



## **Executive Summary: Proposition “D” Transactions & Use Tax January 2017**

This executive summary discusses the current financial status of the City of National City (“City”) and the additional actions it has taken to reduce or contain costs and enhance revenues since November 2011, following the prior Proposition D Independent Evaluation Committee’s review of the City’s financial status and efforts to improve it and recommendation the City’s district transactions & use tax be maintained at the full rate of one percent. This executive summary is intended to supplement the executive summary prepared in September 2011 prior to the convening of the prior Proposition D Independent Evaluation Committee in September 2011. The prior executive summary is included with this document for informational and reference purposes.

### **Proposition “D” Approval and Extension**

Proposition “D,” the measure to impose a district transactions & use tax within the City of National City, initially was passed by 59% of voters on June 6, 2006. The measure increased the local sales tax one percent from 7.75% to 8.75% for a period of up to ten years. Passage of Proposition “D” allowed for the restoration of City services to the community for the duration of this period until or unless replacement and/or additional revenue streams are identified and implemented. The measure included the restriction the tax would not apply to:

- medicine, non-prepared food (groceries), rent, mortgage, or utilities;
- cars, planes, motorcycles, and boats, unless purchased by a National City resident (per State law).

Extension of Proposition D for an additional twenty years with no increase in the taxation rate was approved by 69% of voters on November 4, 2014.

### **Why Does National City Remain Challenged Financially?**

The district transactions & use tax provides revenue for the General Fund, the City’s primary operating fund, which pays for basic City services, such as police, fire, parks, library, code enforcement, graffiti control, and planning. The fiscal year 2017 General Fund budget was balanced with a \$5.4 million use of fund balance, which includes a \$3.3 million structural deficit. The City’s other funds remain fiscally sound; however, as noted in the 2011 executive summary, the assets of those funds are restricted for the purposes/activities of those funds and are not available for General Fund purposes.

The structural deficit largely is the result of long-delayed increases to compensation of City staff and pension contributions. Compensation of many City employees had fallen well below market, and without the increases, the City would have faced significant difficulties retaining existing staff and recruiting new employees in all areas, but particularly sworn safety employees.

Even with the increases, most employees' compensation remains below market. The City's pension contributions have continued to climb rapidly, primarily due to decreases in the discount rate applied to its pension assets resulting from underperformance of investments by CalPERS, which manages the City's pension assets. Fiscal year 2017 General Fund contributions are projected to total more than \$7.4 million, compared to \$4.9 million in fiscal year 2012, an increase of \$2.5 million, or 34%, in just five years. And the City continues to pay its contributions in full, rather than resorting to other, more risky methods of financing their increased rates, such as pension obligation bonds, as many other cities have.

The City's unique financial constraints have not changed for several years. Its 8.5 square miles remain nearly completely built out, thereby preventing new development which could increase its tax base. Its industrial waterfront and associated revenues provide little benefit to the General Fund, because the property is under the jurisdiction of the San Diego Unified Port District. The City still levies no utility user tax. And property turnover is the fourth slowest in the County, so property tax revenues have not risen as quickly as in other local cities.

During the development of the fiscal year 2014 budget, at the request of the City Manager, the City's municipal advisor performed an analysis to determine whether other revenue sources were available to replace for the district transactions & use tax, if it were to not be extended. The advisor's conclusion was that it was unlikely any other measures, independently or combined, would generate the same level of revenue. As importantly, some of the other measures (i.e. utility user tax, benefit assessment district, community wide benefit assessment, and business license fee increase) would transfer the tax burden solely to National City residents and businesses. In contrast, a significant share of the district transactions & use tax is paid by visitors shopping and dining in National City.

