



September 18, 2022

## Local Transaction Tax (Measures “A” and “SF”) 2023 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 \$5,114,173 in Local Transaction Taxes in Fiscal Year (FY) 2022-2023, which is an increase of \$264,452, or 5.5%, from FY 2021-2022. This increase is the result of a number of factors, including:

- 1) 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 \$1.3M. FY2022-2023 includes the second full year of Measure SF proceeds.
- 2) The City’s “Business and Industry” was the primary driver of the City’s financial resilience in FY 2022-2023, with an estimated increase of 27% over prior year receipts;
- 3) Increased restaurant sales as patrons continue to frequent casual dining and quick food service options; and
- 4) Increased online sales offset lost sales at brick and mortar retail outlets.

A preliminary review of the City’s finances for Fiscal Year 2022-2023 indicates that there will be a surplus in the General Fund<sup>1</sup>. 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 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

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

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significant financial emergency. With the projected surplus, the General Fund is expected to exceed the minimum reserve policy for FY 2022-2023. 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 \$11.5 million as of June 30, 2023.
- Repay more than \$1.3 million in debt to outside agencies and \$2.1 million in internal debt to other City funds.
- Establish over \$2.5 million in financial reserves for vehicle replacements, facility improvements, and self-insurance costs.
- Improve public safety reliability and response time by replacing thirteen (15) police patrol vehicles, upgrading in-car computers, enhancing network infrastructure, 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, City Birthday Celebration, 4<sup>th</sup> of July Laser Lightshow event 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 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.

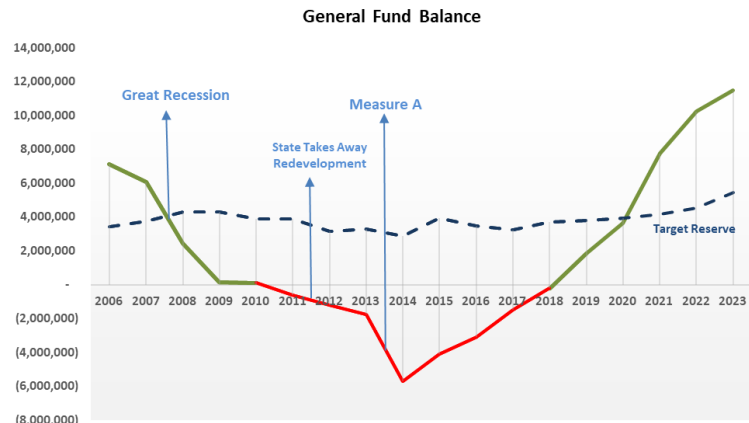
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## Background:

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 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 to operate and carry out its financial commitments, obligations and objectives.

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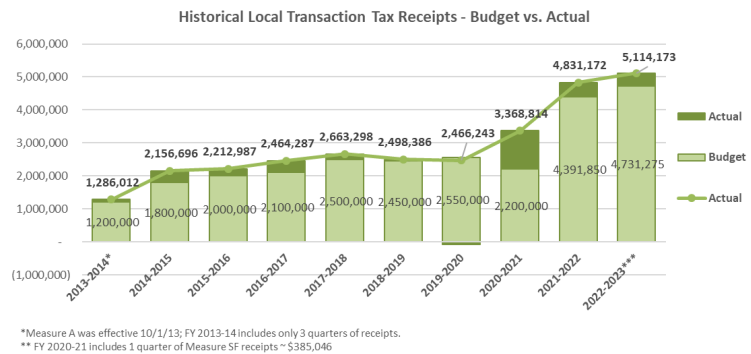
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## Collection:

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.



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

- Fiscal Year 2022-2023 estimated Tax receipts were \$5,114,173 compared to the \$4,731,275 projected budget.
- Of this amount, \$1,278,543 is attributed to the additional 0.25 percent authorized by Measure SF.
- Since October 1, 2013, Measure A has generated \$29,062,068 in additional revenue.
- The Sales Tax to Transaction Tax ratio, a key metric for measuring local business compliance with the Tax, was 73.8% for Fiscal Year 2022-2023. Since the City Sales Tax is 1.0% and the Transaction tax is 0.75%, a Sales Tax to Transaction Tax ratio of 75% or greater indicates compliance by local businesses with the Local Transaction Tax measure. 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 \$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.

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### Management:

In order to track Local Transaction Tax revenue, receipts are recorded 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://sfcity.org/Financial-Documents)) under the Financial Documents section of the Finance Department page.

