



San Marcos Sales Tax Measure

July 2024

SDCTA Position:

SUPPORT

Rationale for Position:

The Association SUPPORTS the San Marcos Sales Tax increase to fund many of the City's core services, especially in Public Safety and Public Works. The City has been facing a structural deficit that has affected its ability to deliver consistent performance for many of its core services. The deficit, which is projected to continue into the upcoming fiscal year, has mainly been driven by rising expenditure and sluggish revenue growth. The City has been slowly reducing numerous positions across its various departments in an effort to save money and bridge the gap caused by deficit in the budget.

With additional revenue provided by the sales tax increase, the City will have more money to fund more of its capital projects, many of which focus on streets and infrastructure maintenance, as well as retain more employees.

Title: San Marcos One-Cent Sales Tax

Type: Tax Increase

Vote: General Presidential Election in November 2024

Status: On the ballot

Issue: Sales tax

Description: To support the City's high quality of life, including repairing and maintaining streets, parks and ensuring rapid emergency response and public safety

Fiscal Impact: About \$20 million per year

Background

San Marcos is considering putting a tax increase measure to help address the City's structural deficit and budget constraints¹. The City has struggled to keep up with increasing demands that have resulted in staffing levels across various departments being reduced or cut. The tax increase, which is still in its early stages, will provide the City with additional funds to help fund critical City needs and maintain good performance.

¹ San Marcos considers sales tax to support city services. Coast News. 22 March 2024.
<https://thecoastnews.com/san-marcos-considers-sales-tax-to-support-city-services/>



Heavily impacted by increasing inflation and still reeling from COVID-19 pandemic, the City is looking at another budget deficit for the upcoming fiscal year. For fiscal year 2023-2024, the City began the year with a structural deficit of about \$3.8 million. Through conservative budgeting of the City's expenditures in recent months, the deficit has been reduced to about \$2.4 million. The gap reduction was aided by 'one-time' funds of about \$1.3 million, including reserves from real estate partnership funds and Public Agencies Self Insurance System (PASIS) funds.² For fiscal year 2024-2025, the structural deficit has increased trifold to a total of about \$10.8 million. With the huge increase in structural deficit, the City has attempted to close the gap through the cutting of non-essential core services and programs as well as employee duties being consolidated.

As the measure is a proposed sales tax increase, it only needs a majority (50% + 1 of qualified votes) to pass. Currently, the City has a sales tax rate of 7.75%. This puts the City in the lower end of the spectrum among the municipalities within San Diego County, which have tax rates ranging anywhere from 7.75% to 8.75%. A full-cent increase would increase the tax rate by a whole percent to 8.75%. If approved, the sales tax would bring the City about \$20 million in locally-controlled funding per year.

To help address the feasibility of a sales tax increase, the City conducted a Sales Tax Feasibility Survey in which 814 San Marcos citizens were interviewed.³ The group of citizens widely varied in terms of age, political party affiliation, homeowner status, and Council District. The initial ballot question conducted in the survey mentioned a sunset clause of 10 years, citizen oversight, independent audits, and promises of locally controlled money. The survey found that many of the service priorities should focus on the following: Street and infrastructure repair/maintenance, maintenance/protection of parks & public facilities, water quality, fire/EMS, 911 response, traffic improvements.

On July 9, 2024, the City Council unanimously approved placing the ballot measure in the upcoming 2024 elections⁴. If approved, the funds generated from the sales tax would be funding essential City services as follows:

- Improve roads, intersections, bike lanes and signals to improve traffic and safety and reduce congestion
- Maintain trails, sports fields, playgrounds, community facilities and 44 local parks totaling nearly 300 acres

² San Marcos budget highlights need for new revenue sources. The Coast News. 14 June 2024. <https://thecoastnews.com/san-marcos-budget-highlights-need-for-new-revenue-sources/>

³ Sales Tax Feasibility Survey. March 2024. City of San Marcos. Information can be found [here](#).

⁴ San Marcos City Council places quality of life measure on November ballot. City of San Marcos. July 2024. <https://www.san-marcos.net/Home/Components/News/News/6005/24?recordid=432&npage=38>.



- Fix potholes and maintain 204 miles of city streets
- Ensure quick responses to 9-1-1 emergencies, fire protection and paramedic services
- Clean and maintain local lakes, creeks and waterways
- Maintain and upgrade outdated infrastructure, including 126 miles of aging, underground storm drains

By law, all the funds must stay local in San Marcos and no funds can be taken away by the State of California. Additionally, the funds will be subject to an independent citizens' oversight group with annual audits. Purchases such as groceries, prescription medicine, diapers and feminine hygiene products are exempt from sales tax.

