

MEASURE P: CITY OF CHULA VISTA SALES TAX*September 2016***SDCTA Position:****SUPPORT****Rationale for Position:**

The additional revenue from the proposed sales tax and a subsequent bond may help address the most critical infrastructure needs of the City of Chula Vista. The City has maintained reasonable and increasing reserve levels and has had a decreasing level of debt per capita over the last 10 fiscal years. City staffing levels per 1,000 residents have remained low and relatively consistent over the last several years and the City has created a plan to address its failing infrastructure. SDCTA believes that the City has made significant changes to its pension program to address rising pension costs as well as implemented other efficiency measures, but notes that the City has openly expressed concerns about these rising costs. Lastly, the City has taken various steps to implement transparency and accountability with this measure, such as requiring City staff to create a spending plan for Measure P funds and present it to the City Council for adoption each year.

Title: Measure P – City of Chula Vista Sales Tax**Jurisdiction:** City of Chula Vista**Type:** One half-cent sales tax**Vote:** Simple majority**Status:** On the November 8, 2016 General Election Ballot**Issue:** Temporary sales tax increase**Description:** A temporary ten-year sales tax increase of 0.50%, raising the total sales tax to 8.50%, for the purpose of funding City services and infrastructure.**Fiscal Impact:** The measure is expected to generate approximately \$16 million per year for the ten years that it is in effect, all of which would go to the City's General Fund.**Proposal:**

The Mayor of Chula Vista has proposed a temporary ten-year 0.50% sales tax increase. Passage of the measure would increase the sales tax rate within the City of Chula Vista from 8.00% to 8.50%. The proposed language placed before voters on the November 8, 2016 ballot would read:

“To repair neighborhood streets and sidewalks, replace storm drains to prevent sinkholes, update police, paramedic and 9-1-1 equipment and facilities, improve parks, repair recreation facilities, and for general city services and infrastructure, shall the City of Chula Vista adopt an ordinance enacting a temporary ½ cent sales tax, generating an estimated \$16 million per year, expiring in 10 years, with no

further increases without voter approval, with all funds staying in Chula Vista, requiring citizen oversight and independent audits?”

Citizens Oversight Committee

The ordinance outlines the creation of a Citizens Oversight Committee to monitor and report on the City’s compliance with the ordinance and spending guidelines. The Committee is responsible for reviewing and reporting on each year’s spending plan, independent audit report, and finance department report. The Chula Vista City Council will appoint Committee members from various fields including finance, accounting, and engineering, and current city employees are disqualified from membership.

Sales tax revenues will be accounted in a sub-fund titled “Measure P” within the General Fund to help the City Finance Department and Citizens Oversight Committee (COC) report on these funds. City staff will generate a spending plan for Measure P funds each year and present it to the COC for review before incorporating the plan into the proposed budget. The Chula Vista City Council will consider at a public meeting any COC reports on the annual independent audit and finance department report.

While oversight is beneficial to the taxpayer, the ordinance does not outline how the committee will be funded. Most importantly, this proposal is a general sales tax. Legally, legislators are permitted to appropriate such funds in whatever manner they see fit, so this “oversight” is potentially misleading to voters.

Background:

The statewide sales tax rate is 7.5%, and 6.5% of that revenue goes directly to the state. However, counties and municipalities can elect to implement additional local sales taxes to fund needs such as operations and transportation.

In 2003, California Senator Jack Scott introduced SB566, which amended the law regarding state Transactions and Use taxes to set the combined local rate limit to 2%. These taxes must be approved by two-thirds of the City Council. The taxes must be levied at a rate of 0.25% or a multiple thereof, and can be used for either general or specifically stated purposes. Taxes for general purposes need to be approved by a majority of voters (50%+1), whereas taxes for specific purposes need to be approved by a two-thirds vote.¹

Sales taxes cannot be applied to the purchase of necessities of life, including under specific circumstances food, health services and items, and housing; items and services that provide general public or industry benefit; and some other exempt and excluded items and services.²

Municipal Profile:

¹ California Senate. *SB-566*. California Legislature, 2003-2004 Reg. Sess. Web.

