



THE CITY OF
SAN FERNANDO

Local Transaction Tax Annual Report

September 26, 2022

Presented by:

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Legal Requirement

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, Measure “A” and Measure “SF” receipts will be combined and reported on jointly through this *Local Transaction Tax Annual Report*.



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Background

How did the City get into a deficit situation?

Perfect Storm

Chain of events created a “Perfect Storm” and caused a dramatic reduction in General Fund between FY 2005-06 and FY 2013-2014:

Increase in operating expenditures (e.g. regional pool, LAFD contract)

+ “Great Recession” (Dec 2007–June 2009*)

+ Elimination of RDA (January 2012)

= **General Fund Deficit**

*As determined by the National Bureau of Economic Research. June 2009 marked the bottom of the recession, at which time the economy stagnated and stopped contracting. However, the economy did not start to rebound until after 2012.



Financial Decline

General Fund Balance – Prior to Measure A





City's Response to Financial Crisis

Short-term:

- Eliminated vacant positions, reduced employee benefits, implemented layoffs and furloughs, reduced training and professional development budgets.
- Renegotiated LAFD contract and leased Regional Pool operations to LA County.
- Sold surplus property to pay off debt.
- Declared fiscal emergency and held a special election on June 4, 2013 to vote on a temporary ½ cent sales tax measure to raise revenue (approved by 60%).

Long-term:

- Developed and implemented a Deficit Elimination Plan to pay off debt, reduce ongoing expenditures and increase ongoing revenue.



Response to Financial Crisis (Cont.)

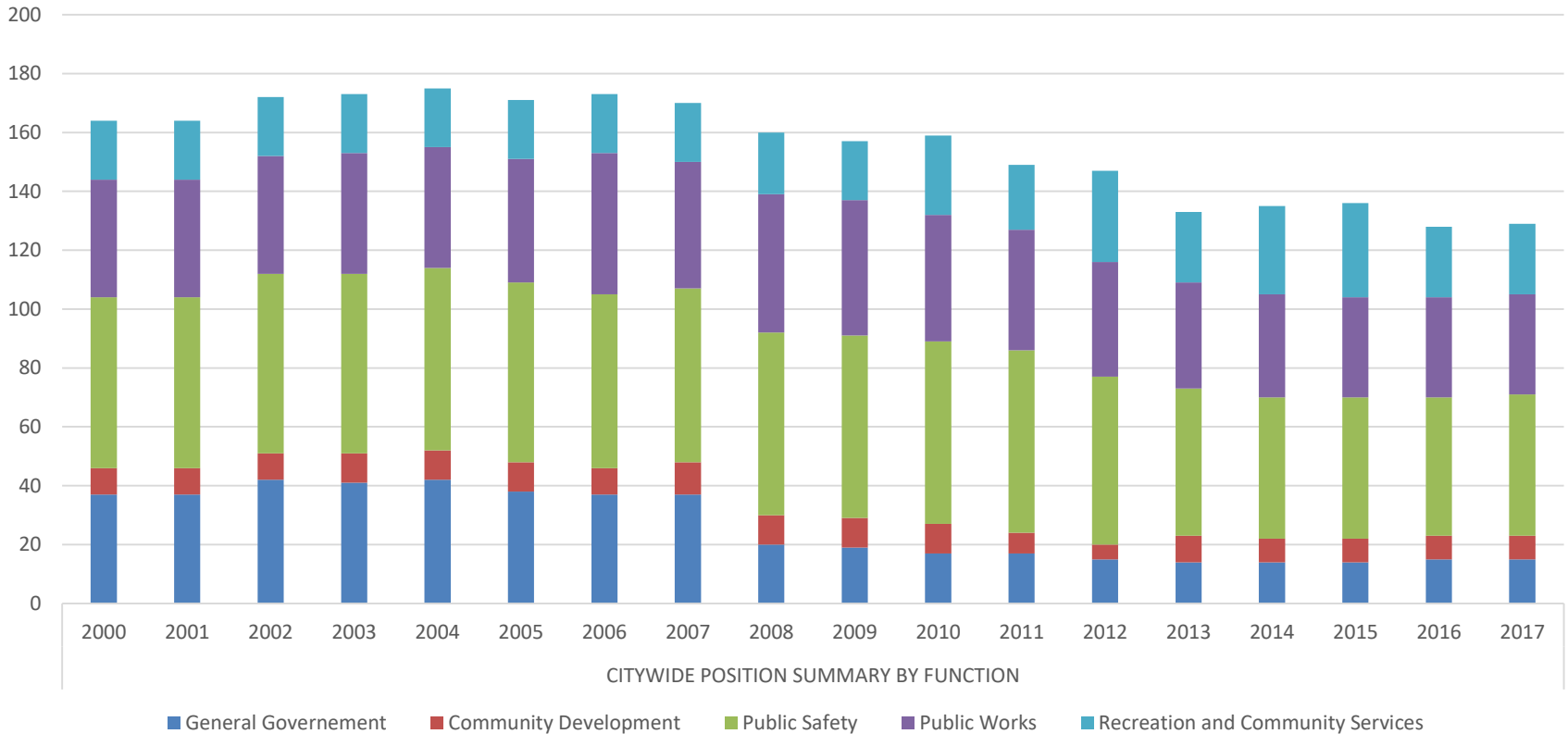
In the 10 years following the Great Recession:

