

September 14, 2020

**Measure A: ½ Cent Transaction & Use Tax
2020 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 \$2,297,190 from the voter approved ½ cent Transaction Tax (“Measure A”) in Fiscal Year 2019-2020, which is a decrease of \$201,195 or (8.0%), from Fiscal Year 2018-2019. The decrease is a result of the economic restrictions imposed through the state and County “Safer at Home” policies to respond to, and slow the spread of, the Coronavirus 2019 Pandemic (COVID-19). Staff has had to reduce most business related revenue estimates, including Measure A, as these economic restrictions have significantly affected many local businesses since mid-March 2020.

Revenues raised through Measure A are necessary to fund a number of critical one-time needs, including, but not limited to:

- 1) Establish reserves in the General Fund, Self-Insurance, Equipment Replacement, and Facility Maintenance fund.
- 2) Pay off existing internal debt owed to other special funds.
- 3) Increase public safety by replacing outdated vehicles and equipment.
- 4) Replace and update outdated computer hardware, software and communications systems.
- 5) Fund capital projects to reduce the City’s deferred maintenance backlog.
- 6) Reduce long-term employee related liabilities.

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A preliminary review of the City's finances for Fiscal Year 2019-2020 indicates that there will be a surplus in the General Fund¹. In accordance with the City's Fund Balance Policy the surplus will be used to maintain a general operating reserve of, at a minimum, 20% of projected General Fund operating expenditures for each fiscal year, excluding debt service, fund transfers, and encumbered funds. These reserves are designed to be used in the event of a significant financial emergency. Continued annual surpluses will be necessary to build healthy fund reserves, address a backlog of deferred maintenance on City streets, parking lots and facilities, and address the City's many critical one-time needs.

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.

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.

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

- Eliminate the General Fund deficit from (\$5.7 million) in fiscal year 2013-2014 to a projected reserve of \$3,420,061 as of June 30, 2020.
- Improve public safety reliability and response time by replacing ten (10) police patrol vehicles and upgrading all in-car computers.
- Support the annual residential resurfacing program, reconstruction of Glenoaks Boulevard, sidewalk improvements, and additional tree trimming.
- 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.
- 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.
- Increase Citywide tree trimming.
- Support the City's COVID-19 emergency response efforts.

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

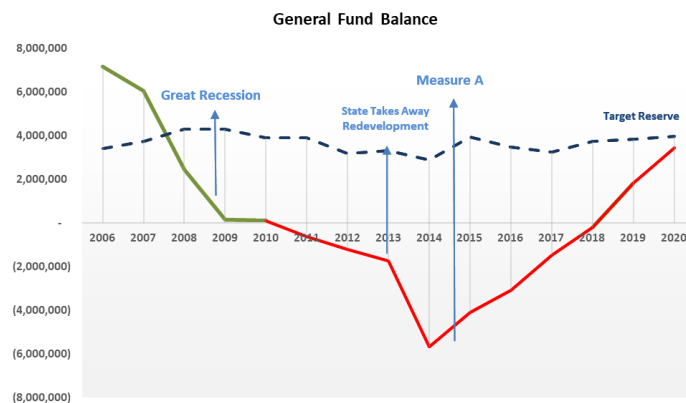
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Background:

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 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 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 bottom of the "Great Recession" in 2008/2009. 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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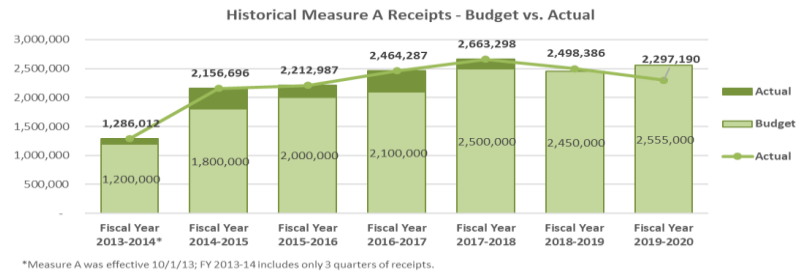
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Collection:

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:



- Fiscal year 2019-20 estimated Tax receipts were \$2,297,190.
- Fiscal year 2018-19 actual Tax receipts were \$2,498,386.
- Since October 1, 2013, Measure A has generated \$15,578,585 in additional revenue.
- The Sales Tax to Transaction Tax ratio, a key metric for measuring local business compliance with the Tax, was 43.3% 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 somewhat 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 \$30,000 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.

For FY 2019-2020, Measure A funds were used for the following:

Repayment of Debt	
To Retirement Fund	175,000
To Sewer Fund	75,000
To Water Fund	75,000
	325,000
Establish Reserves	
Facility Maintenance Fund	100,000
Equipment Replacement Fund	100,000
	200,000
One-Time Projects	
Replace one (1) Detective Vehicle	40,000
Replace one CSO vehicle	30,000
Replace heavy duty man lift vehicle	83,500
Add'l Street Maint. Mat's & Equip.	25,000
Economic Development activity	50,000
Special studies, as needed	50,000
(Continued in next column)	

One-Time Projects (cont.)	
City Council Meeting minutes	10,000
Special events & Rec Programs	16,500
Add'l training & education	9,570
	314,570
On-going Staffing	
Upgrade PT Dep. City Clerk to FT Dep. City Clerk/Mgmt Analyst	49,630
Add PT Records Specialist (.46)	22,250
Add PW Superintendent (50%)	63,500
Ongoing training & education	17,000
	152,380
Deficit fund balance reduction	257,100
Subsidize Street Lighting District	40,000
Amount allocated to City operations	1,008,050
	1,305,240
Total Measure A funds:	\$2,297,190

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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.

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 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.

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- Re-established reserves for the Self-Insurance and Equipment Replacement Funds (more than \$1.6 million in SIF reserve to protect against large lawsuits and \$924,000 set aside to fund future vehicle replacements).
- 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.

Conclusion:

Measure A has been instrumental to stabilizing the City's finances since its passage in 2013. Preparation of this report demonstrates to voters the City has been responsible and fiscally prudent with Measure A funds and has been very transparent about the planned use of Measure A revenues each year through the budget process.