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Staff Report for the Resolution to Approve the Measure HH Citizen Oversight Committee’s Annual Report on Measure HH Sales Taxes for Fiscal Year 2015-16

**Executive Summary**

On November 4, 2014, the Measure HH half cent sales tax was approved by more than 60% of the electorate. The ballot language assured voters that Measure HH receipts would provide revenues to cover vital City services (see table below), and be subject to annual audits and the receipts would be reviewed by a citizen’s oversight committee:

<b>Pre-Measure Z Potential Reduction to Services</b>	<b>Results with Measure HH Revenues</b>
------------------------------------------------------	-----------------------------------------

- |                                                  |                                                                                      |
|--------------------------------------------------|--------------------------------------------------------------------------------------|
| 1. Eliminate 7 more police officers              | Police officer staff increased 9% since 2010, including new school resource officers |
| 2. Eliminate a code enforcement officer          | Code enforcement officer maintained                                                  |
| 3. Eliminate an animal control officer           | Animal Control officer maintained                                                    |
| 4. Remove a fire ladder truck and 9 firefighters | Purchased 2 fire trucks and 9 firefighters maintained                                |
| 5. Reduce street repairs                         | Street and road repair work increased, including work to Marina Boulevard            |
| 6. Reduce libraries                              | All library branches remain open                                                     |

- 7. Reduce senior programs Senior Community Center opened and senior programs were expanded
- 8. Reduce youth recreation services Youth recreation services and programs maintained and enhanced

Measure HH replaced Measure Z effective April 1, 2015. The table above reflects the pre-Measure Z cost cutting proposals that were avoided due to the passage of Measure Z and Measure HH.

**Background**

On November 4, 2014, Measure HH was approved by 65% of voters. The ballot language assured voters that Measure HH receipts, which expire March 31, 2045, would be subject to annual audits and would be reviewed by a citizen oversight committee.

On July 6, 2015, the City Council passed a resolution authorizing the creation of the Measure HH Citizens Oversight Committee. A responsibility and duty of the Oversight Committee is to review, comment, and recommend to the City Council an annual report on the following:

- Amounts of Transaction and Use Tax revenue generated by Measure HH
- Use of the tax revenue and the impact on the City operating budget including a statement on the impact of the revenue in reducing the amount of cuts resulting from addressing the budget shortfall
- Statement of expenditures funded by Measure HH revenues
- Impacts of Measure HH on local business competitiveness and the collection of Sales Tax revenues
- Measure HH public information and transparency efforts
- Participation in developing a revenue sustainability plan and strategy

During FY 2015-16, the City accrued three months of sales tax data related to Measure HH. This data is provided by the State Board of Equalization. It is typically six months in arrears.

The Measure HH Oversight Committee held its first meeting on September 29, 2015, where it made several recommendations and discussed the annual report. Staff provided support to the Committee by producing financial information and presenting community priorities for Measure HH receipts. Measure HH audits have so far produced clean, unqualified opinions from the City’s independent auditor. Last year, the audits and budgets adopted by the City Council received awards from the Government Finance Officers Association. The audit for fiscal year FY 2014-15 is currently underway and is not expected to conclude until January 2017.

The City receives 1.5 cents of the 10 cents per dollar sales tax. The current allocation of the 10 cent sales tax is as follows:

<u>Agency</u>	<u>%</u>
State of California	5.50%
State of Public Safety Fund (Proposition 172)	0.50%
State of Public Education Fund (Proposition 30)	0.25%
Alameda County	0.25%

<b>Alameda County Transportation Authority</b>	<b>1.00%</b>
<b>Alameda County Essential Health Care Services</b>	<b>0.50%</b>
<b>Alameda County BART</b>	<b>0.50%</b>
<b>City of San Leandro</b>	<b>1.00%</b>
<b>City of San Leandro Temporary Transaction &amp; Use Tax</b>	<b><u>0.50%</u></b>
<b>Total Sales Tax in San Leandro</b>	<b>10.00%</b>

## Analysis

### Amounts of Transaction and Use Tax revenue generated by Measure HH

The adopted Budget approved on June 1, 2015 anticipated \$10.3 million in Measure HH revenue for FY 2015-16. The City was allocated its Measure HH sales tax starting April 1, 2015 but did not budget a full year of receipts until FY 2015-16. The first receipts were received in fall 2015.

