



Legislation Text

File #: 19-0634, **Version:** 1

Recommendation to receive and file a presentation on the potential extension of the existing Measure A Transactions and Use Tax; request the City Attorney to prepare an Ordinance for placement on the March 2020 ballot, calling for a permanent extension of the current Transactions and Use Tax for general City purposes, at a rate of 1 percent for years 2020 to 2022, 0.75 percent for years 2023 to 2027, and at a rate of 1 percent thereafter applying to the sale, storage, use, or other consumption of all tangible personal property within the City; and, request City Attorney to prepare any and all documents in support thereof. (Citywide)

On July 7, 2016, Long Beach voters approved Measure A, authorizing a ten-year increase in the City sales tax to provide funding for improvements in public infrastructure and safety. The tax was set at the rate of 1 percent for six years, then declining to 0.5 percent for four years, before expiring in 2027. Measure A also required that a five-member Transactions and Use Tax Citizens' Advisory Committee (CAC) be established to make recommendations on the priority of funded projects and to review the use of the funds by the City. Additionally, Measure

A requires there be annual audits of expenditures. Also approved by Long Beach voters on July 7, 2016 was Measure B, which established a budget stabilization fund ("rainy day fund") for general services into which 1 percent of new General Fund tax revenue would be deposited.

Measure B was designed to only take effect if Measure A was also approved.

In FY 17 and FY 18, Measure A generated \$39 million and \$62 million, respectively. It is projected that Measure A will generate approximately an *average* of \$60 million per year from FY 19 through FY 22, and an *average* of \$31 million per year when it drops to 0.5 percent for the remaining four years before ending in 2027.

Although Measure A is a general tax, the City Council has, by Resolution, identified that Measure A will be utilized for public safety and infrastructure purposes only, with the CAC reviewing expenses to ensure spending is in alignment with those purposes.

Measure A has allowed the City to add public safety officers, preserve public safety personnel that would have otherwise been reduced, and helped fund investments in the City's infrastructure. However, Measure A will soon be reduced from 1 percent to 0.5 percent and will completely end in 2027. Half of the tax (0.5 percent) is currently used to fund ongoing operations. As 2027 nears, the public safety positions added and maintained may be at risk for

elimination. Measure A has also allowed significant new investment in infrastructure over the last few years, but the infrastructure needs are large and the City's infrastructure

challenges

remain despite the initial investment. Long-term funding solutions are needed to address the City's infrastructure challenges over the next 30 years. Additionally, the City is facing new challenges related to community health services, as well as long-term infrastructure needs and

the need to maintain public safety services.

Long Beach faces a number of financial challenges while striving to provide the quality services

our residents expect. To best position the City to maximize its resources, it is recommended that a measure be placed on the ballot for the March 3, 2020 election that would effectively extend the current Measure A sales tax rate of 1 percent, with a temporary reduction to 0.75 percent from years 2023 through 2027, to accommodate the County Measure H tax.

Projects and Services Funded by Measure A

Now in its third fiscal year, Measure A has had a positive impact on our community. Through Measure A, the City has added 42 new positions, including 41 new public safety positions. Additionally, Measure A has preserved 108 public safety positions that would have otherwise been reduced due to the increase in the normal, non-salary related cost of public safety personnel. Examples of the service enhancements funded by Measure A include the Police South Patrol Division restored to the same operational level as the other three Patrol Divisions

in the City, the restoration of Paramedic Rescue 12 and Fire Engine 8, and the restoration of the Police Academy operations. Measure A funds also enhanced the Fire Department's Homeless Education and Response Team (HEART) and the Police Department's Quality of Life Units.

Through Measure A, 102 lane miles of arterial streets were renovated using the "complete streets" approach, which includes road resurfacing, adding bike lanes, ADA curb cuts, and signage. Residential street repair and slurry seal have also been a major emphasis for Measure A funding. Using Measure A funds, the City successfully completed a preventative maintenance approach to slurry seal every eligible street in Long Beach, prolonging the useful

lives of those streets. Measure A also provided funding for the paving of every dirt alley in the City.

To date, a new 3.66-acre park space has been completed (the Red Car Greenbelt), five new playgrounds have been installed (Drake, Jackson, Los Cerritos, Veterans, Whaley), and an additional four playgrounds are currently funded and are in various stages of development. Houghton Park Community Center is under construction with a new addition being added to the site. Park projects including restroom upgrades, irrigation, turf replacements, and urban forestry needs are being supported at locations across the City.

