

City of Chula Vista Sales Tax Measure & Municipal Analysis

Board Action:

OPPOSE

Rationale:

The City of Chula Vista is facing a serious, self-created financial crisis. This is a result of actions taken by the City Council and are caused by the following factors:

- Increases to spending, which has consistently out-stripped healthy revenue growth since 2001-02
- Increase in General Fund debt
- Increase in unsustainable compensation increases resulting in a nearly 600% increase to pension costs

These actions have forced the city to resort to deficit spending and a reduction of emergency reserves in order to balance the budget. Chula Vista projects a budgetary shortfall of \$3.9 million and \$20.0 million for fiscal years 2008-09 and 2009-10, respectively.¹ In order to balance these shortfalls, Chula Vista is considering a plan to reduce expenditures (with emphasis on the reduction of personnel, as those costs make up about 80% of the City's budget) and a special election to ask voters to increase the sales tax by 1%. The City should make every effort to reduce labor costs, streamline operations and demonstrate fiscal discipline prior to seeking additional revenues from taxpayers.

Furthermore, the proposal's inclusion of a "Citizens' Review Committee" without details pertaining to the composition and roles and responsibilities of the group leads up to believe that it is simply window dressing to pass the measure.

Background:

SB566

The proposal of the Prop D sales tax was enabled by 2003's SB566 (Scott), which allows counties and cities in California to seek voter approval of local transactions and use taxes under certain conditions²:

- The tax must be imposed at a rate of .25%, or a multiple thereof
- The governing body must approve proposing the tax by a 2/3 majority
- General purpose taxes must be approved by a majority (50% +1) vote
- Specific taxes must be approved by a 2/3 vote

¹ City of Chula Vista City Council Agenda Statement, January 6th, 2009

² "Local Add-On Sales Taxes: The Rise of Transactions (Sales) and Use Taxes for Cities." The League of California Cities: February 9, 2008.

- The maximum combination of Transaction and Use tax rates “in any location may not exceed 2%.” (In the case of San Diego, the combination of the TransNet sales tax of .5% and any local jurisdictional tax may not exceed 2%.)

Recent history of municipal sales taxes reveals that SB566 marked a significant paradigm shift in California municipal revenue increases. Prior to 2003, “with few exceptions,” local sales tax increases were earmarked for specific purposes and required a 2/3-approval rate from voters. Following SB566, however, municipalities increasingly utilize the general revenue option with its corresponding lower voter approval threshold. To illustrate this trend, consider that 70 general-purpose taxes have been proposed across California since 1995, and that 64 (of which 37 passed) of these increases were proposed after SB566 went into effect.³

Proposal:

The Chula Vista city manager has proposed a 1.00% sales tax increase for period of ten years. Passage of the measure would increase the sales tax rate within the City of Chula Vista from 7.75% to 8.75%. The proposed ballot language placed before voters would read:

“To prevent further cuts and preserve general city services, including public safety staffing for emergency response, reducing crime and criminal gang/drug activity, maintaining city streets/parks, and preserving youth/after-school programs; shall the City of Chula Vista adopt an ordinance enacting a one cent transactions and use (sales tax, expiring in ten years, with mandatory audits, quarterly reports to Mayor and City Council, and a citizens’ review committee?”

The proposed language will be sent to Chula Vista residents via a special mail-ballot election beginning April 9th, with ballots due no later than May 5, 2009.

The city manager’s report estimates the additional tax will generate approximately \$20 million per year during the life of the tax. If the measure were to pass, additional revenues will be realized beginning in late 2009. The estimated amount of additional revenues for fiscal year 2009-10 will total \$10 million.

Citizens’ Review Committee

While the measure specifically outlines the creation of a Citizens’ Review Committee, an outline of the purpose or committee make-up is not found within the ordinance or ballot resolution. Voters could be led to believe an oversight committee will play a role in the review of any expenditure that results from the tax increase. The ordinance merely states “Financial reports summarizing revenues generated by the tax shall be presented to the Mayor and Council on a quarterly basis”.

³ “Local Add-On Sales Taxes: The Rise of Transactions (Sales) and Use Taxes for Cities.” The League of California Cities: February 9, 2008.

