

## **Proposition U: Santee Transient Occupancy Tax Increase**

SDCTA **OPPOSES** Proposition U, the City of Santee's proposed Transient Occupancy Tax (TOT) measure. Currently, the City "picks up" four percent of the pension cost for miscellaneous and five percent for safety employees. The City should eliminate employer-paid member contribution (EPMC) because it would provide more substantial relief to the General Fund than increasing the TOT.

- The City of Santee ended Fiscal Year (FY) 2012 with a \$710,400 deficit
- The City experienced a 15 percent reduction in General Fund revenues between FY 2007 and FY 2011.
- The recent loss of redevelopment resulted in a \$1.2 million impact to the City's General Fund.
- The City has spent \$3.4 million in reserves since FY 2007 to make up for decreased tax revenues and the recent loss of redevelopment.
- The City recently implemented adjustments to its user fee schedule that are estimated to generate an additional \$471,690 per year.
- A transient occupancy tax, or TOT, is a tax paid on hotel rooms or other similar lodging arrangements.
- Proposition U would increase the TOT from 6% to 10%.
- This increase is expected to generate an additional \$239,000 in annual revenue for the City's General Fund.
- The measure would also re-define "hotels" to include campsites and "operators" to include online travel companies.
- At the request of Padre Dam Municipal Water District, the City of Santee passed a resolution exempting visitors staying for longer than a month. The TOT would only apply to those staying less than a month.
- Prior to October 2009, the City of Santee paid the full employee contribution for pension plans—8% of annual salary for miscellaneous employees and 9% for safety employees.
- Effective October 1, 2009, the City no longer picks up all of the employee's pension contribution. It now pays 4% of annual salary for miscellaneous employees and 5% for safety employees.



**Proposition U: Santee Transient Occupancy Tax Increase**

**Board Action:**

**OPPOSE**

**Title:** *Proposition U- City of Santee TOT Increase*

**Election:** November 2012 General Election

**Description:** Raises the Transient Occupancy Tax in the City of Santee from six percent to ten percent.

**Jurisdiction:** Local

**Type:** Municipal Code Amendment

**Vote:** Simple Majority

**Fiscal Impact:** A four percent increase in the Transient Occupancy Tax would generate approximately \$239,000 in additional annual revenue for the City of Santee.

**Rationale:**

SDCTA opposes Proposition U because the City of Santee should consider eliminating the employer-paid member contribution (EPMC) as an alternative method of balancing the City's budget. With the added exemption of long-term visitors from the TOT, Proposition U will no longer be able to achieve its stated purpose—to balance the City's budget. Prior to October 2009, the City of Santee picked up the full eight percent of EPMC for miscellaneous employees and the full nine percent for safety employees. Although the City now contributes four percent of annual salary for miscellaneous employees and five percent for safety employees, SDCTA believes that City employees should be responsible for paying the entirety of their expected employee contribution. Combined with the already implemented adjustments to the City fee schedule, the elimination of EPMC would provide more permanent General Fund relief than an increased TOT.

**Background:**

The City of Santee recently announced that it ended Fiscal Year 2012 with a \$710,400 budget deficit. With an added impact of \$1.2 million to the General Fund as a result of the elimination of redevelopment, the City has been forced to use \$3.4 million in reserves from FY 2007 through FY 2012 to protect current service levels. The City projects that it will have to use an additional \$800,000 in reserve funds in FY 2013, bringing its overall contingency down to approximately \$6.4 million. The City of Santee's General Fund reserve policy states that it should maintain at least \$8 million in reserves, yet the City has been below this threshold since the end of FY 2011. The following chart shows the City of Santee's annual revenues from property and sales & use taxes during the period of FY 1999 through FY 2011:

Figure 1: The City of Santee's General Fund Revenues by Property and Sales & Use Taxes (2011 dollar)