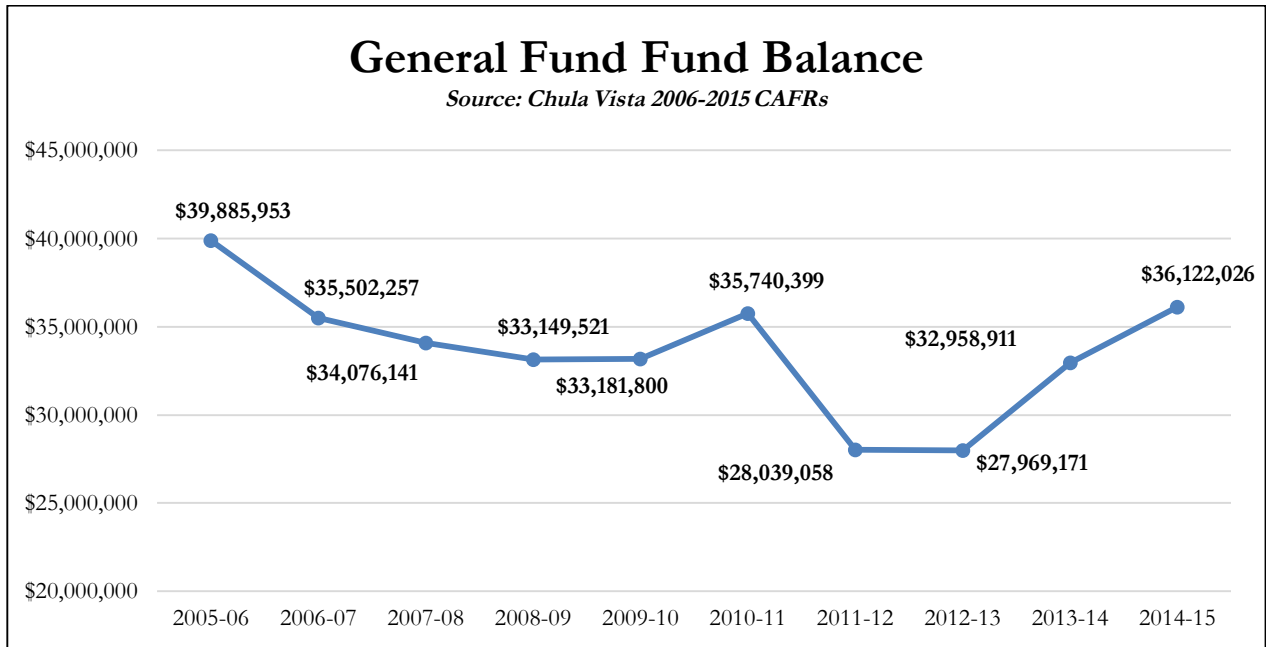
² California State Board of Equalization. *Sales and Use Taxes: Exemptions and Exclusions*. Board of Equalization, July 2014. Web.

Key Findings

- The City has maintained an average of 4.63 employees per 1,000 residents over the last six fiscal years, despite slight population increases.
- The debt per capita in Chula Vista has been steadily decreasing, and is currently \$529 per resident.
- Overall general fund reserve levels have increased steadily since FY 2010, but will decrease as a percentage in the City’s FY 2017 budget. The City has the ability to add surplus revenue to reserves at the end of each fiscal year.
- Pension costs increased by 32% in FY 2015, and the City has stated concern over rising pension and healthcare costs. The City has implemented several reforms to its pension program to combat these increases.

Revenues vs. Expenditures

The City’s General Fund expenditures were \$132.0 million in FY 2015, and its revenues were \$130.7 million. Most of the revenues received by the City during the last fiscal year were property taxes (\$47,485,292), sales taxes (\$30,394,291), and franchise taxes (\$10,831,671)³.



The Chula Vista General Fund balance has remained relatively consistent over the last several fiscal years, and reserve levels have been increasing over the period. According to the City’s website, while the FY 2016-2017 proposed budget is balanced, increases in pension and health care costs are outpacing revenue growth. The city plans to implement changes to increase efficiency and mitigate these cost increases.

³ Unless otherwise noted, information was obtained from the Chula Vista 2015 CAFR

The City’s net position decreased by \$274 million in FY 2015. The majority of these declines are related to changes in government accounting standards regarding pensions. The City’s governmental funds saw a 3.1% increase, and its long-term debt saw a 3.7% decrease.

