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Seeks New Revenue to Preserve Public Safety, Maintain Essential Services

Vernon's General Fund Revenue Woes By The Numbers

Vernon Quarterly

Q&A with
Mark Whitworth

Vernon City Administrator

PREMIERE ISSUE

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Vernon Quarterly is a newsletter for the residents, businesses and other community stakeholders in this city that "means business."

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Vernon Faces **\$16 Million Budget Deficit**, Seeks New Revenue to Preserve Public Safety, Maintain Essential Services

Recession-driven decline in general fund revenues plus elimination of redevelopment agency funds leave city officials with few options

Vernon City Administrator Mark Whitworth and key administration staff members must secure authorization to raise new general fund revenues or be forced to make deep cuts in city services.

The reason for staff's assessment of the city's available revenue raising options is a looming \$16 million general fund budget deficit in fiscal year 2012-2013. Vernon is required by law to produce a balanced budget, so it must either cut proposed expenditures or generate new revenues.

Without new revenues, cuts to Vernon's existing programs and services would likely fall most heavily on those services relating to public safety.

What's at stake?

The deficit is a near-term threat to services provided by the city's Class-1 fire department. Police staffing and citywide patrols could also be cut.

The city's environmental health and community services departments would also likely suffer cuts in next year's budget if no new revenue is generated to close next year's \$16 million budget shortfall.



The budget deficit is a near-term threat to services provided by the city, including police staffing and citywide patrols.

Mr. Whitworth said, "For more than a decade, Vernon had relied on transfers from the city's Light and Power Department, money from the redevelopment agency, and reserve funds to support services provided by the city's general fund. As a result, business taxes that would have provided direct general fund support for police, fire, and other services were kept artificially low."

"That is not the way our city should be run. Utility users are buying electricity, gas, water and high-speed technology services through the rates

they pay. When they pay their electricity bill, they're not paying for three-minute response time from our Vernon police officers or emergency 'haz-mat' response by our firefighters."

"The four-year recession has proven more than anything that we must change the way we do business in Vernon in relation to funding essential city services, like police, fire, and health and funding capital improvements to maintain our city's road and sewer system infrastructure."

Where did the deficit come from?

The L.A. area's deep downturn, prolonged recession and lagging economic recovery is at the heart of the city's general fund revenue problem, but it is not the lone factor contributing to the city's \$16 million deficit for fiscal year 2012-2013.

Light and Power Department transfers to the city's general fund have dropped more than 20% in the past four years, mirroring the dramatic economic decline and business slowdown that began in 2006 and which sent the national, state, and local economies into a recession freefall in 2007.

Led by Governor Jerry Brown and the California State Legislature, the cash-strapped State of California passed a bill signed into law that dissolved local community redevelopment agencies (RDAs) statewide. The California League of Cities and California Redevelopment Association opposed the law and sought to nullify it with a court challenge. The California Supreme Court upheld the RDA dissolution law.

As a result of these political, legislative, and legal events, Vernon will lose an estimated \$7 million through the elimination of the city's RDA.

Vernon's general fund reserves were used to fund essential services and infrastructure repair and maintenance during the recession. Today, after years of tapping into its reserves, the city's general fund reserves have been depleted. Vernon now needs to reestablish a prudent general fund reserve to be prepared to meet unexpected emergencies, natural disasters, and other unanticipated



The city's Class-1 fire department also faces cuts without new revenue to balance the budget.

contingencies as part of the city's go-forward fiscal planning for 2012-2013 and beyond.

What does this mean for our business?

The City of Vernon has proposed to establish a 10-year special parcel tax that would be assessed on specific Vernon-based business properties. The proposed parcel tax is projected to raise \$16 million annually. Revenue generated by the proposed parcel tax would help fund essential city services, close the budget gap between revenues and expenditures, and provide general fund dollars to reestablish a prudent city budget reserve.

The City of Vernon presently collects a warehouse parcel tax. Businesses subject to the warehouse parcel tax would not be subject to the proposed special parcel tax, except on that portion of their business land space not currently covered by the warehouse parcel tax. In short, warehouse businesses in Vernon

would not be "double-taxed." The proposed special parcel tax, if approved by Vernon's city council and voters, will be \$.23 per square foot. For the average Vernon business, this amounts to a special parcel tax of less than \$50 per day. As many as 900 parcels in Vernon would be subject to the special parcel tax.

If the voters approve the special parcel tax, the assessment is currently expected to appear on tax bills later this year.