- The number of total City employees was reduced from 160 in 2008 to 129 in 2017 (-20%)
- The number of sworn Police Officers was reduced from 62 in 2008 to 48 in 2017 (-23%)
- The number of Public Works employees was reduced from 47 in 2008 to 34 in 2017 (-28%)



Response to Financial Crisis (Cont.)

CITYWIDE POSITION SUMMARY BY FUNCTION



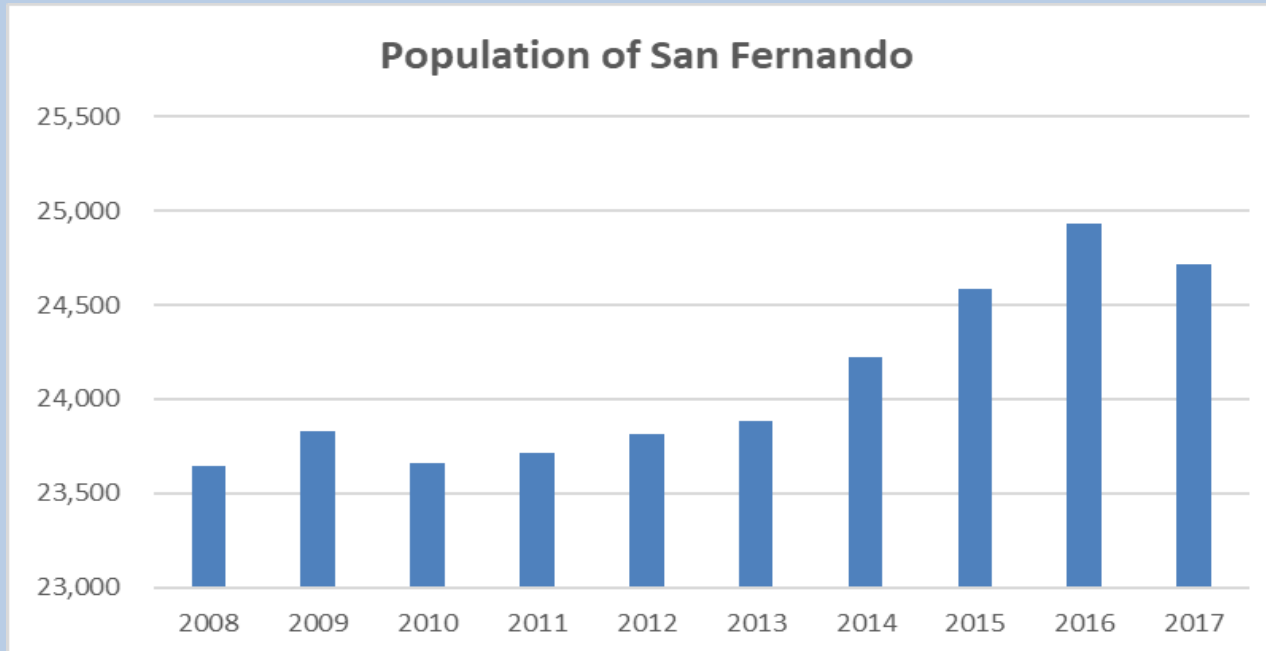
■ General Government ■ Community Development ■ Public Safety ■ Public Works ■ Recreation and Community Services



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Response to Financial Crisis (Cont.)

