



September 18, 2017

**Measure A: ½ Cent Transaction & Use Tax  
2017 Annual Report**

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 \$2,464,287 in Measure A funds in Fiscal Year 2016-2017, which is an increase of \$252,300, or 11%, from Fiscal Year 2015-2016.

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3) eliminating recurring deficit fund balances in Grant and other Special Revenue funds, 4) replacing and updating outdated computer hardware, software and telecommunications systems, 5) funding capital projects to reduce the City's deferred maintenance backlog, and 6) establishing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 2016-2017 suggests that there will be a surplus in the General Fund<sup>1</sup>. In accordance with the identified critical needs, the surplus will be used to reduce the General Fund deficit fund balance, which ended Fiscal Year 2015-2016 with a (\$3,080,247) 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.

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

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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.

Revenues raised through Measure A have been critical to cover the short-term operating budget deficit, pay down debt, establish reserves, and fund key one-time enhancements. Since voter approval of Measure A in 2013, the deficit fund balance in the General Fund has decreased from (\$5.7 million) in fiscal year 2013-2014 to a projected deficit of (\$1.0 million) by the end of fiscal year 2017-2018. The City has also used Measure A to improve public safety through the purchase of new police vehicles and Mobile Data Terminals; fund key infrastructure improvements including the annual street paving program, Brand Boulevard Median project, and upcoming Glenoaks Blvd resurfacing project; replace the City's outdated IT network; and fund a number of park facility upgrades.

Unfortunately, Measure A will sunset in October 2020 and if it is not extended or replaced with another on-going revenue source, the City will be back on tenuous fiscal ground.

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### Background:

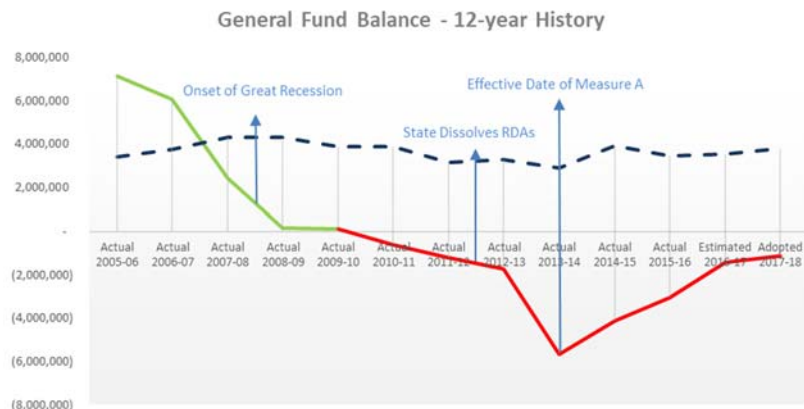
Over the past twelve years, the City's financial position has changed significantly. The General Fund, which is the City's primary operating fund, experienced a dramatic reduction in fund balance, from a positive \$7.1 million fund balance in FY 2005-06 to a negative (\$5.7 million) deficit fund balance 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 California<sup>2</sup>.

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).



<sup>2</sup> 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.

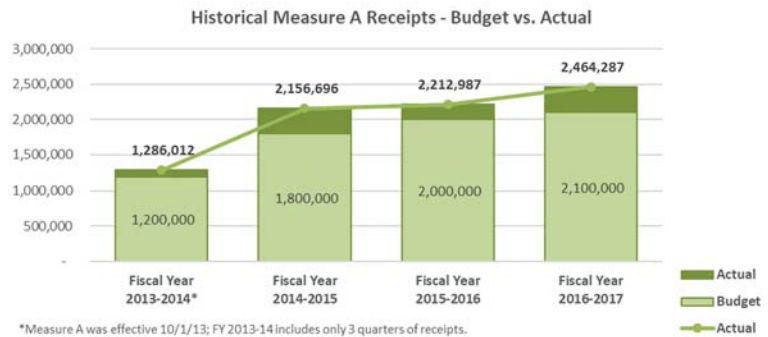
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### Collection:

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 2016-17 estimated Tax receipts were \$2,100,000.
- FY 2016-17 actual Tax receipts were \$2,464,287.
- Since October 1, 2013, Measure A has generated \$8,119,982 in additional revenue.
- The Sales Tax to Transaction Tax ratio, a key metric for measuring local business compliance with the Tax, was 57.8% for Fiscal Year 2016-2017. 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.

### 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.

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](http://www.sfcity.org)) under the Financial Documents section of the Finance Department page.

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### 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).

For FY 2016-2017, Measure A funds were used for the following:

<u>Repayment of Debt</u>		<u>One-Time Projects</u>	
To Retirement Fund	250,000	Implement City Council Priorities	31,250
To Sewer Fund	50,000	Replace Mobile Data Terminals	120,000
To Water Fund	50,000	Replace one (1) Police Unit	40,000
	<u>350,000</u>		<u>191,250</u>
<u>Establish Reserves</u>			
Self-Insurance Fund	581,356	Deficit reduction	1,022,385
Equipment Replacement Fund	165,565	Subsidize Street Lighting District	50,000
Facility Capital Funds	103,731		<u>1,072,385</u>
	<u>850,652</u>		
		<b>Total Measure A funds:</b>	<b>\$2,464,287</b>

### Deficit Elimination Plan:

Revenues raised through Measure A are critical to achieving the City's 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 took a number of steps to stabilize ongoing finances, including reducing programs and services, reducing professional development and membership opportunities for City staff, implementing layoffs and furloughs, and freezing vacant positions. Many of these actions were short-term fixes that were necessary to remain solvent, but were 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 over 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.

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.