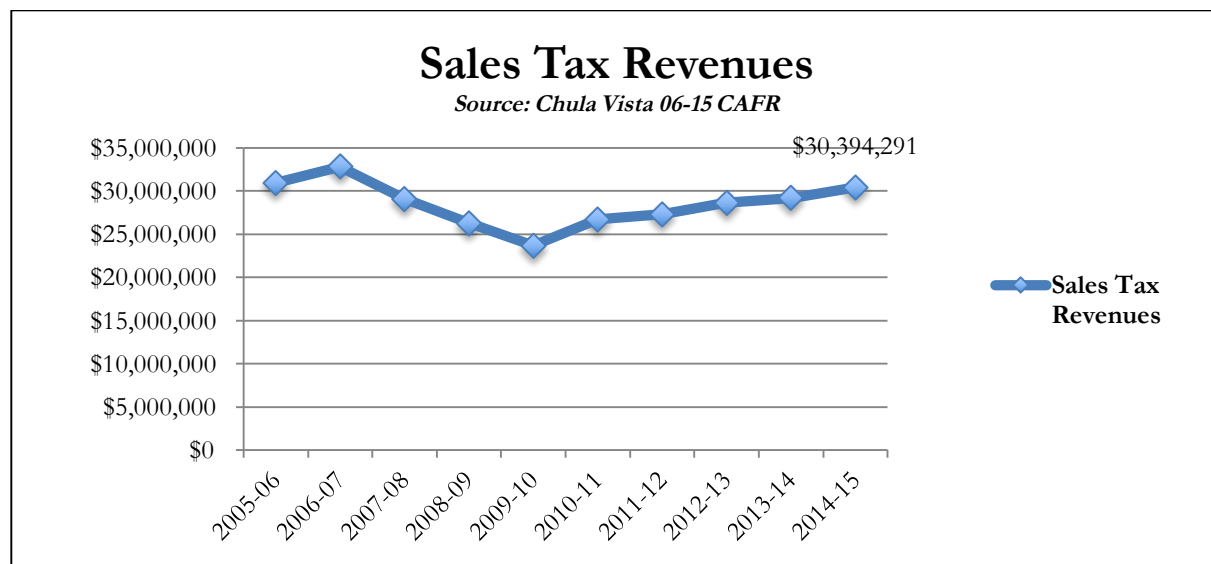
Business-type activities for the City include sewer funds and transit operations, and are meant to be reimbursed for their costs through charges and fees to the user. Chula Vista reported positive balances in net investment in capital assets, restricted, and unrestricted business-type activities.

The City has stated that it is incorporating various efficiencies to offset ongoing cost increases. These include a Computer Aided Dispatch system, to be implemented in early 2017, which will allow for quicker dispatch and emergency response for City police, as well as a Regional Communication System with Motorola, to be implemented in late 2017. The City is also finalizing an agreement with a financial planning software provider to allow most of the city’s finances to go paperless, saving money and streamlining workflows. City computer systems will be updated to a newer version of Microsoft, allowing for greater data storage and more efficient communication. All of these improvements, along with potential Public-Public partnerships, will help prevent the need for future staff hire-ons with the growing population.