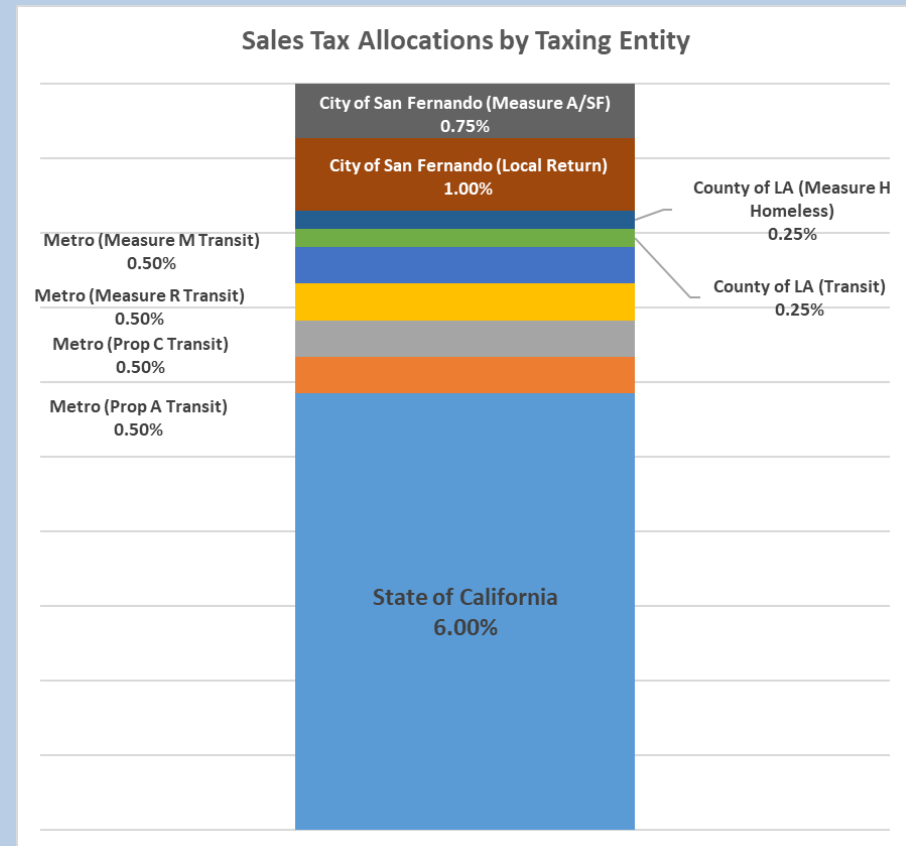
Population of San Fernando has increased from 23,645 in 2008 to 24,717 in 2017 (+4.5%)





Response to Financial Crisis (Cont.)

- In November 2018, Measure A was extended indefinitely by voters.
- In November 2020, Measure “SF” was passed which increased the City’s transaction tax from 0.50 percent to 0.75 percent. Measure “A” and Measure “SF” are now collectively referred to as Local Transaction Taxes.
- Without the revenues generated by Local Transaction Taxes, the City would have struggled to stay out of bankruptcy.





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How Have the Tax Funds Been Managed?



