



September 6, 2016

Annual Report – Measure A: ½ Cent Transaction & Use Tax

Chapter 82, Article V, Section 82-132 of the San Fernando City Code states:

On or before each anniversary of the operative date, the city shall complete a study and produce a report reviewing the collection, management and expenditure of revenue from the proposed tax and shall present a report explain[ing] and providing an overview of the same at an open and public meeting of the City Council. This report shall be a public document.

This report is being presented in accordance with the City Code.

Executive Summary:

The City received \$2,212,987 in Measure A funds in Fiscal Year 2015-2016, which is an increase of 3% (\$56,291) from Fiscal Year 2014-2015.

Revenues raised through the Transaction Tax are necessary to fund a number of critical one-time needs, including, but not limited to: 1) establishing General Fund, Self-Insurance, Equipment Replacement, and Facility Maintenance fund reserves, 2) paying off existing debt, 3) eliminating recurring deficit fund balances in Grant and other Special Revenue funds, 4) replacing and updating outdated computer hardware, software and telecommunications systems, 5) funding capital projects to reduce the City's deferred maintenance backlog, and 6) establishing a trust to pre-fund Other Post-Employment Benefits (OPEB).

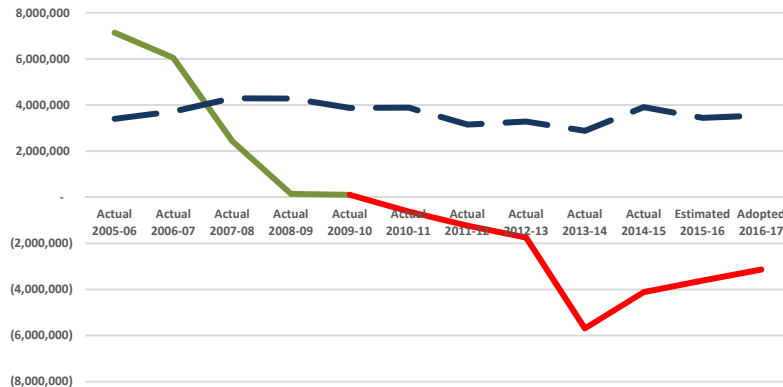
A preliminary review of the City's finances for Fiscal Year 2015-2016 suggests that there will be a surplus in the General Fund¹. In accordance with the identified critical needs, the surplus will be used to reduce the General Fund deficit fund balance, which ended Fiscal Year 2014-2015 with a (\$4,114,045) deficit fund balance. Continued annual surpluses will be necessary to eliminate all deficit fund balances, build healthy fund reserves, and address the City's many critical one-time needs.

¹ The estimated General Fund surplus is a preliminary, pre-audit estimate and is subject to change during the annual independent audit.

Background:

Over the past ten years, the City’s financial position has changed significantly. The General Fund, which is the City’s primary operating fund, experienced a dramatic reduction in fund balance, from a positive \$7.1 million fund balance in FY 2005-06 to a negative (\$5.7 million) deficit fund balance at the end of FY 2013-14. The dramatic reduction was the result of the City over-extending expenditures at the same time as a prolonged reduction in revenues from the onset of the “Great Recession” and dissolution of redevelopment by the State of California².

General Fund Balance - 10-year History



In order to remain solvent, the City had to take a number of steps to reduce expenditures, including re-negotiating labor contracts, freezing vacant positions, and implementing employee layoffs and furloughs.

In FY 2012-2013, the City declared a fiscal emergency and held a special election on June 4, 2013 for the San Fernando electorate to vote on a temporary one-half (½) cent Transaction and Use Tax (“Tax”). The “City Services Emergency Protection Measure” (Measure A) was approved by sixty percent (60%) of voters. The increased Transaction Tax rate went into effect on October 1, 2013 and is set to expire on October 1, 2020.

Since the Transaction Tax is temporary, it is prudent to use funds raised through the Tax on non-recurring expenditures. Consequently, Transaction Tax revenue has been earmarked to address the following needs: 1) establish General Fund, Self-Insurance, Equipment Replacement, and Facility Maintenance fund reserves, 2) pay off existing debt, 3) eliminate recurring deficit fund balances in Grant and other Special Revenue funds, 4) replace and updating outdated computer hardware, software and telecommunications systems, 5) funding capital projects to reduce the City’s deferred maintenance backlog, and 6) establishing a trust to pre-fund Other Post-Employment Benefits (OPEB).

