

# San Diego County Taxpayers Association Review

Center on Policy Initiative's "The Bottom Line" Report





# CONTENTS

- Introduction .....3
- General Issues .....4
  - 1. The report makes unsupported economic assumptions. ....4
  - 2. The inclusion of San Francisco in the comparison set biases the results of the analysis. ....5
  - 3. In several instances the report excludes particular cities from comparison without providing clear and systematic rationale. ....6
  - 4. The report makes use of unaudited financial data for many of its analyses. ....6
- Specific Issues .....6
  - I. Revenues (pages 4-18).....7
    - General Revenue.....7
    - Tourism.....8
    - Real Estate.....9
    - Business Licenses.....9
    - Utilities and Refuse .....10
    - Construction Permits .....11
  - II. Expenditures (pages 19-31).....11
    - Safety.....14
    - Library.....16
    - Parks.....16
    - Streets, Highways and Storm Drains .....17
  - III. Conclusion (pages 32-33) .....17
- Conclusion .....18

## INTRODUCTION

The Center on Policy Initiative's "The Bottom Line" report has been a centerpiece of discussion regarding the City of San Diego's (City) fiscal situation for several years. The report compares California's ten most populated cities (as of 2003) on the basis of various forms of tax revenues and government expenditures. Among its findings are that San Diego is below average in collecting several types of tax revenues and expenditures on core services. The report concludes that the City's tax system has not allowed it to generate adequate revenues to meet the growing demand for services.

This critique demonstrates that a significant component of the analyses, claims, and conclusions within "The Bottom Line" are based on questionable logic and statistical methodology.

Outstanding issues in "The Bottom Line":

- Disregard of economic principles such as market factors and theory of efficient taxation.
- Lack of consideration of differences in fiscal, governmental, and social systems across municipalities.
- Inappropriate selection of municipalities for comparison, most specifically the City-County of San Francisco.
- Non-scientific exclusion of observations in comparative analysis.
- Use of questionable source data and references.
- Lack of citation of sources for data and statistics.

It is recommended that prior to drawing conclusions based on the claims of this report the Committee should see implementation of the following recommendations:

- Consideration of the differences in financial systems across cities.
- Use of audited financial data.
- Exclusion of San Francisco as a comparison municipality.
- Thorough examination of sources of data to ensure they are unbiased and relevant.
- Complete referencing of all sources of data and statistics.
- Incorporation of basic economic principles of markets such as examining the characteristics of the demand in the market in which a potential tax is being considered.
- Establishment of clear criteria for excluding any possible outliers in statistical comparisons.

Without thoroughly addressing these recommendations, the Committee should not consider "The Bottom Line" (*or any subsequent updates*) as a relevant source of guidance regarding the City's fiscal issues.

This critique will proceed by first presenting four general issues that span the entirety of the report followed by highlighting specific quotations and graphics for which additional comment and analysis are necessary.

## GENERAL ISSUES

### 1. THE REPORT MAKES UNSUPPORTED ECONOMIC ASSUMPTIONS.

Tax revenue collected from a proportional consumption tax can be defined by the following formula:

$$\text{Total Market Revenue} = \text{Price} \times \text{Quantity Demanded}$$

$$\text{Tax Rate} \times \text{Total Market Revenue} = \text{Tax Revenue}$$

To calculate the percentage change in total market revenue, the following formula is used:

$$\% \text{ Change Total Market Revenue} = \% \text{ Change Price} + \% \text{ Change Quantity Demanded}^1$$

**Example 1:** Downtown Camera Company currently sells 10,000 cameras per year at a price of \$75. Downtown Camera Company currently pays a sales tax rate of 8% of total revenues.

$$\text{Total Revenue} = \$75 \times 10,000 = \$750,000$$

$$\text{Tax Revenue} = 8\% \times \$750,000 = \$60,000$$

The report consistently assumes that total market revenue will remain constant as the tax rate changes. This conclusion relies on restrictive assumptions about the structure of the market. According to the report's assumption, the percent change in total market revenue is equal to zero. To demonstrate this, consider the following:

$$\% \text{ Change Total Market Revenue} = \% \text{ Change Price} + \% \text{ Change Quantity Demanded} \Rightarrow$$

$$0 = \% \text{ Change Price} + \% \text{ Change Quantity Demanded} \Rightarrow$$

$$\% \text{ Change Price} = -\% \text{ Change Quantity Demanded} \Rightarrow$$

$$\text{Price Elasticity of Demand}^2 = \% \text{ Change Quantity Demanded} / \% \text{ Change Price} = \% \text{ Change Quantity Demanded} / -\% \text{ Change Quantity Demanded} = -1$$

<sup>1</sup> Total Market Revenue = Price x Quantity Demanded  $\Rightarrow \ln(\text{Total Market Revenue}) = \ln(\text{Price} \times \text{Quantity Demanded}) \Rightarrow \ln(\text{Total Market Revenue}) = \ln(\text{Price}) + \ln(\text{Quantity Demanded}) \Rightarrow \partial \ln(\text{Total Market Revenue}) = \partial \ln(\text{Price}) + \partial \ln(\text{Quantity Demanded}) \Rightarrow \% \text{ Change Total Market Revenue} = \% \text{ Change Price} + \% \text{ Change Quantity Demanded}$

<sup>2</sup> According to the economic law of demand, consumers will purchase less of a good if the price of the good increases. This negative demand function allows economists to predict how consumers will react to changes in price. Price elasticity of demand is the most common measure used to determine consumers' sensitivity to changes in price. The price elasticity of demand is the proportional change in quantity demanded given a change in price. In other words, the price elasticity of demand measures how a percentage change in the price of a good will affect quantity demanded of that good.

