



OCEANSIDE SALES TAX
June 2018

SDCTA Position:

SUPPORT

Rationale for Position:

The City of Oceanside faces a structural deficit despite maintaining healthy reserve levels, implementing a wide variety of cost-cutting measures to address increasing service costs, and proactively implementing pension reform. This sales tax proposal includes a variety of measures that will help ensure transparency and accountability to Oceanside residents, including identified needs, a specified time limit, and an independent oversight committee which must make a finding that the City has spent funds in accordance with the measure before any renewal of the tax is considered.

Title: Measure 'X'

Jurisdiction: City of Oceanside

Type: One-half cent sales tax

Vote: Simple majority

Status: On the November 6, 2018 General Election ballot

Issue: Sales tax increase

Description: A temporary seven-year sales tax increase of 0.50%, raising the total sales tax to 8.25%, for the purpose of maintaining and improving the quality of services provided to the community.

Fiscal Impact: The measure is expected to generate approximately \$81 million over seven years, all of which would go to the City's General Fund.

Background

Sales Tax in California

As of April 1, 2018, the statewide sales and use tax rate in California is 7.25%. This revenue makes up about 19.4% of state tax revenue for FY 2018-19.¹ However, counties and municipalities can elect to implement additional local sales taxes to fund various needs such as transportation and public safety. 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. Residents in the City of Oceanside currently pay an additional local sales tax at a rate of 0.5% due to the TransNet ordinance, bringing the total sales tax in the city to 7.75%. TransNet is a countywide half-cent sales tax used to help fund transportation projects. Oceanside is tied with many other cities for the

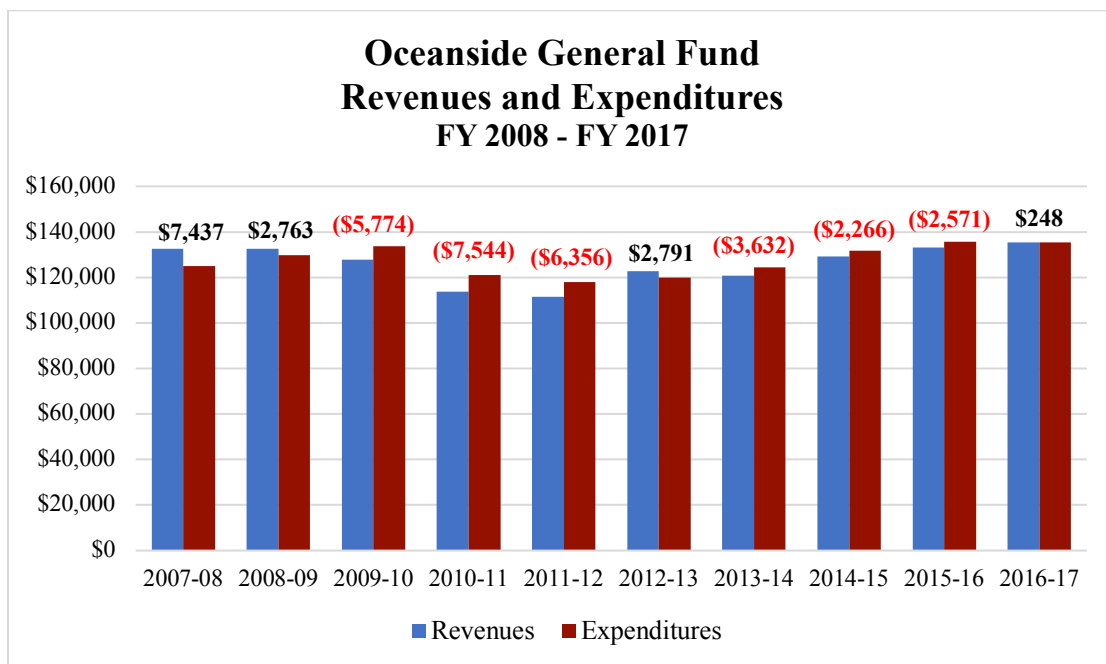
¹ "Governor's Budget Summary 2018-19," *California Department of Finance*, January 10, 2018, p.18, www.ebudget.ca.gov/2018-19/pdf/BudgetSummary/SummaryCharts.pdf.

lowest sales tax rate in the County of San Diego and has never enacted a sales tax ordinance. Revenue from only 1% of this sales tax stays within the City, with the rest going toward the State, County, and San Diego Association of Governments.

