



September 16, 2024

## Local Transaction Tax (Measures “A” and “SF”) 2024 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 \$4,860,526 in Local Transaction Taxes in Fiscal Year (FY) 2023-2024, which is a decrease of \$190,474, or 4.9%, from FY 2022-2023. This decline is the result of a number of factors, including:

- 1) Shifts in the automotive/transportation industry with the national auto market normalizing, after seeing significant revenue spikes in previous years, leading to declines in local tax revenue;
- 2) Declines in general consumer goods due to high credit card rates and rising costs placing pressure on household spending leading; and
- 3) Reductions in business and industry due to slow recovery from the entertainment industry strike.

A preliminary review of the City’s finances for Fiscal Year 2023-2024 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 significant financial emergency. With the projected surplus, the General Fund is expected to exceed the minimum reserve policy for FY 2023-2024. Excess surplus funds are available for appropriate by City Council.

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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.*

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

2024 Annual Report

Page 2 of 9

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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 \$12.6 million as of June 30, 2024.
- 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 (13) police patrol vehicles, upgrading in-car computers, enhancing network infrastructure, and modernizing the City’s radio communication system.
- Replace Police Department HVAC 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, Independence Day Celebrations 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.

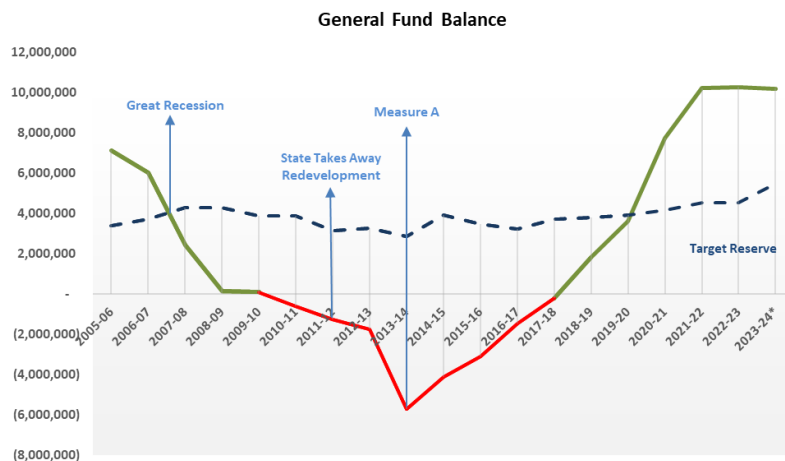
# Local Transaction Tax (Measures “A” and “SF”)

2024 Annual Report

Page 3 of 9

## 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.

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

2024 Annual Report

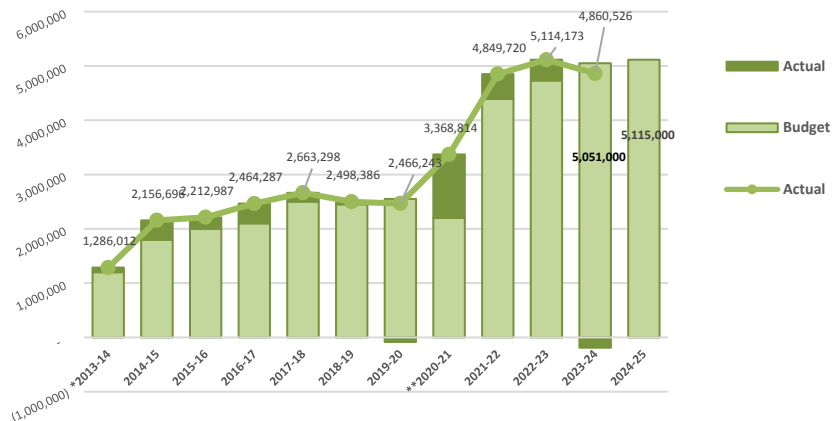
Page 4 of 9

## 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.

Historical Local Transaction Tax Receipts  
Budget vs. Actual



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

- Fiscal Year 2023-2024 estimated Tax receipts were \$4,860,526 compared to the \$5,051,000 projected budget.
- Of this amount, \$1,215,131 is attributed to the additional 0.25 percent authorized by Measure SF.
- Since October 1, 2013, Measure A has generated \$33,941,142 in additional revenue.
- The Sales Tax to Transaction Tax ratio, a key metric for measuring local business compliance with the Tax, was 72.6% for Fiscal Year 2023-2024. 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.