With a focus on extending the useful life of facilities, increasing energy efficiency, and

improving

ADA access, diverse public buildings are seeing the benefits of Measure A. Recently completed projects include ADA and safe entry upgrades at the Main Health Facility, and seismic repairs at Rancho Los Alamitos. Many library branches across Long Beach are experiencing improvements such as new circulation desks, window replacements, repair of drainage issues, roof repairs, and resurfacing of parking lots.

Attachment A provides a year-by-year overview of the spending and planned uses of Measure

A funds as presented in the FY 19 Adopted Budget. This overview will be updated and included

as part of the FY 20 Proposed Budget.

Oversight Committee

Since forming in late 2016, the five-member Transactions and Use Tax Citizens' Advisory Committee (CAC) has met ten times. The CAC regularly receives updates and reports on the intended budgeted uses of Measure A funding, the status of projects, and efforts to keep the public engaged and informed about Measure A milestones. The CAC has offered high praise of the City's work, and has found all budgeted and planned uses of Measure A funding to be in

conformance with the establishing resolutions. A reoccurring concern that has been raised by the CAC is the current sunset provision and how the City would address the public safety personnel currently funded by Measure A when the Measure expires.

Funding Needs

Long Beach has three main funding needs that are high priority areas for the community and without ongoing funding will result in an unacceptable level of service to the community, resulting in a fiscal emergency.

Community Health Needs

Access to quality health care services is an urgent and pressing need for any community. In Spring 2018, Community Hospital of Long Beach stopped accepting Basic Life Support patients

and closed completely to the community on July 3, 2018. Since that time, the City has been in

active negotiations to share in the cost of the required seismic investment needed to reopen the facility and again provide acute medical services to the community. This hospital had served approximately 27,200 emergency service visits in 2016 and, since its closure, ambulance response times have increased by 10 percent for emergency transports to other area hospitals. To reopen the facility for both acute medical care services and the ability to offer other services critical to address mental health and homelessness in the community, the City's cost-share would be \$25 million over the next 15 years. This commitment is currently unfunded. Should the City be able to reopen the hospital, without additional revenue to offset the costs of the City's share of the seismic retrofits, Long Beach would likely face service

reductions to public safety and other services to the community.

Infrastructure

In 2016, City staff reported to the City Council an estimated infrastructure backlog of \$2.3 billion, which includes an estimate of deferred repair, funding for ongoing maintenance, and replacement of outdated technology. Thus far, Measure A has expended or committed \$88 million in additional funding toward this infrastructure backlog. The backlog has been growing due to decades of insufficient infrastructure funding. Recently, the City has invested in four infrastructure assessments and plans to measure and rate the quality of the City's infrastructure

to more accurately assess and prioritize investments in our infrastructure. These four plans outline the following needs:

- *Pavement Management Plan*: This plan assesses the conditions of the City arterials and residential and assesses a Pavement Condition Index to each street, and an overall assessment. The City's current PCI is 62 and the plan indicates a total street infrastructure need of \$510 million.
- *Alley Assessment Plan*: The City, using Measure A, recently completed its first assessment of alleys in the City's history. That plan found the City's alley infrastructure need is \$98 million.
- *Sidewalk Management Plan*: The City has also invested in a comprehensive review of the City's sidewalk infrastructure. That plan found a need of \$631 million for investment in the City's sidewalks.
- *Facilities Investment Plan*: Measure A has funded the initial work of a Facilities Investment Plan, whereby every facility will receive a review to determine the Facilities Condition Index and general estimate of building improvement need. This work will be done in phases, as funding becomes available. Thus far, the Facilities Investment Plan has assessed 17 facilities, with a total replacement need of \$38 million. The City has 200+ facilities, which will be assessed as the Facilities Investment Plan continues. Total replacement need could exceed \$500 million.

Based on these independent, professional assessments and plans, the City has enormous infrastructure investment needs that must be addressed over a long period of time. While Measure A has made a significant improvement in infrastructure, the huge unfunded liability of

deferred infrastructure investment requires much more investment and a long-term source of revenue to fund it. Absent continual investment in infrastructure repair, the degradation will compound leaving an even larger unfunded liability for future generations to address. Extension of Measure A will make it easier to address these infrastructure needs.

Public Safety

Public Safety remains the City's top priority, as evidenced by the fact that 70 percent of every General Fund dollar is invested in public safety operations. Public safety is also one of the City's leading causes of cost growth each year, with the cost of public safety personnel rising

every year even without any negotiated salary increases. Measure A has been enormously helpful in both adding public safety personnel and funding existing positions to offset the cost growth in public safety services - saving those positions from reduction. Growth in the cost of public safety is an ongoing trend. Either additional future revenue will be needed to preserve services currently provided to our community or reductions will be needed to match expenses with revenue.