Municipal Profile

Revenues vs. Expenditures

For fiscal year FY 2017, the General Fund reported \$135.5 million in revenues and \$135.3 million in expenditures, resulting in revenues exceeding expenditures by \$248,150. The City's General Fund balance increased by \$9.3 million to \$66,743,385 at the end of FY 2017. Total fund balance includes \$2.1 million of unassigned fund balance, which can be used for contingencies.



Source: City of Oceanside Comprehensive Annual Financial Reports FY 2008–FY 2017

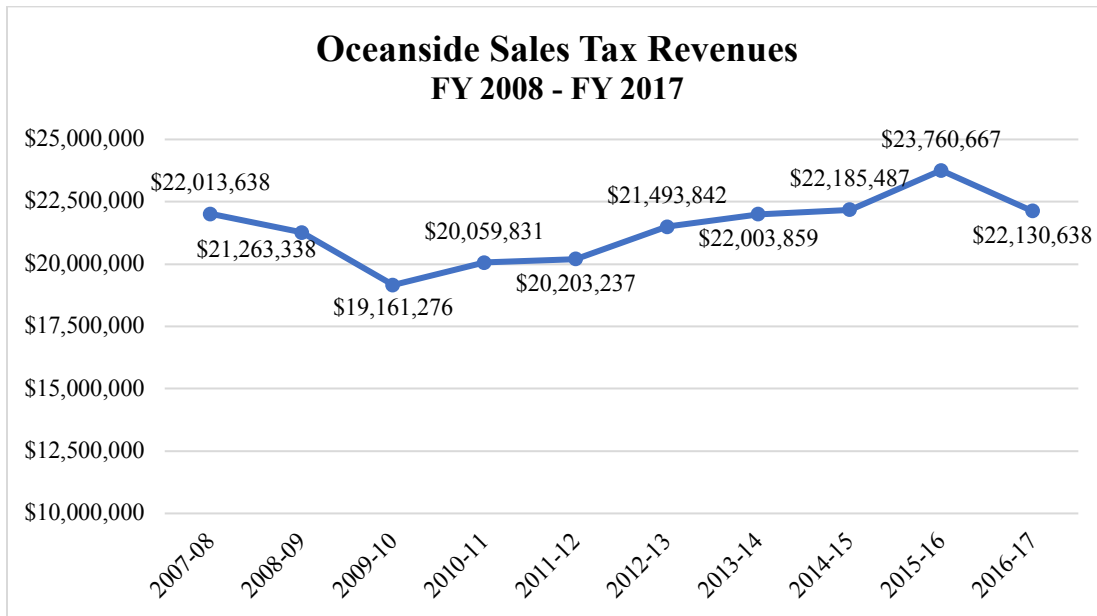
**Note: Figures in thousands, Adjusted to 2017 dollars*

Most of the City's revenue for FY 2017 was generated from property taxes (\$57,600,747) and sales taxes (\$22,130,638), with sales tax representing 15.27% of the total General Fund revenue.

The City's total net position increased \$52.2 million from \$800.2 million in FY 2016 to a total of \$852.4 million in FY 2017. Oceanside projects General Fund revenues at \$145.99 million in FY 2018 with an increase of 5.2% from the prior year. The FY 2018 General Fund expenditure budget is set at \$145.24 million, including an increase of \$5.03 million for public safety and community services. The FY 2018 budget does not use any one-time funds to cover expenses.