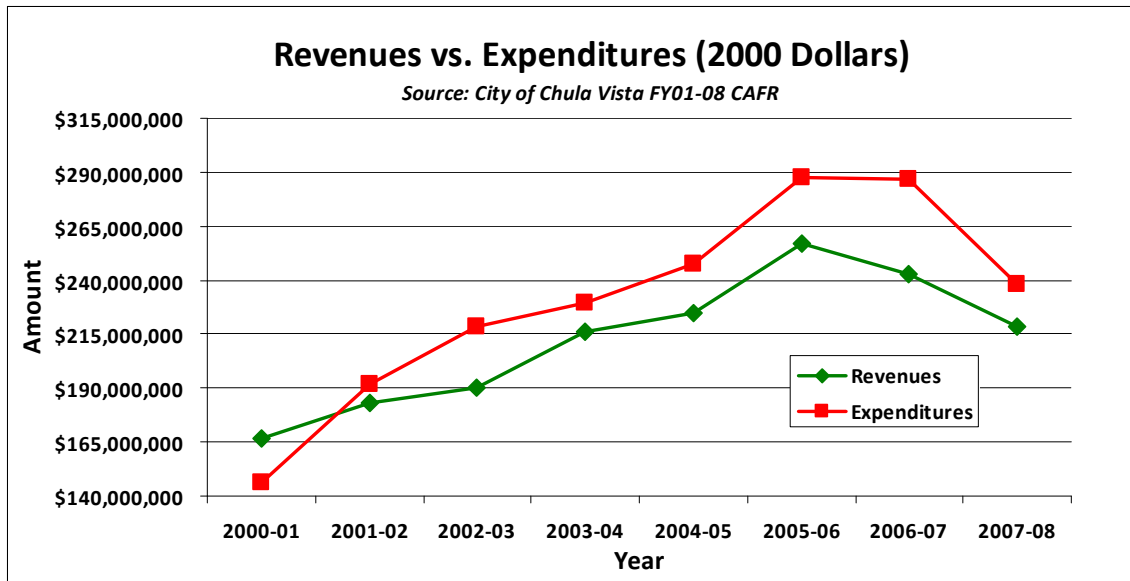
Municipal Profile:

Key Findings

- City has been deficit spending, drawing down on reserves, since 2002 – even when revenue growth was healthy
- City added 102 employees between 2004 and 2007
- Pension costs have increased by nearly 600% since 2001
- City-wide debt doubled between 2004 & 2007