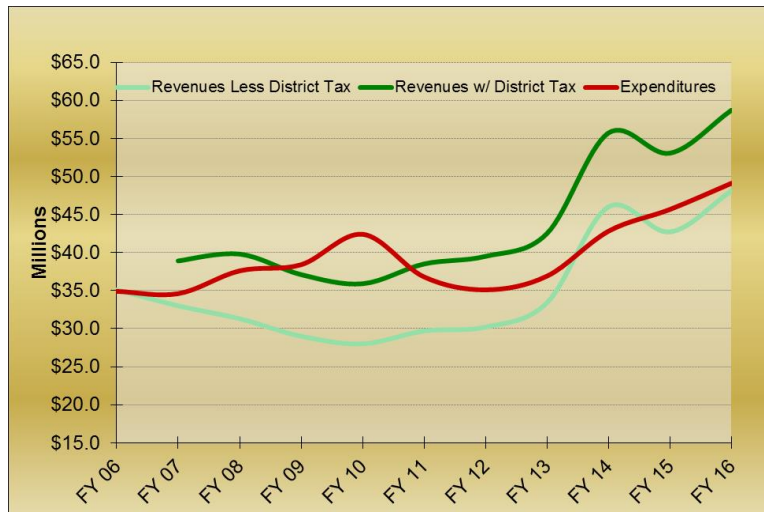
The structural deficit is expected to continue for 2-3 years, but unassigned fund balance currently is estimated to be sufficient to offset the revenue shortfall through this period. However, the loss or reduction of district & transactions tax revenue would result in the depletion of the entire unassigned fund balance and place continuation of City services, including fire and police protection, at their current levels in jeopardy. Following the conclusion there are no revenue sources available sufficient to replace the existing tax, the City Manager directed staff to develop a three-year operating plan to assess the likely impact of the loss of annual revenue provided by the district transactions & use tax, with each department assuming a reduction of 24% of its expenditure budget, the proportion of General Fund revenues for which the district transactions was estimated to account. Upon assembling the proposed changes of all departments into the operating plan, staff projected personnel budgets would need to be decreased by 22.3% overall, resulting in a City-wide staffing decrease of 30.65%, the full-time equivalent of 90.56 staff positions, 109 employees in total. Additionally, maintenance & operations budgets were estimated to require a decrease of 3.2%, as a result of the reduction. These cuts were expected to result in reductions in service levels, including but not limited to:

- Fire – closing of Fire Station 31 (one of only two National City fire stations);
- Police –
  - elimination of the Police Department's Gang Enforcement, SWAT, Traffic, and Community Services Units,
  - elimination of the drug prevention program,

- loss of school police officers,
- reduction in the number of neighborhood patrols, and
- overall general reduction in the number of police officers;
- Neighborhood Services – elimination of the Graffiti Removal program;
- Housing & Grants (now Housing & Economic Development) – elimination of the staff-run Senior Nutrition Program (the program would be returned to the County to find other partners/grantees);
- Library –
  - a 23% reduction in Library hours, and
  - elimination of the Literacy Program;
- Community Services –
  - closure of community centers and associated programs,
  - elimination of the Casa de Salud and Manuel Portillo Youth Center teen programs,
  - closure of the El Toyon Recreation Center, and
  - elimination of the Tiny Tots program.

### **Where Is National City Today?**

National City largely has recovered from the worst economic climate since the Great Depression, emerging from the “Great Recession” in good financial condition. The City continues to receive clean financial audits, including the elimination of significant deficiencies and material weaknesses in relation to both the City’s financial statements and federal programs, and its Standard & Poor’s general obligation bond rating has increased to A+ (from A). We continue to pursue revenue enhancements and diversity and have limited General Fund debt. And the City Council’s stated priority of fiscal sustainability is being achieved through cost containment, efficiency, revenue growth and diversity, conservative forecasting, maintaining strong reserve levels, seeking means to responsibly reduce the City’s pension and other postemployment benefit obligations, limiting and managing debt, and aggressively pursuing economic development opportunities. However, despite implementing many significant cost control measures, including maintaining staffing levels well below those prior to the approval of Proposition D, the City’s expenditures would have exceeded its revenues without the revenues generated by the district transactions & use tax in every year since its inception, except fiscal year 2014. In that year, the City received \$6.6 million in one-time revenues committed to meet capital expenditure obligations largely occurring in future years and \$4.9 million in one-time revenue, although considered nonspendable, from a promissory note received for the sale of the City’s Public Works site.



Even with district & transactions tax revenues, as noted earlier, the current fiscal year’s budget was adopted with a \$5.4 million use of fund balance, including a \$3.3 million structural deficit. And while the budget provides funding for important projects, such as storm drain repairs and improvements and street resurfacing, it does not include appropriations for critical maintenance of City facilities, which has been deferred for several years. The City presently is performing a facilities needs assessment. Once this assessment has been completed, the City must seek funding to complete the necessary maintenance, which will add significantly to the City’s expenses.