Responsible Stewards of Measure A/SF

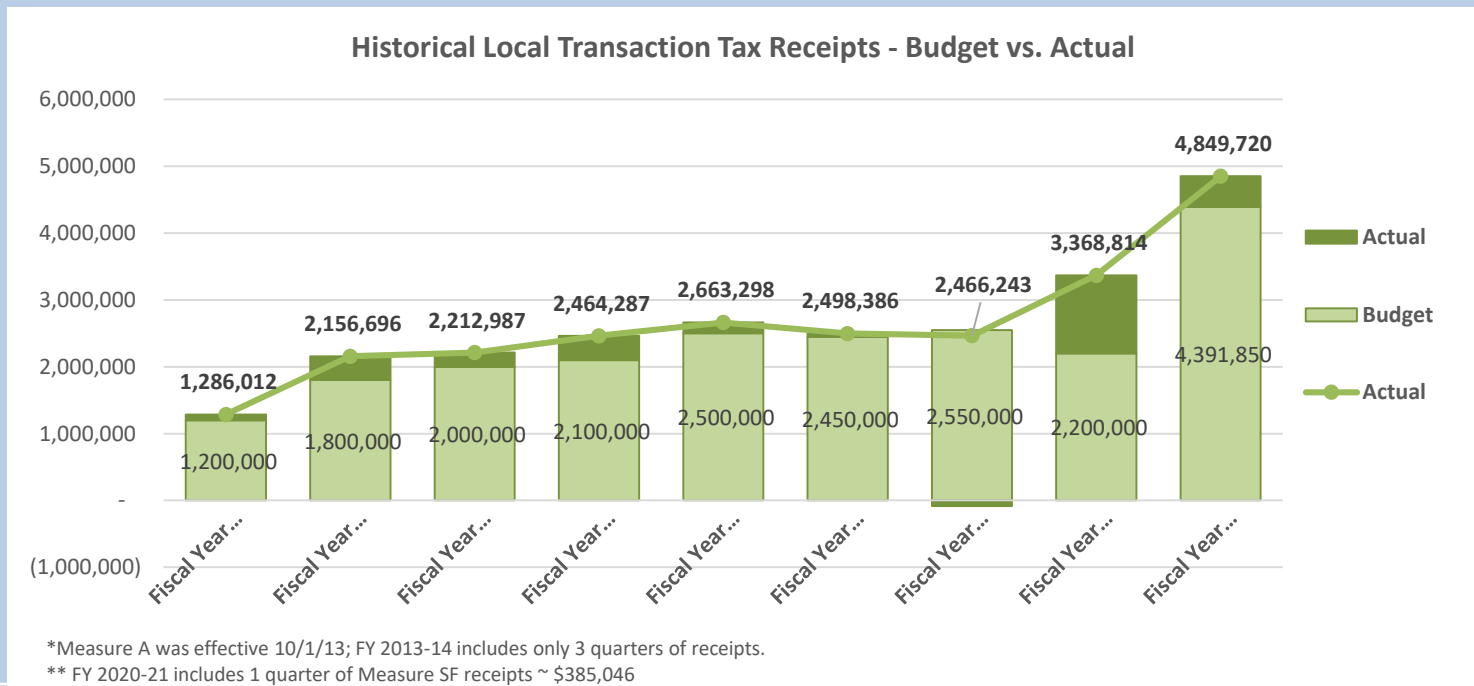
- 1) A Local Transaction Tax Annual Report is presented to City Council for Public Review**
- 2) The City Manager's Budget Message in the Adopted Budgets clearly identifies the plan for spending Local Transaction Tax revenues each year**
- 3) Quarterly review of receipts by firm that specializes in monitoring auditing tax receipts (HdL Company)**
- 4) Local Transaction Tax (formerly Measure A) Annual Reports, Budget documents and Quarterly Sales Tax information available on City's website
(<http://sfcity.org/finance/#financial-documents>)**



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How Much Has Been Collected?

- Since October 1, 2013, Local Transaction Taxes have generated \$24.0 million in additional revenue.
- Projected to raise \$4.9 million annually.





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How Have Local Transaction Tax Funds Been Used?

Pay off Debt & Eliminate Deficit

Since passage of Local Transactions Taxes, the City made progress on the following debt:

- Reduced General Fund Deficit from **(\$5,693,905)** on 6/30/2014 to a Fund Balance Reserve of approximately **\$10.8 million** as of 6/30/2022 (*unaudited*).
- Fully repaid Section 108 Loan for Pool: \$613,000
- Fully repaid California Housing Finance Agency loan: \$692,000
- Fully repaid internal debt for Las Palmas Improvements: \$870,000
- Reduced internal debt to Retirement Fund by \$1,260,862



Capital Projects and Capital Equipment

The City has used Local Transaction Taxes proceeds to partially fund the following projects:

- Resurface 5+ miles of streets including: Alexander Street, Huntington Street, Library Street, and San Fernando Road.
- 18+ miles of slurry seal to residential streets (*to begin November 2022*).
- Brand Boulevard Median Project to create notable entrance to City.
- Glenoaks Boulevard Reconstruction.
- San Fernando Park Facility and Tot Lot Improvements.
- Replaced 13 police patrol vehicles and upgraded all in-car computers.
- Purchased new utility trucks and maintenance equipment for DPW.
- Police Department Facility Improvements.

Establish Reserves

Since passage of Local Transaction Taxes, the City has increased reserves:

General Fund: Increased liquidity from \$280,000 on 6/30/2013 to an estimated \$13.7 million as of 6/30/22.

Self-Insurance Fund: Established \$1.2 million reserves to protect the City from the financial impact of large lawsuits.

Equipment Replacement Fund: Accumulated \$1.1 million to pre-fund future vehicle replacements.

Facility Maintenance Fund: Accumulated \$249,463 to fund facility maintenance.