City officials have proposed to "sunset" the special parcel tax in 10 years with the assessment ending in fiscal year 2021-2022. The special parcel tax would also be subject to an annual review to determine if an adjustment in the proposed tax rate is warranted. A swift, robust, and sustained economic recovery that drives increased business activity in Vernon is among the key factors that could contribute to a recommendation for an adjustment following an annual review. ▼

Vernon's General Fund Revenue Woes By The Numbers

On an annual basis, the City of Vernon raises more than \$9.3 million from various taxes and fees to support essential city services such as public safety and road maintenance.

But when Vernon is compared to nearby municipalities and their general fund tax revenues, Vernon's general fund tax revenues pale in comparison to the tax revenues generated by some of its neighbors.

Vernon does not impose a utility users tax on its business or residential customers.

Los Angeles raises an estimated \$628 million in revenue each year from that city's utility users tax paid by businesses and residents.

Vernon receives less than \$8,026 in state vehicle license fee (VLF) funds annually.

Los Angeles receives nearly \$15 million in VLF funds annually. Santa Fe Springs receives \$1.5 million in VLF funds annually. The City of Commerce receives \$1.1 million in VLF funds each year.

Vernon collects \$2.3 million in business taxes.

Los Angeles annually collects more than \$439 million in taxes imposed specifically on business. The City of Commerce collects \$20,840,000 in business taxes.

Vernon does not impose a parking user tax on motorists and their vehicles.

Los Angeles raises more than an estimated \$88 million through parking taxes paid by motorists parking their vehicles on metered streets and in public-owned and private parking lots and garages.

Vernon receives \$8,106 in gas tax funds for its general fund budget.

Los Angeles receives more than \$5.3 million in gas tax funds for its general fund budget. The City of Commerce receives \$227,000 in gas tax funds for its general fund budget.

Vernon receives \$3 million in property tax revenues.

The City of Los Angeles receives more than \$1.4 billion in property tax revenue for its general fund budget. Santa Fe Springs receives \$1.9 million in property tax revenues. City of Commerce receives more than \$1.8 million.

Vernon receives \$4 million in sales tax revenue for its general fund budget.

Los Angeles receives more than \$306 million in sales tax revenue for its general fund budget. Santa Fe Springs collects more than \$19 million in sales tax revenue. The City of Commerce receives nearly \$10 million in sales tax revenue.

Q&A with **Mark Whitworth**

Vernon City Administrator

VQ – Why are you seeking a new special parcel tax and where did the deficit come from?

MW – The city's general fund deficit was some years in the making. The city's reserve funds were drawn down to support essential services during a sustained period of declining general fund revenues. The city was also relying on transfers from the Light and Power Department and redevelopment agency to support the basic operations of city government. This financial arrangement wasn't sustainable. The general fund budget needed a stable revenue that was not linked to the purchase of a commodity, like electricity, natural gas, or water. The city is seeking a proposed special parcel tax to establish a sound, stable revenue source for public services provided by the city through its general fund budget; services like police protection, fire, and hazardous materials emergency response, environmental health compliance, building permits, and capital improvements to maintain the city's 107-year-old infrastructure.

VQ – How did the deficit rise to \$16 million?

MW – A combination of factors have contributed to the \$16 million general fund budget deficit for 2012-2013. Chief among those factors was the State of California's law to wipe out all local community redevelopment agencies (RDAs) statewide. In the case of our city, the loss of the Vernon RDA is an estimated \$7 million. The recession has also had an impact. If we had experienced an economic recovery in 2009-2010, we might not face these same budgetary challenges today. But the economy had not even hit bottom in 2011. Business activity in Vernon was in full slowdown through much of last year. Last year's disincorporation battle with the state Legislature froze the city's business activity as decision-makers pondered the question: Will Vernon cease to exist? The business community and labor mounted a major effort to help us fight the battles and win the war against legislative disincorporation. For that, Vernon will be forever grateful. But in order to secure peace and tranquility for our city, we agreed to accept and implement a series of recommended municipal and governance reforms. One of the reforms called for the establishment of an environmental and community benefit fund. We committed to a \$5 million annual contribution to this fund for 10 years. This commitment to assist our neighboring communities was a key element in the reform package that saved the City of Vernon.

VQ – Why should taxpayers in Vernon pay to see their money go into a fund for community projects that are outside of Vernon?