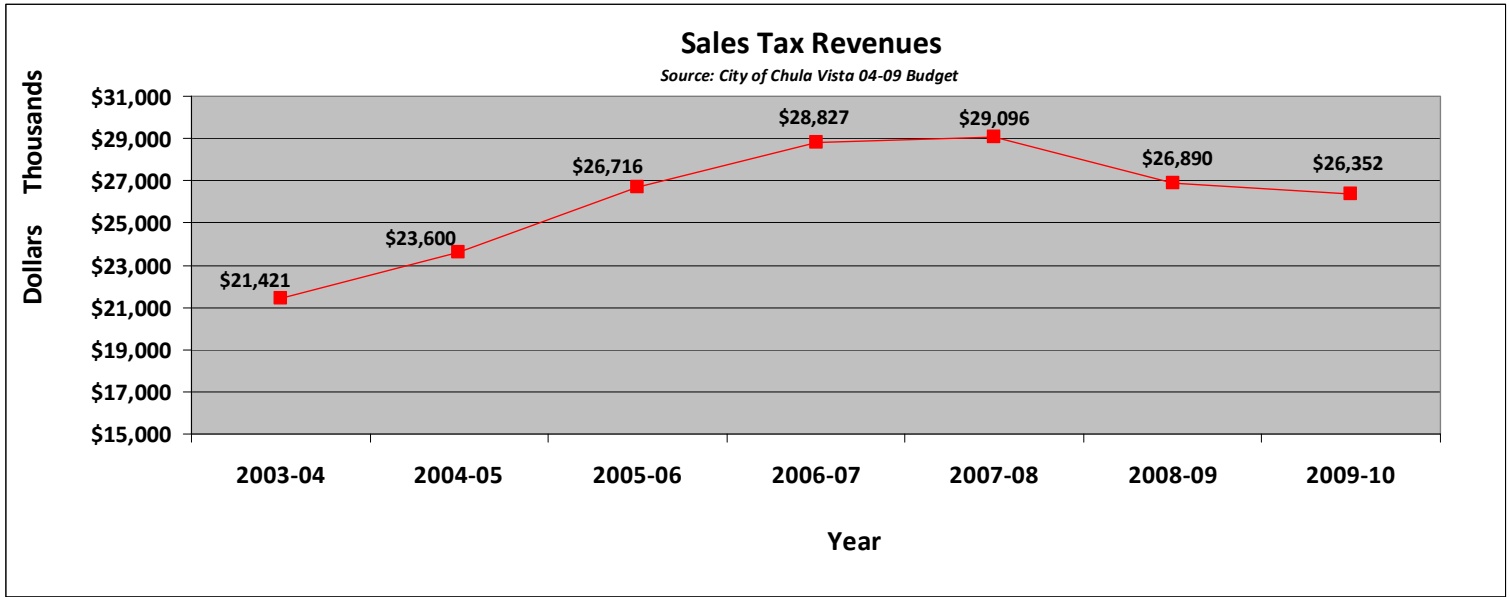
Revenues vs. Expenditures

The City of Chula Vista has been employing a practice of deficit spending since 2001. While revenues have increased by 31% between FY2001 and FY2008, expenditures have increased by 62% during that same time period. During this span, the city has continually drawn down on reserves. By the end of FY2002 reserves were at an all time high, reaching \$31.2 million, or 28.5% of the operating budget. By the end of FY2007, reserves had dropped to 6.3%.



Sales Tax Revenues

Since FY2004, sales tax revenues within the city have increased by approximately 36%. The increase though between FY2007 and FY2008 amounted to mere 1%. City staff has estimated sales tax revenues will fall by 7.6% this current year and 2.1% in FY2010.



Despite these projected decreases, the city estimates the additional one percent in sales tax will create an additional \$10 million in FY2010 and \$20 million in FY2011. These estimates are said to include a slight decrease in taxable sales due to the increase in the sales tax rate.

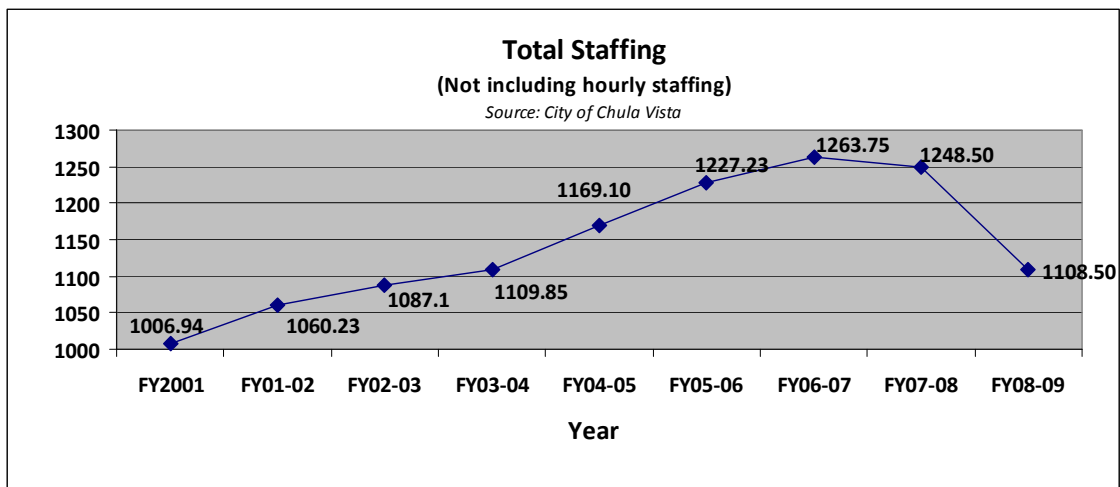
Staffing Levels

In 2005, the city negotiated with its four employee unions to implement a five-year Memorandum of Understanding (MOU). The MOU with the Police Officer’s Association (POA) and the International Association of Firefighters (IAFF) required salary increases of 10% and 8%, respectively, in 2006. These increases helped in increasing the city’s deficit from \$31 million in FY2006 to \$45 million in FY2007, a 7% increase. In this same year, personnel costs reached an eight-year high, accounting for 81.4% of the budget.