The City continues its efforts to cut costs, improve efficiency, and actively seek grant funding to minimize the impact of the economy’s ebbs and flows upon the community.

### **Cost-Cutting and Efficiency Measures**

The City had consistently sought ways to streamline the organization to maximize efficiency and effectiveness, striking a balance between controlling costs and meeting the needs of the community.

The City has been innovative in its approach to creating efficiencies and savings. For fiscal year 2016, to reduce higher salary increases initially proposed, the City negotiated a modest salary increase combined with one-time stipends for many of its employees. Stipends prevent the ongoing impact of pension costs to the City. In addition, the City’s negotiated work furlough program, which generates annual savings of approximately \$140,000, has been extended through calendar year 2017.

### **Consolidating and Restructuring Departments and Divisions**

The merging and restructuring of departments and divisions has allowed for streamlining activities resulting in substantial cost savings by reducing the number of department directors, eliminating duplicate and inefficient activities, providing cross training to staff, where it is possible to reallocate resources where they are most needed and therefore increasing the overall efficiency of the new department. In fiscal year 2014, the Public Works and Engineering

Departments were (becoming the Engineering & Public Works Department), eliminating a department director position. This follows the previous elimination of twenty executive and management level positions through consolidation and restructuring since 2008.

### Managed Attrition

As vacancies occur through normal attrition, non-essential positions have been frozen for salary and employee benefits savings. To date, a total of 66 vacancies exist City-wide. Of that number, 50 positions are frozen and/or unfunded and 16 positions are vacant.

### Pension Reform

As a result the elimination of the Employer Paid Member Contribution, employee contributions are projected to total approximately \$2.1 million in fiscal year 2017.

Other cost-cutting and efficiency measures the City has implemented include:

#### A. Fire Department

- Joined San Diego Fire Department Dispatch for fire, rescue, and medical aid dispatch services, saving \$50,000 annually, compared to cost of services of previous provider. (FY 14)

#### B. Building Division

- Plan check fee paid to third-party plan reviewers reduced from 80% to 65% of scheduled fees, resulting in annual savings of \$97,000. (FY 14)

#### C. Library

- Volunteer Assistance – time donated by volunteers to assist with library programs and shelving:
  - FY 12: 6,154 hours;
  - FY 13: 4,324 hours;
  - FY 14: 2,777 hours;
  - FY 15: 3,685 hours;
  - FY 16: 2,645 hours.

#### D. Engineering & Public Works Department

- Older fleet vehicles replaced with new vehicles resulting in cost savings due to lower fuel and lower maintenance expenses. (FYs 12-17)
- Energy and water conservation program underway for design, installation, maintenance, and monitoring of energy and water savings upgrades at City facilities with guarantee monetary savings will cover cost of upgrades. (FY 17)

#### E. Human Resources

- Migrating from the City's current risk pool (SANDPIPA) to the State-wide risk pool (CSAC) for enhanced services and reduced cost.

## F. Successor Agency

- Successor Agency's 2004 tax allocation bonds paid off early, resulting in interest savings totalling \$2.0 million and increasing residual property tax revenue allocations to the City by approximately \$24,000 annually through fiscal year 2033. (FY 15)

## **Revenue Enhancement Efforts**

While the City's district transactions & revenues has temporarily resolved the problem of expenses exceeding revenues, we remain committed to building stable and diverse revenue sources to achieve financial sustainability.

The last major revenue generating developments, Plaza Bonita Mall and the Mile of Cars, occurred over twenty-five years ago. Efficiency, vision, and innovation are necessary to reverse the current stagnation. National City continues to pursue new revenue sources, enhance existing revenue streams, and recover the costs of providing programs and services. Some of the efforts designed to meet these needs are:

### A. Fire Department

- Provides personnel to participate in California Single Resource Overhead Assignment Program to fight large scale fires within the State, creating/generating \$102,000 in revenue since participation began. (FYs 15-17)

### B. Housing & Economic Development Department

- Economic Development Program created and Community Development Specialist II position added to pursue opportunities to attract businesses and expand the City's tax base. Department renamed (previously Housing, Grants, & Economic Development) to reflect significant priorities. (FY 17)

### C. Community Services Division

- Entered into an agreement with a third party to manage the City's municipal swimming pool, reducing the department's staffing level and resulting in annual savings. (FY 14)
- Entered agreements with Southwestern College, Sweetwater Union High School District, and National School District for rental of pool facilities generating annual revenue of \$265,000. (FY 16)