Sales Tax Rates in Other Jurisdictions

In 2016, with 60.3 percent of the vote, Long Beach voters approved a 1 percent sales tax, dropping to 0.5 percent by 2023, and ending in 2027. Long Beach was one among a small handful of cities to propose and enact an additional 1 percent tax. However, since that time, the cities of Arcadia, Burbank, Covina, Cudahy, Culver City, Glendale, Glendora, Hawthorne, Huntington Park, Lawndale, Lynwood, Pasadena, Pomona, and Santa Fe Springs have all increased sales taxes. The City of Monrovia is also proposing a sales tax increase.

Sales Tax Rates of Other California Cities

10.00% 10.25% 10.50%

Avalon Arcadia Santa Fe Springs

Commerce Burbank

Downey Compton

El Monte Covina

Inglewood Cudahy

La Puente Culver City

San Fernando Glendale

So. El Monte Glendora

Hawthorne

Lawndale

Long Beach

Lynwood

Monrovia*

Pasadena

Pica Rivera

Pomona

Santa Monica

South Gate

*Pending ballot measure

Long Beach has a unique sales tax situation. Measure A took the sales tax rate in Long Beach

to 10.25 percent. Subsequently, County voters passed Measure H (homelessness services), which assesses a County-wide 0.25 percent sales tax. Since the State cap is 10.25 percent, the 0.25 percent Measure H tax is not currently assessed in Long Beach. In 2023, when Long Beach Measure A tax drops to 0.5 percent, the County will begin to collect the 0.25 percent Measure H tax. To accommodate the Measure H tax, staff recommends that for years 2023

through 2027, the City Measure A rate drops to 0.75 percent before going back to 1 percent in 2027.

Polling Supports Extension of Measure A to Maintain and Support Services

To ascertain the public's perception of Measure A and their willingness to consider an extension, City staff brought on the firm of Fairbanks, Maslin, Maullin, Metz and Associates (FM3) to conduct a poll of voters. In April 2019, a telephone poll of known voters in Long Beach

was conducted by FM3 to determine support for the proposed extension of sales tax provided for through Measure A. 600 residents participated in the survey, which reached the following conclusions:

- Up to 74 percent indicated they would support the proposed sales tax extension to maintain funding for 911 emergency response services, police, firefighter/paramedic staffing; repairing potholes/streets; protecting water supplies/increasing conservation; upgrading parks, youth programs, senior services; homeless reduction/affordable housing; and, other general fund services.
- 73 percent of the respondents favored the City paying up to \$25 million to fund upgrades to Community Hospital to ensure it meets State requirements for earthquake safety.
- 70 percent believe there is a great or some need for additional funds to provide quality services.
- The three highest priorities for residents are: fixing potholes and repairing streets (83 percent); retaining the public safety officers hired under Measure A (78 percent); and, revitalizing neighborhood parks (76 percent).

A summary of the survey is provided in Attachment B.

Current Financial Situation

The City's ability to maintain services after this next budget year (FY 20) is at significant risk, primarily because costs are continuing to increase faster than the City's heavily constrained revenues. This is a problem that many cities across the country are facing and particularly in California with high cost of living and high pension costs. This is not a new challenge for Long Beach. Long Beach has had to reduce services in the past and, since the last recession, has also done many things to maintain and enhance services and to improve the City's financial strength.

The generally improving national and California economy and Long Beach's specific actions to encourage development and redevelopment have had substantial impacts in allowing Long Beach to maintain and increase services over the last decade. Three factors have made the major difference in Long Beach's ability to maintain and improve services during that time. These three factors, in chronological order, are: (1) ongoing revenue from the termination of all redevelopment authorities in the State; (2) cost savings from pension reform enacted by the

City and its employees and by the State; and, (3) revenue from Measure A. Collectively, these three factors are helping the General Fund budget by about \$62 million a year for ongoing services and another \$30 million a year for infrastructure and other one-time uses. The benefit of these factors have largely been fully utilized at this point and are not anticipated to increase in the future at a rate needed to offset the rate of expenditure growth.

Measure A is a major positive factor and has allowed the City to maintain and enhance services and provide much needed infrastructure improvements. With the FY 20 proposed budget, the City will have used and allocated all the expected Measure A revenue, including "new revenue" from updated projections. In addition, Measure A revenue is scheduled to decline by 50 percent after FY 22 and to end entirely in FY 27 because of its "sunset" provisions. Even while it is in place, financial projections show that it is likely that future years will have operating budget shortfalls. When Measure A partially ends in FY 22 and completely ends in FY 27, the impact on services and infrastructure will make the financial situation much worse.

Table 1 shows the current Budget Outlook for the next several years. The Outlook assumes known and projected cost increases, including cost of living personnel costs, non-personnel costs, pension, health care, contract services, and estimates employee salaries that follow recent trends. The Outlook uses surplus/(shortfall) ranges for each year because of the inherent uncertainties in looking at the future.

