



## City Council Staff Report

June 17, 2014

### ITEM

Staff Report: Submission of a ballot measure to extend for twenty years an existing voter approved Transactions and Use Tax (a sales tax) in the amount of one cent (1%) to the qualified voters of the City at the General Municipal Election

### BACKGROUND

In November, 2006 the voters of the City of National City voted to establish dedicated local funding to provide for City services benefitting National City residents, businesses and visitors. Proposition D has maintained the City's 911 services, prevented cuts to police and fire services and ensured adequate funding for parks, libraries and other City programs. As a locally enacted measure, the sales tax created a funding stream that could not be taken by other entities such as the State of California. The law provides this locally controlled revenue stream is not applied to rent, utilities, groceries (unprepared food for human consumption) or prescription medication. National City has a vibrant daytime community with the population almost doubling that of the night time population as a result of people coming in to work in the community or simply to enjoy the City's amenities. All of these individuals are utilizing City resources as they drive on National City roads, and use the parks, library, community programs, and fire and police services. Our locally-enacted funding allows the City to cover a portion of the costs associated with meeting the needs of such visitors.

The 2006 ballot measure came as the result of a fiscal crisis for the City of National City. In 2005 and 2006, the City faced structural deficits of \$4 million and \$6.7 million, respectively, resulting from outside economic forces including takeaways by the State. The convergence of these factors resulted in significantly decreased revenues, the direct result of which was a decrease in services to National City residents and visitors. Impacts included a reduction in library hours of operation and a reduction of personnel, including firefighters and police officers.

Due to circumstances outside of its control, the City faced additional fiscal challenges, beginning in 2008 with the onset of the global recession, the recovery from which still is not complete. The recession coupled with Sacramento money grabs, created significant challenges to the City through the loss of investment income and revenue streams intended to bring projects to National City that would have increased the City's tax base.

In 2011, the State-mandated dissolution of redevelopment agencies eliminated millions of dollars in State funding that National City relied on for economic development, anti-blight, and other critical programs.

Proposition D is scheduled to expire, in September 2016. The ability to forecast diverse revenue streams is critical to National City's long-term stability. Proposing an extension to Proposition D in 2014 helps provide financial certainty going forward, and allows the City to continue its long term planning and programming efforts. Maintaining financial stability is crucial to the future of National City.

## **DISCUSSION**

With the current measure set to expire soon, in September, 2013 staff developed a Three Year Operating Plan and initiated an independent Community Opinion Survey, both of which were presented to the City Council in January, 2014. Survey results, as presented, showed that 64% of residents believe that the City is “generally headed in the right direction”, with strong favorability ratings for the Fire Department at 95%, the Police Department at 88% and National City government overall at 69%. The City of National City is a full service City with its own locally controlled fire and police department as well as other programs and services desired by residents and local businesses such as neighborhood code enforcement, library, street and sewer repair and maintenance, and park and recreation programs. More than three-in-four respondents (78%) believe the City needs funding to maintain the current level of City services.

Should Proposition D expire, the City will lose approximately \$10 million a year. The revenue generated by Proposition D represents approximately 24% of the City's annual General Fund operating budget. The General Fund supports many programs and services including fire, police, code enforcement, and youth and senior recreation programs. At 24% of the General Fund operating budget, the loss of this revenue will create a fiscal crisis for National City. Without this dedicated revenue stream, the City is forecasted to face a 22.3% reduction in personnel. A reduction in personnel will impact programs and service delivery City-wide, including:

- Fire – closing of Fire Station 31 (one of only two National City fire stations)
- Police – a reduction in 44% of the City's police officers, elimination of Gang Enforcement, SWAT, Traffic and Community Services Units; elimination of the drug prevention program and school police officers; reduction in the number of neighborhood patrols Neighborhood Services – elimination of the Graffiti Removal program
- Housing and Grants – elimination of the City run Senior Nutrition Program (return the program to the County to find other partners/grantees)
- Library – a 23% reduction in Library hours; elimination of the Literacy Program
- Community Services – closure of community centers and associated recreation and senior programs, closure of Casa de Salud and the Manuel Portillo Youth Center teen program; closure of the El Toyon Recreation Center and the Tiny Tots youth program.

The proposed Proposition D continuation measure will prevent a fiscal crisis and continue a dedicated revenue stream for vital programs and services benefiting National City residents, businesses and visitors. If approved by voters, the measure would continue the current rate of

one cent (1%), with no increase. With an affirmative vote of the majority of voters, this measure would remain in effect for an additional twenty years and would continue to be reviewed every five years by an Independent Oversight Committee.

