



September 17, 2018

**Measure A: ½ Cent Transaction & Use Tax
2018 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 \$2,663,298 in Measure A funds in Fiscal Year 2017-2018, which is an increase of \$199,011, or 8.1%, from Fiscal Year 2016-2017.

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recurring deficit fund balances in Grant and other Special Revenue funds, 4) increase public safety by replacing outdated vehicles and equipment, 5) replacing and updating outdated computer hardware, software and telecommunications systems, and 6) funding capital projects to reduce the City's deferred maintenance backlog.

A preliminary review of the City's finances for Fiscal Year 2017-2018 indicates 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 2016-2017 with a (\$1,475,366) 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.

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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.

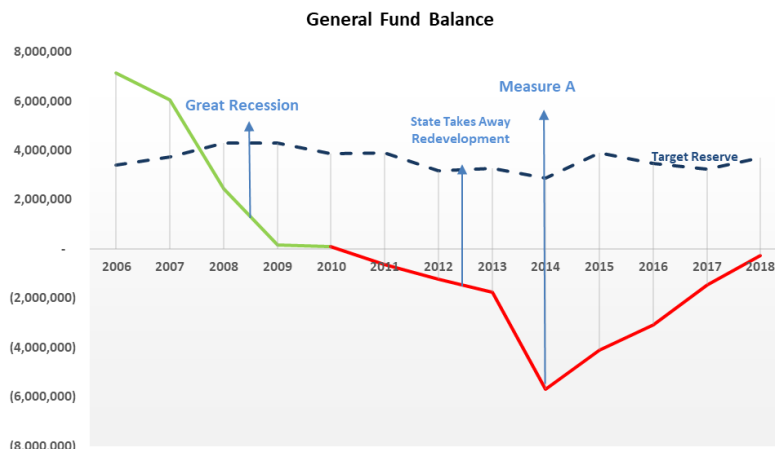
Revenues raised through Measure A have been critical to cover the short-term operating budget deficit, pay down debt, establish reserves, and fund key one-time enhancements. Since voter approval of Measure A in 2013, the deficit fund balance in the General Fund has decreased from (\$5.7 million) in fiscal year 2013-2014 to a projected deficit of less than (\$500,000) 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:

Since 2005, the City’s financial position has changed significantly. The General Fund, which pays for police, fire, recreation and public works services, experienced a dramatic decrease in the amount of money available to provide services. The City’s reserves fell from \$7.1 million in 2006 to a negative (\$5.7 million) in 2014.



The dramatic reduction was the result of a perfect storm as the City’s expenditures on services began to increase (e.g. the San Fernando Regional Pool, Los Angeles Fire Department contract, and other projects added significant ongoing operations and maintenance costs) just before the onset of the “Great Recession” in 2007. Additionally, the State of California eliminated local redevelopment funding in 2012, which the City used to make infrastructure improvements and fund economic development programs.

To remain solvent, the City implemented layoffs and furloughs, eliminated vacant positions, reduced employee benefits, discontinued retiree medical benefits for new employees, reduced department budgets, and renegotiated the contract with Los Angeles Fire Department. City employment was reduced from 160 in 2008 to 128 in 2017 (20% reduction). The number of sworn Police Officers was reduced from 37 in 2008 to 31 in 2017 (16% reduction).

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.

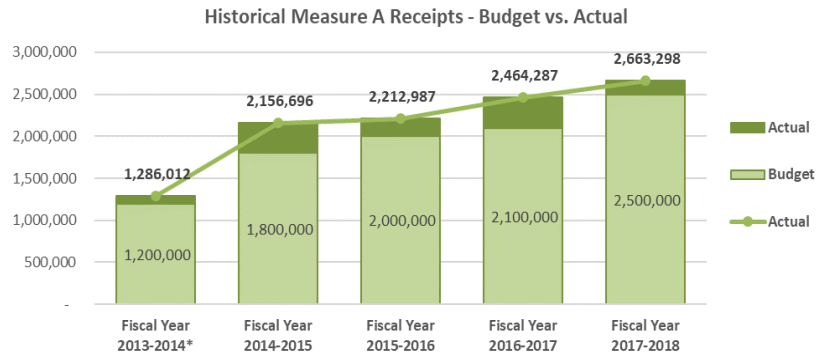
Without the revenues generated by Measure A, the City would have struggled to stay out of bankruptcy. In 2013, the City’s auditors expressed their concern regarding the City’s ability to continue operate and carry out its financial commitments, obligations and objectives.

