

COUNCIL AGENDA

November 12, 2019

TO: The Honorable Mayor and City Council

SUBJECT: Consideration of the Placement of a General Transactions and Use (Sales) Tax Measure on the March 3, 2020 Ballot

INTRODUCTION

The City of Lakewood is suffering from fiscal instability caused by a reduction in key sources of local revenue that impact the City services that Lakewood residents have traditionally received and continue to value and deserve.

The causes of the revenue problem are external to our City. The State of California has taken over \$30 million in local property tax dollars from Lakewood over the past eight years, with the State continuing to deprive the City of approximately \$2 million in such funds every year on into the future.

Since the great recession, and compounded by years of state takeaways of local funds, the City has devolved from a traditional environment of annual budget surpluses, which usually funded our capital improvements, to one now where we struggle to adopt balanced budgets due to a reversing of structural conditions relative to revenues and expenditures. This has created what is called a “structural deficit.”

It should be noted that the City of Lakewood has always adopted balanced budgets, but the struggle to do so now has become daunting without significantly impacting local services.

Lakewood is not alone in this struggle, as cities across California are facing similar structural deficits from many of the same factors, including the significant takeaway of local funds by Sacramento.

Lakewood’s long-term financial forecast indicates that the City will continue to incur growing structural deficits each year ranging from nearly \$5 million in our next budget (FY20-21) to \$10 million in approximately 10 years. Unless prompt action is taken to address this structural deficit, there will have to be significant cuts made to all City services, including public safety and the maintenance of vital community infrastructure such as roads, community centers and parks.

STATEMENT OF FACT

Lakewood is a proud yet modest city with the dreams and aspirations of maintaining a proud yet modest way of community life that has defined our city for many generations. People choose to live in Lakewood, including multiple generations of families, because of our quality of life and the reliable and quality city services they expect to receive. However, to maintain and protect the Lakewood that our residents know and love requires financial resources and a commitment to sustain those resources into the future.

The City has a long history of prudent fiscal management and “living within its means” and, accordingly, the City has endeavored in earnest to reduce expenditures in response to the structural deficit. In adopting the most recent two-year budget (FY18-20), the City Council directed staff to make requisite cuts to balance the budget, but also to begin work immediately after the passage of the budget to devise a plan to deal with and rectify the structural deficit. It should be pointed out that \$2.5 million in deficit reductions were utilized to balance the FY18-19 increment of the budget. Then, an additional \$1.3 million of cuts were made to bring the current FY19-20 budget into balance, including initial cuts to public safety, among other items.

Public Safety

As with most cities, the largest portion of Lakewood’s budget is for our public safety services, including our contract with the Los Angeles County Sheriff’s Department. Lakewood residents have indicated that public safety services are their top priority.

Public safety services were, not surprisingly, the last item that incurred a spending cut in the City’s FY19-20 budget deliberations. But to maintain a balanced budget, it was necessary in the end to make a cut in spending to the City’s public safety contingency budget for expenses that would be incurred in dealing with unforeseen public safety issues.

Lakewood has benefitted in the past from the ability to expand Sheriff’s patrols when needed for spikes in crime and to have specialized Deputy Sheriff teams, known as Special Assignment Officers, who investigate and follow up on crime patterns and tackle important quality of life issues in the City.

If the City’s budget shortfalls continue and grow in size, more cuts and deeper cuts to Lakewood’s public safety budget are inevitable, including to those Sheriff’s services that have traditionally helped to keep Lakewood a very safe community with a reputation for high quality law enforcement.

Maintaining our public safety budget is more important than ever now that Lakewood and other California communities are addressing the impacts of recent State laws which have allowed for the early release of prisoners and the shortening of criminal sentences.

Maintaining Community Facilities

Due to our budget shortfalls, the City is now unable to fully keep up with required park and facility maintenance. The continued deferral of maintenance on our aging facilities, which are by-and-large 50 to 60 years old, has led to a desperate need for repairs, with leaking roofs, aging electrical systems and deteriorating park bathrooms, all of which are getting worse and will become more expensive to fix in the future.

A recent Facilities Needs Assessment identified over \$31 million of needed repairs in the coming 10 years just to maintain our buildings at an adequately functional level. This translates to over \$3 million a year on an ongoing basis, a funding source for which the City currently does not have. Every year that we wait to maintain and repair our facilities increases the future cost of that work.

While these necessary budget cuts and infrastructure maintenance deferrals are not without consequence, the City continues to be well-managed and continues to strive to address the needs of the Lakewood community. However, the consequences of the structural deficit include significantly reducing resources available for important City services like public safety and Sheriff's services; keeping our parks and public areas safe and clean; maintaining streets and community facilities; and other services valued by Lakewood residents. The fact is that the City can no longer maintain these services in the foreseeable future based on current revenue and expenditure levels.