Replace Outdated Technology

Since passage of Local Transaction Taxes, the City has increased efficiency and safety:

- Modernized the City's technology backbone, including servers, routers, switches and computers to retire equipment vulnerable to security breaches (\$100,000).
- Replaced the mobile computers in police vehicles (\$120,000).
- Upgraded City-wide Radio Communications System (\$1 million).
- Transitioning City's phone system to VOIP (\$50,000).

Cover Operating Deficit

Since passage of Local Transaction Taxes, the City has decreased the General Fund's budgeted operating deficit:

- Ongoing expenditures exceeded ongoing revenues by \$1.5 million in FY 2013-2014.
- Operating deficit was eliminated by FY 2019-2020.
- While COVID-19 was initially projected to generate an operating deficit in FY 2020-2021, the local economy proved resilient and exceeded projections and instead ending in surplus.
- For FY 2021-2022, the City was able to begin efforts to restore reductions and service levels. Year-end estimates are again projected to end in surplus.



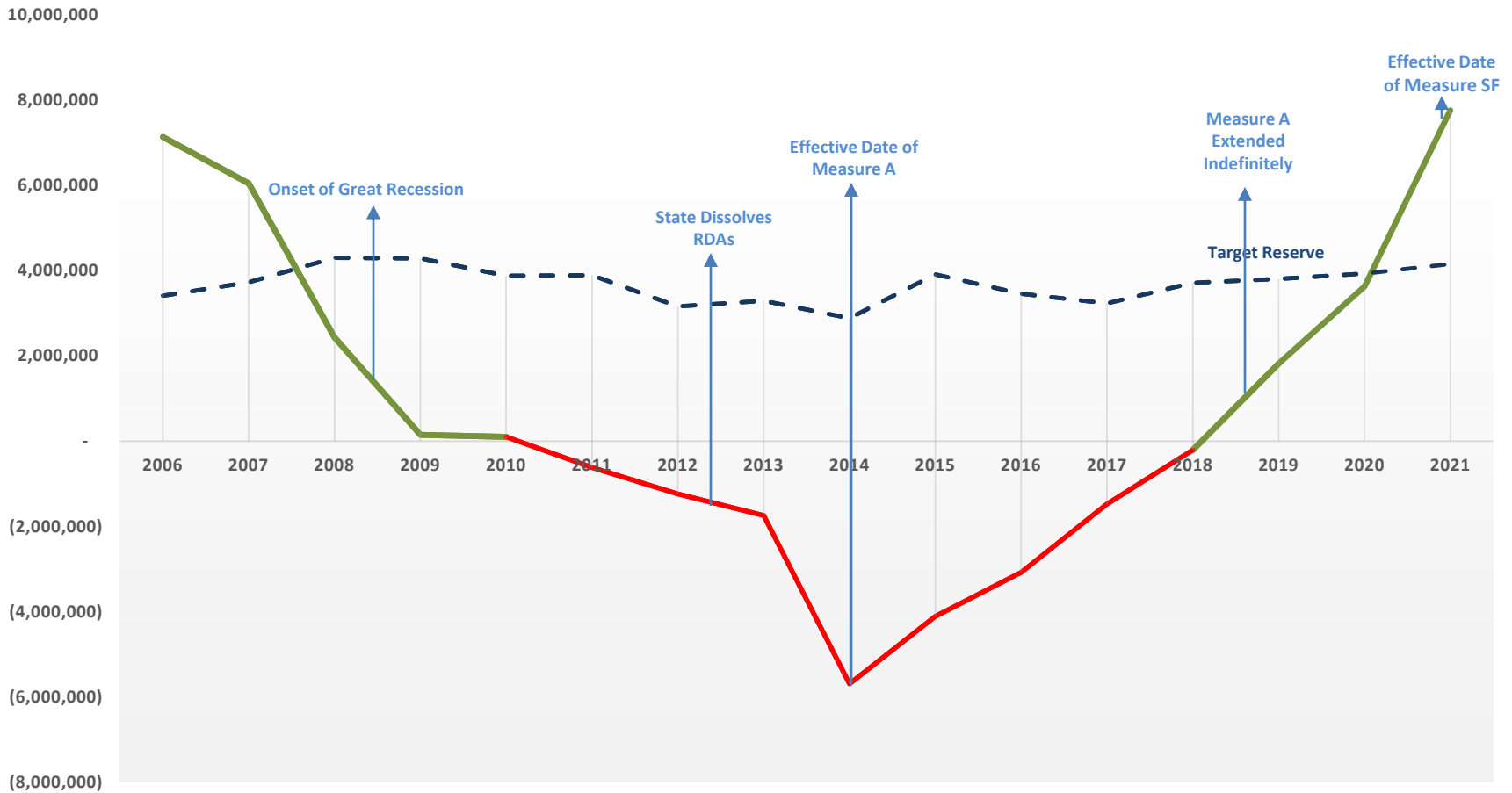
Year-End Budget vs Actuals

- In FY 2021-22, City Council adopted a “back on track” budget.
- Appropriations focused on restoring prior services and catching up on payments deferred or reduced in prior fiscal year due to COVID-19 economic uncertainty.
- Actual Revenues are projected to exceed budget estimates by 10.4% to \$0.5 million.
- Revenue significantly outperformed budget due to strength of Building and Construction, Vehicle Sales, and Online Sales.

	Budget	Actual
SOURCES		
Local Transaction Taxes	\$4,391,850	\$4,849,720
USES		
Repayment of Debt		
To Retirement Fund	500,000	500,000
To Sewer Fund	120,000	120,000
To Water Fund	120,000	120,000
	\$740,000	\$740,000
Establish Reserves		
General Fund	613	613
Self Insurance Fund	520,000	520,000
Equipment Replacement Fund	90,308	90,308
Appropriated Reserve	75,000	75,000
Street Lighting District Reserve	40,000	40,000
	\$725,921	\$725,921
Enhancements/Investments		
One-Time Enhancements	1,125,510	1,125,510
Ongoing Enhancements	521,434	521,434
Prior year Ongoing Enhancements	491,748	491,748
	\$2,138,692	\$2,138,692
Total Local Transaction Tax Uses:	\$3,604,613	\$3,604,613
ADDITIONAL GENERAL FUND RESERVE SURPLUS (DEFICIT):	\$787,237	\$1,245,107



General Fund Fund Balance 2006 - Present





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What's Next?

Conclusion

Original goals of Local Transaction Tax funds have been met or exceeded:

- ✓ Eliminated the General Fund deficit.
- ✓ Paid down external/internal debt.
- ✓ Established financial reserves.
