



September 16, 2021

Local Transaction Tax (Measures “A” and “SF”) 2021 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.

With the passage of Measure SF in November 2020, which increased the Local Transaction Tax from 0.50 percent to 0.75 percent, Measure “A” and Measure “SF” receipts will be combined and reported on jointly in this *Local Transaction Tax Annual Report*. This report is being presented in accordance with the Municipal Code, Section 82-132 referenced above.

Executive Summary:

The City received \$3,368,814 in Local Transaction Taxes in fiscal year 2020-2021, which is an increase of \$1,071,624, or 46.7%, from fiscal year 2019-2020. This significant increase is the result of a number of factors, including:

- 1) Projected loss of sales tax revenue in due to COVID-19 economic restrictions that closed many businesses in March through June 2020 did not materialize;
- 2) The City’s significant “Building and Construction” industry has been deemed “essential” throughout the COVID-19 pandemic and was the primary driver of the City’s financial resilience in FY 2020-2021;
- 3) Historically low interest rates resulted in increased spending on home improvement projects and supported strong vehicle sales locally;
- 4) Increased online sales offset lost sales at brick and mortar retail outlets; and
- 5) San Fernando voters approved Measure SF in November 2020 to increase the local Transaction Tax from 0.50 percent to 0.75 percent, which generated an additional \$385,046 in FY 2020-2021.

A preliminary review of the City’s finances for Fiscal Year 2020-2021 indicates that there will be a surplus in the General Fund¹. In accordance with the City’s Fund Balance Policy, the surplus will

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

Local Transaction Tax (Measures “A” and “SF”)

2021 Annual Report

Page 2 of 8

be used to maintain a general operating reserve of, at a minimum, 20% of projected General Fund annual operating expenditures (approximately \$4 million), excluding debt service, fund transfers, and encumbered funds. These reserves are designed to be used in the event of a significant financial emergency. With the projected surplus, the General Fund is expected to exceed the minimum reserve policy for FY 2020-2021. Excess surplus funds are available for appropriate by City Council.

In October 2019, the City Council approved the Measure “A” Transparency Forum with the intent of allowing any and all interested community members the opportunity to review the Annual Report of collection, management and expenditure of the local half-cent Transaction and Use Tax (Measure “A”) revenue as required by Chapter 82, Article V, Section 82-132 of the City Code and make non-binding recommendations to the City Council general priorities for the use of Measure “A” funds during the annual budget process. Going forward, Annual Reports and related Transparency Forums will be inclusive of both Measure “A” and Measure “SF” revenues and be referred to jointly as “Local Transaction Tax.”

Since voter approval of Measure A in 2013, the City has used the Local Transaction Taxes to:

- Eliminate the General Fund deficit from (\$5.7 million) in fiscal year 2013-2014 to a projected reserve of approximately \$6 million as of June 30, 2021.
- Repay more than \$1.3 million in debt to outside agencies and \$1.6 million in internal debt to other City funds.
- Establish more than \$2.7 million in financial reserves for vehicle replacements, facility improvements, and self-insurance costs.
- Improve public safety reliability and response time by replacing thirteen (13) police patrol vehicles, upgrading in-car computers, and modernizing the City’s radio communication system.
- Support infrastructure improvements and maintenance through the annual residential resurfacing program, reconstruction of Glenoaks Boulevard, sidewalk improvements, additional tree trimming, and replacing Public Works vehicles and equipment.
- Beautify Brand Boulevard to create a notable entrance into the City.
- Support a number of special events, including Dia de los Muertos 5k run, San Fernando Open Streets Festival, and JAM sessions.
- Construct facility improvements at Recreation Park, Las Palmas Park, Pioneer Park and Layne Park.
- Replace the City’s outdated network equipment and software to protect customer information and increase efficiency.
- Support the City’s COVID-19 emergency response efforts.