Sales Tax Revenues

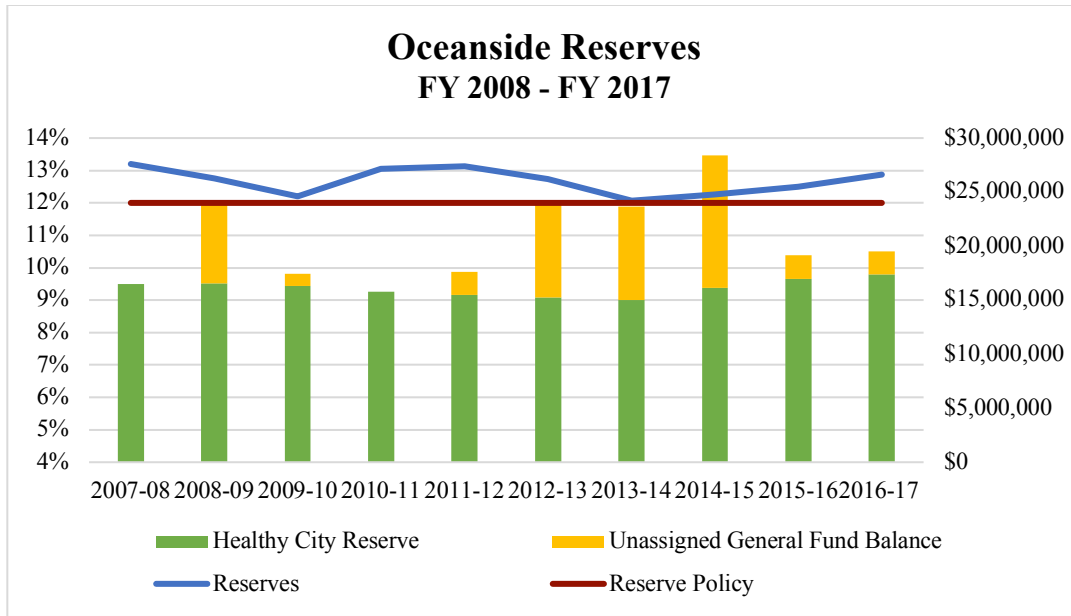
Sales tax revenues from FY 2016 to FY 2017 dropped by \$1.1 million despite a steady increase from FY 2010 to FY 2016. The city projects its sales tax revenue at \$22.29 million for FY 2017-2018, which accounts for approximately 15% of total General Fund revenues. The City’s budget report notes that growing consumer confidence in purchasing vehicles and fuel along with new restaurants have led to the overall growth in revenue, though sales tax revenues are expected to plateau due to slow growth of local retail establishments. The City estimates that approximately 63% of sales tax revenues are collected from visitors to the City rather than residents.



Source: City of Oceanside Comprehensive Annual Financial Reports FY 2008–FY 2017
 *Note: Adjusted to 2017 dollars

Reserves

The City maintains a policy for developing and maintaining a healthy reserve, including the addition of \$800,000 for the Healthy City Reserve in FY 2018. The Healthy City Reserve must maintain at least 12 percent of General Fund operating expenditures as committed fund balance, which can be used in the event of fiscal adversity. Additionally, unassigned General Fund balance is available for contingencies. The figure below shows the Healthy City Reserve and unassigned General Fund balance over the last ten years. The City has met or exceeded its reserve policy during each year examined.

