



September 15, 2014

Annual Report – Measure A: ½ Cent Transaction & Use Tax

Chapter 82, Article V, Section 82-132 of the San Fernando Municipal 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 produced in accordance with the Municipal Code.

Executive Summary:

The City received \$1,286,012 in Measure A funds in fiscal year 2013-2014, which is \$86,012 more than the \$1,200,000 budget projection. The Sales Tax to Transaction Tax ratio for the fiscal year was 51.9%. A Sales Tax to Transaction Tax ratio of 50% or greater indicates high compliance with Measure A. Consequently, it appears that local businesses are complying with and collecting the Measure A Transaction Tax.

Revenues raised through the Transaction Tax are necessary to fund a number of critical one-time needs, including, but not limited to: 1) establishing a General Fund and Self Insurance Fund reserve, 2) paying off existing debt, 3) eliminating the deficit in the Grant Fund and other Special Revenue funds, 3) re-establishing the City's Equipment Replacement Fund, 4) replacing and updating outdated computer software, hardware and telecommunications systems, 5) establishing a trust to pre-fund Other Post-Employment Benefits (OPEB), and 6) funding over-due capital projects to reduce the City's deferred maintenance costs.

A preliminary review of fiscal year 2013-2014 by the Finance Department suggests that there will be a surplus in the General Fund¹. In accordance with the identified critical needs, the surplus will be used to reduce the General Fund and Self Insurance Fund deficit fund balances. Those two funds, combined, ended fiscal year 2012-2013 with a (\$1,747,052) deficit fund balance. Continued annual surpluses will be necessary to eliminate all deficit fund balances, build healthy fund reserves, and address the City's many critical one-time needs.

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

Background:

In fiscal year 2012-2013, the City was focused on rebuilding and increasing transparency of the City's finances. A lot of emphasis was placed on an accurate accounting of fund balances for the City's major funds. The City's FY 2011-2012 audited financials showed a General Fund and Self Insurance Fund balance of negative (\$1,236,782) and a Grants Fund balance of negative (\$2,007,798).

In order to remain solvent, the City had to take a number of steps to reduce expenditures, including re-negotiating labor contracts, layoffs, freezing vacant positions, and furloughs.

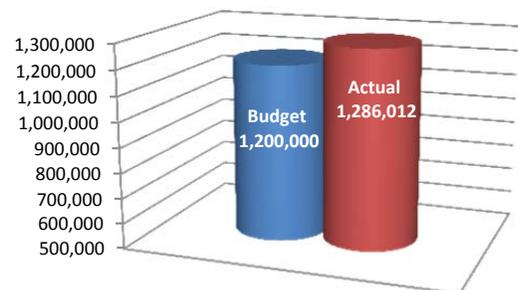
The City also declared a fiscal emergency to hold a special election on June 4, 2013 for San Fernando electorate to vote on a temporary one-half (½) cent Transaction and Use Tax ("Tax"). The "City Services Emergency Protection Measure" (Measure A) was approved by sixty percent (60%) of voters.

Subsequent to certification of the election results by the City Clerk, the City adopted the required resolutions and executed the necessary agreements to implement Measure A. The date on which the increased tax rate went into effect was October 1, 2013. Measure A was approved as a temporary Tax and it is set to expire on October 1, 2020.

Collection:

The City began collecting a ½ cent Transaction and Use Tax on applicable transactions in San Fernando on October 1, 2013. Since the City's fiscal year begins on July 1 and ends on June 30, this report will only include nine (9) months of collections. Subsequent reports will include a full twelve (12) months of collections.

FY 2013-14 Measure A Receipts



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

- FY 2013-14 estimated Tax revenues were \$1,200,000.
- Actual Tax receipts for FY 2013-14 were \$1,286,012.
- The Sales Tax to Transaction Tax ratio for FY 2013-14 was 51.9%. A Sales Tax to Transaction Tax ratio of 50% or greater indicates high compliance with Measure A. Consequently, it appears that local businesses are complying with and collecting the Tax.

The Tax is collected and administered by the State Board of Equalization (BOE). The BOE then remits Measure A collections to the City Treasurer on a monthly basis.

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 BOE. This ensures that the City is maximizing collections and receipts are properly allocated to the City by the BOE.

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.

City staff also conducts quarterly meetings with HdL 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 HdL aware of new businesses opening in the City so staff can ensure compliance with Measure A.

Expenditure:

Measure A was approved as a general tax, which means that it can be used for any general governmental purpose. However, since it is a temporary tax set to sunset in seven (7) years, the City will focus Measure A funds toward non-recurring expenditures.

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A preliminary review of fiscal year 2013-2014 by the Finance Department suggests that there will be a surplus in the General Fund. In accordance with the identified critical needs, the surplus will be used to reduce the General Fund and Self Insurance Fund deficit fund balances. Those two funds, combined, ended fiscal year 2012-2013 with a (\$1,747,052) deficit fund balance.