**Example 2:** Downtown Camera Company increases its price to \$80, which leads to 625 less cameras being sold per year.

$$\% \text{ change in price} = (80-75)/[(80+75)/2] = 6.4\%$$

$$\% \text{ change in sales} = (9,375-10,000)/[(10,000+9,375)/2] = -6.4\%$$

$$\text{Total Revenue} = \$80 \times 9,375 = \$750,000$$

$$\% \text{ change in Total Revenue} = (750,000-750,000)/[(750,000+750,000)/2] = 0\% = 6.4\% + (-6.4\%)$$

However, assume that the amount demanded is actually higher than what Example 2 is predicated upon. For instance, if the number of cameras sold is only 500 less rather than 625.

**Example 3:** Downtown Camera Company increases its price to \$80, which leads to 500 less cameras being sold per year.

$$\% \text{ change in price} = (\$80-\$75)/[(\$80+\$75)/2] = 6.4\%$$

$$\% \text{ change in sales} = (9,500-10,000)/[(10,000+9,500)/2] = -5.1\%$$

$$\text{Total Revenue} = \$80 \times 9,500 = \$760,000$$

$$\% \text{ change in Total Revenue} = (\$760,000-\$750,000)/[(\$760,000+\$750,000)/2] = 1.3\% = 6.4\% + (-5.1\%)$$

As you can see, actual market conditions can vary, in which case total market revenue may fluctuate with changes in price. A price elasticity of demand equal to -1 is defined as unit elastic. Only in the event that price elasticity of demand is perfectly unit elastic will it be the case that total revenue will not change in response to the increase in tax rates. During its analysis of potential tax revenues, the report does not state the assumption that price elasticity of demand is unit elastic or provide empirical evidence to support such an assumption. This failure to acknowledge the influence of economic market factors greatly hinders the validity of potential revenue projections.

## 2. THE INCLUSION OF SAN FRANCISCO IN THE COMPARISON SET BIASES THE RESULTS OF THE ANALYSIS.

The comparison set used includes the top 10 most populated cities in California (according to the U.S. Census Bureau, American Community Survey 2003):

Los Angeles	Long Beach	Santa Ana
San Diego	Fresno	Anaheim
San Jose	Sacramento	
San Francisco	Oakland	

San Francisco's status as a consolidated city-county presents an immediate issue of comparability with other municipalities in the set. As a consolidated city-county, San Francisco has an expanded

jurisdiction and additional service obligations that are not traditionally encompassed by any other California city. In addition, analysis of San Francisco's statistics shows that it is a potential outlier, such as General Revenue per Capita of \$1,964 which is 2.72 standard deviations above the average of the 10 cities considered. The inappropriate inclusion of San Francisco may bias descriptive statistics (such as 10 city mean values) throughout the report. This critique will seek to recalculate descriptive statistics by removing San Francisco from the comparative set.

### **3. IN SEVERAL INSTANCES THE REPORT EXCLUDES PARTICULAR CITIES FROM COMPARISON WITHOUT PROVIDING CLEAR AND SYSTEMATIC RATIONALE.**

On page 13 (footnote 28) and page 17 (footnote 37) the report chooses to exclude cities from comparison during analysis. However, the author never gives a clear set of rationale by which the decision to exclude observations is made. Specific rationale assures that exclusion of observations is consistent across the entirety of the report. The author does give various justifications such as arguing that the data is "highly skewed" or "too small" to be included but fails to provide any statistical evidence to support these claims. Without these specific measures to ensure scientific rigor, the exclusion of observations can limit the validity of the report's conclusions.

### **4. THE REPORT MAKES USE OF UNAUDITED FINANCIAL DATA FOR MANY OF ITS ANALYSES.**

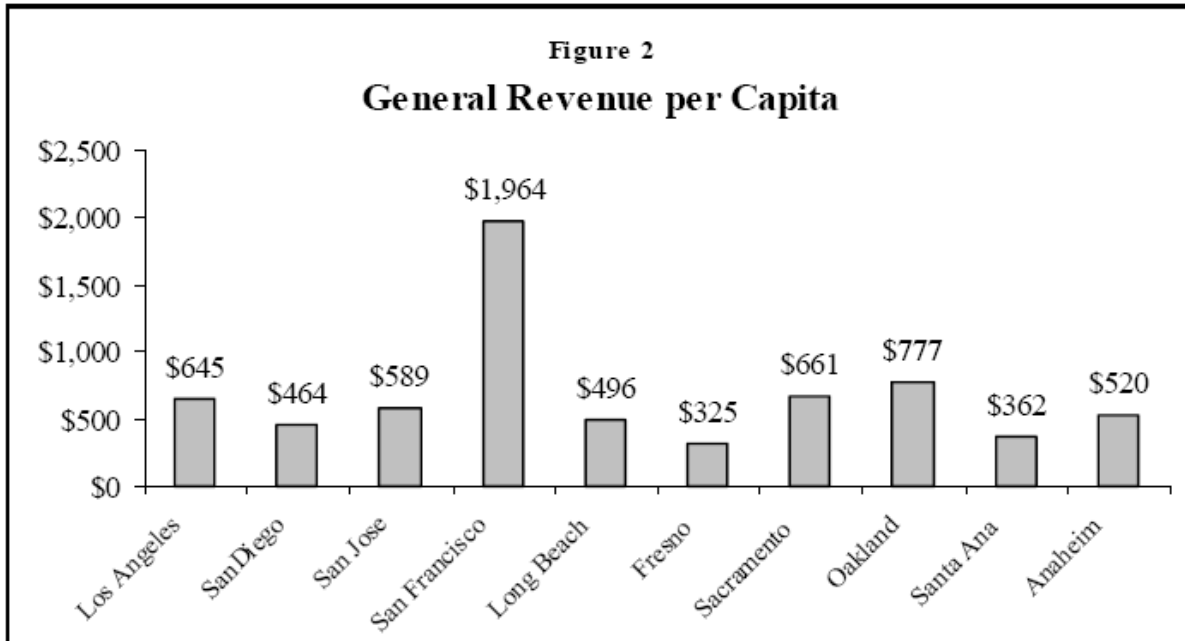
The report makes reference to data from the California State Controller's Annual Cities Report 93<sup>rd</sup> edition several times over the duration of the report, including constructing six graphs based on this data. In the cover letter to the Annual Cities Report, State Controller Steve Westly acknowledged that "it should be noted that the data are compiled from unaudited city reports submitted to the State Controller's Office". The validity of unaudited financial data is questionable given that Generally Accepted Accounting Principles (GAAP) have yet to be applied. As a demonstration of the possible errors in unaudited figures, the sales tax revenue reported in the Annual Cities Report for 2003 is \$189.9 million, while this same figure in City of San Diego 2003 Comprehensive Annual Financial Report (CAFR) is \$223 million. This is a difference of 16%. The Annual Cities Report also states, "Cities lack a prescribed uniform system of accounting. Therefore, readers should be cautious when making comparisons, because the components of an item of data are not necessarily the same for all cities." An analysis of raw general revenue or expenditure data (as is conducted in the report) ignores systematic differences in accounting and fiscal policies across cities and therefore greatly limits possible comparability.