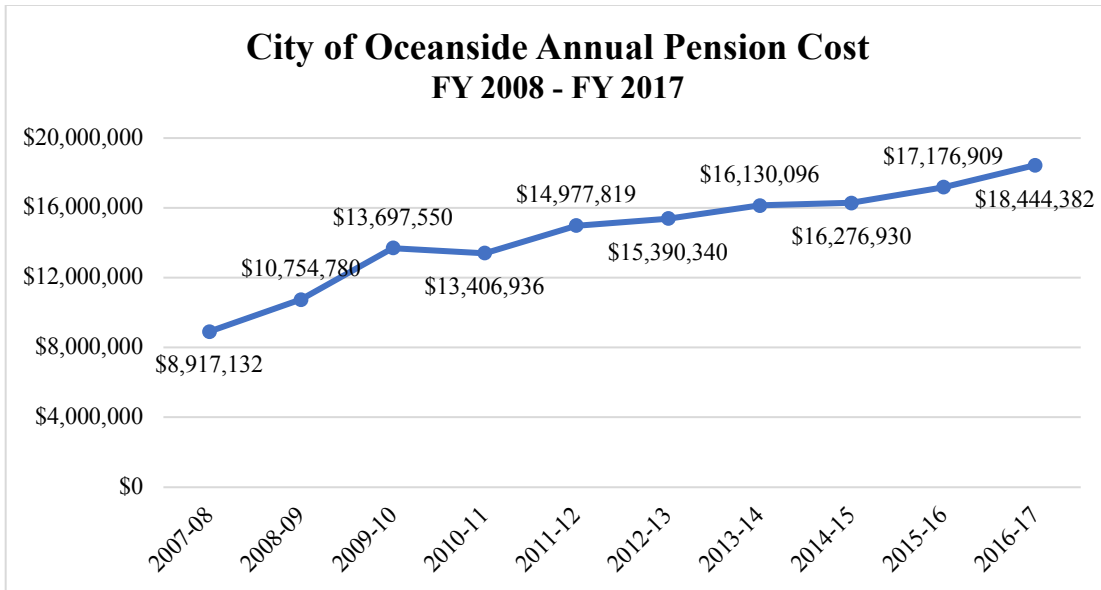


Source: City of Oceanside Comprehensive Annual Financial Reports and Budgets FY 2008–FY 2017

*Note: Adjusted to 2017 dollars

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. To make its funding more sustainable and responsible in the long run, CalPERS adopted a decreasing discount rate for FY 2018 through FY 2020. The City has been facing increasing pension costs due to the continuous lowering of CalPERS’ discount rate, poor investment returns by CalPERS, and actuarial changes due to greater retiree life expectancy. The City has estimated that pension costs will increase faster than operating revenues over the next five years, creating the possibility of future budget deficits. Pension-related costs currently make up an estimated 22% of General Fund personnel costs.



Source: City of Oceanside Comprehensive Annual Financial Reports FY 2008–FY 2017
**Note: Adjusted to 2017 dollars*

Though state-mandated pension reform was enacted in 2013, it should be noted that the City of Oceanside proactively enacted its own pension reform in 2011. Aspects of the City’s pension reform included the elimination of employer-paid member contributions, less generous pension benefit formulas, and increased employee contributions to retirement costs.

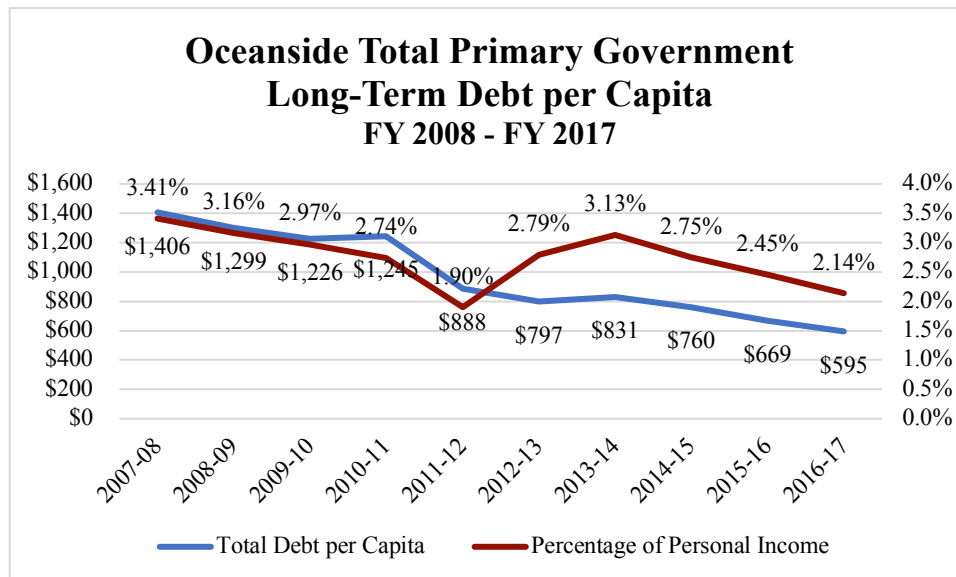
The City constructed its FY 2017-18 budget conservatively in order to meet its pension obligations. Oceanside has attempted to keep costs down by negotiating with public employees to have them pay a higher percentage of their pension cost, tightening hiring processes, and continuing to place excess General Fund balance in a set-aside account to pay down the unfunded liability. In February 2018, the City Council established a Section 115 Trust Fund, which allows for greater investment returns, to help offset spikes in employer pension contributions. The City intends to make an initial \$10 million investment into the fund. Additionally, Oceanside made \$8 million in extra payments in FY 2017-18 to reduce its unfunded pension liability. Lastly, City Council Policy 200-11 calls for one-third of all excess annual interest earnings to be allocated to help pay down the unfunded liability.