### Use of the tax revenue and the impact on the City operating budget including a statement on the impact of the revenue in reducing the amount of cuts resulting from addressing the budget shortfall

Measure HH revenue is available to the City for any legal expenditure. In the context of public safety, the annual revenue represents about 33% of the police department's FY 2016-17 budget, which is \$32.7 million, and 44% of the fire department budget, which is \$24.4 million. Without Measure HH in FY 2016-17, sworn police officers (currently 93) could be cut by as much as 29 positions (if \$10.3 million was removed from the police department budget). Similarly, the fire department's 63 firefighters could be down 27 positions (if all \$10.3 million was eliminated from its budget). Measure HH also indicated that it would sustain 9-1-1 emergency response times, neighborhood police patrols, investigation and gang suppression officers, library hours/programs, street and pothole repairs, youth after-school and senior programs, and other general City services. The City preserves funding for these programs and projects through Measure HH.

### Statement of expenditures funded by Measure HH

The pie chart, Attachment 1, indicates that a total of 58% will be spent on public safety in FY 2016-17. The remaining 42% will fund libraries, parks, community development, infrastructure improvements, repairs, maintenance and administration. The abbreviations used in the pie chart are Rec (Recreation and Human Services Department), Gen Govt (General Government - City Attorney, City Clerk, City Council, Human Resources, Finance and City Manager), Com Dev (Community Development Department), and Engineering (Engineering and Transportation). Non-dept. (non-departmental) costs are General Fund debt service, retiree medical, community investment and events, and leases. The City's FY 2016-17 budget, which ends on June 30, is currently balanced.

### Impacts of Measure HH on local business competitiveness and the collection of Sales Tax revenues

Sales tax revenue increases have occurred at a rate greater than the average rate for other cities in Alameda County since the inception of the Measure Z quarter cent sales tax. Three other cities in Alameda County have a 10% rate: Albany, Hayward and Union City. The impact of Measure HH cannot be determined until sales tax receipts are measured in FY 2015-16 and FY 16-17. General

sales tax increased 16% in 15-16, suggesting that Measure HH had little effect. Sales tax in other Alameda County cities and statewide were substantially less than San Leandro sales tax in FY 15-16.

### **Measure HH public information and transparency efforts**

Measure HH revenue was highlighted in the City Council's adopted budget. In the adopted biennial budget message, the following excerpt states: Measure HH is approved for a 30 year period and promises to protect and maintain City services. The November ballot language mentions 911 emergency response, neighborhood police patrols, anti-gang enforcement, library programs for children, adults and families. The successful measure also supports after school programs for youth including homework assistance and reading programs, school police officers and crossing guards. The measure will also help fill potholes and maintain streets (\$1 million of new General Fund money is allocated to the street overlay rehabilitation program and \$542,000 is allocated to Marina Boulevard Improvements in FY 2015-16.)

### **Participation in developing a revenue sustainability plan and strategy**

The bases of Measure Z and Measure HH was the provision of City services and infrastructure could deteriorate unless additional funds were approved. Survey research indicated support for the measures as long as the following services were maintained by the City:

- Maintaining 9-1-1 emergency response times
- Maintaining neighborhood patrol officers
- Maintaining library programs for children, adults & families
- Enhancing anti-gang and law enforcement efforts
- Maintaining fire prevention services
- Maintaining school police officers & crossing guards
- Repairing potholes/cracks, maintaining residential streets
- Maintaining investigation & gang suppression officers

In November 2016, the City will seek voter approval for a cannabis business tax, an increase in the transient occupancy tax and an increased business license tax relating to warehouses and parking lots. The Committee examined and endorsed these taxes, which (if approved) could generate an estimated \$1.5 million per year.

### **Committee Review and Action**

The Measure HH Citizens Oversight Committee met on August 3, 2016 to review and advance the report for City Council approval.

### **ATTACHMENT**

Attachment 1 - Pie Chart

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