FY	Property Tax	% Change	Sales & Use	% Change	Total Revenue	% Change
1999	\$11,175,804	-	\$7,012,712	-	<b>\$27,821,262</b>	
2000	\$11,254,730	1%	\$7,470,456	7%	<b>\$27,239,084</b>	<b>-2%</b>
2001	\$11,471,854	2%	\$7,498,748	0%	<b>\$27,948,875</b>	<b>3%</b>
2002	\$11,183,470	<b>-3%</b>	\$7,163,987	<b>-4%</b>	<b>\$26,992,283</b>	<b>-3%</b>
2003	\$11,368,605	2%	\$7,714,397	8%	<b>\$26,898,663</b>	<b>0%</b>
2004	\$12,679,041	12%	\$8,080,481	5%	<b>\$27,085,599</b>	<b>1%</b>
2005	\$13,457,299	6%	\$8,435,128	4%	<b>\$29,739,924</b>	<b>10%</b>
2006	\$20,029,275	49%	\$8,793,249	4%	<b>\$31,124,811</b>	<b>5%</b>
2007	\$22,978,521	15%	\$8,890,333	1%	<b>\$34,576,949</b>	<b>11%</b>
2008	\$23,429,992	2%	\$8,614,236	<b>-3%</b>	<b>\$33,215,597</b>	<b>-4%</b>
2009	\$23,925,539	2%	\$7,612,583	<b>-12%</b>	<b>\$31,956,694</b>	<b>-4%</b>
2010	\$23,237,087	<b>-3%</b>	\$7,326,161	<b>-4%</b>	<b>\$31,107,142</b>	<b>-3%</b>
2011	\$21,610,723	<b>-7%</b>	\$7,984,974	9%	<b>\$29,304,226</b>	<b>-6%</b>

Source: FY 1999-FY 2011 CAFRs

As the table shows, property tax collections decreased by 10 percent from FY 2009 to FY 2011. Since property taxes are the greatest source of revenues in the City, these decreases undoubtedly had a significant impact on the ability of the City of Santee to maintain a balanced budget. Despite a recent recovery in sales & use revenues in FY 2011, annual revenues decreased by 18 percent between FY 2007 and FY 2010. The reductions in these revenue sources had the effect of reducing the City's overall General Fund revenues by 15 percent from FY 2007 to FY 2011. Therefore, the table demonstrates that the City of Santee is still feeling the lingering effects of the recent recession on its ability to collect property and sales taxes.

In addition to these reductions in revenue sources, the City of Santee is also projecting an increase in expenditures. Mainly, it contracts its law enforcement services with the San Diego County Sheriff's Department, which projects annual costs to increase between 1.65 percent and 4.75 percent over the next five years. The City has already attempted to address its deficit by eliminating 25 full-time equivalent positions since 2009. Moreover, it has not issued cost of living adjustments or any other type of pay increase since 2008. The following table displays the City's General Fund expenditures from FY 2009 through FY 2011:

*Figure 2: The City of Santee's General Fund Expenditures (2011 dollar)*

FY	Expenditures	Transfers Out	Total	% change
1999	\$28,178,325	\$1,134,509	<b>\$28,130,688</b>	
2000	\$28,681,604	\$52,465	<b>\$27,575,264</b>	<b>-2%</b>
2001	\$26,512,915	\$0	<b>\$25,443,686</b>	<b>-8%</b>
2002	\$26,905,389	\$252,551	<b>\$26,062,698</b>	<b>2%</b>
2003	\$27,665,646	\$18,445	<b>\$26,567,630</b>	<b>2%</b>
2004	\$27,814,911	\$0	<b>\$26,693,174</b>	<b>0%</b>
2005	\$30,323,256	\$0	<b>\$29,100,361</b>	<b>9%</b>
2006	\$30,863,257	\$129,048	<b>\$29,742,428</b>	<b>2%</b>
2007	\$34,547,727	\$16,231	<b>\$33,167,056</b>	<b>12%</b>
2008	\$32,729,056	\$251,615	<b>\$31,648,909</b>	<b>-5%</b>
2009	\$34,041,035	\$361,589	<b>\$33,015,214</b>	<b>4%</b>
2010	\$31,783,600	-\$1,352,049	<b>\$31,294,204</b>	<b>-5%</b>
2011	\$30,189,927	\$26,000	<b>\$30,893,050</b>	<b>-1%</b>

