

Proposition D: National City Sales Tax Extension Measure

October 2014

SDCTA Position:

OPPOSE

Rationale for Position:

Sufficient action has not been taken to control expenditures. Maintaining a balanced National City budget requires expenditure control. After Proposition D was passed in 2006, National City initially experienced two years of budget deficits due to both revenue reduction and expenditure rise. The city has been able to reduce expenditures when benefiting from a recovering economy, but city officials are predicting that in just two years, revenues will increase by 4.1 percent and expenditures will increase by 22.5 percent. Assuming revenues and expenditures continue to grow under current trends, the city will still be experiencing budget deficits in future years even with an extension of the sales tax. In addition, the 20-year extension is essentially perpetuity as two decades is longer than city finances can reasonably be projected.

Title: “National City Sales Tax Extension Measure”

Jurisdiction: Local

Type: General Sales Tax Increase

Vote: Majority

Status: November 4, 2014 General Election ballot

Description: The proposed measure seeks to extend the city’s one percent voter-approved sales tax for an additional 20 years. In 2006, voters approved a general one percent sales tax for a period of 10 years in which revenues would be allocated for general fund purposes. Under current law, the increased sales tax rate would expire in 2016. Sales tax revenue would go into the city’s general fund and be used for any purpose although the revenues cannot legally be committed to specific purposes.

Fiscal Impact: The measure continues to extend the local one percent sales tax rate for a period of 20 years. The sales tax rate of nine percent would be maintained as opposed to being reduced to eight percent in 2016.

Proponents: National City Council, Manuel Rodriguez, Mark Beveridge, Robert “Dukie” Valderrama, Rosalie Zarate, Allie Pruitt

Opponents: None Known

Background:

Proposition D Sales Tax

Before 2006, National City experienced General Fund deficit problems that were mainly caused by rising General Fund budget expenditure commitments beginning in 2005 and the fall in sales tax revenue due to the recent financial crisis. To help National City balance its General Fund budget, in June 2006, 59 percent of voters in the City of National City approved Proposition D, which increased the local sales tax rate to one percentage point above the state’s rate for ten years. The additional sales tax revenue is used for any general fund purpose.

Though the general economic environment difficulties are largely beyond control of the City, the City should deal with the impacts by striking a balance between controlling costs and meeting the needs of the community. National City has continuously engaged in expenditure reductions, especially in retiree health care, pension reform and department restructuring. However, annual budgets continue to close with structural deficit of \$582,611 and \$4,575,393 in 2009 and 2010 respectively.

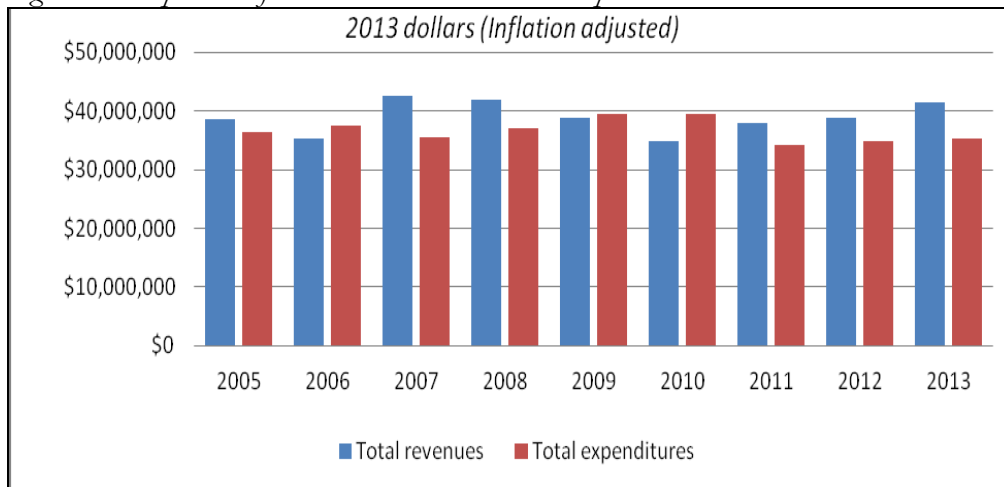
SDCTA Past Position

SDCTA opposed Proposition D based on concern that the increased revenues would not guarantee the reforms necessary to ensure structurally balanced budgets moving forward. There seemed to be inefficient budgetary planning on the part of National City.