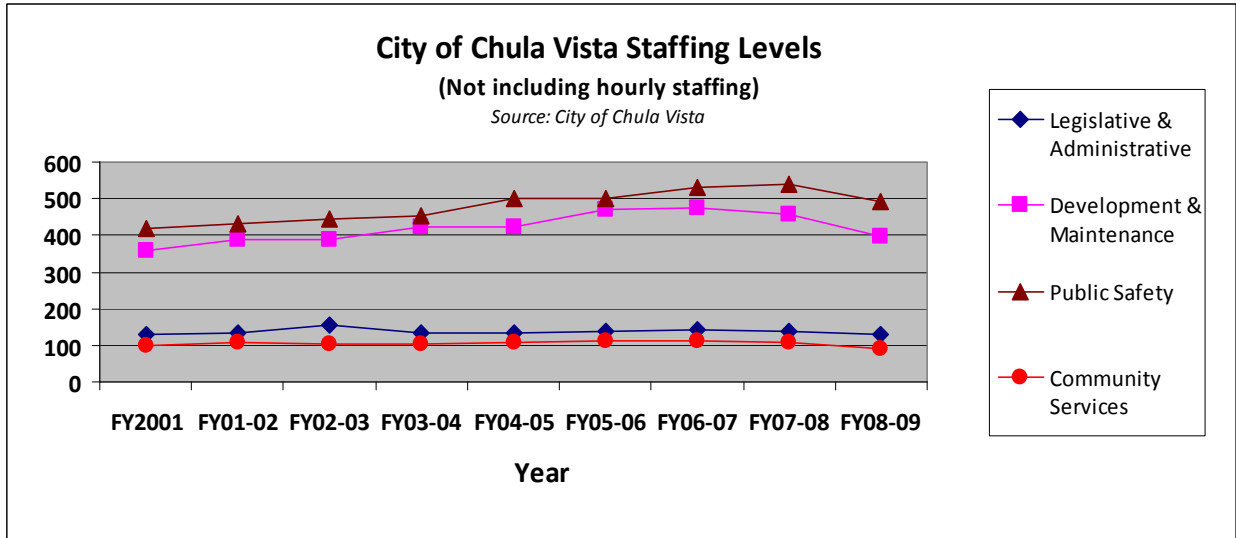
Personnel & Non-Personnel Service Costs		
	Personnel	N-Personnel
FY01-02	73.2%	26.8%
FY02-03	74.9%	25.1%
FY03-04	77.9%	22.1%
FY04-05	79.0%	21.0%
FY05-06	79.4%	20.6%
FY06-07	81.4%	18.6%
FY07-08	81.2%	18.8%
FY08-09	79.6%	20.4%

Source: City of Chula Vista FY09 Budget

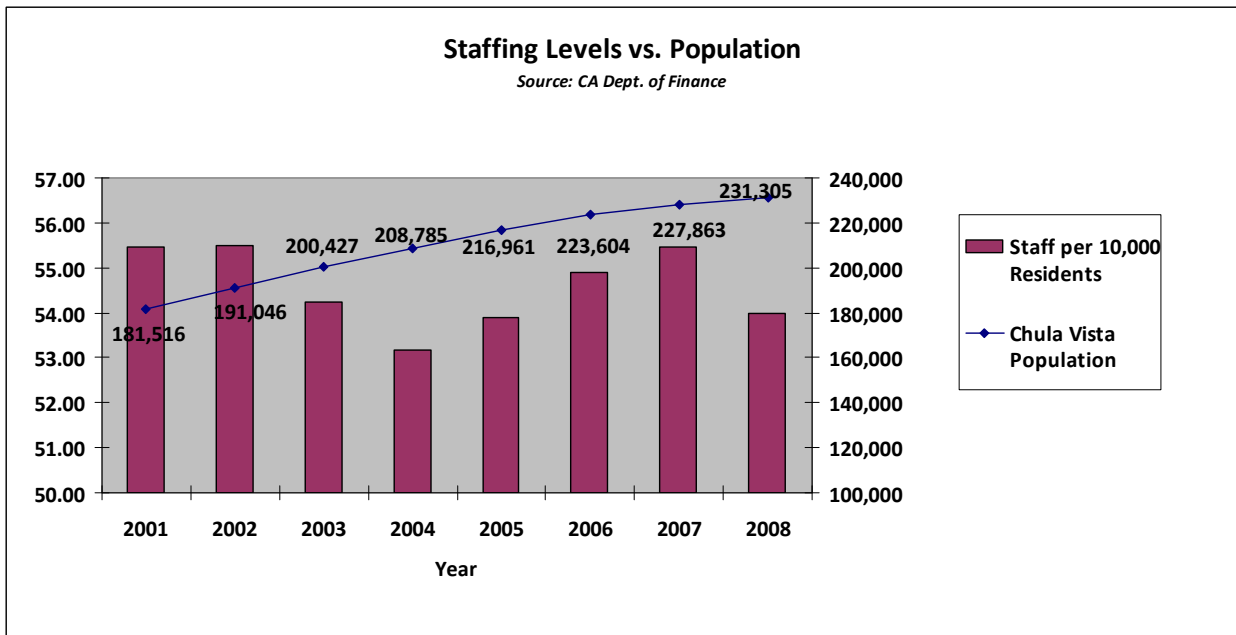
During the same span of deficit spending, the city continued to hire new employees. Between FY2001 and FY2007, the city employed 257 new employees, an increase of 25.5%. The city has since reduced staffing levels to FY2004 levels to account for the decrease in revenues.