Source: FY 1999-FY 2011 CAFRs

In spite of projected increases for law enforcement costs, the City of Santee has actually reduced its General Fund expenditures by six percent from FY 2009 through FY 2011. Yet, the City has been unable to maintain a balanced budget since FY 2008 because the decreases in tax revenues have consistently outpaced the decreases in expenditures. Upon closer examination, it appears that the City of Santee has reduced its annual expenditures by changing its policy on employer-paid member contribution (EPMC). In the City of Santee, participation in CalPERS is based on miscellaneous employees contributing eight percent of their annual salary towards their pension plans and safety employees contributing nine percent. Prior to October 1, 2009, the City made the full contribution on behalf of both miscellaneous and safety employees.<sup>1</sup> Effective October 1, 2009, miscellaneous employees must contribute four percent and safety employees must contribute five percent.<sup>2</sup> The City picks up the remaining amount, which is four percent for both miscellaneous and safety employees. This shift away from picking up the entirety of the employee's contribution has reduced pension costs. The following table displays the annual pension costs at the City of Santee from FY 1999 through FY 2011:

<sup>1</sup> The City of Santee, "2010 Comprehensive Annual Financial Report." Dec. 22, 2010.

<sup>2</sup> Ibid.

*Figure 3: The City of Santee's Annual Pension Costs (2011 dollar)*

FY	ARC	EPMC	PARS	Total	% Change
1999	\$698,085	\$644,378	\$7,014	<b>\$1,349,478</b>	
2000	\$31,360	\$652,756	\$7,301	<b>\$691,417</b>	<b>-49%</b>
2001	\$0	\$667,506	\$7,781	<b>\$675,287</b>	<b>-2%</b>
2002	\$0	\$693,443	\$11,881	<b>\$705,324</b>	<b>4%</b>
2003	\$27,757	\$742,067	\$10,067	<b>\$779,892</b>	<b>11%</b>
2004	\$201,339	\$801,857	\$9,049	<b>\$1,012,245</b>	<b>30%</b>
2005	\$1,099,083	\$884,923	\$8,395	<b>\$1,992,401</b>	<b>97%</b>
2006	\$1,564,037	\$878,186	\$8,898	<b>\$2,451,122</b>	<b>23%</b>
2007	\$1,768,728	\$892,512	\$12,517	<b>\$2,673,757</b>	<b>9%</b>
2008	\$1,951,509	\$948,293	\$14,035	<b>\$2,913,837</b>	<b>9%</b>
2009	\$2,070,802	\$971,296	\$9,499	<b>\$3,051,597</b>	<b>5%</b>
2010	\$2,037,695	\$636,011	\$9,007	<b>\$2,682,713</b>	<b>-12%</b>
2011	\$1,525,745	\$505,213	\$10,727	<b>\$2,041,685</b>	<b>-24%</b>

Source: FY 1999-FY 2011 CAFRs

The table demonstrates that the change in the employee contribution rate resulted in a 33 percent decrease in annual pension costs from FY 2009 through FY 2011. Despite the effect that this had on reducing General Fund expenditures, the City of Santee has still been unable to maintain a balanced budget.