National City Financial Condition

The city proposed Proposition D in 2006 in order to address a structural deficit and provide adequate time to develop and implement a strategic plan to eliminate that structural deficit.

Figure 1: Comparison of Total Revenues and Total Expenditures



Source: Financial Statements of National City, 2005-2013

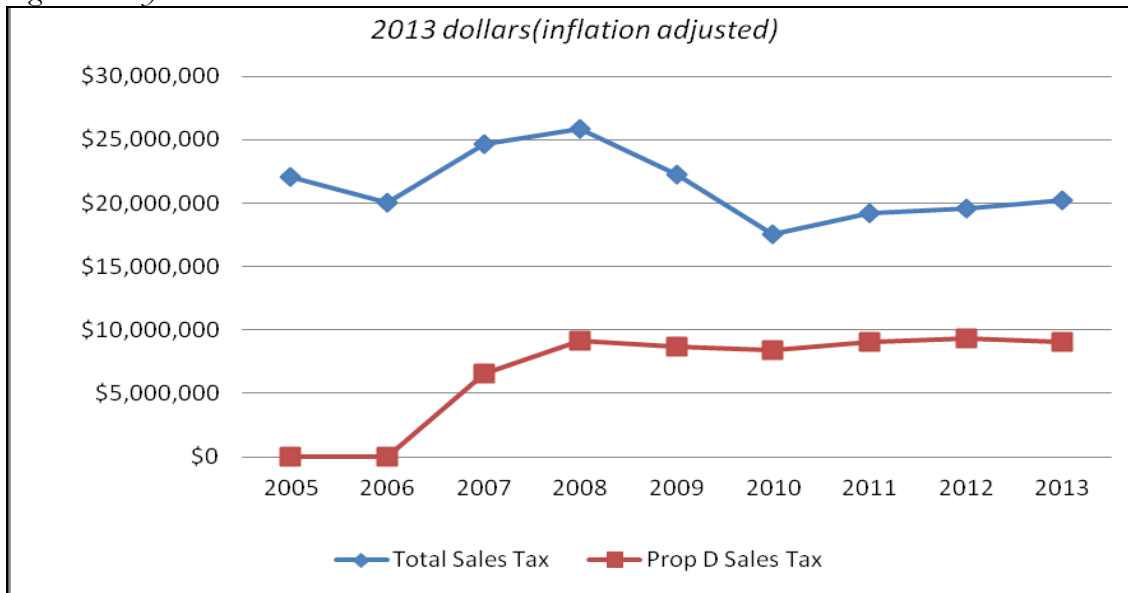
In 2006, the city had its largest General Fund budget deficit since 1999; expenditures exceeded revenues by approximately \$2.1 million. National City proposed the Proposition D to solve the deficit moving forward. Following the passage of Proposition D, the city again experienced deficits of \$0.6 million in 2009 and of \$4.6 million in 2010.

While General Fund revenue dropped significantly between 2007 and 2010, General Fund revenue has increased by 9.2 percent from 2011 to 2013. The city managed to reduce General Fund expenditures in 2007, however, expenditures increased by 11.3 percent from 2007 to 2010. Following a sharp decline of 13.5 percent in expenditures from 2010 to 2011, expenditures have slightly increased by 3.6 percent since 2011.

National City's Sales Tax Evaluation

From 2007, the city received between \$6.6 million and \$9.4 million annually from the Proposition D sales tax increase. The total amount of sales tax revenues going to National City’s General Fund, however, declined in 2009 and 2010. Although the sales tax revenue the city received increased gradually since then, the total sales tax revenue in 2013 has just climbed back to the level before Proposition D was passed in 2006. In 2010, 2011 and 2012, National City’s total sales tax revenues were even less than before the increase passed in 2006.

