



**AGENDA OF A SPECIAL MEETING**  
**National City Proposition “D” Independent Evaluation Committee**  
**Large Conference Room**  
**Civic Center**  
**1243 National City Boulevard**  
**National City, California**  
**Thursday, July 20, 2017 @ 1:00 p.m.**

**Open to the Public**

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**Call to Order**

**Pledge of Allegiance to the Flag**

**Roll Call**

**Non-Agenda Public Oral Communication (three-minute time limit)**

*NOTE: Pursuant to state law, items requiring Committee action must be brought back on a subsequent Committee agenda unless they are of a demonstrated emergency or urgent nature.*

**Agenda Items**

1. Study session – presentations and discussion of the final Committee report.

**Adjournment to the next regular Proposition “D” Independent Evaluation Committee meeting:  
Thursday, July 20, 2017, 1:00 pm.**



To: City Council of the City of National City  
From: Proposition "D" Independent Evaluation  
Date: July 20, 2017  
Re: Report and Recommendations on Proposition D

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## **Facts & Background**

### 2006 – Proposition D Tax Measure passed by voters

On June 6, 2006, National City voters passed Proposition D, a one percent District Sales Tax measure that imposed a transactions tax for up to ten years to fund City services, facilities and programs. Proposition D requires that "every five years the Mayor, with approval of the City Council, shall appoint an independent committee comprised of three experts in financial matters, who will report their recommendations to the Mayor and City Council as to whether the transaction and use tax should remain in effect at the rate of one percent, or whether the City Council should reduce the rate of tax or terminate the imposition of the tax."

### 2011 – Recommendation of the Proposition D Independent Evaluation Committee

In 2011, the first Proposition D Independent Evaluation Committee was formed and asked to evaluate and offer a recommendation to the Mayor and City Council pursuant to the covenants of the tax measure. Based on the economic environment at the time and revenue and expenditure projections, the Committee recommended that the tax measure be continued at the current rate.

### 2014 – Continuation of the Proposition D Tax Measure passed by voters

In 2014, with the expiration of the original Proposition D Tax Measure on the horizon and the impacts economic events outside the control of the City, including the global recession and financial crisis, the dissolution of Redevelopment, and the continued take-aways by the State of California further straining the City's already tight budget, the City Council approved to place the Continuation of City Services Funding Measure on the November 2014 ballot. Voters approved this measure on November 4, 2014. The Continuation Measure kept intact the provision that an independent committee be appointed to make recommendations about the tax rate.

## 2016 – The 2016 Proposition D Independent Evaluation Committee

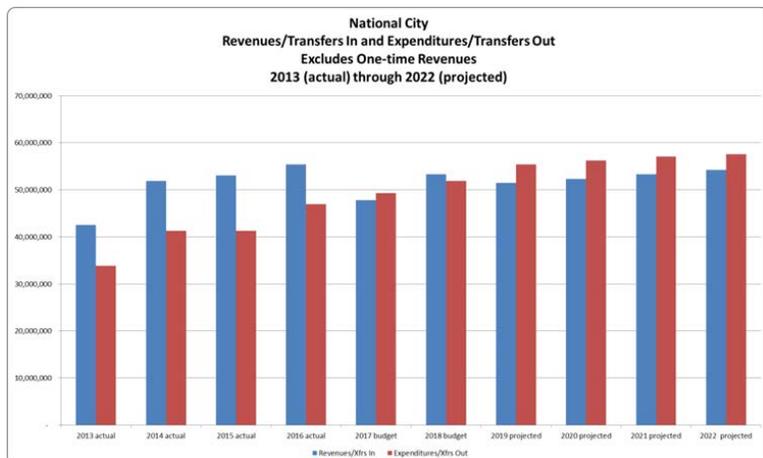
The 2016 Proposition D Independent Evaluation Committee began its work on January 25, 2017. At its initial meeting, the committee received a presentation from City Manager Leslie Deese. Ms. Deese reviewed the financial strategies the City has implemented in order to overcome the structural deficit faced by the City during the previous five years. Ms. Deese also discussed the impact on the City's ability to provide services should the tax measure be discontinued.