In an attempt to reduce the City's deficit, the City hired Matrix Consulting Group in February 2011 to perform a full cost allocation plan and comprehensive user fee study. The results of this study demonstrate that the City could increase its revenues by adjusting user fees so that they are more closely aligned with the actual cost of providing services. For instance, the Planning and Engineering fee schedule had not been adjusted in more than 15 years. As a result, the study identified approximately \$260,100 in additional annual revenues to the city's General Fund if it adjusted its application fees from a flat rate to a full cost recovery methodology that covers the full cost of intake, review, and processing of an application. These adjustments were approved by the Santee City Council and are in effect as of August 27, 2012. Across all departments, the City is expecting approximately \$471,690 in additional revenues to the General Fund.

The transient occupancy tax 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."<sup>3</sup>

The City of Santee has not increased its TOT since it was established at six percent upon incorporating into the County of San Diego in 1980. Santee's TOT is the lowest of all municipalities in San Diego County; 10 of the 18 municipalities in San Diego County have rates of at least 10 percent. Santee attempted to increase its TOT up to 15 percent in the 2000

<sup>3</sup> California Revenue and Taxation Code Section 7280-7283.51

November election. This measure, also known as Proposition U, failed to pass with only 44.6 percent of voters in support. SDCTA opposed this measure because it allowed the City to increase the TOT up to 15 percent without clearly justifying why such an increase might be necessary. In addition, SDCTA opposed Proposition U because the City Council pledged its “intent” to use the funds in order to maintain Town Center Community Park. If the revenues were intended for a specific use, SDCTA felt that the election should require a 2/3 majority rather than a simple majority.

The City of Santee contains three hotels and one campsite that would be impacted by the TOT increase:

- Best Western Santee Lodge
- The Lodge at Carlton Oaks County Club
- Rodeway Inn Santee
- Santee Lakes Campground and Cabins (300 RV hookups and 10 rental cabins)

### **Proposal:**

The Santee City Council unanimously adopted a resolution in July 2012 to formally place a measure on the November 6, 2012 ballot asking voters to approve an increase in the TOT from six percent to ten percent.<sup>4</sup> 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 Santee’s Municipal Code to increase the City’s transient occupancy tax from 6% to 10%, to include online travel companies as hotel operators, to include campsites as hotels, and to require payment of the tax before initiating a lawsuit be adopted to help preserve general City services such as park maintenance and law enforcement?”*

In addition to the proposed increase in the tax rate, one of the most significant provisions of this measure is the redefinition of “hotels” to include campsites. Because the City of Santee only operates three hotels, it would like to include Santee Lakes as a hotel, arguing that its guests also generate wear and tear on the City’s infrastructure during their stay. The current TOT of six percent was extended to include the cabins at Santee Lakes as of April 11, 2012. This measure would therefore make the 300 RV hookups eligible for payment of the TOT.

In addition to raising the TOT rate, the measure would redefine the “operators” of hotels to include online travel companies. This ensures that the City will be able to collect TOT revenues on all bookings, meaning both when payments are made in person at the site and online when reservations are made in advance. The addition of this clause redefining the term “operators” is significant because the City of San Diego and the City of Anaheim

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<sup>4</sup> Santee City Council, “Resolution No. 57-2012.” Jul. 11, 2012.



recently fought litigation that challenged the right of the cities to collect the TOT from online travel companies. In the City of San Diego, a court ruled that the TOT did not apply to online travel companies because the City's ordinance did not explicitly define them as "operators."<sup>5</sup> The proposed TOT measure makes this distinction.

Similarly, a recent interim decision in a case brought by online travel companies against the City of Anaheim determined that online travel companies can challenge the application of the TOT before paying it, unless the ordinance requires payment of taxes first.<sup>6</sup> As a result, the City of Santee has included a "pay first, litigate later" provision in its proposed TOT measure that would require online travel companies to pay the tax before beginning litigation.

Initially, the ballot language included a provision to re-define "transients" in order to levy the tax on the first 30 days of an individual's occupancy for stays of longer than 30 days. Because the changes to the TOT would alter the definition of hotels to include campsites, Santee Lakes would have to begin taxing its campers for the first time since it opened in 1961. As a result of these proposed changes, Padre Dam Municipal Water District, the agency that developed and manages Santee Lakes, petitioned the Santee City Council to remove the provision redefining transients.