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

2024 Annual Report

Page 5 of 9

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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 2023-2024 that focused on allowing the dust to settle in effort to complete many of the previously authorized projects, programs and priorities. In consultation with HdL consultants, staff projected a 7.7% increase in Local Transaction Tax revenue for FY 2023- 2024 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:

# Local Transaction Tax (Measures "A" and "SF")

2024 Annual Report

Page 6 of 9

	BUDGET	ACTUAL*
<b>SOURCES</b>		
Local Transaction Taxes	\$ 5,051,000	\$ 4,860,526
<b>USES</b>		
<u>Repayment of Debt</u>		
To Retirement Fund	\$ 271,327	\$ 271,327
<u>Establish Reserves</u>		
General Fund Reserve	\$ 61,300	\$ 61,300
Self Insurance Fund Reserve	850,000	850,000
Equipment Replace Fund Reserve	103,375	103,375
Pre-fund OPEB	500,000	500,000
Appropriated Reserve	85,000	18,243
<i>Establish Reserves Subtotal</i>	<b>\$ 1,599,675</b>	<b>\$ 1,532,918</b>
<u>Ongoing Enhancements/Investments</u>		
Employee Recognition Program	\$ 1,000	\$ 1,000
Housing Division Department Supplies	3,500	3,820
Membership & Conference for Housing Division	2,000	2,000
Everbridge - Emergency Notification System	12,600	12,600
Handheld Ticket Writers for Officers (6 devices)	2,000	-
Graffiti Removal Supplies	10,000	10,000
Programming Supplies for Lopez Adobe	3,500	3,500
Commissioner Stipend Increase	6,000	6,000
Reclassify One (1) PT Office Clerk to FT	25,000	25,000
Executive Management/City Council Benefit Increases	3,575	3,575
<i>Ongoing Enhancements/Investments Subtotal</i>	<b>\$ 69,175</b>	<b>\$ 67,495</b>
<u>One-Time Enhancements/Investments</u>		
Labor Attorney	\$ 45,625	\$ 45,625
Tuition Assistance	6,000	4,976
Professional Records Scanning Services	10,000	10,000
Contract Building Official & Plan Check	25,000	25,000
On-Call Environmental/Architectural Design Review Svcs & P	75,000	75,000
Tutorial Video for Building Permit & Online Portal	6,000	6,000
Comprehensive User Fee Study	25,000	25,000
PC Replacement Project (Year 1)	35,000	35,000
Wall Off IT Room	5,000	5,000
2023 Oxnard Police Explorers Channel Islands Challenge	9,015	7,547
(4) Bodyworn Cameras for CSOs	3,750	-
POST-Mandated Training for Detective Lt.	10,000	10,000
POST-Mandated Training for Patrol	15,000	15,000
Background Investigations/Polygraphs	21,800	21,800
Facility Condition Assessment Report	25,000	-
Language Translation Services	64,000	33,918
Sidewalk Cleaning - Homeless Services	12,500	12,500

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

2024 Annual Report

Page 7 of 9

Public Arts - Mural Fund 6	25,000	25,000
Commissioner Training - Onsite Consultant	3,500	-
Citywide Holiday Party	2,000	2,000
Graffiti Removal Supplies	5,000	5,000
Illegal Dumping/Bulky Items Option	10,100	10,100
City Council Office Furniture	5,000	4,576
City Council Travel Conference & Convention Increase	2,500	1,916
City Council Memberships & Dues Increase	2,500	169
Liberty Bell Special Event	2,500	2,500
Child Care Services - Community Engagement Events	5,000	5,000
Children Tables & Chairs	1,500	1,500
Furnish Pioneer Park Field House	4,000	3,770
Parks Signage - Vandalism Reporting	2,000	2,000
Parks Signage - Do Not Enter/Wrong Way (Las Palmas)	500	500
Park Revitalization Fund	51,360	4,639
	<b>\$ 516,150</b>	<b>\$ 401,036</b>
<u>Prior-Year Approved Ongoing Enhancements</u>	<b>\$ 2,594,673</b>	<b>\$ 2,419,461</b>
<b>TOTAL LOCAL TRANSACTION TAX USES:</b>	<b>\$ 5,051,000</b>	<b>\$ 4,692,237</b>
<b>ADDITIONAL GENERAL FUND RESERVE SURPLUS (DEFICIT):</b>	<b>\$ -</b>	<b>\$ 168,289</b>

*\*NOTE: Actuals based on Unaudited Financial Reporting*

The table above demonstrates the planned budget expenditures for Local Transaction Tax revenues were primarily for one-time enhancements for projects related to beautification (i.e. planning services, graffiti removal supplies, illegal dumping/bulky item removal, signage, etc.). However, the City’s Local Transaction Taxes slightly underperformed budget projections by 4% due to declines in Building and Construction industry, Automotive/Transportation and General Consumer Goods. However, with actual expenses lower than budgeted, the overall impact was nominal and surplus 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 Local Transaction Tax 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”)**

**2024 Annual Report**

Page 9 of 9

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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.