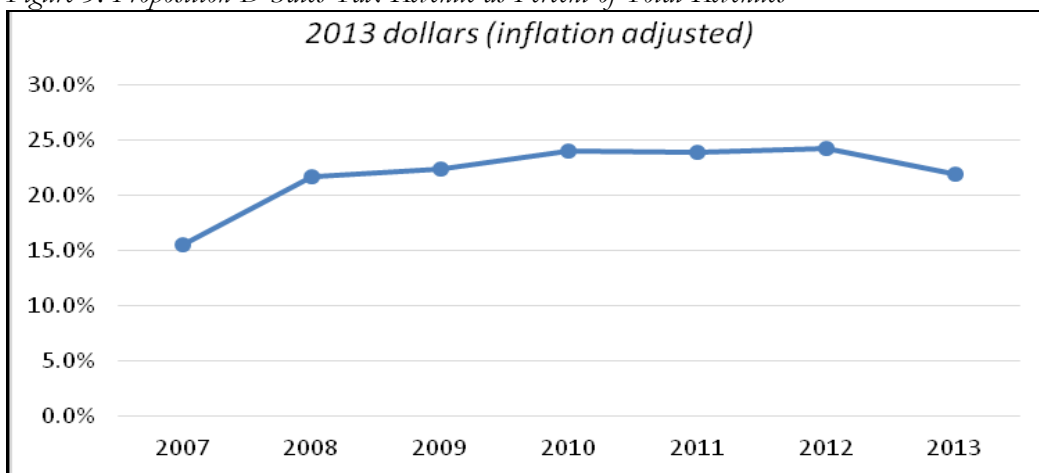
Figure 2: City Sales Tax Revenue



Source: Annual Budget of National City, 2005-2013

Since 2008, Proposition D has accounted for an annual average of 23.0 percent of the city’s total General Fund revenue. In the first full year of the Proposition D sales tax increase, revenue from the increase accounted for 21.7 percent of the city’s total revenues. This share of total revenues increased to 24 percent in 2012 and dropped down to 22.0 percent in 2013.

Figure 3: Proposition D Sales Tax Revenue as Percent of Total Revenues

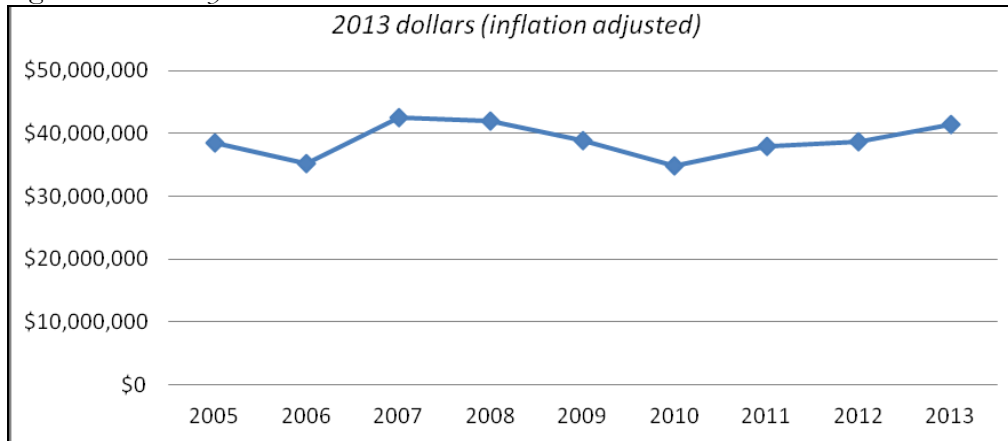


Source: Annual Budget of National City, 2005-2013

Total General Fund Revenues

The total revenues increased by 20.3 percent between 2006 and 2007 following the passage of Proposition D. The City experienced additional declines in revenue between 2008 and 2010, with 2013 total revenues reaching the highest amount since 2005.

Figure 4: Total City General Fund Revenues



Source: Financial Statements of National City, 2005-2013

Proposal:

On August 5, 2014, the City Council approved the placing of a 20-year sales tax extension measure of one percentage point approved by voters in 2006. The ballot measure reads as follows:

“To maintain National City’s public safety and prevent cuts to neighborhood police patrols and officers; gang/drug prevention; 911 emergency response; fire protection and firefighters; graffiti removal; street/pothole repair; senior/youth/library programs; and other City services; shall National City continue its existing voter-approved one-cent sales tax for 20 years with Citizens’ Oversight, annual independent audits, all money kept in National City, with no increase in tax rate?”