### D. Finance Department

- Entered agreement for collection services to improve collection rate of delinquent debt owed the City. (FY 17)

## **Fund Balance- and Reserve-Building Efforts**

- Closed or consolidated several inactive funds, transferring fund balances totalling \$4.0 million to the General Fund. (FY 13-14)
- \$2.0 million of unassigned fund balance committed to increase Contingency Reserve balance to \$9.1 million. (FY 12)

- Vehicle Replacement Fund balance increased to reserve target level established by Council policy, or \$3.7 million, by transfer of \$2.2 million from General Fund unassigned fund balance, allowing internal financing of vehicles. (FY 15)
- Policy established to ensure only charges and transfers necessary to balance revenues with actual expenditures of internal service funds and funds supported by the General Fund are charged/processed, preventing accumulation of excess fund balances. (FY 15)
- Excess fund balances of internal services funds totalling \$2.5 million identified and transferred to General Fund to fund newly-created reserve for facilities maintenance. (FY 16)
- Residual fund balance of \$514,000 in inactive State Grant Fund identified and transferred to General Fund for eligible expenses of replacement of baseball field light poles. (FY 17)
- Residual Library grant fund balance of \$450,000 identified and used to offset General Fund subsidy. (FY 17)

### **Grant Funding**

The City of National City continues to aggressively seek grant funding to continue to build on our success. Grant funding has provided the City with millions of dollars to enhance public safety, disaster preparedness, and technology, as well as supplement equipment; vehicles; quality of life; recreation needs to improve the quality of life for our residents, businesses, and visitors to our community. It is important to note, however, that while these funds have allowed the City to undertake projects to improve its infrastructure and implement important programs, many grants require the commitment of significant matching funds from the City's General Fund.

### **Significant Accomplishments**

The City Council's priorities of public safety and quality of life were able to be met as a result of Proposition D revenues. Significant achievements have been made in the delivery of critical services, projects and programs, technology, and communication, as can be seen below.

#### **Public Safety**

The City Council's commitment to public safety, despite difficult fiscal challenges, has allowed the police and fire departments to consistently make significant strides in improving services to our residents. By aggressively seeking grants, new and technologically advanced vehicles and equipment has greatly reduced the impact on the General Fund. Safety continues to improve, as evidenced by the accomplishments listed below.

##### **A. Police Department**

- Crime rate has down significantly since 2006.
- All homicides solved for previous eight years.
- Implementation of body-worn camera program underway. (FY 16)

- 38 vehicles purchased (21 patrol vehicles, 15 unmarked vehicles, 1 surveillance van, and 1 rapid deployment vehicle), totalling \$1.8 million. \$972,000 of purchase totals funded by grant and asset forfeiture funds; \$105,000 by development impact fee funds. (FYs 12-16)
- Additional 4 unmarked vehicles leased at total cost through lease term of \$164,000. (FY 15)
- Received grant funds totalling \$882,000 for officer overtime related to anti-money laundering activities under the Operation Stonegarden Grant program. (FYs 12-16)
- Received grant funds totalling \$492,000 for salary and benefits of one officer performing automotive theft task force duties under the Regional Auto Theft Task Force Grant program. (FYs 12-16)
- Received grant funds totalling \$445,000 for officer overtime related to traffic checkpoint activities under the Sustained Traffic Enforcement program. (FYs 13-16)
- Received grant funds totalling \$433,000 for salary and benefits of one officer performing anti-money laundering duties under the Operation Southwest Border Anti-Money Laundering Alliance Grant program. (FYs 12-16)
- Received grant funds totalling \$299,000 for salary and benefits of one officer performing domestic violence duties under the Children Exposed to Domestic Violence Program. (FYs 12-16)
- Entered into agreement with San Diego County to transition to the Next Generation Regional Communication System (NextGen RCS), a modernized regional public safety communication system for \$980,000 of \$1.3 million total cost shared with Fire Department (financed over ten years). (FY 16)