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 inform the consultant 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://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. After a year of uncertainty, City Council adopted a budget for FY 2022-2023 that focused on restructuring and reimagining services to set up the City for an equitable, sustainable and resilient community. In consultation with HdL consultants, staff projected a 7.7% increase in Local Transaction Tax revenue for FY 2022- 2023 over the prior year. The increase in revenue and focus on service enhancements is reflected in the Expenditure plan adopted by City Council, which is included in the table below:

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|   | BUDGET              | ACTUAL              |
|---|---------------------|---------------------|
| <b>SOURCES</b>  |                     |                     |
| Local Transaction Taxes                                   | \$ 4,679,369        | \$ 5,114,173        |
| <b>USES</b>   |                     |                     |
| <u>Repayment of Debt</u>                                  |                     |                     |
| To Retirement Fund  | \$ 226,333          | \$ 226,333          |
| <u>Establish Reserves</u>                                 |                     |                     |
| General Fund Reserve                                      | 261,082             | 261,082             |
| Self Insurance Fund Reserve                               | 750,000             | 750,000             |
| Equipment Replace Fund Reserve                            | 130,875             | 130,875             |
| Pre-fund OPEB   | 500,000             | 500,000             |
| Appropriated Reserve                                      | 75,000              | 75,000              |
|   | <b>\$ 1,716,957</b> | <b>\$ 1,716,957</b> |
| <u>Ongoing Enhancements/Investments</u>                   |                     |                     |
| Reclassify Econ Dev Manager to Deputy City Manager        | 41,265              | 41,265              |
| Personnel Office Clerk (PT)                               | 18,834              | 18,834              |
| Information Technology System Administrator               | 176,000             | 176,000             |
| Administrative Assistant - Community Development          | 86,651              | 86,651              |
| Management Analyst - Police Department                    | 155,555             | 155,555             |
| Senior Tree Trimmer                                       | 110,000             | 110,000             |
| RCS Office Clerk (PT) - Recreation Park                   | 18,834              | 18,834              |
| RCS Program Specialist                                    | 93,679              | 93,679              |
| City Birthday Celebration Event                           | 5,000               | 5,000               |
| Fourth of July Celebration Event                          | 35,000              | 35,000              |
|   | <b>\$ 740,818</b>   | <b>\$ 740,818</b>   |
| <u>One-Time Enhancements/Investments</u>                  |                     |                     |
| Advertising for added recruitments                        | 7,500               | 7,500               |
| Additional contract services                              | 5,000               | 5,000               |
| Agenda & Meeting Management Software Program              | 5,500               | 5,500               |
| Lexipol Training for Jail & Law Enforcement               | 27,100              | 27,100              |
| Building Inspection Services                              | 25,000              | 25,000              |
| On-Call Environmental/Architectural Review & Planning     | 50,000              | 50,000              |
| Tuition Reimbursement                                     | 1,500               | 1,500               |
| Additional Detective Training                             | 14,600              | 14,600              |
| Ballistic Vests   | 32,500              | 32,500              |
| Officers Equipment & Uniforms                             | 10,000              | 10,000              |
| Four (4) New Bicycles & Equipment for Six (6)             | 18,420              | 18,420              |
| Additional Police Officers Training                       | 13,500              | 13,500              |
| Staff Augmentation for Public Works Engineering           | 150,000             | 150,000             |
| Personnel Trailer Improvements & Furniture                | 55,000              | 55,000              |
|   | <b>\$ 415,620</b>   | <b>\$ 415,620</b>   |
| <u>Prior-Year Approved Ongoing Enhancements</u>           | <b>\$ 1,579,641</b> | <b>\$ 1,579,641</b> |
| <b>TOTAL LOCAL TRANSACTION TAX USES:</b>                  | <b>\$ 4,679,369</b> | <b>\$ 4,679,369</b> |
| <b>ADDITIONAL GENERAL FUND RESERVE SURPLUS (DEFICIT):</b> | <b>\$ -</b>         | <b>\$ 434,804</b>   |

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The table above demonstrates the planned budget expenditures for Local Transaction Tax revenues were primarily for one-time enhancements (i.e. street/sidewalk improvements, refuse and police vehicle replacements, network infrastructure upgrades, police facility improvements, etc.). However, the City’s Local Transaction Taxes significantly 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 additional Local Transaction Tax revenues were available to be applied to the City’s General Fund reserves for appropriation 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 2023, the original 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 continue implementation of the City Council Strategic Goals for fiscal years 2022 through 2026.

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).



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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.