- ✓ Made one-time investments in infrastructure, equipment and technology.



Conclusion

Local Transaction Taxes are being used to continue implementation of the City Council Strategic Goals 2022-2027:

1. Focus on Community First
2. Support Economic Recovery: Stronger Than Ever
3. Preserve Beautiful Homes and Neighborhoods
4. Strengthen Climate Resilience and Environmental Justice
5. Enhance Public Transportation to Move San Fernando
6. Build Resilient and Reliable Infrastructure
7. Forge Financial Strength and Stability
8. COVID-19: Responding to a Pandemic



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Fiscal Year 2022-2023

The FY 2022-2023 Adopted Budget includes funding to continue implementation of City Council's Strategic Goals:

- 1) Includes a number of new Public Works positions (Sewer Maintenance Workers; Senior Tree Trimmer) for infrastructure and City-owned parkway maintenance.
- 2) Enhances recreation and community services staff (Recreation Program Specialist) to enrich community pride through event and recreation programming.
- 3) Establishes a New Police Department Management Analyst position to focus on grants, budget analysis, procurement and crime analysis to increase data informed policing efforts.
- 4) Reclassifies the Economic Development Manager position to Deputy City Manager to enhance the City's economic development initiatives.
- 5) Improves management of City IT resources with inclusion of an Information Technology Systems Administrator to oversee technology, network and communication systems.

AND MUCH MORE!!!



QUESTIONS

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Appendix A: Deficit Reduction Plan

Staff worked with City Council to implement a multi-year plan to eliminate the General Fund deficit

Since passage of Measure A, the City has:

- Renegotiated the Fire Services contract with LAFD (saved more than \$500,000/year).
- Transferred pool operations to LA County (saved more than \$500,000/year)
- Restructured future retiree health benefits to statutory minimum to decrease the City's liability (significant long-term savings)

Deficit Reduction Plan (Cont.)

- Sold surplus land to reduce the City's deficit (\$1 million in proceeds)
- Developed a five-year General Fund projection to improve long term decision making
- Adopted a Development Agreement Ordinance to increase economic development tools and diversify the tax base
- Updated user fees, development fees and cost allocation plan (more than \$500,000 per year in projected ongoing revenue)
- Continue to explore opportunities to partner with private sector firms to provide efficient, quality services