Debt

The City of Oceanside’s total governmental activities long-term debt increased by \$28.4 million in FY 2017, mostly due to increases in the City’s net pension liability. The City has approximately \$11.4 million in outstanding long-term debt that will be paid off by 2023, freeing up more revenues for other purposes.

City of Oceanside's Outstanding Long-Term Debt as of June 30, 2017	
Certificates of Participation	\$10,457,952
Capital Leases Payable	\$3,594,051
Notes Payable	\$2,529,000
Pension Obligation Bonds	\$29,435,000
Lease Revenue Bonds	\$6,335,000
Claims Payable	\$20,457,815
Compensated Absences	\$11,939,427
Net Pension Liability	\$200,607,596
Other Post-Employment Benefits	\$3,756,405
Unamortized Bond Premiums	\$319,351
Total	\$289,431,597

Outside of its net pension liability, 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.

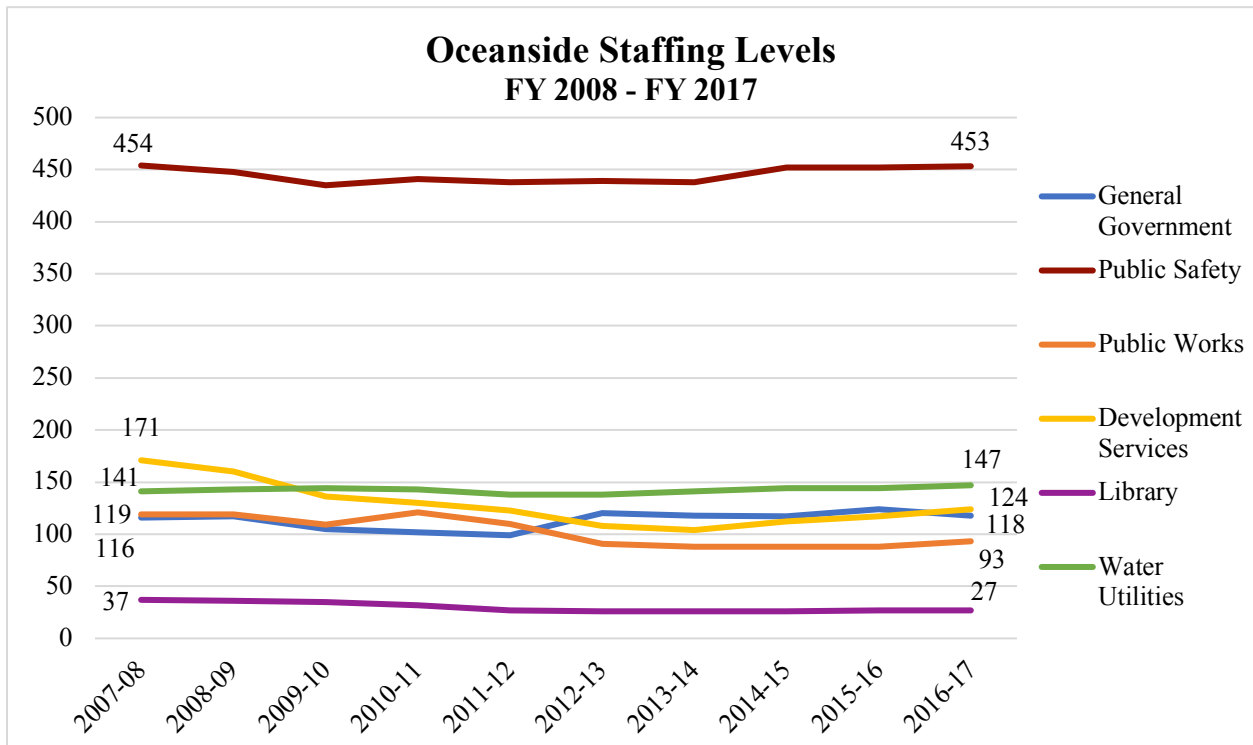


Source: City of Oceanside Comprehensive Annual Financial Reports FY 2008–FY 2017
 *Note: Adjusted to 2017 dollars

The City's total long-term debt per capita, including both governmental and business-type activities, has decreased steadily since FY 2008 and is currently \$595 per resident. This debt has also decreased as a percentage of each resident's personal income.