Public Safety, which includes Fire and Police protection, hold the highest levels of staffing numbers at 492.5 FTE for FY2009. Between FY2004 to FY2009, Public Safety has experienced a 17 percent increase in staffing levels. Public Safety has only seen a reduction in staffing levels just once in the past six years, a 9% decrease between FY2008 and FY2009.



While the population has continued to grow, the city has increased staffing levels. Population increased by 9.1% between 2004 and 2007. During this same time, staffing levels per 10,000 residents increased by 4.3%.



Pension

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and personal disability benefits, annual cost-of-living adjustments, and death

benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California.

Active plan members are required by State statute to contribute 8% for miscellaneous and 9% for safety employees of their annual covered salary. The City employer makes the contribution required of City employees on their behalf and for their account. Between 2002 and 2007, the city's annual pension costs have increased by 400%. The employee's share covered by the city has increased by 111%. In total, annual pension costs have increased by 595%, and accounted for 8.8% of general fund expenditures in 2007.

Annual Pension Costs				
<i>Source: City of Chula Vista</i>				
Year	City Costs	City Pick-Up	Total	Percent of General Fund
2001*	\$ 23,130	\$ 3,754,043	\$ 3,777,173	2.5%
2002*	\$ 25,335	\$ 4,425,349	\$ 4,450,685	2.2%
2003*	\$ 1,890,761	\$ 5,056,398	\$ 6,947,159	3.1%
2004	\$ 8,340,066	\$ 5,673,854	\$ 14,013,920	5.9%
2005	\$ 13,614,772	\$ 6,412,264	\$ 20,027,036	7.8%
2006	\$ 17,893,117	\$ 7,329,096	\$ 25,222,213	8.5%
2007	\$ 17,773,292	\$ 7,922,499	\$ 25,695,791	8.8%

*Pension plan was Super Funded during this year.

Chula Vista public safety employees receive PERS 3% @ 50, and non-public safety employees receive 3% @ 60. The City pays for the entire employee contribution (8% and 9% for public safety). Since the City payment of this contribution is considered part of the Employer Paid Member Contribution (EPMC) when final pension benefits are being considered, employees earn 97.2% of their highest year annual salary.

Debt

The city's debt obligation has increased due in part to increasing pension obligations and capital obligations. The most significant amounts of outstanding debt are the result of Tax Allocation Bonds (TABs), Pension Obligation Bonds (POBs), and Certificates of Participation (COPs).

General Fund Long-Term Debt as of June 30, 2007	
Tax Allocation Bonds	\$ 41,275,000
Pension Allocation Bonds	\$ 10,215,000
Certificates of Participation	\$ 139,845,000
Other	\$ 77,263,948
Total	\$ 268,798,948

Source: City of Chula Vista FY07 CAFR

TABs are a bond or financial obligation issued by the Agency in order to generate revenues to implement redevelopment plans sooner than on a “pay-as-you-go” basis. The City has issued these bonds to fund such projects as the Bayfront/Town Centre Redevelopment Projects and the Low and Mod Income Housing Project. The City is currently responsible for approximately \$41.3 million in TABs.

POBs represent the money the City borrowed to pay down its liability to the Pension Employee Retirement System. The annual debt service requirements for POBs as of June 30, 2007 totaled approximately \$12.7 million, including interest.

COPs are tax-exempt government securities used to raise funds to improve and construct buildings or purchase equipment. COPs are used to finance capital costs related to construction or acquisition and may not be used to finance ongoing operating costs. COPs are issued by the Chula Vista Public Financing Authority, which the City must then repay the Authority as lease payments. The City has used COPs to fund such projects as the 800 Megahertz emergency communications system and for improvements to the City’s Corporation Yard. Annual debt service requirements for COPs stand at approximately \$26.2 million as of the start of FY 2009.

The graph below outlines the city’s debt-service ratio since 2004.