Community Involvement

In adopting the two-year FY18-20 budget, the City Council conceived the idea of convening a citizens "Budget Advisory Group" formed of long-time Lakewood residents and business leaders. The 15-person group comprised of local residents, included subject matter experts in local government and business, including business leaders from the Greater Lakewood Chamber of Commerce and Lakewood Center, and representatives from various Lakewood community groups like the Rotary Club, Soroptimists and YMCA.

The group met regularly over the course of four months between November 2018 and February 2019 to learn about the City's fiscal and budgetary challenges and to identify possible strategies for addressing those challenges.

The citizens group spent a lot of time understanding the factors contributing to the City's structural deficit, as well as giving definition to the essential components of what makes Lakewood special, or what was called the "Lakewood Way."

Key attributes contributing to the Lakewood Way included the City's beautiful parks, recreation programs for all ages, well-paved streets, and proactive and effective law enforcement service, to name a few. The group discussed potential budget reduction opportunities (over and above what the City has already done), however their brainstorming results amounted to only approximately \$1.8 million in cuts, far less than the \$10 million that will be needed over the next 10 years and at the same time potentially cutting into some of those things that were identified as key elements of the Lakewood Way. The group also reviewed and discussed strategies that the residents of other cities have implemented to deal with their respective structural deficits, including locally-controlled revenue enhancement measures.

In March 2019, a City Council study session was held that summarized the work of the Budget Advisory Group. At that time, the City Council directed staff to broaden its outreach to the community at large and to further study possible strategies for rectifying the structural deficit.

A professionally-implemented and scientifically-valid community survey was conducted in May 2019 that showed that Lakewood residents value the quality of life our City has to offer. According to Lakewood residents, the following City services were identified as high priorities:

- Maintaining 911 emergency response
- Preventing property crimes, like thefts and burglaries
- Protecting Lakewood's long-term financial stability
- Keeping Lakewood parks and public areas safe and clean
- Protecting local drinking water sources
- Maintaining Lakewood sheriff patrols
- Maintaining streets/repairing potholes

At the council's request, City staff expanded that outreach to the broader community this summer and fall by soliciting feedback through a "Join the Conversation" outreach program, including website, online and mail outreach, and in person meetings with community groups citywide. Nearly 2,000 residents took the time to engage with the city and fill out a Join the Conversation survey, indicating which City services were of highest priority to them. We thank them for their participation.

The community meetings and community feedback suggest that the public understands our fiscal constraints and its causal factors, namely the impact of the significant State funding takeaways experienced over the last eight years, as well as appreciates and values the services provided by the City that make up the Lakewood Way and distinguish Lakewood from many other communities.

Summary

In order to continue to meet the reasonable expectations of the Lakewood community and provide essential services, the City needs to secure a reliable, long term funding stream that is locally controlled, where revenue is not subject to seizure or elimination by the State.

The intent of tonight's action is to allow the residents of Lakewood to decide if they wish to do so, to approve a locally-controlled revenue measure to ensure that the City is able to maintain vital services to the community into the future.

A Lakewood voter-approved $\frac{3}{4}$ cent sales tax measure would raise approximately \$10 million a year, an amount that would be just sufficient to meet our budget deficit in the years ahead and to fund and maintain important City services in Lakewood for current and future generations, extending for at least 20 years, which is the outer end of our reasonable financial forecasting.

The City will have total local control of this important source of revenue as these funds will be not subject to seizure by the State or another local taxing jurisdiction.

Sales Tax Threshold and Details

The current sales tax rate in Lakewood is 9.50%. Revenue from the current sales tax is distributed to a number of taxing entities throughout the State and County as follows:

State General Fund (includes K-12/Community Colleges)	3.9375%
City/County General Fund (Bradley-Burns)	1.0000%

County Public Safety (Prop 172)	0.5000%
County Realignment (Mental Health/Social Services)	1.5625%
Countywide Transportation Fund	0.2500%
Los Angeles County Transportation Commission	0.5000%
Los Angeles County Transportation Commission	0.5000%
Los Angeles County Metro Transportation Authority	0.5000%
Los Angeles County Traffic Improvement Plan	0.5000%
Los Angeles County Homeless Assistance	0.2500%

Of the current 9.50% sales tax rate in Los Angeles County, the City of Lakewood receives only the 1% Bradley-Burns allocation.

In Los Angeles County, there are three countywide taxes totaling 1.25% that are subject to the 2% add-on cap. As a result, the current maximum increase allowed for a local sales tax in Lakewood is 0.75%. Such an increase would bring the cumulative sales tax rate in Lakewood to 10.25%.

It should be noted that Lakewood's ability to impose a local sales tax of up to 0.75% could be precluded by the County or other agencies that maintain jurisdiction in the County, should those agencies propose a non-exempt sales tax measure in a future election. If the County or other agency passes a non-exempt local sales tax, and the 2% cap threshold is reached, that would leave Lakewood voters with no opportunity to implement a local sales tax to support public safety, critical infrastructure maintenance or other services in the City. Rather, the sales tax that the City generates in such instance would be used by other agencies to support their programs and services that typically have provided little benefit to Lakewood. In considering a local sales tax measure, one of staff's concerns is protecting the City's ability to retain local sales tax dollars for the direct benefit of Lakewood and its residents – as opposed to those revenues being used to support programs that serve greater Los Angeles County with little or no return to Lakewood.