#### B. Fire Department

- Improved emergency response times.
- Enhanced level of medical first responders.
- Formation of rapid response fire squad underway to improve response times, particularly for medical aid and small incipient fires. (FY 17)
- New ladder fire truck added to fleet at a cost of approximately \$1.0 million. (FY 15)
- Additional 4 vehicles purchased (1 battalion chief truck, 1 squad truck, and 3 light-duty vehicles) totalling \$429,000. (FYs 16-17)
- Entered into agreement with San Diego County to transition to the Next Generation Regional Communication System (NextGen RCS), a modernized regional public safety communication system for \$290,000 of \$1.3 million total cost shared with Police Department (financed over ten years). (FY 16)



## Quality of Life

The City Council has emphasized improving the quality of life in National City by investing in the community. Over the last five years, millions of dollars in grants and other alternate funding sources were secured to build and/or refurbish various civic facilities, including construction of a new aquatic center and skate park and renovations or other improvement of the public library, parks, pool, and recreation center.

### C. Library

The National City Public Library has implemented new programs, making it a thriving community place buzzing with activities, where residents from all walks of life can come every day to learn, use resources, or simply enjoy programs. Despite budget reductions, the Library continues to offer high quality service and best of all, at no cost to our patrons.

- Improvements, including installation of public safety cameras, new audio and visual system, and flooring completed. (FY 16)

### D. Community Services Division

National City prides itself in providing high quality facilities and services and cost effective programs which enhance the quality of life and encourage healthy living for residents enduring difficult financial times. We strive to provide excellent customer service and planning for the City's open space and facilities, and celebrate the community's diversity through social, cultural, and civic activities for youth, adults, and senior citizens.

- Construction of National City Aquatic Center completed. (FY 16)
- New skate park completed. (FY 16)
- Park facilities renovations/improvements completed, including new restrooms, lighting, benches, trash receptacles, public safety cameras, ADA upgrades, and walking paths. (FY 17)

## Communication/Technology

### E. Information Technology Program

Technology is a strategic asset enabling City staff to meet the expanding needs of the City of National City and its residents. The City has made significant strides in improving communication, both internally and externally. In recognition of the City's demographic composition, interpretation and translation services are provided at City Council meetings and City workshops, and press releases and official notices are routinely provided in English and Spanish. Technology, communication, and branding efforts have culminated into significant accomplishments as can be seen below.

- 345 workstations and desktop applications upgraded City-wide.
- Copiers upgraded City-wide.
- National City Connect app, a mobile service request app, implemented.
- Network switches replaced in City facilities.

- Physical servers migrated to virtual server/storage environment.
- Analog phone system upgraded to digital voice over internet protocol system City-wide.
- Digital signage deployed in public areas in City Hall, Martin Luther King Building, Police Department, and Nutrition Center.
- City website and intranet upgraded to new content management system.
- 911 phone system upgraded.
- Wireless traffic signal preemption network upgraded.
- Public safety camera system and associated servers and network switches upgraded.
- Mobile data computers upgraded.

F. City Clerk Office / Records Management Division

- Questys document management system updated.

G. Police Department

- Police computer-aided dispatch system upgraded
- Implemented private wireless network.

H. Fire Department

- Fire computer-aided dispatch migrated to City of San Diego
- Implemented private wireless network.

I. Engineering & Public Works Department

- Capital improvement projects website developed.

J. Human Resources Department

- Fingerprint records check system software and hardware upgraded to latest version

K. Library

- Cataloguing, self-checkout, security, and asset protection systems upgraded.
- Access to Gigabit California Research Education Network provided to public library public computers.

L. Parking Division

- Handheld devices replaced with devices with cameras.

Projects and Programs

M. Planning Division

- Entered agreement with City of Chula Vista to administer Free Resource & Energy Business Evaluation (“FREBE”) program at no cost to the City of National City.

Program requires businesses to receive free periodic evaluations of their facilities to help them achieve energy and water savings. (FY 15)

#### N. Successor Agency

- Completed Phase I of the Transit-Oriented Infill Affordable Housing and Paradise Creek Enhancement Project, the development of 109 units of affordable housing. (FY 17)
- Phase II of the Transit-Oriented Infill Affordable Housing and Paradise Creek Enhancement Project, the development of 92 units of affordable housing, underway. (est. completion in FY 18)
- 4.4 acre expansion of the Paradise Creek Educational Park, including transportation and other infrastructure improvements (Transit-Oriented Infill Affordable Housing and Paradise Creek Enhancement Project) planned. (est. construction start in FY 18)