According to Padre Dam, 70 percent of its reservations are made by long-term campers, many of whom are retired individuals that return to Santee Lakes on an annual basis.<sup>7</sup> A representative from Padre Dam spoke at the City of Santee's August 8, 2012 City Council meeting, and requested that the city provide a full TOT exemption for stays of thirty days or longer, including an exemption for the first thirty days of a longer stay.<sup>8</sup> This means that the tax would only be imposed on those staying less than 30 days. Padre Dam felt that levying a TOT on its long-term campers would adversely affect its occupancy rates by claiming that it would cause campers to stay at a site that did not levy a TOT.<sup>9</sup> Padre Dam further argued that this would have an adverse effect on sales tax collections in the City, as 63 percent of its guests leave the campground and visit local shops and restaurants during their stay. The City Council passed a resolution on August 22, 2012 which formally granted this TOT exemption and stated that any change in policy related to TOT exemptions must be subject to consideration at a future City Council meeting.<sup>10</sup>

### **Fiscal Impact:**

The City's current TOT of six percent contributed approximately \$116,300 to the City's General Fund in Fiscal Year 2012.<sup>11</sup> Initially, the City of Santee projected approximately \$264,000 in additional revenues if the changes to the TOT were to be approved by voters.

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<sup>5</sup> City of Santee City Council, "Agenda Statement 5A." Apr. 25, 2012.

<sup>6</sup> Ibid.

<sup>7</sup> Padre Dam Municipal Water District, "Board Agenda Report." Aug. 15, 2012.

<sup>8</sup> City of Santee City Council, "Agenda Statement 4B." Aug. 22, 2012.

<sup>9</sup> Padre Dam Municipal Water District, "Board Agenda Report." Aug. 15, 2012.

<sup>10</sup> City of Santee City Council, "Agenda Statement 4B." Aug. 22, 2012.

<sup>11</sup> City of Santee, "Amended Operating Budget General Fund FY 2011- FY 2012 and FY 2012-2013." Jan. 10, 2012.

However, after adding the exemption for long-term campers, the City expects a \$25,000 annual reduction in TOT revenues from the initially expected \$264,000.

Santee's TOT accounts for only four-tenths of one percent of its General Fund revenues, while the City of San Diego's TOT accounted for 6.6 percent of its total general fund revenue in FY 2012.<sup>12</sup> Initially, the TOT measure included a provision that levied the tax on the first 30 days of a longer period of occupancy. The following table demonstrates the effects that the originally proposed TOT increase and cost recovery methods would have had on the City of Santee's projected budget deficits:

*Figure 4: Impact of TOT Increase and Cost Recovery on Deficit*

	FY 12	FY 13	FY 14	FY 15	FY 16
Expected budget deficit	(\$710,400)	(\$235,000)	(\$499,000)	(\$509,000)	(\$519,000)
Revenues from cost recovery		\$103,000	\$230,000	\$235,000	\$240,000
Expected TOT revenues		\$132,000	\$269,000	\$274,000	\$279,000
Cost recovery + TOT revenues		\$235,000	\$499,000	\$509,000	\$519,000
<b>Remaining deficit</b>	\$ -	\$ -	\$ -	\$ -	\$ -

Source: Finance Department, City of Santee

As the table demonstrates, the City of Santee expected to maintain a balanced budget over the next four fiscal years by implementing the TOT increase and restructuring its fee schedule. However, due to the exemption of long-term campers from paying the TOT, the City is projecting \$25,000 less in annual revenues from the TOT increase. The following table displays the impact that the long-term exemption will have on the City of Santee's ability to maintain a balanced budget over the next four fiscal years:

*Figure 5: Impact of TOT Increase and Cost Recovery on Deficit with TOT Exemption*