## **SPECIFIC ISSUES**

The following section presents portions of the report in which questionable analysis, assumptions, or conclusions are presented. The critique advances chronologically throughout the paper, labeling each section as it is related to the original section in the report. This section will proceed by first presenting a quote and/or graphic from the report and then offering further analysis.

## I. REVENUES (PAGES 4-18)

### GENERAL REVENUE



Sources: Data on General Revenues from the California State Controller (2005), Cities Annual Report, 93<sup>rd</sup> ed using FY2002-03 financial statements. Data on population from 2002 US Census estimates (extracted from RAND).

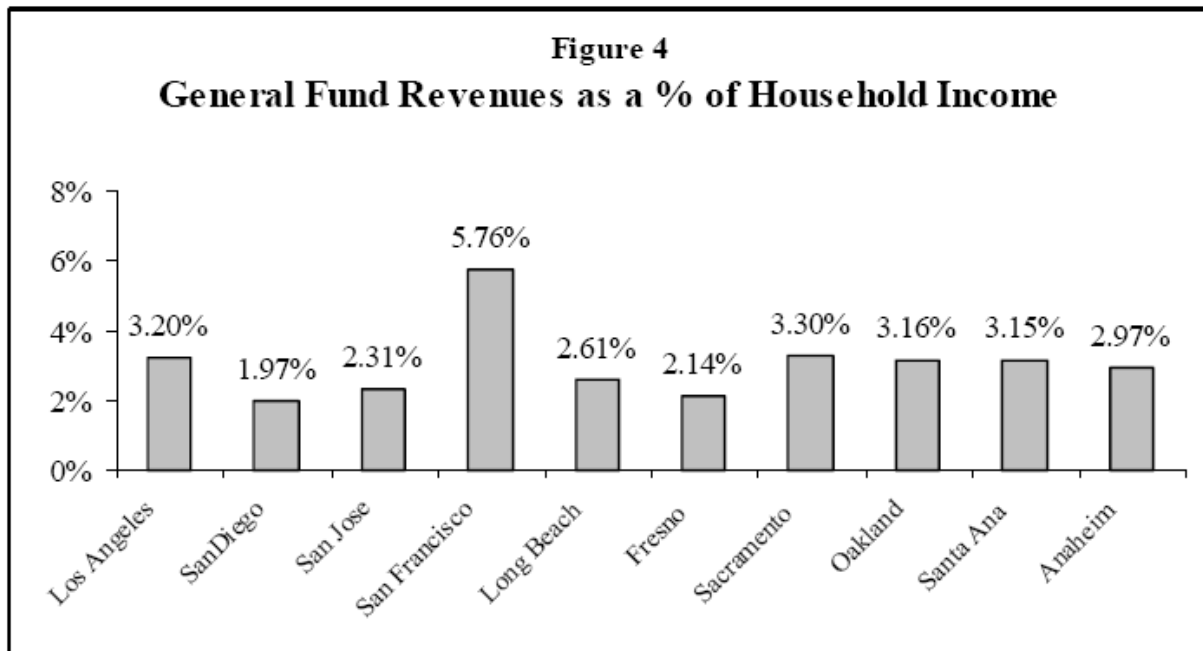
1. *“In FY2002-03, the City of San Diego raised \$464 per resident in General Revenue. In contrast, the average general revenue raised by the ten largest cities was \$693 per resident (see Figure 2).”* –page 5

**SDCTA Concern:** Using the data provided in Figure 2 the average general revenue raised per capita by the ten largest cities was actually \$680 (as opposed to \$693 as quoted). In addition, after removing San Francisco the average revenue raised changes to \$538 a decrease of \$142, and the median revenue raised is \$520.

2. *“When considering the contribution of residents to the city’s General Revenue, their incomes (and thus capacity-to-pay) should be factored in. The mean of all household incomes in San Diego was \$64,072 in 2003.”* –page 5

**SDCTA Concern:** Figure 3 of the report displays the mean household income of the residents in each of the 10 respective cities. The report goes on to argue that the mean household income is a fair indicator of a San Diego citizen’s “capacity-to-pay”. The median household income in San Diego is \$47,631, much lower than the mean of \$64,072. This suggests that the distribution of income in San Diego is skewed in the upper bound, that is, a small number of individuals account for a disproportionately large amount of income. Median values are less sensitive to extreme data values (such as a few extremely high income earners), and therefore median household income is a better indicator of “capacity-to-pay” than mean household income.





Sources: General Revenue data from the California State Controller (2005), Cities Annual Report, 93<sup>rd</sup> ed. Based on FY2002-03 financial statements; Household Income and Number of Households from the US Census Bureau, American Community Survey (2003).