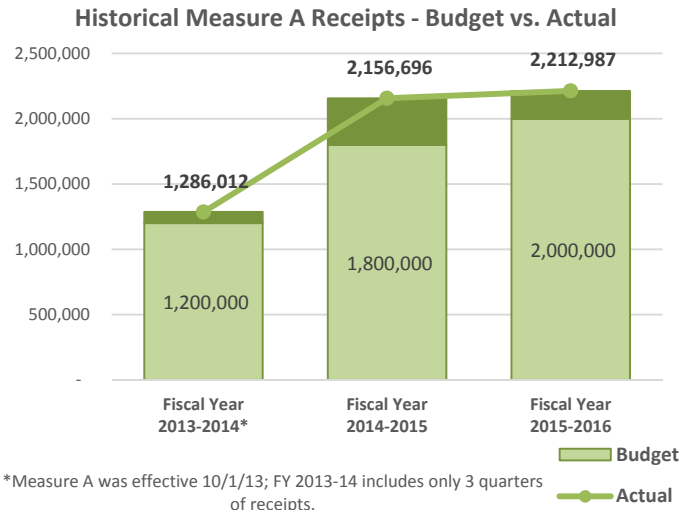
² Assembly Bill 26X1, effective February 1, 2012, dissolved redevelopment agencies throughout California and set forth a process for winding down the existing debts of redevelopment agencies. The San Fernando Redevelopment Agency was receiving approximately \$6 million per year in additional property tax increment revenues to invest in the community. As a result of AB 26X1, those revenues have been diverted to other taxing entities and are no longer available to the City for community investment and redevelopment.

Collection:

The City began collecting a ½ cent Transaction Tax on applicable transactions in San Fernando on October 1, 2013.

Below are a few key statistics related to the collection of the Tax:

- FY 2015-16 estimated Tax receipts were \$2,000,000.
- FY 2015-16 actual Tax receipts were \$2,212,987.
- Since October 1, 2013, Measure A has generated \$5,655,695 in additional revenue.
- The Sales Tax to Transaction Tax ratio, a key metric for measuring local business compliance with the Tax, was 54% for Fiscal Year 2015-2016. Since the City Sales Tax is 1.0% and the Transaction tax is 0.5%, a Sales Tax to Transaction Tax ratio of 50% or greater indicates high compliance by local businesses with Measure A. Consequently, it appears that local businesses are complying with and collecting the Tax.



The Tax is collected and administered by the State Board of Equalization (BOE). The BOE then remits Measure A collections to the City Treasurer on a monthly basis. The BOE charges approximately \$27,000 per year for tax administration services.

The City contracts with Hinderliter, de Llamas & Associates (HdL) to monitor Tax receipts to identify, correct, and recover allocation errors and prepare the necessary case submittal documents with the BOE. This ensures that the City is maximizing collections and receipts are properly allocated to the City by the BOE. In Fiscal Year 2015-2016, HdL’s audit recovery services recovered \$1,600 in misallocated funds (i.e. funds that BOE allocated to other City’s that should have come to San Fernando).

Management:

In order to track Measure A revenue, the City Treasurer records receipts in a special account number on the City’s General Ledger. This allows the City staff to easily discern year-to-date receipts, update projections, and make budget adjustments, if necessary.

Management (cont.):

City staff also conducts quarterly meetings with HdL to review Sales and Transaction Tax receipts in detail. This provides staff with valuable information on the health of the local economy, various business sectors, and individual companies by reviewing their quarterly sales tax reports. It also gives staff an opportunity to make HdL aware of new businesses opening in the City so staff can ensure compliance with Measure A. A quarterly newsletter providing Sales and Transaction Tax information pertinent to San Fernando is posted on the City's website (www.sfcity.org) under the Financial Documents section of the Finance Department page.

Expenditure:

Measure A was approved as a general tax, which means that it can be used for any general governmental purpose. However, since it is a temporary tax set to sunset in seven (7) years, the City will focus Measure A funds toward non-recurring expenditures.

