

JULY 26, 2016

TO: MAYOR AND COUNCIL MEMBERS

FROM: ROGER L. HALEY, CITY MANAGER

SUBJECT: MEASURE P SALES TAX SPENDING PRIORITIES AND POTENTIAL FUNDING PLAN

SUMMARY

Staff requests that the Mayor and City Council provide general direction on spending priorities relating to the proceeds of the Measure P sales tax revenue approved by Compton voters and certified by the Los Angeles County Registrar-Recorder.

BACKGROUND

On February 9, 2016, the City Council adopted an ordinance calling for a special municipal election to be held on June 7, 2016, (“Special Election”) and also approved an ordinance imposing a one percent transaction and use tax, also known as a “sales tax” for general purposes (“Tax Ordinance”). The Council further ordered that the ballot proposition relating to the imposition of the Tax Ordinance (“Ballot Proposition”) be submitted to the voters at the Special Election.

The Special Election was held on June 7, 2016. The Los Angeles County Registrar certified that Measure P was approved by Compton voters.

Passage of Measure P will result in tremendous enhancements to the quality of life for its residents and will create local jobs as mandated by the City-Council approved First Source Local Hiring Ordinance, which requires a minimum of 35% local hires for all city funded and assisted projects. The revenue to be derived from the imposition of the new 1% sales tax will provide resources necessary to address many of the City’s deferred and critical infrastructure needs.

In acknowledgement in the city’s reduction in basic services caused by an approximately \$42 Million deficit, deferred maintenance practices, an unfunded capital improvement program, the City’s needs are many. I believe, however, that with your support, we have options available to leverage the Measure P revenue to enable us to expeditiously begin to address the community’s most pressing infrastructure needs - our streets.

Therefore, I recommend that we take a very measured approach to developing a strategic plan to make the best use of the annual revenues from the new tax. With your support, staff can compile a spending strategy for your consideration and adoption that

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will meet our service needs, ensure that funds are protected from future reprogramming and that dedicated fund accounts are established to easily monitor expenditures by the Council, Oversight Committee and public.

IMPLEMENTATION OF THE NEW TAX

In accordance with California State Law, The State Board of Equalization (SBOE) will administer the City's Tax Ordinance, which conforms to the Board's model transactions and use tax ordinance. The Tax Ordinance provides that the City will contract with the State Board of Equalization to perform all functions required to administer the Tax Ordinance.

The transactions and use tax will become operative on the first day of the first calendar quarter, commencing more than 110 days after the date of adoption of the Tax Ordinance. We estimate that, should all go as planned, including the work required by the SBOE to update its software and provide collection and reporting instructions to City vendors, the new tax could be effective as early as October 1, 2016. It typically takes approximately 90 days from the time a sale takes place to the time tax revenue is processed by the SBOE and remitted to the City. Thus, in according with the schedule mentioned above, we will begin receiving the first revenues from the new tax in January, 2017.

To implement the transactions and use tax, the City is required to enter into two contracts with the State Board of Equalization, including a preparatory cost agreement and an ongoing administration agreement.

FINANCIAL IMPACT

APPOINTED OVERSIGHT COMMITTEE

The Tax Ordinance provides for the Council to establish a Compton Taxpayers Oversight Committee by January 7, 2017 to review the expenditure of revenues collected pursuant to the Tax Ordinance. The formulation and responsibilities of this Oversight Committee Structure will be determined by the City Council.

QUARTERLY SPENDING REPORTS PUBLISHED ON THE CITY'S WEBSITE

As proposed, there will be quarterly expenditure reports published by the City and monitored by the City Controller Office as it relates to Measure P revenues and expenditures.

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All expenditures will be subject to annual independent audit procedures. The Office of the City Controller will manage and submit the findings of the audit on an annual basis.

The following are broad examples and funding estimates of possible infrastructure improvement projects the Council may want to consider to be funded by Measure P proceeds.

Project Name	Development/Project Contribution Cost	
Street Repairs	\$ 112 million	
Bridge Repairs	\$ 35 million	
City Street Lights	\$ 5 million	
Park Improvements (including Alondra Regional Park)	\$ 15 million	
City Entertainment Center: Movie Theater, Events Center, Performing Arts Center	\$ 35 million	
Entertainment Center Parking Structure	\$ 15 million	
New City Hall	\$ 25 million	
Council District 4 Fire Station	\$ 15 million	
Jackie Robinson Stadium Complex	\$ 3.5 million	
Public Safety Station (Sheriff Station)	\$ 10 million	
Graffiti Abatement	\$150,000.00	
Bulky Item Pick-Up	\$150,000.00	
Code Enforcement	\$150,000.00	
Gang/drug prevention & treatment	\$350,000.00	
Youth Job Training	\$150,000.00	
Veterans/Homeless Service Center	\$1.5 million	
Citywide Economic Development Incentives	\$ 5 million	

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FISCAL IMPACT

The base 1% sales and use tax that the City historically receives generates approximately \$7 million annually. Since the sales tax is very sensitive to swings in the economy, this total fluctuates from year to year. However, it would be logical to assume that the new 1% transactions tax should generate about the same annual revenue as the base sales tax. My staff and I estimate that the new annual revenue could range from \$7 million to a high of potentially \$8.5 million. This estimate was also confirmed by the City's sales tax consultant, Muni-Services.

Because the transactions and use tax is a general tax, the proceeds of the tax will be received by the General Fund. However, to properly account for Measure P funds, a dedicated account will be established to receive all Measure P fund account in order to track both revenues and expenditures relating to Measure P revenue, as directed by the Mayor and Council.

While \$7 million in new revenue is significant for the City, obviously, the City's needs far exceed that amount. Therefore, I believe we should identify options to leverage this new revenue. As one example of leveraging, the City could pledge some of the new revenue towards the State's Infrastructure Bank Program. To carry this example further, a pledge of \$1 million of Measure P funds annually, would generate approximately \$25 million in funding, assuming a 1.8% annual interest rate. The proceeds of those bonds could be used toward the repair and construction of infrastructure. This is just one example of how the City may wish to leverage this new revenue. There are other options as well that the Mayor and Council may wish to consider.

RECOMMENDATIONS

It is requested that the Mayor and Council direct staff to prepare a draft Strategic Infrastructure Plan to include funding options. We believe this effort can be accomplished within 90 days. Once the draft Plan is complete, it will be submitted to the Mayor and Council for consideration and to receive public input and also for staff to receive further direction from the Mayor and Council.

ROGER L. HALEY
CITY MANAGER