Policy Implications:

The proposal will allow National City to continue its existing voter-approved one-cent sales tax for 20 years. The additional sales tax revenue will continue to be used for basic city services, such as police, fire, parks, libraries, code enforcement, graffiti control and planning, among other things.

Sales tax does not apply to medicine, non-prepared food (groceries), rent, mortgage or utilities, nor does it apply to cars, planes, motorcycles and boats unless the purchaser is a National City resident (per State law).

Local Government

The proposal of the sales tax has generated additional revenue for National City between \$5.9 million and \$9.3 million per fiscal year since 2007.

Local Taxpayers

All citizens and non-citizens will continue to pay one more percentage point in sales tax on the items they buy in National City, except medicine, non-prepared food (groceries), rent, mortgage, or utilities.

Fiscal Impact:

The measure continues the local one percent sales tax rate for a period of 20 years. The local sales tax rate of nine percent would be maintained as opposed to being reduced to eight percent in 2016.

The Proposition D sales tax increase currently generates approximately \$10 million dollars each year. The loss of additional sales tax revenue generated by Proposition D will result in a 24 percent reduction in National City’s annual General Fund operating budget. If the proposed measure fails, the city will need to reduce expenditures by the corresponding amount in order to balance its General Fund budget.

National City has accomplished some expenditure reductions since the passage of Proposition D in 2006. National City’s General Fund deficits have turned to surpluses since 2011. In fiscal year 2009 and 2010, National City had serious deficits due to both significant total revenue reduction and expenditure increases. General Fund revenue has increased since 2011 by 9.2 percent, a signal that general economic conditions have improved.

National City officials are predicting that in just two years, revenues will increase by 4.1 percent and expenditures will increase by 22.5 percent. According to estimates, National City would have a General Fund deficit in both 2014 and 2015. Figure 5 details the largest expenditure drivers according to the city officials.

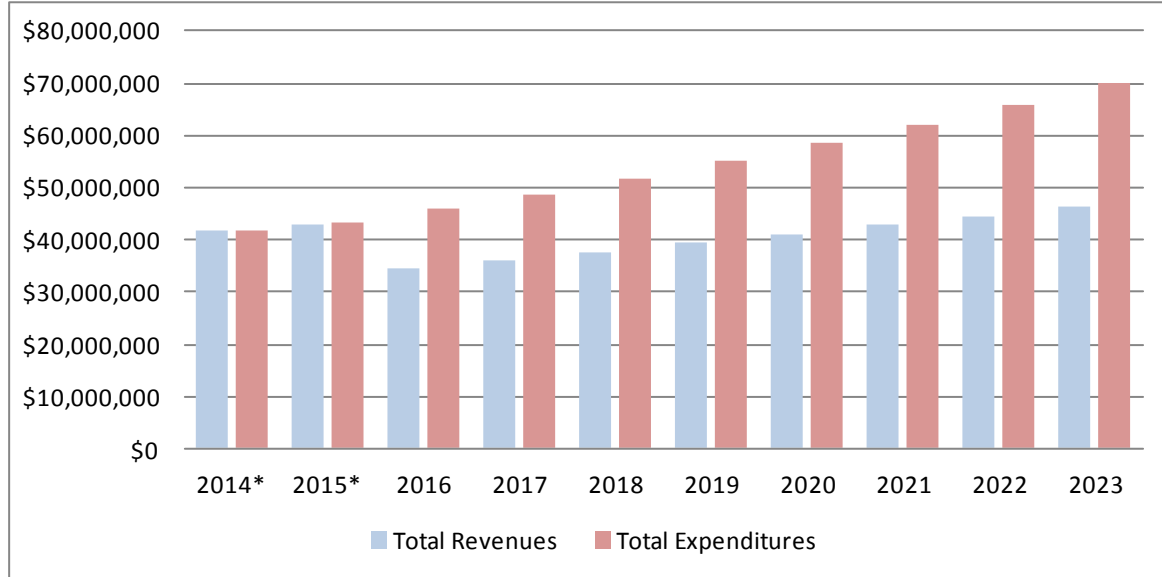
Figure 5: Primary Cost Increase Driver Estimates (FY15-FY17)