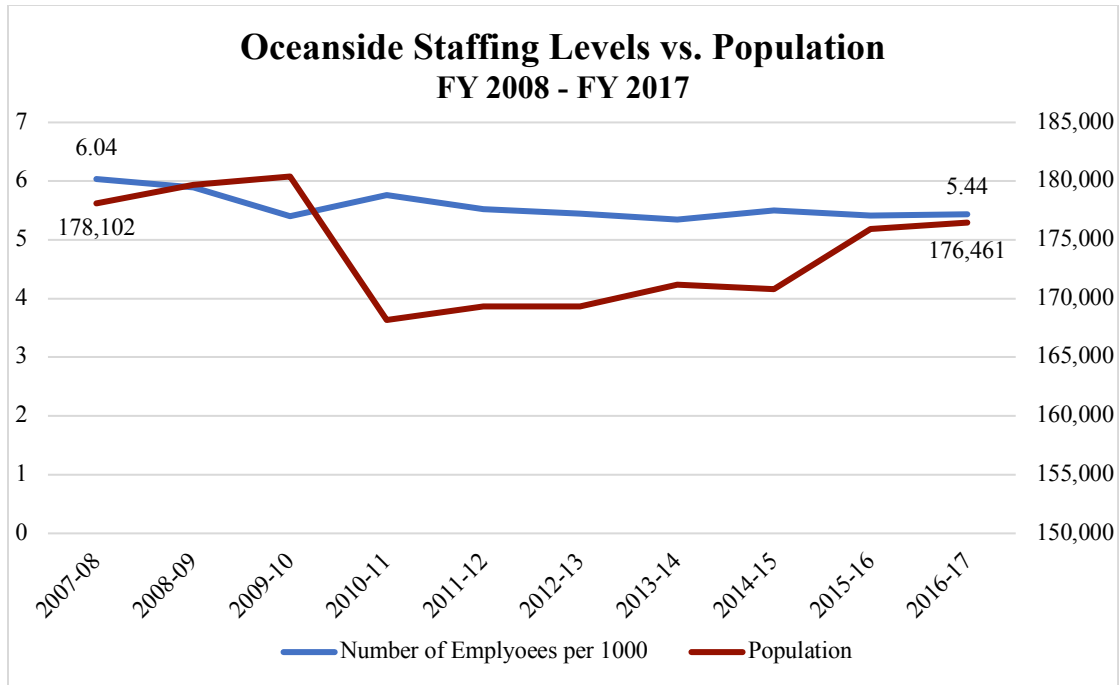
Staffing Levels

The City of Oceanside currently has Memoranda of Understanding (MOUs) with eight employee groups. The MOUs with the Management Employees' Association, Fire Management Association, and Western Council of Engineers require salary increases of 0.5% in the 2018 pay period. The MOU with the City Employees' Association requires between a 0.25% and 2% salary increase in the 2018 pay period, depending on the position in question. The MOUs with the Police Officers' Association and Police Management Association require a 2% and 1% salary increase in the 2018 pay period, respectively. The MOU with the Firefighters' Association and compensation plan for unrepresented employees did not require a salary increase in 2018.



Source: City of Oceanside Comprehensive Annual Financial Report FY 2017

The City currently employs 5.44 employees per 1,000 residents, a ratio that has decreased almost 10% since FY 2008 along with a slight decrease in population.



Source: City of Oceanside Comprehensive Annual Financial Report FY 2017

Oceanside has implemented several cost savings measures with regard to staffing, including outsourcing many services, including parking and ambulance billing, tree trimming, accounting, and certain planning and permitting staff functions. Additionally, the City has restructured departments and divisions for maximum efficiency, conducting regular fee studies to ensure cost recovery.

Stated Need

The City has stated that the cost of providing various services to its population has increased faster than revenues. A potential sales tax measure would be used to maintain the current level and quality of service in a variety of areas.