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

Local Transaction Tax (Measures “A” and “SF”)

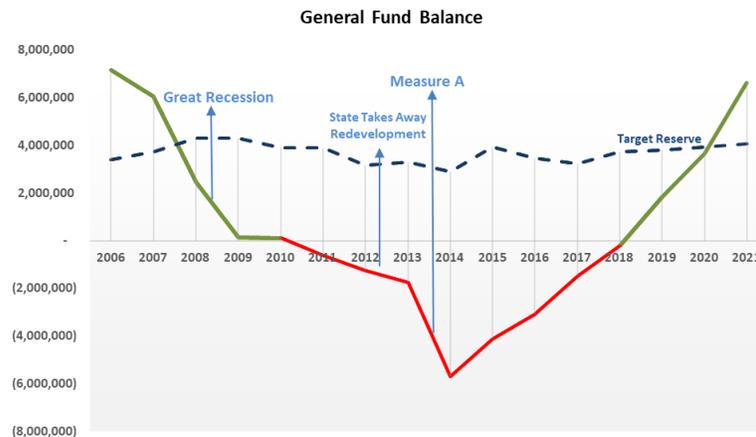
2021 Annual Report

Page 3 of 8

Council and City staff have worked diligently to ensure that Local Transaction Tax revenues are being collected, managed, and expended responsibly and in a manner consistent with the communities’ goals.

Background:

Between 2005 and 2013, the City’s financial position 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 June 2006 to a deficit of (\$5.7 million) in June 2014.



The dramatic reduction was the result of a perfect storm as the City’s expenditures on operating services began to increase (e.g. the San Fernando Regional Pool and Los Angeles Fire Department contract) just as the onset of the “Great Recession” in 2008/2009 decreased tax revenues. Additionally, the State of California eliminated local redevelopment funding in 2012, which further reduced tax revenue the City had 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. In the ten (10) years following the Great Recession, the number of City employees was reduced from 160 in 2008 to 128 in 2017 (20% reduction). The number of 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 with a sunset date of October 1, 2020. In November 2018, Measure A was extended indefinitely by voters.

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.

Local Transaction Tax (Measures “A” and “SF”)

2021 Annual Report

Page 4 of 8

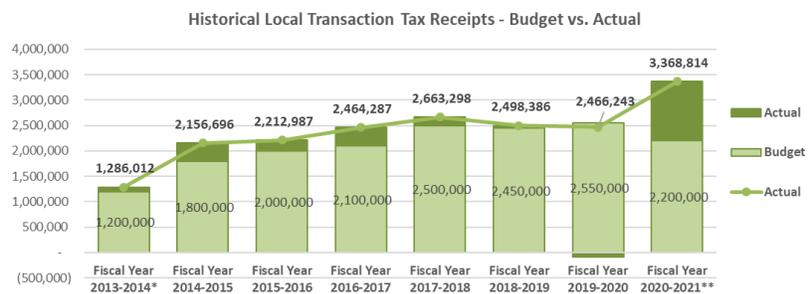
On November 3, 2020, the “Keep Sales Tax Local Measure” (Measure SF) was approved by fifty six percent (56%) of voters. Measure SF increased the local Transaction Tax from 0.50 percent to 0.75 percent. The increased Transaction Tax rate went into effect on April 1, 2021. Once fully implemented, Measure SF is expected to generate more than \$1.1 million per year.

Tax revenues provided through Measure SF are inclusive of former Measure A funds; therefore, these Measures will be collectively referred to as Local Transaction Taxes throughout this Annual Report.

Collection:

The City began collecting a 0.50 percent Transaction Tax on applicable transactions in San Fernando on October 1, 2013.

The City began collecting an additional 0.25 percent Transaction Tax on April 1, 2021, for a total Local Transaction Tax of 0.75 percent.



*Measure A was effective 10/1/13; FY 2013-14 includes only 3 quarters of receipts.
** FY 2020-21 includes 1 quarter of Measure SF receipts ~\$385,046

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

- Fiscal year 2020-21 actual Tax receipts were \$3,368,814 compared to the \$2,200,000 projected budget.
- Of this amount, \$385,046 is attributed to the additional 0.25 percent authorized by Measure SF.
- Since October 1, 2013, Local Transaction Taxes have generated \$19,116,723 in additional revenue.
- The Sales Tax to Transaction Tax ratio, a key metric for measuring local business compliance with the Tax, was 53% for Fiscal Year 2019-2020. 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). CDTFA remits Local Transaction Tax collections to the City Treasurer on a monthly basis. The CDTFA charges approximately \$25,000 per year for tax administration services.