	FY 2015	FY 2016	FY 2017
Salaries			
MEA, FFA, & POA	2%	2%	2%
Executive, Management, & Part-Time Groups	0%	0%	0%
Health Insurance Premiums	5%	5%	5%
PERS			
Miscellaneous Employees	7.8%	8.8%	8.1%
Public Safety Employees	4.7%	6.1%	5.7%

Note: Increases over the prior year assumed in the city’s 3-Year Operating Plan calculations
Source: City of National City

If total General Fund annual revenue and expenditures grow at National City’s historical rates between 2011 and 2015 (3.44 percent increase in revenues; 6.17 percent increase in expenditures), there will be a General Fund deficit of \$13.5 million in 2023 even with the Proposition D extension. The extra revenue from Proposition D is not able to help National City’s fiscal balance if the City does not make real efforts on expenditure control.

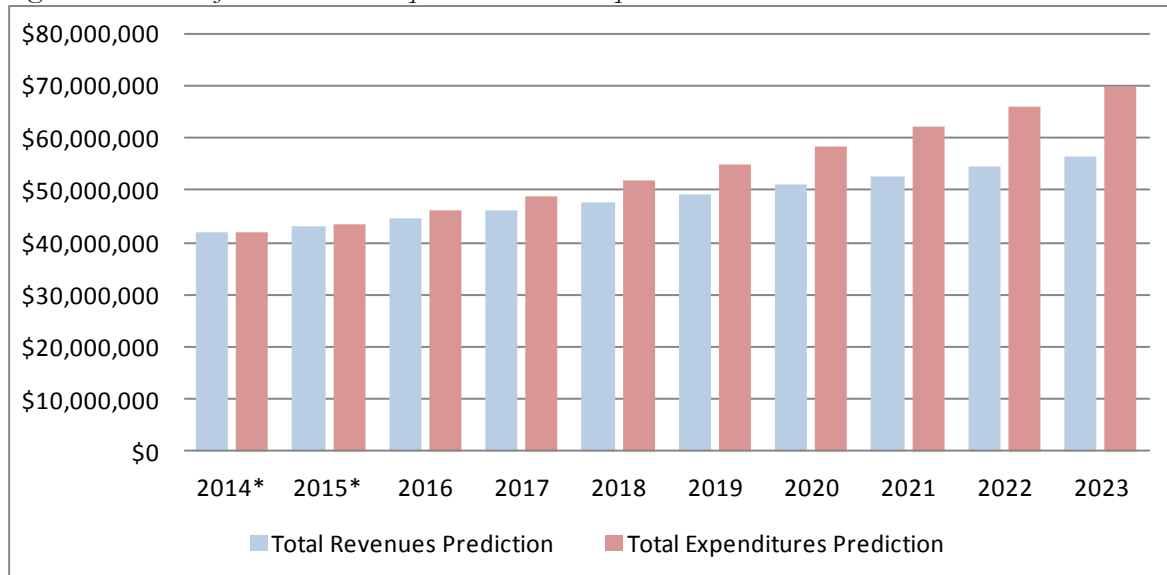
Figure 6: Forecast of Revenues & Expenditures without Proposition D Sales Tax Extension



*Budgeted Figures

Source: Annual Budget of National City, 2011-2015

Figure 6: Forecast of Revenues & Expenditures with Proposition D Sales Tax Extension



Source: Annual Budget of National City, 2011-2015

List of Proponents:

- Chief of Police Manuel Rodriguez
- National City Firefighters President Mark Beveridge
- National City Port Commissioner Robert “Dukie” Valderrama
- National City Taxpayer and 67-year resident Rosalie Zarate
- Youth Program Coordinator Allie Pruitt

Proponent Arguments:

- Without the revenue, the City is forecasted to face a 24% reduction in operation budget. The extension of the Proposition D sales tax will prevent:
 - Cuts to fire protection services and firefighters
 - Reductions in the number of police officers
 - Prevents cuts to 9-1-1 emergency medical response

List of Opponents:

None Known

Opponent Arguments:

- National City already charges the highest sales tax in the county.
- National City citizens tend to buy goods outside their own city, and outside consumers tend to avoid National City as a place to shop or visit.
- There is a risk that future politicians may not use the money rightly on vital city services.
- There is no urge for National City to keep control over its expenditure.