Table 1: Preliminary Budget Outlook FY 20- FY23

\$In millions

FY20 FY21 FY22

Range of Surplus/(Shortfall} 0 (5) to (12) (11)to (18)

FY23

(7) to (21)

The Outlook assumes a continued strong economy with no recession. It also assumes no new services and no increased investment in infrastructure or facility maintenance. The Outlook could change in the future, potentially significantly, depending on a number of factors. While the Outlook has significant uncertainty, it is unlikely that the long-term pattern will materially change, unless there is a recession or some other substantive change. This is because of the long-standing situation that base City revenues do not appear to be increasing at a rate to cover the expenditures required to maintain services. The excellent economic growth and development that is occurring in the City helps reduce the annual shortfalls, but it

is not expected to be able to eliminate the shortfalls.

As previously described, a factor that would make a significant difference in the City's financial resources is the extension of Measure A. Half of the Measure A tax will end at the end of FY 22 and the other half of the tax will end at the end of FY 27. Extending Measure A indefinitely, as recommended, would have two major effects - it would increase revenue in FY 23 by approximately \$15 million, and would provide an additional \$45 million per year after FY 27 (\$60 million total as compared to letting Measure A sunset).

Table 2 shows the impact in FY 23 of a Measure A extension if the extension is applied to maintaining services. There would be a substantial reduction in the size of the projected shortfall in FY 23. There is no impact from the extension thereafter as the revenue from the extension after FY 27 would continue to fund services, as it is now doing, instead of ending.

Table 2: Budget Outlook FY 20 - FY 23 With Measure A Extension

\$In millions

FY20 FY21 FY22 FY23

Range of Surplus/(Shortfall) 0 (5)to(12) (11)to(18) (7) to (21)

Measure A Extension 15

New Range of Surplus/(Shortfall) 0 (5)to(12) (11)to(18) 8 to (6)

Fiscal Emergency Declaration

Proposition 218 requires new and increased general taxes and extensions of general taxes to be voted on only at a regular general election at which members of the City Council are elected

(November 2020), unless the City Council adopts a finding of emergency by a unanimous vote

of the Council. The declaration of a fiscal emergency allows the City to bring the proposed tax measure to the voters at the March 3, 2020 election. Without such a unanimous declaration of

a fiscal emergency, the City must wait until the next regular general election to submit a general

tax measure. A general tax measure requires approval of a simple majority vote (50 percent +1). City staff recommend this measure be put to the voters at the earliest possible election to

provide the City Council with direction prior to the development of the FY 21 budget. The fiscal

situation outlined above, as well as the priority areas of community health, infrastructure, and public safety services, warrant consideration of a declaration of fiscal emergency.

This matter was reviewed by Deputy City Attorney Amy R. Webber and by Finance Director John Gross on June 6, 2019.

City Council action is requested on July 2, 2019, to receive direction from the City Council on whether to place an item on the March 2020 ballot. City staff recommends placing this measure on the March 2020 ballot so the City Council would know the results prior to the development of the FY 21 budget.

The proposed measure would provide a positive financial impact for the City. Rather than losing \$30 million a year in FY 23, approximately \$15 million a year would be retained that could be used for operations or any combination of operations, infrastructure or one-time uses.

Then in FY 27, rather than losing all of the Measure A funds, funding of approximately \$60 million a year would remain available from Measure A. Much or all of the additional money would presumably be used by the City Council at that time to maintain services (currently 150 firefighters, police officers and support personnel) that would have otherwise been impacted by the elimination of Measure A if the ballot question had not been successful. Extension of Measure A would allow the City Council to make different investment decisions in FY 23, allowing the use of Measure A to further help fund public safety operations. Third, the extension of Measure A would provide new funding beyond FY 26 that is not currently contemplated, totaling in excess of \$60 million per year (including the \$15 million after FY 22).

State law currently places a total cap on sales tax at 10.25 percent for local taxes, inclusive of both City and County taxes. With the passage of County Measure H for Homelessness, after 2023 the City of Long Beach has 0.25 percent remaining under the current cap with its existing

Measure A and County taxes. Any extension of Measure A needs to take that cap into account.

Staff would recommend that any extension work in concert with Measure H, which currently has a sunset provision. As such, the proposed extension would levy a 0.75 percent tax from 2023 to 2027, then when Measure H expires in 2027, the rate would be 1.0 percent, the same amount levied from 2017 to 2023.

There is no fiscal impact from an emergency declaration. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities.

Approve recommendation.

PATRICK H. WEST
CITY MANAGER