Local Transaction Tax (Measures “A” and “SF”)

2021 Annual Report

Page 5 of 8

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. In calendar year 2020, HdL recovered \$200,265 in misallocated Sales and Transaction Taxes on behalf of the City.

Management:

In order to track Local Transaction Tax 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 Local Transaction Tax funds is discussed through the annual budget process and clearly identified in the City Manager’s Budget Message. All current and prior Annual Reports and Budget documents are posted on the City’s website ([SFCITY.ORG/Financial-Documents](https://www.sfcity.org/Financial-Documents)) under the Financial Documents section of the Finance Department page.

Local Transaction Tax 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 Local 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 Local Transaction Tax collections.

A quarterly newsletter providing Sales and Transaction Tax information pertinent to San Fernando is posted on the City’s website ([SFCITY.ORG/Financial-Documents](https://www.sfcity.org/Financial-Documents)) under the Financial Documents section of the Finance Department page.

Expenditure:

The City’s Local Transaction Tax was approved as a general tax, which means that it can be used for any general governmental purpose. Due to the significant uncertainty surrounding the economic impact of restrictions imposed during the ongoing COVID-19 response effort, City Council adopted a “bare bones” budget for FY 2020-2021 that focused on maintaining existing services to the community (i.e. avoid cuts through layoffs and furloughs). In consultation with HdL consultants, staff projected a 13.7% decrease in Local Transaction Tax revenue for FY 2020-2021. The significant reduction in revenue and focus on maintaining services is reflected in the Expenditure plan adopted by City Council, which is included in the table below:

Local Transaction Tax (Measures “A” and “SF”)

2021 Annual Report

Page 6 of 8

Repayment of Debt	Budget	Actual
To Retirement Fund	Deferred	-
To Sewer Fund	Deferred	-
To Water Fund	Deferred	-
<u>Establish Reserves</u>		
General Fund	Deferred	3,073,335
Self Insurance Fund	Deferred	-
Equipment Replacement Fund	Deferred	-
Facility Maintenance Fund	Deferred	-
		3,073,335
<u>One-Time Enhancements/Investments</u>	None	-
<u>Ongoing Enhancements/Investments</u>	None	-
Prior year On-going Staffing Enhancements	160,000	160,000
Operating Costs: COVID-19 Response	2,040,000	135,479
	2,200,000	295,479
Total Local Transaction Tax Uses:	\$2,200,000	\$3,368,814
		(385,046)
Total Measure “A”		\$2,983,768

The table above demonstrates the planned budget expenditures for Local Transaction Tax revenues were primarily for operating costs as part of the City’s COVID-19 response efforts. However, many of the City’s revenues, including Local Transaction Taxes, outperformed budget projections due to the strength of the local Building and Construction industry, vehicle sales (resulting from a historically low interest rate environment) and increased online sales. Therefore, relatively little was needed for operating costs and most of the Local Transaction Tax revenues were applied to the City’s General Fund reserves to be appropriated by City Council in future years.

Conclusion:

Since October 2013, Local Transaction Tax revenues have been used to 1) eliminate the General Fund deficit, 2) pay down external/internal debt, 3) establish financial reserves, and 4) make one-time investments in infrastructure, equipment and technology improvements. As of June 30 2021, most of these goals have been met or exceeded. With strong financial reserves and robust Local Transaction Tax revenues, City Council will have the financial resources necessary to begin implementing the City Council Strategic Goals for fiscal years 2022 through 2027.

Preparation of this report and the corresponding Transparency Town Hall is meant to demonstrate to voters that the City has been responsible and fiscally prudent with Local Transaction Tax funds and has been transparent about the planned use of Local Transaction Tax revenues each year through the budget process.

Appendix A: Deficit Elimination Plan

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

The City’s General Fund had 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 training and professional development opportunities for City staff, implementing layoffs and furloughs, and eliminating vacant positions. Many of these actions were short-term fixes that were necessary to remain solvent, but were not sustainable in the long-term.

In addition to short-term actions identified above, the City took a number of longer-term actions 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 \$1.5 million in SIF reserve to protect against large lawsuits and \$1.1 million set aside to fund future vehicle replacements).

Local Transaction Tax (Measures “A” and “SF”)

2021 Annual Report

Page 8 of 8

- 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.