Sales Tax Revenues

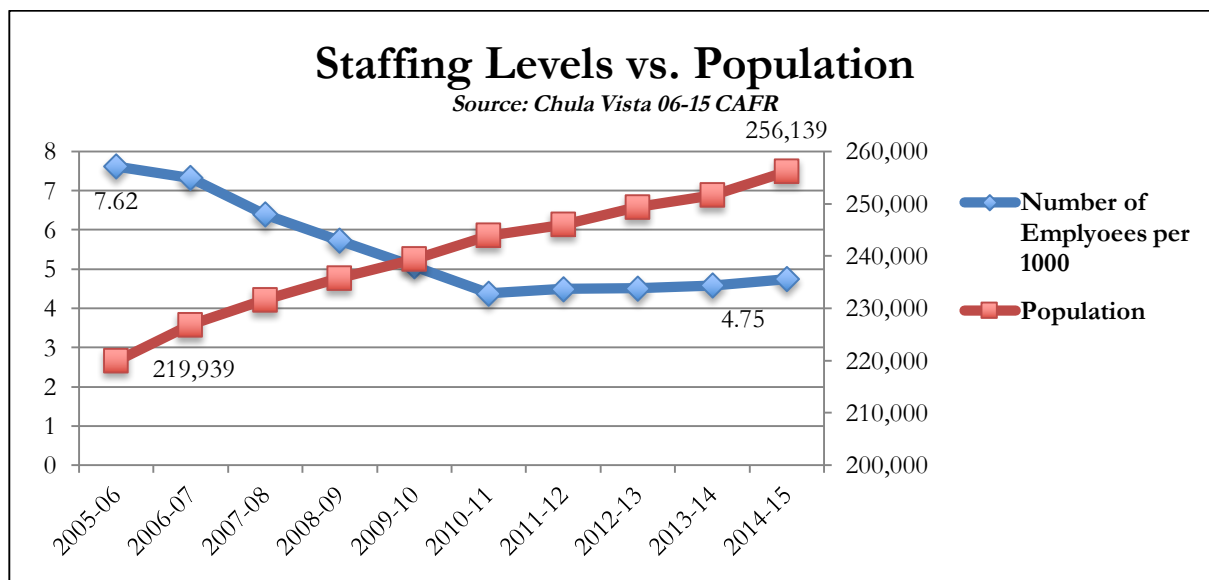
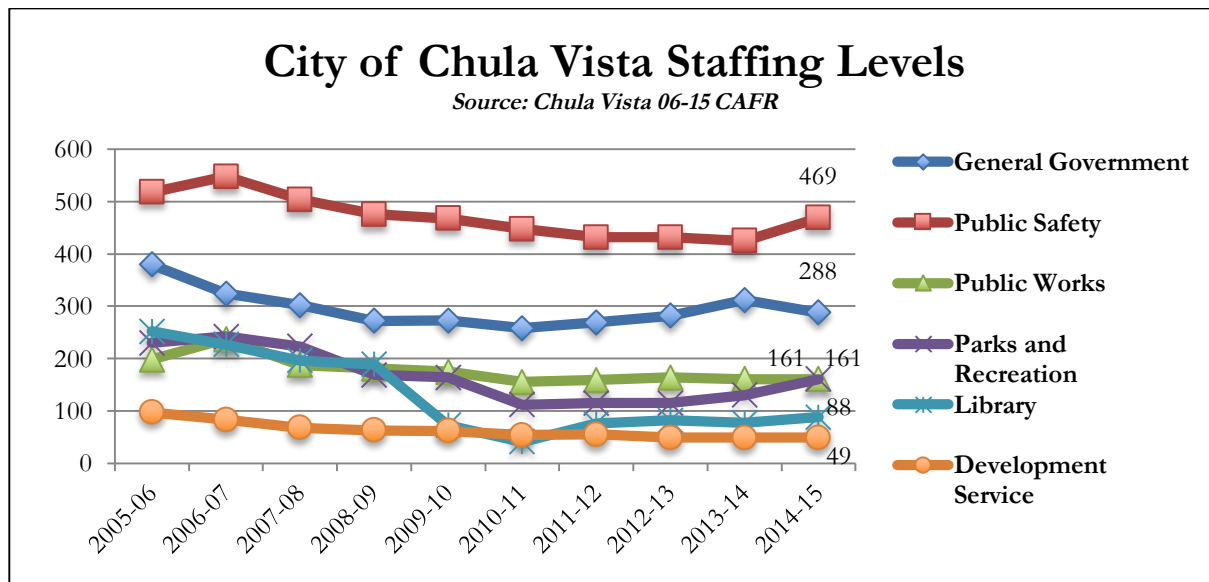
The City’s sales tax revenues have increased by approximately \$6,719,690, or 28.38% since FY 2010. As previously mentioned, the City expects to generate an additional \$16,000,000 in annual revenue from the new sales tax measure.

The City indicates in their financial reporting that many Chula Vista residents shop outside the city limits, and the City’s long-term strategy to capture increased sales tax revenue is to foster business growth within the city limits.



Staffing Levels

The City of Chula Vista currently has Memoranda of Understanding (MOU's) with five entities. The MOUs with the Chula Vista Employees Association and the Western Council of Engineers require salary increases of 2%, 2%, and 1% in the pay periods for 2015, 2016, and 2017 respectively. The MOUs with the Chula Vista Mid-Managers/Professional Association and the International Association of Firefighters requires salary increases of 2% each year through 2017. The MOU with the Chula Vista Police Officers Association requires salary increases of 3% each year through 2017.