3. *“This implies that the City of San Diego was able to raise as General Revenue only 1.97% of the total household income. In contrast, on average the ten largest cities were able to raise 3.18% of the total household income in General Revenue.”-page 6*

**SDCTA Concern:** Using the data provided in Figure 5, the 10 city average General Fund revenue as a % of household income is 3.06% (as opposed to 3.18% as quoted). After removing San Francisco from the sample, the average changes to 2.76% a decrease of .30%.

#### TOURISM

4. *“Since the rebound of the nationwide tourism industry last spring, San Diego’s hotel industry has been doing quite well. Last April, hotel occupancy levels averaged 71.5 percent, ranking fourth in the nation. Overall revenues from hotel rooms increased by more than 20 percent, and the demand for rooms soared over 15 percent in the course of one year. San Diego commands an average of \$15 more per room per night compared to properties in Anaheim, Los Angeles and Orlando... However, San Diego has the lowest Transient Occupancy Tax (TOT) rate among these top tourism destinations”- page 8*

**SDCTA Concern:** Following from the above quotation, the report concludes that San Diego’s hospitality industry has thrived independent of comparatively low TOT rates. However, this conclusion ignores any potential disruptions of economic market forces that may occur with increases in TOT rates.

5. *“If the City of San Diego were to charge TOT at 12.4 percent – the average of the ten largest California cities – it would generate \$9.9 million more in General Revenue annually.”-page 8*



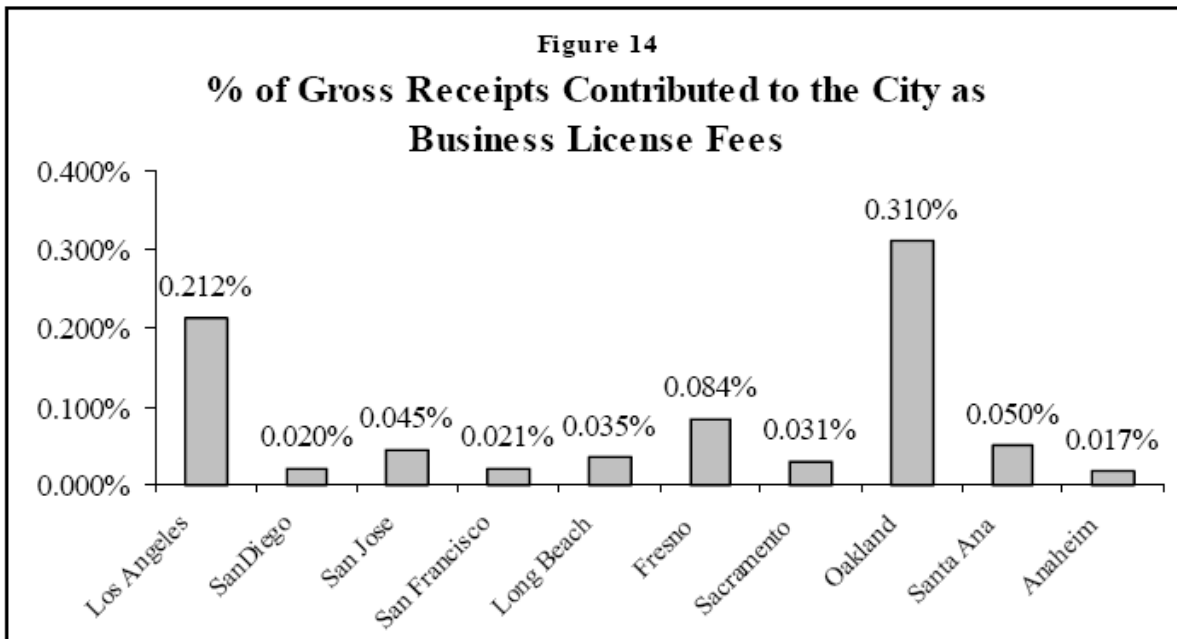
**SDCTA Concern:** The report makes no reference to methodology employed to determine the increase in TOT revenue given a rate increase to 12.4%. However, given the conclusion of revenue increase from \$105 to \$124 it can be assumed that the author multiplies the current taxable hospitality revenue by the increased TOT rate.<sup>3</sup> As described previously in the General Issues section the assumption that hospitality revenues will remain constant given an increase in tax rates assumes that price elasticity of demand is unit elastic. The author neither states this assumption nor provides evidence of its validity for San Diego’s hospitality industry.

REAL ESTATE

6. *“In FY2003, the City received \$8.4 million in total real estate sales/transfer tax. If San Diego’s Property Transfer Tax were increased to 0.328 percent for all transactions (residential and commercial), which is the weighted average of all the ten largest cities in California, then the City would generate additional revenue of \$41.4 million.”-page 10*

**SDCTA Concern:** Again no reference is made to the methodology used to determine the increase in tax revenue. However, it can again be assumed the report holds constant the level of real estate transactions while increasing the tax rate.<sup>4</sup> Despite this assumption, the author does not state or provide evidence that the price elasticity of demand in the real estate industry is unit elastic.

BUSINESS LICENSES



Sources: Business License Revenues from the California State Controller (2005), 93<sup>rd</sup> Cities Annual Report based on FY2002-03 annual financial statements. Gross Receipts is extracted from State of the Cities Data Systems (HUD): Data for Shipments/Sales/Receipts using the 1997 Economic Census. CPI-U for California from 1997-2003 is from BLS obtained from California Department of Finance.

<sup>3</sup> Approximate taxable hospitality revenue is \$105 million/10.5% = \$1 billion. \$1 billion x 12.4% = \$124.1 million.

<sup>4</sup> Approximate taxable real estate transactions is \$8.4 million/0.055% = \$15.3 billion x 0.328% = \$49.8 million.

7. *“Figure 14 shows that San Diego’s businesses pay the lowest Business License Fees, in proportion to the gross business receipts, of any of the cities considered.<sup>28</sup> The City of Anaheim was not considered comparable since business receipts are highly skewed by Disneyland and the sports stadium.”-page 13*

**SDCTA Concern:** The City of Anaheim is removed from comparison in the above passage. No evidence is presented to support the claim that Anaheim’s Gross Receipts were “highly skewed”.