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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:



*Measure A was effective 10/1/13; FY 2013-14 includes only 3 quarters of receipts.

- FY 2017-18 estimated Tax receipts were \$2,500,000.
- Despite losing a major retailer more than mid-way through the year, FY 2017-18 actual Tax receipts were \$2,663,298. This is due primarily to a change in distribution methodology by California Department of Tax and Fee Administration (CDTFA) to accommodate a new Enterprise Resource Management Software System.
- Since October 1, 2013, Measure A has generated \$10,783,280 in additional revenue.
- The Sales Tax to Transaction Tax ratio, a key metric for measuring local business compliance with the Tax, was 56.7% for Fiscal Year 2017-2018. 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 California Department of Tax and Fee Administration (CDTFA), formerly collected and administered by the Board of Equalization. CDTFA remits Measure A collections to the City Treasurer on a monthly basis. The CDTFA 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 CDTFA. This ensures that the City is maximizing collections and receipts are properly allocated to the City by the CDTFA.

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.

The planned use of Measure A funds is clearly identified through the annual budget process and in the City Manager's Budget Message. All current and prior Annual Reports and Budget

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documents are posted on the City’s website (www.sfcity.org) under the Financial Documents section of the Finance Department page.

Measure A revenues are budgeted and recorded in a separate account in 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.

Lastly, City staff conducts quarterly meetings with a consultant 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 the consultant 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 2020, the City appropriates a majority of Measure A funds on non-recurring expenditures.

For FY 2017-2018, Measure A funds were used for the following:

<u>Repayment of Debt</u>		<u>One-Time Enhancements (cont.)</u>	
To Retirement Fund	200,000	Implement City Council Priorities	35,375
To Sewer Fund	50,000	Upgrade Permitting Software	30,000
To Water Fund	50,000	Additional street maint materials	20,000
	300,000	Additional staff training	23,000
<u>Establish Reserves</u>			238,375
Self-Insurance Fund	320,000	Deficit reduction	1,269,567
Equipment Replacement Fund	91,000	Subsidize Street Lighting District	50,000
Facility Capital Funds	75,000	Cover operating deficit	319,356
	486,000		1,638,923
<u>One-Time Enhancements</u>			
Replace 2 Police Patrol Units	80,000		
Replace 1 Street Maint. Truck	50,000	Total Measure A funds:	\$2,663,298

The table above illustrates that a majority of Measure A expenditures are appropriated toward repaying debt, establishing a “rainy day reserve” in critical funds, upgrading equipment and staff knowledge to enhance service, and reducing the City’s deficit.

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Deficit Elimination Plan:

In FY 2013-2014, the City Council began the development and implementation of a multi-year Deficit Elimination Plan. The Deficit Elimination Plan aims to pay off debt, reduce ongoing expenditures and increase ongoing revenue. Revenues raised through Measure A have been critical to implementing the City's Deficit Elimination Plan.

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 implementing layoffs and furloughs, eliminating vacant positions, reducing programs and services, and reducing training and professional development opportunities for City staff. Many of these actions were short-term fixes that were necessary to remain solvent, but were not sustainable for the organization over the long-term.

In addition to short-term actions identified above, the City has taken a number of longer-term actions since the passage of Measure A 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 (saved more than \$500,000/year).
- 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 (saved more than \$500,000/year).
- Reduced retiree health benefits to the statutory minimum for new employees to decrease the City's retiree health (OPEB) liability (significant long-term savings).
- Sold surplus land and used the land sale proceeds to reduce the General Fund deficit (generated \$1 million in proceeds).
- Developed a five-year General Fund projection to improve long-term decision making.
- Adopted a Development Agreement Ordinance to provide additional tools to increase economic development efforts and diversify the tax base.
- Re-established reserves for the Self-Insurance and Equipment Replacement Funds (more than \$1 million in reserve to protect against large lawsuits).

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- Updated user fees, development fees, cost allocation calculations to ensure an appropriate cost recovery for City services (more than \$500,000/year in projected ongoing revenue).
- 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 since 2013, the expiration of Measure A in 2020 will leave a significant gap in revenue just as the City is starting to build a solid financial base. Without a new revenue source, the City will be living “paycheck-to-paycheck” and be financially vulnerable to slight economic downturns, lawsuits, and long term pension liabilities. The City will also be unable to pave streets, repair recreation facilities, or replace police vehicles and equipment with any regularity.