\$21,900
City Development	\$1,610,619	\$5,184,568	\$975,894	-\$2,000,000
Admin Expenses	N/A	\$407,804	\$468,630	\$469,140
*Includes capital projects, operation costs and other expenses				

Since FY2008, the City’s redevelopment agency has paid for a number of capital and ongoing maintenance items (Figure 2). While personnel costs are included within these costs, a number of other items such as downtown enhancements and major capital projects are also included. The debt service for these larger projects and other obligations to other entities such as the Coronado Unified School District have been included in the City’s obligation schedule submitted to the state as required following the elimination of redevelopment.

Mayor Tanaka cites a need for funding to replace redevelopment money that once came through Coronado’s redevelopment agency, the Community Development Agency (CDA),

¹⁵ San Diego County Taxpayers Association. “An Update and Comparison of the Region’s Upcoming Pension Costs”. Mar 1, 2012.

¹⁶ City of Coronado Adopted Financial Plan and Capital Improvement Program, Fiscal Year 2012-2013. P 23.

¹⁷ San Diego Union Tribune.

for maintenance and construction of public projects. Following the end of redevelopment, the City's Successor Agency filed an Enforceable Obligation schedule that includes: bonded debt service payments; Sharp Coronado Hospital capital improvement obligations; Coronado Unified School District program management obligation; Successor Agency administrative costs; affordable housing obligations; and loan repayments. In total, for the six month period covered under the obligation schedule, approximately \$8.1 million in expenditures is being submitted for reimbursement by the state.

Use of Tax Revenues

At the Special Council Meeting held to consider placing a TOT increase on the November ballot, Councilman Mike Woiwode argued that the City needs more revenue as a cushion against future costs. However, Councilman Woiwode admitted the City has no specific use for the additional revenue that would come from increasing the TOT.¹⁸ Rather than increasing the tax burden on the local tourism industry to finance expensive public works projects, the City could alternatively maintain its balanced budget by reforming employee pensions or reducing park expenditures.

List of Proponents:

- Coronado Mayor Casey Tanaka
- Coronado Councilman Mike Woiwode

Proponent Arguments:

- Coronado's redevelopment agency, CDA, was responsible for funding the construction and maintenance of public structures and facilities until the State of California dissolved all redevelopment agencies earlier this year. Without CDA, there will no longer be a direct funding source for maintenance and replacement of public structures. The revenue raised from an increase in the TOT would be used to cover these costs and would largely come from the pockets of tourists without burdening Coronado taxpayers.
- Even with an increase from 8% to 10%, Coronado would still have one of the lowest TOT rates in San Diego County.¹⁹
- Increasing the TOT just 2 percentage points will generate an additional \$2.2 million per year in revenue to the General Fund.

List of Opponents:

- A list of opponents was not filed.

Opponent Arguments:

- No ballot arguments were filed.

¹⁸ City of Coronado Special Council Meeting. Jul 30, 2012

¹⁹ Casey Tanaka, Mayor of Coronado, "Memorandum requesting consideration of a proposal to put an item before the voters of the City of Coronado to increase the Transient Occupancy Tax" Jul 6, 2012