**SDCTA Concern:** The source data for Figure 14 includes business license fee data from FY 2002-2003 and gross receipts data from 1997, a difference of six years. A multitude of economic factors likely changed over this six year period, making the data incomparable (on page 22 the report lists several economic factors that changed during a period that included a majority of these years).

To demonstrate the sensitivity of the resulting figures to underlying economic factors, consider a simple example (demonstrated below). Consider two generic cities (City A and City B) each with an average business license fee of 0.05%. Annual real (inflation adjusted) growth in gross receipts over the period 1997-2003 for City A is 10% and City B is 5%. Although both cities charge an average business license fee of 0.05%, the results of using the methodology employed to construct Figure 14 conclude that City A charges a larger business license fee than City B. Additionally, note that the results for neither city are equal to the true business license fee of 0.05%.

**Example 4**

**City A**

Gross Receipts (1997) = \$100 billion

Gross Receipts (2003) = \$100 billion x (1.10)<sup>6</sup> = \$177 billion

Business License Fees (2003) = \$177 billion x 0.05% = \$89 million

Business License Fees (2003)/Gross Receipts (1997) = **0.089%**

**City B**

Gross Receipts (1997) = \$100 billion

Gross Receipts (2003) = \$100 billion x (1.05)<sup>6</sup> = \$134 billion

Business License Fees (2003) = \$134 billion x 0.05% = \$67 million

Business License Fees (2003)/Gross Receipts (1997) = **0.067%**

This example shows that unless compatible data sources are used to construct this statistic its comparability is greatly restricted.

**UTILITIES AND REFUSE**

8. *“A free service offered by the city of San Diego is residential refuse collection.”-page 17*

**SDCTA Concern:** The People’s Ordinance and subsequent amendments have secured no-fee refuse collection for *single-family homes* in San Diego. However, multi-family dwellings, apartments, condominiums, and business buildings all must pay for refuse collection.

9. *“Were the City to charge the cost-recovery rate to the residential generators of trash, this would generate \$47.9 million in annual revenue.<sup>36</sup> Alternatively, were the City to charge at the average rate of the largest California cities (\$9.80/household/month) this would generate \$54.29 million in annual revenue.<sup>36</sup>  $\$8.64 \times 461,618 \times 12 = \$47,860,554$  (Source: Number of households is from the American Community Survey, US Census).”-page 17*

**SDCTA Concern:** The total number of households (461,618) as quoted from the American Community Survey includes all types of housing such as single-family, multi-family, apartments, and condominiums. For this reason, not all 461,618 households would generate new revenues should the city begin to charge for refuse collection. Therefore, given the methodology used within the report, the estimated potential revenue generation from charging a trash collection fee is shown much higher than could be expected.

#### CONSTRUCTION PERMITS

10. *“San Diego’s proportion of overall revenues from construction permits (2.05 percent) was lower than the average of the largest cities in California (2.20 percent).”-page 17*

**SDCTA Concern:** The recalculated average of the largest cities after excluding San Francisco is 2.15%, while the median is 2.16%. The standard deviation of the sample is .63%. San Diego is well within a reasonable range from the average at .16 standard deviations.

## II. EXPENDITURES (PAGES 19-31)

11. *“However, the 2004 fires exposed that the Fire Department budget and staffing were actually inadequate.”-page 20*

**SDCTA Concern:** The report makes this conclusion without providing any supporting evidence or rationale. The author should provide evidence that San Diego met some set of criterion for inadequate staffing and/or provided expert testimony.

12. *“It must be noted that the City Charter prohibits expenditures for the general operations the City (excluding water utilities, funds, capital improvements, bond interest, retirement system contributions, emergency and grant funded programs) from exceeding the year’s expenditure levels, adjusted by no more than three quarters (3/4) of the percentage change in the price index added to any percentage increase in population growth. This makes it very difficult to have “Runaway City Spending” on general services.”-page 21*

**SDCTA Concern:** In 2005, the year the report was written, the City’s Annual Required Contribution (ARC) was \$181.3 million. This total is 23% of the total General Fund expenditures in 2005 (\$787 million).<sup>5</sup> Therefore, while the City Charter may prohibit “Runaway City Spending” on core general operations, it does not provide protection against increases in pension spending.

---

<sup>5</sup> Source: City of San Diego Comprehensive Annual Financial Report 2005

**Table 5**  
**What does \$38.75 a month pay for?**

<b>Item</b>	<b>Description</b>	<b>Monthly Cost per person</b>
24 hour police protection	1.69 police officers per 1,000 people who protect the 1,000 people from 0.5 violent crimes (like murder and rape) and 3 property crimes (like larceny and motor vehicle theft) every month.	\$15.25
24 hour fire protection	0.75 firefighters per 1,000 people with facilities, transportation and communications equipment, such that at an average, a fire engine responds in 5½ minutes to an emergency call. In summer, lifeguards perform 5 rescues per 10,000 beach visitors.	\$7.87
Streets, highways and storm drains	Maintenance, cleaning and road repair of over 3,000 miles of streets, 4,000 miles of sidewalks, repairing potholes and installing streetlights. Cost only includes net expenditures after deducting revenues from assessment districts and other capital funds.	\$0.14
Libraries	3.7 books per person and 0.37 librarians per 1,000 population. This cost does not include construction of new facilities.	\$2.64
Legislative Costs	Offices of the Mayor and Council for each council-district to legislate, and address community issues. Legal advice and City Attorney before judicial and administrative bodies in civil proceedings	\$2.64
Management and Support	A City Clerk to handle record documents, an auditor, personnel and human resources, professional financial management with centralized purchasing and contracting, and legal staff to protect the interests of taxpayers.	\$4.63

Sources: Based on Net Expenditures (= Total Expenditures-Functional Revenue) for FY2002-03 in the California State Controller's (2005) Cities Annual Report, pg. 433. Population estimates are from 2003 American Community Survey (US Census). See Appendix 4 for detailed methodology.