MW – The first reason why is that those same taxpayers supported the Vernon reform package that was put together with the intent to save Vernon from legislative annihilation. The Vernon business community, major labor interests, and city residents that came together in solidarity, in an effort like no other, became a tremendous force of support for reform in Vernon, and Vernon city leaders responded by approving some of the most sweeping and comprehensive municipal reforms of any city in Southeast L.A. County. Included among the reforms they approved, and the Save Vernon Jobs coalition backed, was the community benefit fund. Some people may ask: Why does Vernon need to do this? The short answer to that question is: Because we pledged we would. The long answer is that Vernon has no parks, middle schools, high schools, tennis courts, bike paths, walking trails, lakes, golf course, or scenic open space. Those are all amenities of a city that our public and private employees appreciate in cities and communities where they live, and the vast majority of the 55,000 workers in Vernon do not live in Vernon; they live in communities that are next door or nearby. By helping our neighboring communities, we help the people who work in Vernon day-in and day-out, by helping them enjoy a life at home that they have labored hard each day to create for themselves and their families. In my mind, being a good neighbor is good business. ▼





Perfect Fiscal Storm: Promises Made, Pledges Kept and the Price Tag

A contributing factor to Vernon's \$16 million general fund deficit over the next 10 years stems from the city's yearlong fight in 2011 to defeat special legislation that would have summarily ended Vernon's 107-year tenure as a city through a process of forced disincorporation.

One element of the broad reform package approved by Vernon City Council last year in the city's successful bid to beat back the forces advocating disincorporation called for a good neighbor pledge to assist some of Vernon's adjoining communities beset with concerns over environmental quality and quality of life as bedroom communities to Vernon's "exclusively industrial" enclave.

Tied to that pledge was a financial commitment of \$5 million per year for 10 years to create a City of

Vernon environmental and community benefit fund.

When this municipal reform provision was unanimously approved by members of the Vernon City Council with the strong backing of Vernon's business community and labor interests, city officials began the task of trying to identify sources of revenue that might be used to fulfill the environmental and community benefit fund pledge.

The possible use of city redevelopment funds was eliminated when the California Supreme Court ruled against cities statewide in their challenge to a state law dissolving all community redevelopment agencies in California, including Vernon's redevelopment agency (RDA).

City Administrator Mark Whitworth said, "We made a promise to implement a series of good

governance reforms. In return, our city was spared from the prospect of a destructive municipal disincorporation. We intend to honor the pledges we made."

"We are already two-thirds-the-way down our road to reform," he added. "The environmental and community benefit fund is part of that effort. It has a price tag that adds to our general fund obligations, if no other source of funds is available to see us through this commitment. We have budgeted accordingly for next fiscal year, and our out-year budgets for nine more fiscal years into the future reflect that same commitment, if needed. No one likes people who waltz on an agreement. It's no different for a city. Promises made and pledges kept should be regarded as just as much of an unofficial slogan for our city as 'Vernon Means Business.'" ▼



VERNON PROPERTY OWNER WORKSHOP

Seminar on Proposed Special Parcel Tax Assessment

Thursday, March 15, 2012

Wednesday, April 11, 2012

Vernon City Hall • City Council Chamber

For more information, go to:

http://www.cityofvernon.org/business_development_committee/parcel_tax_workshop



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City Administrator/Fire Chief

Tax Facts: Vernon Draws Short Straw on Property Taxes



City of Los Angeles receives \$.26 for every \$1.00 paid in property tax. Long Beach receives \$.22 for every \$1.00 paid in property tax. Pasadena receives \$.21 for every \$1.00 paid in property tax. South Pasadena receives \$.24 for every \$1.00 paid in property tax.

Vernon receives \$.07 for every \$1.00 paid in property tax.

Vernon's share of property taxes is disproportionately low compared to other L.A. County cities. How could this be? The Tax Facts results are mainly due to Proposition 13 passed by state voters in 1978.

Proposition 13 prevented cities from raising property taxes. Cities with general fund bonds were allocated more money in order to cover their bond payments. Cities like Vernon did not receive any additional tax revenues because they

didn't issue any general fund bonds. In addition, property taxes rise to new levels when property (land) is sold and the new owner's property (land) is reassessed for tax purposes. But major businesses don't change hands every five years like many single-family homes, so many businesses that have been in the same place since 1978 pay vastly lower property taxes as a result. For these and other reasons, Vernon only receives \$.07 cents on the dollar in property taxes. ▼