	FY 12	FY 13	FY 14	FY 15	FY 16
Expected budget deficit	(\$710,400)	(\$235,000)	(\$499,000)	(\$509,000)	(\$519,000)
Revenues from cost recovery	-	\$103,000	\$230,000	\$235,000	\$240,000
Expected TOT revenues	-	\$132,000	\$269,000	\$274,000	\$279,000
Less: TOT exemption		(\$25,000)	(\$25,000)	(\$25,000)	(\$25,000)
Cost recovery + TOT revenues		\$210,000	\$474,000	\$484,000	\$494,000
<b>Remaining deficit</b>	(\$710,400)	(\$25,000)	(\$25,000)	(\$25,000)	(\$25,000)

Source: SDCTA

As the table shows, the addition of the TOT exemption for long-term campers has an adverse effect on the City's ability to maintain a balanced budget. The City of Santee has stated that it is pursuing a 100-120 room hotel in the downtown area, which would be an

<sup>12</sup> City of San Diego, "FY 2012 General Fund Revenues."



additional source of TOT revenue.<sup>13</sup> However, in the absence of an additional funding mechanism to make up for this shortfall, it appears that the City will still incur a slight deficit every year.

**Policy Discussion:**

Local governments are inclined to increase the TOT as a way to raise revenue without burdening local taxpayers, as tourists pay for the rate increase. In this situation, the City of Santee is looking to increase its TOT in order to alleviate the burden placed on it by its General Fund deficit.

Instead of passing Proposition U, a more permanent solution to Santee’s budget woes would be to eliminate EPMC. The City has already started moving in the right direction by eliminating the full “pick-up” in October 2009, mandating that miscellaneous employees contribute four percent of annual salary and that safety employees contribute five percent towards their pension plans. Since Proposition U is not projected to offset the City’s projected budget deficit, SDCTA recommends fully eliminating EPMC, because as the table below shows, doing so would have allowed it to pass most budgets since Fiscal Year 1999 with a substantial surplus:

*Figure 6: City of Santee’s Budget Surplus with Elimination of EPMC*

FY	Revenues	Expenditures w/o EPMC	Budget Surplus
1999	\$27,821,262	\$27,486,309	\$334,952
2000	\$27,239,084	\$26,922,508	\$316,576
2001	\$27,948,875	\$24,776,180	\$3,172,695
2002	\$26,992,283	\$25,369,255	\$1,623,028
2003	\$26,898,663	\$25,825,563	\$1,073,099
2004	\$27,085,599	\$25,891,317	\$1,194,282
2005	\$29,739,924	\$28,215,438	\$1,524,486
2006	\$31,124,811	\$28,864,242	\$2,260,570
2007	\$34,576,949	\$32,274,544	\$2,302,405
2008	\$33,215,597	\$30,700,616	\$2,514,981
2009	\$31,956,694	\$32,043,918	(\$87,224)
2010	\$31,107,142	\$30,658,193	\$448,948
2011	\$29,304,226	\$30,387,837	(\$1,083,611)

Source: FY 1999-FY 2011 CAFRs

While passing Proposition U would add approximately \$239,000 in annual revenues to the General Fund, the City could more effectively close its deficit by requiring all City employees to fund a fair share of their pensions. It is important to understand that the aforementioned adjustments to the City fee schedule are already in effect, regardless of whether or not Proposition U passes. Therefore, if the City eliminates EPMC altogether, it will most likely

<sup>13</sup> City of Santee, “In the Spotlight: Proposed TOT Increase and Quail Bush Project.” Jul. 19, 2012.

see substantially reduced expenditures because of lower pension costs as well as increased annual revenues of approximately \$471,960 from the fee adjustments. Ultimately, increasing the TOT alone will not provide lasting relief to the City's General Fund; eliminating EPMC is a much more permanent solution.