**SDCTA Concern:** The categories in Table 5 total \$33.17, despite the table's claim to itemize spending of \$38.75 a month. However, neither of these figures correctly reports the per resident monthly contribution to General Revenue of \$38.67 (\$464/12) as reported on page 20. The figures provided in Table 5 suggest that  $\$38.67 - \$33.17 = \$5.50$  (or 14.2%) of the per resident monthly revenue goes to expenditures not traditionally considered a core service as categorized in Table 5. The reports analysis also does not note that each of these categories receives significant funding not attributable to General Revenue such as service charges. Additionally, the report makes no reference to the source of the public safety statistics, such as .5 violent crimes and 3 property crimes per person per month.

13. *"If we assume that the level of service demanded by a business is proportional to the size of the business, then the City's expenditures are lagging far behind. Whereas the annual payroll for all businesses in the City rose by 58.8 percent over the 1990-2000 period, the spending by the city on general services increased by only 16 percent."*-page 21

**SDCTA Concern:** The report provides no evidence to support the assumption that "the level of service demanded by a business is proportional to the size of the business".

**Table 6**  
**Key Growth Indicators Over the 1990-2000 Period**

	1990/1	2000/1	Percentage Change
City of San Diego General Fund Spending	\$411m <i>(\$532 in 2000 dollars)</i>	\$618m	16.07%
Number of Positions in the City of San Diego government	8,850	10,226	15.5%
Number of Jobs in all Businesses in the City	500,573	627,458	25.3%
Population	1.110 m	1.223 m	10.2%
Personal Income	\$52.366 b <i>(\$69.2 b in 2000 dollars)</i>	\$92.654 b	33.9%
Number of Business Establishments	29,501	33,919	15.0%
Annual payroll of all Businesses	\$16.365 m <i>(in 2000 dollars)</i>	\$ 26.159 m	58.8%
Gross Metropolitan Product	\$70.5 b <i>(in 1996 dollars)</i>	\$98.0 b <i>(in 1996 dollars)</i>	39.0%

Sources: Data on the General Fund and Number of Positions is from the FY1990 and the FY2000 budgets (City of San Diego). Data on population is from the 1990 and 2000 censuses (US Census Bureau). Data on jobs, business establishments and annual payroll is from the 1991 and 2001 SOCDS County Business Patterns (Bureau of Labor Statistics) Special Data extracted for the City of San Diego from HUD. Data on Personal Income (CA1-3 Personal Income is income derived from all persons and all sources including wages) for San Diego-Carlsbad-San Marcos MSA from Bureau of Economic Analysis Regional Economic Accounts. Data on Gross Metropolitan Product is for the whole County from DRI, Bureau of Economic Analysis, the 2000 data is a forecast by DRI. This data was compiled by SANDAG Indicators for Sustainable Competitiveness.

14. *“It is therefore not surprising that our City’s workforce is stretched thin trying to meet the growing demand for services from a growing economy.”-page 21*

**SDCTA Concern:** The report does not provide any evidence that the City’s workforce is demonstrating that it is “stretched thin”. Additionally, the report claims that growth in factors such as number of businesses, personal income, payroll, and population lead to increases in demand for public services. No empirical evidence is provided to demonstrate that these factors influence demand and to what extent.

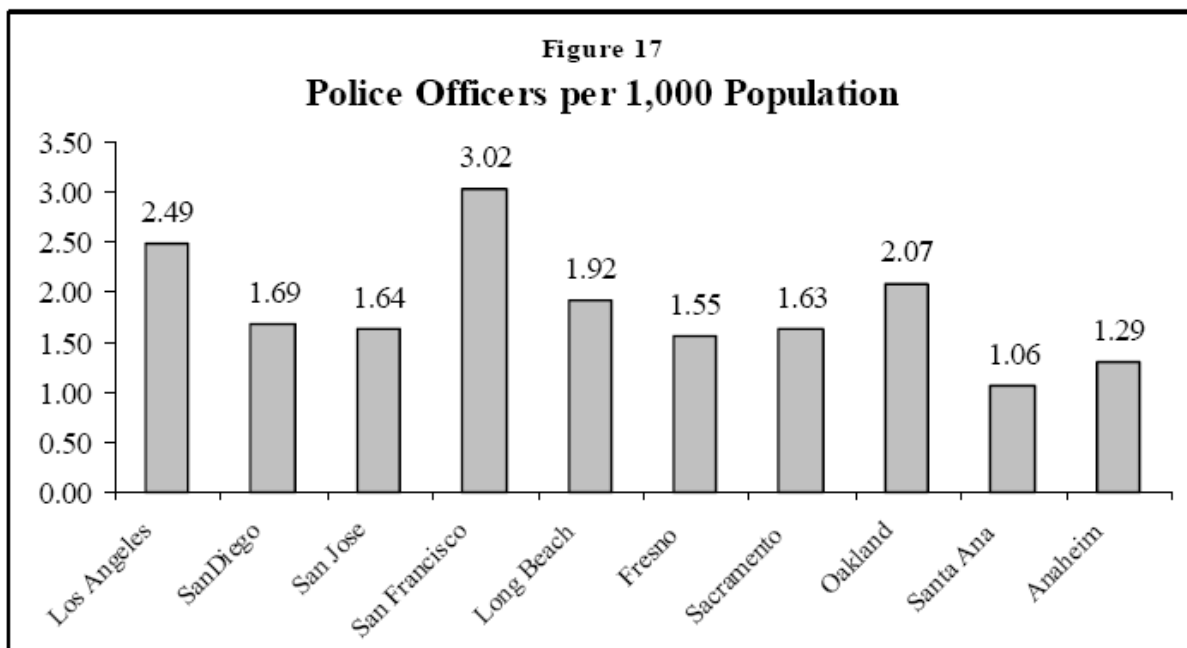
15. *“Public services are inputs to production and economic growth, and they reduce the costs of private inputs used by businesses and individuals.” According to a survey published by the New England Economic Review, the level of service offered by a municipality exerts a positive and statistically significant effect on economic*