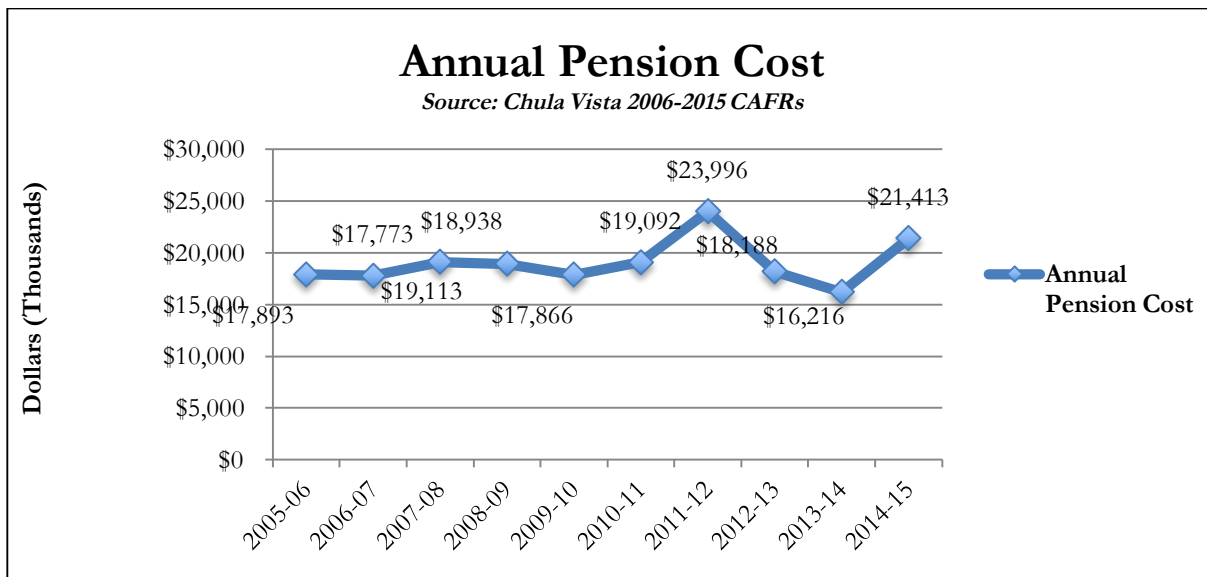


The City currently employs 4.75 employees per 1,000 residents, a ratio that has remained relatively stable since FY 2011 despite a slight population increase in that period.

Pensions

The City contributes to the California Public Employees Retirement System (CalPERS), which is a state government agency that manages retirement, disability, death, and health benefits for public employees and their beneficiaries.

Due to changes in government standards for accounting, the City had to include net pension liabilities in its financial statements and so gained \$219.1 million in net pension liabilities. For this reason, SDCTA has instead looked at annual pension costs from past CAFRs and gathered FY 2015 annual pension costs through correspondence with the City.



Annual pension costs increased by 32% in FY 2015 alone, and are 19.7% higher than in FY 2006. As previously noted, the District’s web site states that “While the proposed FY 2016-17 budget is balanced, the City’s financial outlook is more strained than it has been in recent years. Positive revenue growth in major discretionary revenues is being outpaced by pension and health care cost increases.” In order for the City to leave CalPERS current defined benefit structure, it would have to pay off its entire outstanding pension liability, limiting its ability to significantly alter its pension structure.

The City has seen pension cost increases due to various factors. In the 2000s, the City approved benefit formula enhancements and early retirement incentives to prevent layoffs during the recession, both of which increased its contribution to CalPERS. However, CalPERS also experienced investments losses during this period. Due to the increases in employer contribution rates, the City negotiated with bargaining groups and implemented various pension reforms such as creating a second and third tier of retirement benefits and requiring many employees to pay the full share of employee contribution previously paid by the City.

The City’s CalPERS employer contribution rate is 26.235% for miscellaneous employees, 28.857 for safety employees, with varying employee contribution rates depending on the date that the employee became a member. Only Tier 3 local miscellaneous employees are responsible for paying the full employee contribution. Local police officers and firefighters hired before January 2013 (Tiers 1 and 2) are required to pay the full (9%) employee share contribution to CalPERS. Local police officers and firefighters hired after January 2013 (Tier 3) are responsible for paying 50% of the total cost of their pension.