If the TOT measure does not pass and the City does not eliminate EPMC, the City of Santee will most likely continue using its reserve funds in order to maintain current service levels. Moreover, the City's deficit will most likely continue to grow in the absence of these funds. At its meeting on February 8, 2012, the Santee City Council discussed alternate methods of increasing revenues, one of which was a measure that would increase the sales and use tax. However, the City Council did not believe this would be palatable for residents, so it proceeded with the proposed TOT measure. As mentioned earlier, Santee has already cut 25 full-time equivalents since 2009 in attempt to offset the City's deficit. Ultimately, in the absence of any General Fund relief, it appears that the City will continue dipping into its already shrinking reserves while cutting more full-time equivalents in order to offset the deficit.

If the TOT measure is successful, the City will receive approximately \$239,000 in additional annual revenue to its General Fund. Although the TOT exemption for "long-term campers" reduces original projections of annual revenues, the introduction of a 10 percent TOT on visitors staying 29 days or less would still contribute towards reducing the City's projected deficit in the coming years. According to Padre Dam Municipal Water District, approximately 30 percent of their guests make reservations for less than 30 days, with only 18 percent of this group being Santee residents.<sup>14</sup> The fact that Padre Dam Municipal Water District took a neutral position on the measure after the TOT exemption was implemented demonstrates that it does not believe a 10 percent TOT on those staying less than a month would pose a significant threat to its occupancy rates.

In addition, the language of the measure provides a safeguard against legal action from online travel companies, who may protest against including online travel companies as "operators." By implementing a "pay first, litigate later" policy, the City of Santee will avoid the fallout that occurred in the City of Anaheim where online travel companies were able to challenge the applicability of the TOT before being forced to pay it.

In the end, the TOT measure coupled with the recent adoption of adjustments to the City's fee schedule would aid the City in its pursuit of a more balanced budget. However, levying the increased TOT is not projected to entirely offset the City's deficit in the coming years due to the exemption of long-term visitors from paying the tax. As a result, SDCTA opposes Proposition U because it will not fulfill its main goal of achieving a balanced budget. Instead of levying a tax increase, a much more permanent solution would be to eliminate EPMC because it will significantly lower pension costs. The average EPMC from FY 1999 to FY 2011 was approximately \$763,000 in 2011 dollars. Compared to the projected \$239,000 in additional revenues from the increased TOT, it is evident that eliminating EPMC would have a much more significant and lasting effect on reducing the City's General Fund deficit.

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<sup>14</sup> Padre Dam Municipal Water District, "Board Agenda Report." Aug. 15, 2012.

**Proponent Arguments:**

- The City of Santee currently has the lowest TOT rate in San Diego County at 6% and 10 of the 18 cities in San Diego County currently levy a 10% TOT.
- The TOT has been 6% since the City of Santee incorporated in 1980. As a result of inflation, the current rate no longer allows for proportional collection relative to past years.
- Increasing the TOT by 2% will generate an additional \$239,000 per year in revenue to the General Fund.
- Implementing this measure, coupled with the already approved changes to the fee schedules, would provide much needed relief to the City's General Fund which experienced a \$710,400 deficit in Fiscal Year 2012.
- Even if this measure does not completely balance the budget, it will mitigate the City's use of reserve funds. The city has spent \$3.4 million in reserves from Fiscal Year 2007 through Fiscal Year 2012, dipping below its \$8 million threshold in Fiscal Year 2011.

**Opponent Arguments:**

- If the City required employees to pay their fair share of pension costs, they would not have a General Fund deficit.
- Although the measure was initially crafted to offset the City's budget deficit, the addition of an exemption for campers staying a month or longer lowers TOT revenues and undermines the original intent of the tax--to offset current and future deficits.
- Introducing a TOT on the campsites at Santee Lakes will induce visitors to stay at other sites that do not have a tax. This would not only lead to lower TOT revenues than projected, but could also indirectly lower sales tax revenues as the lower number of visitors means less purchases made in the City of Santee.