*development.<sup>48</sup> For example, transportation services show the greatest impact on employment, income and new investments, often surpassing the original investment. In general, individuals and firms purchase publicly-provided inputs at a tax price which affords them an economy of scale.”-page 22*

**SDCTA Concern:** Table 6 and the *New England Economic Review* provide evidence contradictory to the report’s conclusion that “City expenditures are lagging far behind” demand for services. Given that it is true that “the level of service offered by a municipality exerts a positive and statistically significant effect on economic development” it could be expected that a city “stretched thin” for services would experience hindered economic growth. Table 6 provides evidence to the contrary, showing that growth in major economic indicators such as Gross Metropolitan Product, number of jobs, and personal income all exceeded the growth in the City’s expenditures. The report appears support contradictory claims that sufficient service levels are necessary for economic development and that economic development has continued despite an insufficient provision of services.

**SAFETY**



Source: Uniform Crime Reports, 2003, Federal Bureau of Investigation

16. “Figure 17 shows that San Diego has 1.69 police officers per 1,000 people – a moderate level compared to other cities.”-page 23

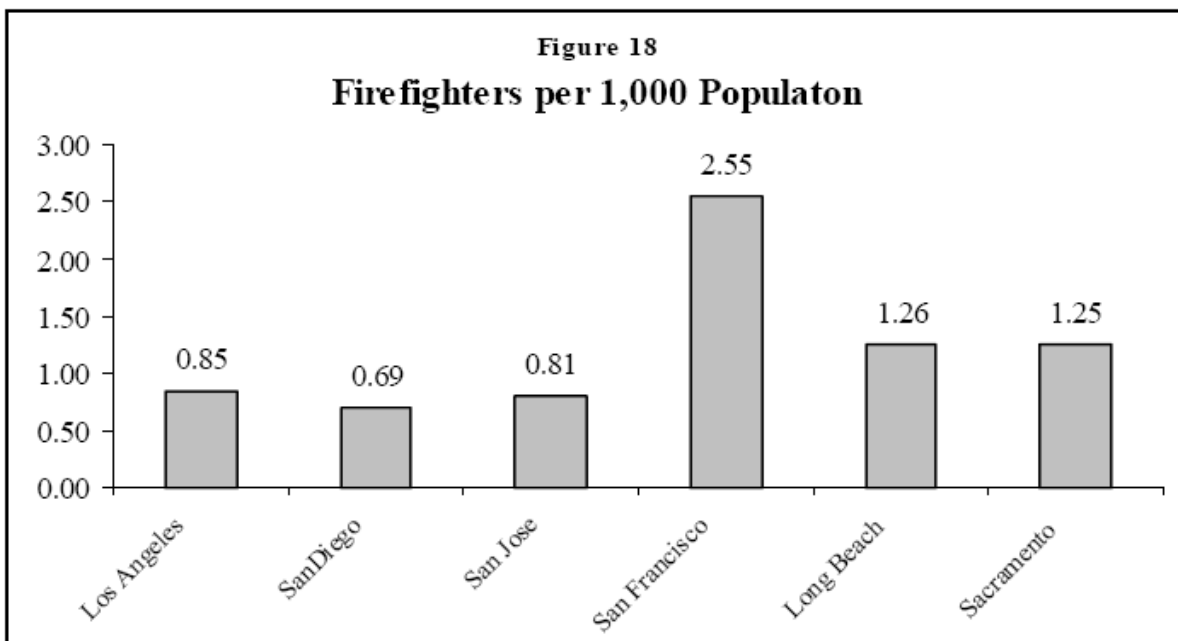
**SDCTA Concern:** Using the data from Figure 17, the average police officers per 1,000 people in the comparison set is 1.84. If San Francisco is excluded, the average decreases to 1.70. With the inclusion of San Francisco, San Diego is only .25 standard deviations below the mean. Excluding San Francisco, San Diego’s level of police is nearly the same as the average of the comparison set, showing that San Diego’s police staffing is on par with the other municipalities in the comparison set.

17. *“Despite stagnating revenues, over the last four budget cycles, annual expenditure per person on police has increased from \$206 to \$239.”-page 23*

**SDCTA Concern:** The increase from \$206 to \$239 per person of police is a 16.02% increase over the four year period. Over the same four year period the City’s General Revenue increases from \$677.84 million to \$787.32 million, an increase of 16.15%.<sup>6</sup>

18. *“Similarly, annual expenditure per person on fire (\$101) in FY2003 lagged behind the average of the largest California cities (\$140), with San Diego as the third lowest after Fresno and Santa Ana.”-page 24*

**SDCTA Concern:** The report does not reference a source of data for this statistic. Additionally, the report makes no reference as to whether or not San Francisco is included in this statistic. The inclusion of San Francisco would certainly create an upward bias on the average as the annual expenditure per person of fire protection in San Francisco FY 2003 was \$288.<sup>7</sup> If San Francisco was included, then excluding San Francisco from consideration, the average decreases to \$123.56.<sup>8</sup>



Source: International Association of Fire Chiefs.

19. *“Figure 18 shows that San Diego has 0.69 firefighters per 1,000, (the lowest ratio) with significant needs for facilities, transportation and communications equipment.”-page 24*

**SDCTA Concern:** Figure 18 excluded Anaheim, Fresno, Oakland, and Santa Ana without explanation. As was true previously, the inclusion of San Francisco also biases the conclusion drawn from Figure 18. According to their FY 2003 CAFRs the City of Anaheim has .833 firefighters per

<sup>6</sup> Source: City of San Diego Comprehensive Annual Financial Report 2001, 2005

<sup>7</sup> Source: City-County of San Francisco Comprehensive Annual Financial Report 2003

<sup>8</sup> 10 city average = \$140x10 = \$1400 sum of expenditures-\$288 San Francisco expenditures = \$1112/9 = \$123.56.