The San Diego Taxpayers Educational Foundation (SDTEF) conducted a municipal review of San Marcos in June 2024, in which the SDTEF looked at the City's General Fund, staffing levels, pension costs, and other long-term liabilities as well as analyzed performance of the City's core departments.⁵

SDCTA Findings

The City of San Marcos have been struggling to keep up with increasing inflation and demand for services. The City's main sources of revenue comes from property and sales taxes. Property tax revenue, which makes up the largest contribution to the City's General Fund, has followed a steady upward trend, driven by rising property evaluations within the City's boundaries. Meanwhile, sales tax revenue, while still making up the second largest contribution to the City's General Fund, has seen steady but more volatile growth. Sales tax revenue took a hit during fiscal year 2020-2021 due to the onset of the COVID-19 pandemic. Over the last few years and projected to continue onto fiscal year 2024-2025, sales tax revenue has remained almost stagnant. The rest of the City's sources of revenue stems from a variety of taxes, including Charges for Services and Transient Occupancy Tax (TOT). Many of these various taxes do not provide the same revenue raising capabilities as a sales tax increase would.

The City's biggest expenditure is Public Safety, which is made up of Fire services and law enforcement. This is followed by General Government, which is the second biggest expenditure. Together, they make up more than two-thirds of the City's expenses. Historically, the City's Operating Expenditures made up more of the City's expenses. However, over the past few years, the City's Personnel Expenditures, driven by rising salaries, wages, and retirement benefits, have slowly matched Operating Expenses. Increasing personnel expenditures alongside the staffing levels have put immense pressure on the City to maintain consistent service. The City's expenditures have surpassed the City's ability to generate revenue, which is still bouncing back

⁵ San Marcos Municipal Review. June 2024. San Diego Taxpayers Educational Foundation.



from the effects left by the COVID-19 pandemic. The City used to experience a 4% revenue growth rate prior to the pandemic, but this number has been reduced. The City has attempted to counter growing expenditures with conservative budgeting, but this is still not enough.

In the most recent budget for fiscal year 2024-2025, City Management mentioned that the City is planning to temporarily reduce many of its maintenance services and postponement of non-essential capital projects.⁶ Many of these services include street sweeping, tree-trimming and other routine maintenance. Looking at the City's performance over the past decade, the City has consistently swept anywhere near 12,100 and 12,400 miles of streets since 2015. While street sweeping may not seem like a super important service in comparison to others, reducing the number of streets signifies a drop in the City's performance when it comes to maintaining streets. Looking at other performance metrics, the number of streetlights adorning the City's streets have decreased over the years. The City had started 2014 with about 2,700 streetlights but ended 2023 with only 2,400, a decrease of 300 streetlights. A decrease in streetlights can pose a problem especially as this can result in lesser visibility.

Many members of the City Staff, including City Manager Michelle Bender, have mentioned that staff cuts are one of the reasons driving the sales tax increase. Over the last decade, the City has gone through various cycles of staffing levels across its numerous departments. Overall, staffing levels had increased by about 20 employees in comparison to 2014. However, many of the departments like General Government, Community Development, as well as Highways, streets, and parks saw less employees in 2023. Only the Public Safety and Culture and Recreation saw an increase in staffing levels. Many departments' staffing levels follow similar trends as the City struggles to retain many of its positions. Additionally, as the City continues to struggle with revenue growth, the City is looking to cut more positions or maintain a hiring freeze. With no additional revenue flowing in, many of the departments' will not only see a reduced number of employees but a decreased ability to provide many of the services San Marcos citizens enjoy. In an effort to save money, many of the City's vacant positions continue to remain unfilled. Meanwhile, many of the current positions' duties have been restructured or combined. Passing the measure would help with additional revenue that can help fund many of the positions.

The City underlines many of its future and current projects in its Capital Improvement Plan (CIP). Many of the projects underlined focus on various street and infrastructure projects, such as the multi-year Annual Surface Seal project, creation of the Creek District, and maintenance upgrades. The City faces more pressure because as they have many upcoming projects lined up, the City's infrastructure fund is projected to be depleted by the end of 2026. With one less source of revenue, there is less funding for many of the capital projects, which can result in longer times

⁶ San Marcos Fiscal Year 2024-2025. City of San Marcos. More information can be found [here](#).



or the projects not being funded at all. This can result in a negative quality of life among San Marcos citizens, especially as the City prides itself in having the ability to provide quality services.

Currently the City's sales tax rate is 7.75%, which is among some of the lowest rates within San Diego County. Passing the measure would increase the sales tax rate to either 8.25% or 8.75%. A tax rate of 8.25% would put the City in the middle among municipalities, alongside La Mesa. A tax rate of 8.75% would put the City as one of the municipalities with one of the highest sales tax rates, alongside National City and Chula Vista. A higher tax rate can disproportionately affect San Marcos' lower-income residents. Additionally, a higher tax rate can have negative consequences as people may flock to municipalities with lower tax rates. Sales taxes can also prove to be volatile to trends, as seen during fiscal year 2020-2021 when the COVID-19 pandemic happened. However, when looking at the City's performance, trends in overall revenue and expenditures, as well as future projects, the money generated by the sales tax increase surpasses the negative consequences of the measure passing. By passing the sales tax measure, it can relieve the City and aid in addressing the budget constraints caused by the structural deficit.

Proponents

Supporters include:

- Members of the San Marcos Fire Department, including Firefighter Jeff McCloskey
- Michelle Bender, San Marcos City Manager