For three of the five employee groups, Chula Vista no longer includes public contribution to the pension funds as part of the employees’ compensation levels. There are two employee groups for whom the city’s contributions still count towards employees’ compensation in the calculation of retirement benefits.

Debt

The decrease in the City’s long-term debt during FY 2015 (3.7% or \$4.9 million) reflects significant principal payments on Chula Vista’s loans.

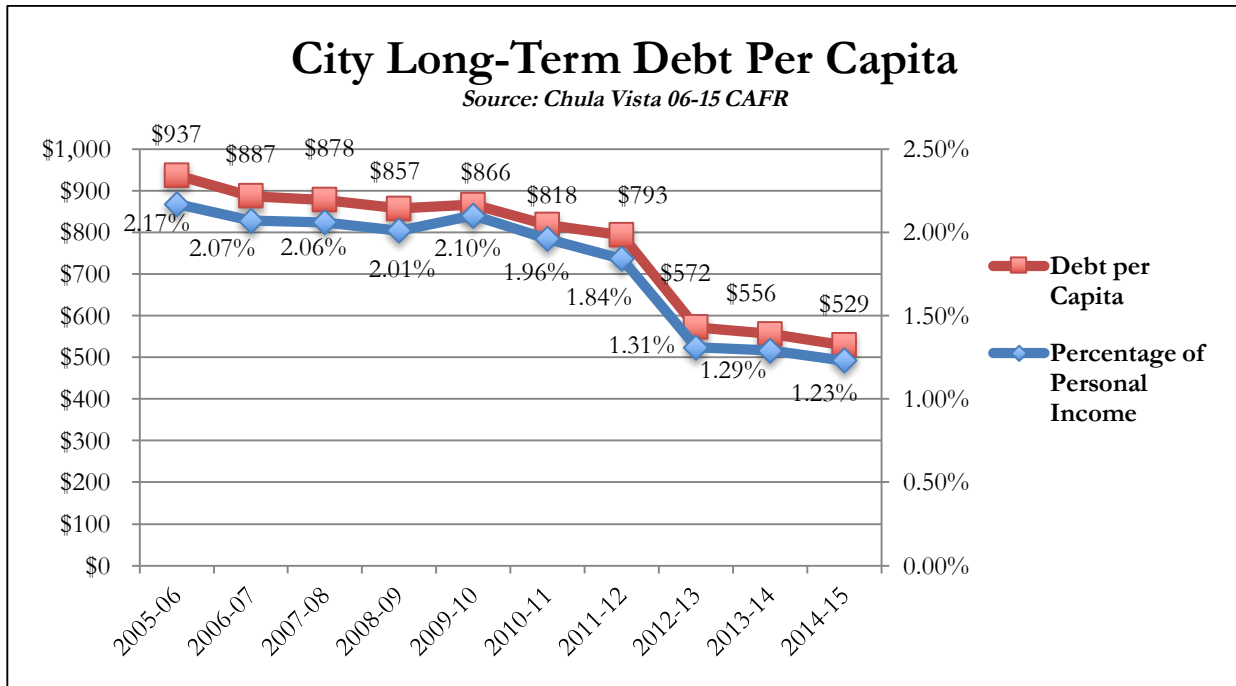
City of Chula Vista’s Outstanding Long Term Debt as of June 30, 2015	
Loans	\$17,849,316
Certificates of Participation	\$117,590,000
Total Governmental Activities	\$135,439,316

The majority of the City’s current debt is a reflection of Certificates of Participation (COPs), tax-exempt government securities used to raise funds to improve and construct buildings or purchase equipment. COPs are generally used to finance capital costs, and may not provide ongoing operational funding.

Since 2004, the Chula Vista Public Financing Authority (Authority) has issued \$86,920,000 in COPs in three phases for reconstructing, renovating, and equipping the Civic Center Complex, which the City repays as lease payments. The total debt service requirements for these COPs stood at \$112,446,384 at the end of FY 2015.

In 2014, the Authority issued \$45,920,000 in COPs to refinance its outstanding COPs for the Police Facility Project in 2002, fund reserves, and pay costs associated with the certificates. Total debt service for these COPs stood at \$65,142,720 at the end of FY 2015.