1000, City of Fresno .65 firefighters per 1000, and the City of Oakland 1.23 firefighters per 1000.<sup>9</sup> Additionally, Figure 18 references International Association of Fire Chiefs as the source of data but does not provide a specific study, survey, or report to ensure that the data can be verified.

20. *“The National Fire Protection Association (NFPA) standard is to arrive on scene within six minutes 90 percent of the time. In San Diego, we hit six minutes less than 50 percent of the time.”-page 24*

**SDCTA Concern:** The report makes no reference to a source for this statistic. Also, despite the nature of the analysis being comparative, there is no reference to the rate at which the other cities in the comparison set meet the NFPA standard.

21. *“Lifeguards perform five rescues per 10,000 beach visitors.”-page 24*

**SDCTA Concern:** There is no source listed for this statistic.

#### LIBRARY

22. *“San Diego has 10,032 books per librarian, which is the highest among any large city in the state and far greater than the California average (6,129 books per librarian).”-page 26*

**SDCTA Concern:** The claim that an increased number of books per librarian places a “greater burden” on librarians is not supported by any empirical or theoretical evidence.

23. *“San Diego has a moderate level of staffing with 2,704 people served per full-time staff person.”-page 26*

**SDCTA Concern:** The report claims that San Diego’s level of library staffing is “moderate”, citing data from Figure 22 as a reference. However, from Figure 22 it can be seen that San Diego has the fourth highest FTE library staff per capita, trailing only San Jose, Oakland, and San Francisco.

#### PARKS

24. *“Figure 24 shows that compared to the vast acreage of parks, the budget appears lacking. San Diego spends the least per acre of park land (\$2,610) of the ten largest cities in California, far below the state average (\$6,442 per park acre).”-page 28*

**SDCTA Concern:** No evidence is presented linking total acreage to maintenance and administration costs. Economic theory however suggests a possible alternative to this claim; administration of parks is subject to economies of scale. That is much of the costs of administering parks are likely to be incurred unrelated to total acreage. Thus as total acre increases, it can be expected that the average cost of administration will decrease. Appealing to the evidence provided by the report, Los Angeles has the second greatest (trailing San Diego) parkland acreage according to Figure 23. Additionally, in Figure 24 Los Angeles has the second lowest park expenditures per acre, greater only than San Diego.

---

<sup>9</sup> The City of Santa Ana did not provide a figure for number of firefighters in their FY 2003 CAFR.

## STREETS, HIGHWAYS AND STORM DRAINS

25. *“The City of San Diego has to maintain, clean and repair of over 3,000 miles of streets, 4,000 miles of sidewalks. In addition, it repairs over 3,000 potholes and installs hundreds of streetlights every year. Still, it ranks among the lowest in its expenditures for streets, highways and storm-drains per household amongst the ten largest cities in California.”- page 30*

**SDCTA Concern:** The analysis of the report suggests that a more proper statistic would compare street, highway and storm drain expenditures to miles of street and sidewalks and total number of storm drains.

### III. CONCLUSION (PAGES 32-33)

26. *“This study demonstrates that the City of San Diego is not generating enough revenues to keep pace with the increased demand for services from businesses and residents.”-page 32*

**SDCTA Concern:** The report does not clearly provide any specific, substantiated evidence to support this claim. This critique has shown that any attempts within the report to demonstrate San Diego’s deficiency in specific expenditure categories are based on questionable analysis and seemingly unsupported claims. The report makes two specific claims attempting to establish San Diego’s unmet demand for services:

27. *“If we assume that the level of service demanded by a business is proportional to the size of the business, then the City’s expenditures are lagging far behind.”-page 21*
28. *“It is therefore not surprising that our City’s workforce is stretched thin trying to meet the growing demand for services from a growing economy.”- page 21*

**SDCTA Concern:** As presented in the report, these claims are based solely on the author’s personal interpretation and not on supporting evidence.

29. *“The study identifies the following potential revenue sources (totaling \$279 million) that have been tapped by other large cities in California, but not adequately by the City of San Diego.”-page 32*

**SDCTA Concern:** As demonstrated prior, the author’s projections of potential revenues ignore broad reaching economic factors by relying on very limited economic assumptions. Without taking into account the specific markets on which the taxes are being imposed, projections of potential tax revenue cannot be considered realistic.

30. *“This lack of revenue has had a significant impact on the City’s ability to provide general services. This study found the following alarming indicators:*
- *We have 20 percent fewer police officers per 1,000 residents than the average California city.*
  - *Although we have been exposed to large fires of regional scale, we have the lowest per capita expenditure on firefighters and firefighting equipment of any other large city in California.*
  - *San Diego has the highest ratio of books to librarians of the largest cities in California.*
  - *San Diego spends the least per acre of park land (\$2,610) of the ten largest cities in California, far below the state average (\$6,442).*

*- Only Fresno (\$90) spends less per capita on streets, highways and storm drains than San Diego (\$85)."-  
page 32*

**SDCTA Concern:** Previous discussion has touched on each of these issues and demonstrated the weakness in the analysis provided to produce the conclusions the author has made above. The quote states that San Diego has “the lowest per capita expenditure on firefighters and firefighting equipment of any other large city in California” despite stating on page 24 that San Diego was “the third lowest after Fresno and Santa Ana”. In addition, the author never provides the source of data for any analysis of fire protection expenditure per capita. Altogether, the author does not provide any fully supported piece of evidence to validate the conclusions made above.

## CONCLUSION

Adherence to the guidelines of scientific and academic rigor are essential to the credibility and accuracy of any statistical or policy analysis. This critique has presented some areas in which “The Bottom Line” appears to deviate from maintaining strict scientific rigor. In light of these possible issues, the City should be hesitant to adopt any of the recommendations proposed by “The Bottom Line”.