Over the next several months, the Committee received presentations from City staff covering various topics including:

- Revenue and expenditure trends and five year forecast.
- Productivity and workload statistics.
- Ten year history of budgeted positions for the General Fund and all City funds, including FTE's per 1,000 population.
- City Council Reserve Policies and reserve amounts and history for General Fund and all City funds.
- Overview of City's pension plan including benefit formulas, Employer Paid Member Contribution (EPMC) amounts, demographics of miscellaneous and safety plans, and options for paying down the City's unfunded liability.
- Asset management overview of the current Capital Improvement Program including infrastructure, facilities, and vehicle fleet.
- Economic development presentation of the City's developing vision for the future of its downtown, waterfront, and residential areas and the balance between growth and expanding need for City services.
- Financial five-year outlook with and without the Proposition D Transaction Tax revenues, including potential impacts on operating budgets, staffing reductions, and reserve balances.
- Presentation by Mayor Ron Morrison on his vision for National City's future including diversifying revenue sources while building up the local business base.

### Financial Background and Analysis

Based on information found in the City's financial reports and provided to the Committee by City staff, Proposition D revenues have helped provide the City's General Fund with a surplus in each of the fiscal years from 2013 through 2016. Beginning in fiscal year 2017 and for the foreseeable future, budgeted expenditures are expected to exceed revenues, creating a budget deficit each fiscal year. Revenues received



from Proposition D help mitigate the budget deficit, but do not fix it.

National City has also worked hard to contain salary and benefit costs by freezing vacant positions and eliminating positions beginning in fiscal year 2012. In addition, National City implemented pension reform measures to help offset rising costs. These measures included fully eliminating Employer Paid Member Contributions, negotiating lower retirement formula tiers for some employees, and implementing the State mandated pension reform measures in 2013. Despite these measures, pension costs continue to escalate and are expected to be a major factor in the future increasing costs



### **Forward-looking Components & the Challenges the Committee Had with Them**

#### Looking Ahead – National City Plans and Challenges

As the oversight committee’s charter is to recommend prospectively whether Proposition D should continue at the same rate, a lower rate, or not at all, the committee requested presentations on National City’s plans for the future and discussions on what challenges National City may face. While certainly a contribution to trend analysis, past performance alone by the City with Proposition D funds only looks backwards, and the committee felt strongly the need to look forward.

The committee received the following future looking presentations, and the committee concluded that National City lacks a cohesive vision and strategy for its future. The lack of a strategy makes impossible the creation of a holistic plan to get beyond the structural deficit in the National City budget that Proposition D was intended to address.

#### *Presentation by Mayor Ron Morrison*

Mayor Morrison presented a compelling and thoughtful perspective on National City’s future, but he immediately caveated that he spoke only for himself and not the City Council as a whole. Regardless of the substance of his vision and however compelling it may have been, the committee notes that it is important for elected leadership—not just the mayor but the entire council—to curate a conversation with National City residents to determine what the City wants to become and what it would take to create that vision. The committee does not dispute that this would be a challenging endeavor, but it is the very type of adaptive problem, as defined by Harvard’s Ron Heifetz and Marty Linsky, that demands leadership.

#### *Presentation by the Economic Development Department*

The Economic Development Department presented plans on the future of National City's downtown and an exciting video that visualizes what the community could look like. Again, however, the committee notes that the plan is an isolated plan, not placed within the context of a larger vision or strategy. The committee could not conclude whether this plan aligned with the earlier Downtown Specific Plan, referenced by Mayor Morrison in his presentation, and the committee also notes that even if fully realized, the impact to property tax and sales tax revenue would fall markedly short in closing the structural deficit faced by National City.

#### *Presentation on Coordination with the Port of San Diego*

City staff presented the latest activity related to the tidelands within National City's boundaries that are managed by the Port of San Diego, and the committee notes that the City staff's goals, even if achieved, would be only minimal and very incremental in addressing the structural deficit.