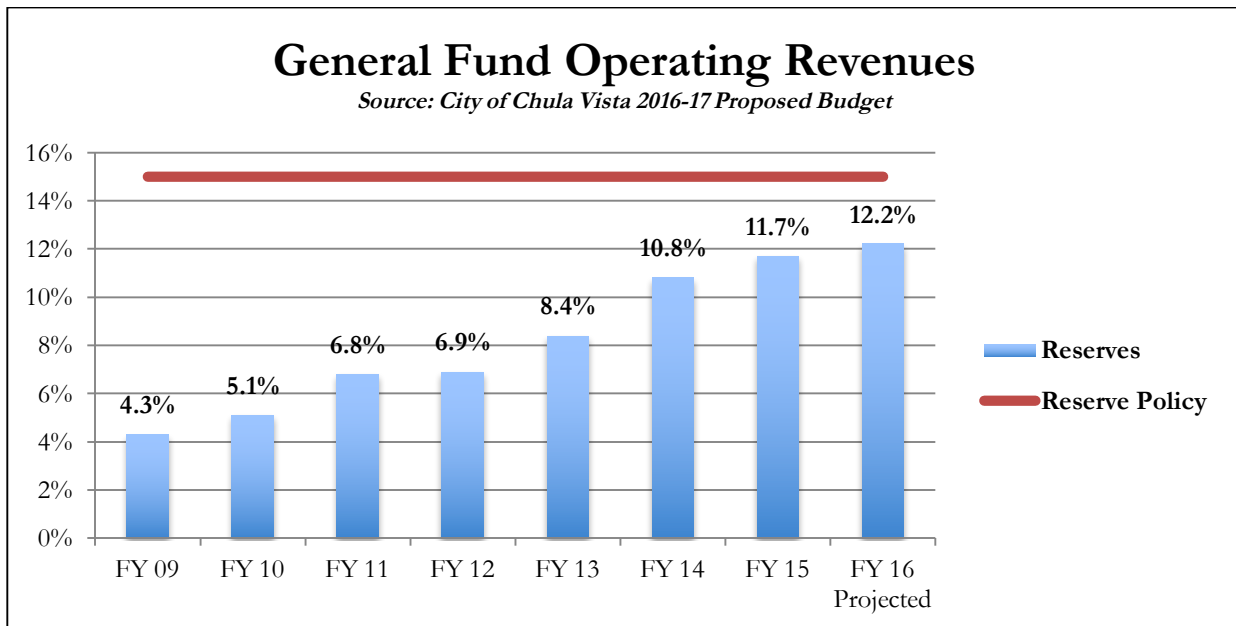
The City currently has outstanding loans with the U.S. Department of Housing and Urban Development (HUD) for funding capital improvement projects, as well as a loan and lease purchase agreement with various entities to fund energy conservation projects.



The City's long-term debt per capita has decreased steadily since FY 2006, and is currently \$529 per resident. This debt has also decreased as a percentage of each resident's personal income.

Reserves

The City aims to keep 15% of its annual budget as reserves to address contingencies, unfunded liabilities, and debt service. General fund reserve levels have increased since FY 2009.



Infrastructure

In order to be proactive, transparent, and to better fund its infrastructure maintenance and operations, Chula Vista has developed an Asset Management Program that evaluates the current state of its infrastructure and the priority levels of each infrastructure project. The City would utilize sales tax revenue funds to make one-time payments for the most important infrastructure needs. The following projects are the highest priority for the City, according to its Intended Infrastructure, Facilities, and Equipment Expenditure Plan.

- Pave, maintain, and repair neighborhood streets and fix potholes
- Upgrade or replace aging police, fire and 9-1-1 emergency response facilities, vehicles and equipment
- Replace storm drains to prevent sinkholes
- Upgrade irrigation systems to conserve water and save energy
- Make essential repairs to older libraries, senior center and recreation centers
- Improve Traffic Signal Systems
- Repair Sports Fields and Courts and Park Infrastructure⁴

The plan also includes a component for long-term capital improvement financing, in which the City would issue bonds for upfront financing, and a pay-as-you-go aspect for annual project funding. The City would issue bonds backed by lease payments from the City's General Fund, and these payments would be funded by the revenue from the Measure P sales tax. The bonds are anticipated to have a maturity of 10 years with a 2% interest rate. The City would also keep a reserve fund of 10% of the par amount of the bonds that would be applied toward the final payment of the bonds.

⁴ Taken directly from the City's "Intended Infrastructure, Facilities and Equipment Expenditure Plan"