National City has undertaken several initiatives to maintain fiscal integrity. Staffing levels have been reduced; conservative spending plans have been adopted and adhered to; and economic development and redevelopment plans have been drafted with some executed and others slated for execution (the process has been slowed by the economic downturn). Throughout, the City has maintained clean audits. The current forecasted crisis emanates from political and market forces outside of the City's control, including but not limited to the State's elimination of Redevelopment Agencies. Locally, the loss of the Redevelopment Agency has resulted in the loss of approximately \$7 million in tax increment revenue, and a significant slowing in revitalization efforts. The continuation of voter-approved, local revenue will provide funds that stay in National City for the benefit of National City residents, businesses and visitors. After hearing a summary of the proposed continuation measure, 75% of survey respondents support continuing the existing, voter-approved one cent sales tax.

#### **PROCEDURE REGARDING PLACING A BALLOT MEASURE ASKING VOTERS TO EXTEND THE EXISTING TRANSACTIONS AND USE TAX**

California Revenue and Taxation Code section 7285.9 authorizes the City Council to levy, increase, or extend a transactions and use tax (a sales tax) at a rate of 0.125 percent or a multiple thereof, as long as the ordinance is approved by two-thirds of the City Council and by a majority vote of the qualified voters of the city voting in an election on the issue.

At the January 21, 2014 City Council meeting, the City Council authorized the development and drafting of a proposed ballot measure to extend the City's existing voter-approved district sales tax beyond 2016 to maintain the City's public safety services, prevent cuts to police and fire services, and ensure adequate funding for parks, libraries, and other City services. At the February 18, 2014 City Council meeting, city staff presented the proposed timeline for the development and drafting of such a proposed ballot measure to be placed on the November 2014 ballot. Staff is now returning with the resolutions and ordinances placing a measure on the November 4, 2014 ballot for voter approval of a twenty year extension of the one-cent (one percent) transactions and use tax.

In order to proceed, pursuant to Section 7285.9 and other applicable state law, the City Council would first enact an ordinance amending Section 4.60.170 of the Municipal Code. The ordinance would take effect immediately pursuant to Government Code section 36937, because it relates to "taxes for the usual and current expenses of the city." The Council would also adopt an ordinance ordering the submission of a proposition to the voters at the regular municipal election on November 4, 2014, to consider approval of the ordinance, and a resolution calling the election, submitting the ballot measure to the voters and approving the form of the ordinance. Those ordinances and resolutions are before the City Council for consideration of adoption.

To qualify as a general tax, requiring a majority vote, the taxes must be deposited into the General Fund. These funds can be used for any service or activity paid for from the City's

General Fund, such as police, fire, park, and library services. There can be no commitment in advance as to how the monies will be spent, other than for general municipal services.

If approved, the ordinance would continue the transactions tax at the rate of one percent of the gross receipts of any retailer from the sale of all tangible personal property sold in the city. The ordinance would continue a use tax on the storage, use, or other consumption in the City of tangible personal property produced from any retailer at the rate of one percent of the sales price of the property. Certain transactions would continue to be exempt from the tax, such as a sale of property to be used outside the City and which is shipped to a site outside the City.

The tax would continue an additional twenty years until the City Council reduces or repeals the tax based upon finding that the levy and collection of the tax is no longer necessary. The provision requiring an independent committee comprised of three experts in financial matters to convene every five years to report their recommendations to the Mayor and City Council as to whether the tax should remain in effect at the current rate, be reduced, or be terminated would remain in effect.

## **RECOMMENDATION**

In order to maintain service levels and achieve fiscal viability, staff recommends that the City Council adopt the proposed ordinance, ordering the submission of a measure to extend the existing voter approved transaction and use sales tax in the amount of one cent (1%) to the qualified voters at the General Municipal Election to be held on November 4, 2014.

This ballot measure will continue existing funding beyond its expiration date for an additional twenty years with no increase in tax rate to maintain the City's public safety, prevents cuts to police and fire and ensures adequate funding for parks, libraries and other vital City services. With thousands of people visiting National City every day, the existing Proposition D has ensured that out-of-towners continue to pay their fair share for police, fire, street repair and other services they use when they visit our City, while not being applied to food purchased as groceries or prescription medication.

## **FISCAL IMPACT**

Continuing Proposition D at the current rate of one cent will provide approximately \$10 million per year in revenue to the City of National City to continue to provide programs and services to residents, businesses and visitors which have been identified as essential or desired such as police patrols, 911 medical emergency services, fire response, gang/drug prevention programs, street and pothole repair, library services, youth and senior recreation programs.