Revenues raised through the transaction tax are necessary to fund a number of critical one-time needs, including, but not limited to: 1) establishing General Fund, Self-Insurance, Equipment Replacement, and Facility Maintenance fund reserves, 2) paying off existing debt, 3) eliminating recurring deficit fund balances in Grant and other Special Revenue funds, 4) replacing and updating outdated computer hardware, software and telecommunications systems, 5) funding capital projects to reduce the City's deferred maintenance backlog, and 6) establishing a trust to pre-fund Other Post-Employment Benefits (OPEB).

In FY 2015-2016, Measure A funds were used for the following:

<i>Repayment of Debt</i>		<i>One-time Projects (cont.)</i>	
Repay Retirement Fund	275,000	High Speed Rail Outreach	6,000
Repay Sewer Fund	50,000	Website redesign and Econ Dev	28,012
	<u>325,000</u>	Parks Master Plan	50,000
<i>Establish Reserves</i>		Brand Boulevard Project	100,000
Self-Insurance Fund	227,300	Stormwater Screen Installation	95,000
Equipment Replacement	125,000	Replace two Detective vehicles	70,000
	<u>352,300</u>		<u>521,716</u>
<i>One-time Projects</i>			
User fee, development impact fee & cost allocation plan studies	43,000	General Fund deficit reduction	355,921
Classification & Compensation study	56,700	Cover operational deficit	658,050
Network server Replacement	73,004		<u>1,013,971</u>
		Total Measure A Uses	<u>2,212,987</u>

Deficit Elimination Plan:

Revenues raised through Measure A are critical to achieving the City's five-year deficit elimination plan. As previously noted, the City's General Fund has been in a deficit fund balance position since Fiscal Year 2010-2011. To address the deficit, the City has taken a number of steps over the last three years to stabilize ongoing finances, including re-negotiating labor contracts, reducing programs and services, reducing professional development and membership opportunities for City staff, implementing layoffs and furloughs, and freezing vacant positions. Many of these were short-term fixes that were necessary to remain solvent; however, continuing these cuts is not sustainable in the long-term. Consequently, staff has worked with City Council to implement a multi-year plan to eliminate the General Fund deficit, which includes a balance of ongoing revenue enhancements and targeted expenditure reductions.

In addition to short-term actions identified above, the City has taken a number of longer-term actions in the last three (3) years to address the City's deficit and improve long-term financial stability, including:

- Renegotiated the Fire and Emergency Services contract with the Los Angeles Fire Department to reduce the City's ongoing annual cost without reducing service;
- Transferred operational and financial responsibility of the San Fernando Regional Pool to the County of Los Angeles through a lease of up to 55 years;
- Developed a five-year General Fund projection of revenues and expenditures;
- Adopted a Development Agreement Ordinance to provide additional tools to increase economic development efforts;
- Sold surplus land and used the land sale proceeds to reduce the General Fund deficit;
- Repaid and retired debt from the outstanding California Housing Financing Agency (CHFA) and Section 108 Loans;
- Restructured future retiree health benefits to decrease the City's retiree health (OPEB) liability;
- Updated user fees, development fees, cost allocation calculations to ensure an appropriate cost recovery for City services;
- Re-established reserves for the Self-Insurance and Equipment Replacement Funds; and
- Updated the City's long term financial planning policies, including budget, purchasing, debt management, grant management, investment, and reserve policies, with an emphasis on creating long term fiscal sustainability.

Deficit Elimination Plan (cont.):

To continue implementation of the deficit reduction plan in FY 2016-2017, the Adopted Budget includes the following:

- Funding to increase public safety by replacing the Mobile Data Terminals in all Police vehicles;
- Funding for additional economic development activity;
- Investment in staff training and education to maximize utilization of existing staff resources; and
- A General Fund budget surplus of \$378,000 to further reduce the deficit fund balance.

Despite the progress that has been made in the past year, and the investments being funded in the upcoming fiscal year, the City is still facing a significant General Fund deficit and must continue to implement best financial management practices, protect revenues, and strategically appropriate funds based on sound cost-benefit analysis.

Conclusion:

Revenue raised through Measure A have been critical to moving the City toward financial stability. Voters insisted there be accountability for the use of these revenues by including a requirement for an Annual Report to be presented at a public meeting.

As evidenced in this report, the City Council and City staff have worked diligently to ensure that Measure A revenues are being collected, managed, and expended responsibly and in a manner consistent with the communities' goals.