#### O. Engineering & Public Works Department

- Construction of new Public Works facilities.
- Police station upgrades, including increasing evidence room capacity and efficiency, updating fire suppression systems, and upgrading electrical system.
- D Avenue Community Corridor, Roundabout, & War Memorial.
- A Avenue “Green” Street.
- Phase I of Plaza Boulevard Widening.
- Fiber optic network expansion.
- Sewer upsizing.
- Capital improvement projects website developed.
- Traffic safety and calming, pedestrian, bicycle, and Safe Routes to School enhancements
- Street, concrete, and drain improvement projects.
- Sewer flusher truck purchased for \$409,000. Full cost borne by Sewer Service Fund (i.e., no General Fund impact). (FY 16)
- Street sweeper purchased for \$283,000. Full cost borne by Trash Rate Stabilization Fund (i.e., no General Fund impact). (FY 16)
- Additional 4 vehicles purchased, totalling \$95,000. (FYs 12-16)
- Additional 23 vehicles leased at total cost through lease term of \$718,000. (FY 15)

#### P. Housing & Economic Development Department

- Received former enterprise zone program funds from the City San Diego for economic development program. (FY 17)

#### Q. Neighborhood Services Department

- Homeless outreach program created to reduce number of homeless men, women, and children and direct these individuals to care and services that best serve their needs and the needs of the affected communities. (FY 16)
- Graffiti Tracker Program commencement to help document and track graffiti vandalism throughout the City that will assist in prosecution efforts leading to cost recovery (2011)

#### R. Finance Department

- Implemented online timesheet entry and approval system streamlining payroll processing. (FY 14)
- Implemented enterprise resource planning system contract management module to track contract expenses and contract and expirations. (FY 16)
- Implemented enterprise resource planning system project accounting module to better budget and monitor project expenses and account for developer deposits. (FY 14)
- Implemented OpenGov fiscal transparency tool. (FY 16)

#### S. Human Resources Department

- Employee benefits broker negotiated 4% reduction in health insurance premium rates. (FY 17)
- Managed six rounds of labor negotiations with agreements reached including classification- and market-centric strategies for adjusting compensation (i.e., comparisons to compensation of corresponding position classifications in other San Diego County cities and consideration of recruitment/retention difficulty and criticality of positions). (FYs 12-16)
- Established a practice of utilizing outside subject matter experts for HR services that are specialized and limited in project duration (i.e. public safety recruiting and testing), eliminating the incurrence of on-going personnel costs to perform sporadic functions

#### T. Library

- Began sponsorship of “Employment Readiness” program, partnering with career centers to prepare job seekers skills to acquire employment. (FY 16)
- Began partnership with “Computers 2 San Diego Kids” (C2SDK) to provide computer training provided by library staff and free refurbished computers from C2SDK upon completion of training. (FY 16)

#### U. Community Services Division

- Implemented new point of sale and online registration system for pool participants. (FY 16)
- Expanded summer “Movies in the Park” activities to include 1-Mile Fun Run. (FY 16)
- Expanded holiday tree-lighting ceremony activities, including free ice skating rink. (FY 16)

## V. City Clerk Office / Records Management Division

- Coordinated update and adoption of City-wide records management program and records retention schedule. (FY 15)

### **Conclusion**

As noted above, despite the revenue generated by the district transactions & use tax and the efforts delineated above, the current budget includes a projected use of fund balance of \$5.4 million, with a \$3.3 million structural deficit. As also previously noted, the structural deficit is expected to last 2-3 years, with unassigned fund balance currently sufficient to offset the revenue shortfall through this period. However, the loss or reduction of district & transactions tax revenue would result in the depletion of the entire unassigned fund balance and place continuation of City services at their current levels, including public safety services, in jeopardy. Regardless of the outcome of the Committee's review, however, the City will continue its efforts to cut costs and increase revenues to provide the highest levels of service possible.

### **Proposition D Independent Review Committee**

As required by Proposition D, the Mayor of the City of National City, with the approval of the City Council of the City of National City, has appointed the required three-person independent committee of financial experts. Said committee will be convened in a manner consistent with the provisions of the Brown Act for the purpose of providing a recommendation to the Mayor and the City Council on the future of the one percent sales tax. The recommendation shall be one of the following:

- continue the district sales tax at the current rate of one percent;
- reduce the rate of the district sales tax; or
- terminate the imposition of the district sales tax.

Additional data and information will be provided to the Committee to assist in this effort as requested.