One of the goals of City leadership is to ensure that Oceanside’s public safety needs are met. According to the City, resident calls for service from firefighters and paramedics have increased by 18% over the last five years. The City’s per capita spending on fire and paramedic services is 8th out of the 10 cities in North San Diego County at 84% below average. The City is also ranked near the bottom in several other categories in comparison to its other north-County peers, including available resources, number of residents served per station and per ambulance, and number of firefighters and paramedics on duty compared to population size. In addition, Oceanside’s lifeguards averaged 714 rescues per mile of beach over the last five years, in comparison to 228-432 rescues for other coastal cities. Over the last five years, police response times have increased by 30 seconds, 1 minute 44 seconds, and 3 minutes 26 seconds for Priority 1, 2, and 3 calls, respectively. This has coincided with a slight decrease in number of officers compared with the City’s population.

Over the last decade, the City has added a variety of infrastructure assets such as streets, bike trails, and drainage systems. Additionally, new state and federal mandates have created new annual costs. For example, new storm drain requirements have necessitated the installation of filters that will cost \$2.5 million for installation over the next decade as well as \$500,000 each year for maintenance. The Public Works department is in need of additional funding to adequately maintain this new infrastructure and ensure compliance with all regulations.

The City also has a variety of ongoing infrastructure needs, including street expansion projects, other road improvements, storm drain replacements, pier improvements, and facility repairs.

Proposal

The language placed before voters on the November 6, 2018 ballot would read:

“To provide funding to maintain and improve general city services including: police patrols, crime, drug, and gang prevention, fire, paramedic and 9-1-1 response, pothole repair, street maintenance, improved infrastructure, maintain safe, clean parks and beaches, and address homelessness, shall the City of Oceanside establish a sales tax of one-half of one percent (0.5%) for 7 years, providing an estimated 11 million dollars annually for general city services, requiring citizen oversight, independent audits, and all funds controlled locally?”

This ballot measure would establish a new general retail transactions and use (sales) tax of 0.5% within City territory that would continue for seven years. All proceeds from the new tax would be deposited into the General Fund for unrestricted purposes.

Citizen’s Oversight Committee and Audits

For the purposes of this report, the measure will be referred to as Measure ‘X,’ as it has not yet received a title. The ordinance outlines the creation of a Citizens Oversight Committee (COC), appointed by the City Council, to monitor and report on the City’s compliance with the ordinance and annual spending plan. COC members are to have a range of financial, accounting, and other expertise, and cannot be current elected officials or employees of the City.

Sales tax revenues will be accounted in the General Fund as a separate line item titled “Local Transactions and Use Tax – Measure ‘X’ Revenues.” City Finance Department staff will present an annual report to the Citizen’s Oversight Committee regarding the tax revenue and expenditures.

City staff will generate a spending plan for Measure ‘X’ funds each year and present it to the COC for review before incorporating the plan into the proposed annual City budget upon City Council approval. This spending plan is to include both short-term and 7-year planned expenditures, as well as any potential large-scale projects that may require the use of Measure ‘X’ revenues.

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.

In addition to independent citizen oversight, the measure will require an annual audit from an independent auditor to review the collection and expenditure of Measure ‘X’ funds. The results of the audit are to be reviewed by the COC and presented to the City Council at a public meeting.

Fiscal Impact

This measure would impose a one-half cent sales tax increase on all applicable purchases within city limits. The measure would bring Oceanside’s total sales tax to 8.25%, which would put the city’s rate both lower and higher than many other cities in the county. The City estimates that the one-half cent sales tax would generate approximately \$81 million over the seven years it is administered.

Consultants hired by the City estimated that a median-income household, making \$66,348 annually, would pay an additional \$67 per year in sales taxes as a result of the measure.

Proponents

City of Oceanside staff
Visit Oceanside

Proponent Arguments

“Over the past decade, the City of Oceanside’s revenues have not kept pace with the growing costs associated with providing municipal services and facilities. The City has been proactive in responding to this challenge by reducing its costs where feasible, including laying off more than 100 employees, deferring street and infrastructure maintenance, and cutting back on basic city services. Even after these deep cuts, however, the City is facing a structural deficit that is projected to reach nearly \$4 million per year by Fiscal Year 2020-2021. This means that the City of Oceanside needs to raise at least an additional \$4 million per year to continue providing services at their current levels and be financially sustainable.”²

Opponents

No official opponents at this time

² “Revenue Measure Feasibility Study.” Encinitas: *True North Research*, November 15, 2017. <https://www.ci.oceanside.ca.us/civicax/filebank/blobdload.aspx?BlobID=46051>.

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