One benefit of a sales tax in Lakewood, as opposed to other forms of taxes, is that the burden for generating the tax is shared not only by residents, but importantly, by the thousands of people from outside of Lakewood who visit the City every day.

Many other cities in California and locally in Los Angeles and Orange counties have implemented local funding mechanisms to achieve this goal, which ensures that taxpayer dollars stay local to address community priorities. The residents of 39 cities in Los Angeles and Orange counties have voted to enact a local sales tax measure in recent years. Over 25 cities statewide are already planning to give their residents the option to do so in elections next year, including many neighboring cities, including Bellflower, Cerritos and Paramount.

Finally, a sales tax would support the growth of property values for Lakewood residents, as revenue from the sales tax will allow the City to continue to provide the Lakewood community with quality public safety, programs and services in addition to well-maintained facilities and infrastructure, all of which are key factors in sustaining good

property values. Protecting the City's long-term financial stability is therefore important for protecting the property values and financial future of Lakewood residents. A Lakewood with City services in decline would undoubtedly lead to downward pressure on local property values for our residents. Again, Lakewood residents and businesses will reap the benefits that come from a sales tax, all while a significant portion of the burden is shared by non-residents who visit our City.

Options Besides a Locally-Controlled Sales Tax

If a locally-controlled sales tax measure is not placed on the ballot for consideration by Lakewood voters, it is important to note the following:

- Our City's structural deficit will continue to grow and the City's fiscal situation will worsen.
- "Tightening our belts and riding out this tough time" is not an option since we are at an economic peak now, yet the City continues to have a flattening and even reduced sales tax revenue due to online sales growth and State funding takeaways.
- The City has already made significant cuts in services, but much further cuts in public safety, facility maintenance and other vital City services will be required if a source of locally-controlled funds is not identified.

Process and Timing for Placing a Local Sales Tax Measure on the March 3, 2020 Municipal Ballot

A General Tax measure must be placed on the City's General Municipal Election ballot for voter consideration. Only the voters of a community may determine whether or not to impose a local General Tax. Should the City Council wish to place this proposal on the March 3, 2020 General Municipal Election ballot for public consideration, it must approve of the resolution presented herein. The resolution provides ballot language, directs the City Attorney to prepare an impartial analysis, and establishes the deadline and priority for supporting and opposing arguments to be printed in voter information pamphlets.

All resolutions, other documents and official actions by the City of Lakewood required to place the measure on the March 3, 2020 General Municipal Election ballot must be completed and adopted by the City Council and received by the Los Angeles County Board of Supervisors and Los Angeles County Clerk by 5:00 p.m. on Friday, December 6, 2019.

If directed by the City Council to place the measure on the March 3, 2020 General Municipal Election ballot, staff would initiate a program to provide the public with comprehensive information on the proposal. The program would include direct mail, electronic media and the display of information on the City's website, social media and CityTV.

Conclusion

Significant action is required to protect the City's long-term financial stability. Placement of this measure on the March 3, 2020 ballot will allow Lakewood voters to decide the future of their City.

It is important to note that only the voters of Lakewood have the power to make this decision, not the City Council, but only the voters. The City Council only has the authority to place the measure before the voters, thereby determining whether voters can vote on the measure or not. The measure that is being proposed for the March 3, 2020 ballot has a number of benefits for the City's long-term fiscal sustainability:

- The measure will generate just enough revenue to allow the City to meet the needs of current and future generations of Lakewood residents.
- This measure would ensure that the funds raised would stay locally in Lakewood and cannot be taken away by the State government in Sacramento.
- The measure includes strict accountability requirements such as annual independent financial audits of revenues and expenditures and a Citizens Oversight Committee to ensure that funds are used effectively and only to benefit the Lakewood community.

RECOMMENDATION

It is recommended that the City Council take the following actions:

1. Approve proposed resolution; Placing on the Ballot at the March 3, 2020, General Municipal Election a Proposed Ordinance to Establish a Three-Quarters Percent (3/4%) General Transactions and Use (Sales) Tax; Directing the City Attorney to Prepare and File an Impartial Analysis of the Ballot Measure; and Authorizing and Setting Deadlines for the Filing of Arguments in the Office of the City Clerk For and Against the Ballot Measure.
2. Introduce proposed ordinance; An Ordinance of the City Council of the City of Lakewood Adding Chapter 10 (Transactions and Use Tax) to Article VI of the Lakewood Municipal Code to Establish a Three-Quarters Percent (3/4%) General Transactions and Use (Sales) Tax, To Be Administered by the California Department of Tax and Fee Administration.

Thaddeus McCormack
City Manager