### **Recommendation to Continue the City of National City's District Transactions & Use Tax at the Current Rate of One Percent, with Dissenting Opinion**

#### Why the committee voted for continuance

The committee carefully evaluated National City's financial situation and looked at both the costs associated with running the City, and the revenues available for the City from all sources including the 1% sales tax to provide those services. The fundamental cause of the General Fund deficit stems from three factors: increased costs to provide basic services paid for through the General, anemic to no growth in real dollar terms in sales tax revenue since the Great Recession; and reductions in revenue from the state of California.

When a city's general fund is out of balance, only three choices exist: 1) Revenues can be increased, 2) Expenditures can be reduced, or 3) A combination of the two. National City has focused on, and continues to manage expenditures. Revenue enhancement is extremely difficult and there no plan in place that would significantly increase revenues in the near term, or even in the foreseeable future. Revenues growth resulting from improved economic conditions, occurs slowly and will not supplant the need for the Prop D Sales Tax, and the economic development programs presented to the Independent Evaluation Committee, have not convinced the committee that any real revenue enhancements will occur from the plan as outlined.

Despite the rising costs to provide services, and less than needed increases in revenues, the committee found that the City staff have fulfilled their duty of being good stewards of the public's funds, and that monies available to the City are spent on necessary support services and for the public good, and that costs are minimized and vacant positions are not filled to contain spending. Even with these fiscally conservative efforts, the committee found that eliminating the 1% Prop D sales tax at this time would be detrimental to the financial health of the City and negatively impact the residents and businesses residing in National City. It is for these reasons, it is the RECOMMENDATION of the Proposition D Independent Evaluation Committee that

the Mayor and City Council keep the District Tax in effect at the full rate of one percent.

### Dissenting Opinion

The committee's vote to recommend the maintenance of Proposition D at the same rate of 1% was not unanimous, and I offer the following reasoning for my dissenting opinion. I recommend that—until the elected leadership of National City develop and lead with a cohesive strategy for National City's future—the citizens of National City should not have to pay this additional tax. I must note that National City is, relative to other cities in the region, low income, and I fear that the continuance of Proposition D without a meaningful plan to correct the structural deficit merely perpetuates the challenges faced by the City and prolongs the likely life of Proposition D.

The City staff are not equipped by the City's elected leadership to make progress against a meaningful plan to correct the structural deficit that Proposition D is intended to correct. As a matter of public administration, I find the absence of performative goals quite alarming. But to be clear, this is a leadership challenge and not a staff failure. The staff report to legitimately elected officials who are responsible for laying out the goals against which staff need to perform. As noted in the section on looking ahead, developing goals as a body of elected officials is certainly challenging, but that is a duty squarely in the realm of elective leadership.

It is a matter of record that City staff have engaged in numerous activities to cut costs and improve efficiencies in the operations of National City. Indeed, this was reflected in the presentations, as well as the report of the predecessor oversight committee. I do not dispute this finding and assess that City staff continue these efforts to operate efficiently.

Cost cutting alone, however, is far from sufficient in addressing the structural deficit faced by National City, and the plans for the future are too piecemeal and—even if realized perfectly—wholly inadequate in addressing the structural deficit. For example, the presenters lauded the establishment of an In-n-Out restaurant immediately adjacent the I-5 freeway and described the additional sales tax revenue, as a result. Notably, however, there is insufficient zoned land to replicate such successful establishments to create scale or substantive impact against the structural deficit. This is not to say that I would naively believe a single type of economic activity should address the structural deficit, but rather that activity should all be placed in the context of performative goals and an overarching strategy. Because of the constraints faced by the City, elected leadership have a responsibility to engage constituents to make value judgments and hard calls. There are too many mutually exclusive and zero-sum decision points that need to be made to address the structural deficit.

Essentially, the elected leadership of National City must choose one of two pathways: either engage the constituency and make the necessary—and hard—choices needed to generate sustainable revenue to eliminate Proposition D or tell constituents that Proposition D will continue in perpetuity because the hard choices cannot be made.

### **Additional Recommendations**

*Committee Member Major:*

- National City's long-term revenue forecasts be consistent with the adopted general plan.
- Several economic development scenarios developed to determine possible revenue outcomes.