City of South Pasadena
November 2019 Sales Tax Increase Ballot Measure
Q&A

Why is there a sales tax increase on the November ballot?
The City of South Pasadena is facing a budget deficit that is projected to grow larger over the next five years if no actions are taken. The City's goal is to close the budget gap using an approach that is most acceptable to the community. The City engaged the community to gain input on potential solutions and developed a Long-Range Financial Sustainability Plan. The sales tax measure was identified in the Plan as a preferred option, supported by 86% of residents.

Why is the City facing a budget deficit?
As with all cities in California, South Pasadena is burdened by increasing pension costs from CalPERS (the state pension fund). In addition, the City has aging infrastructure that will require significant additional investment in future years. The City's five-year forecast demonstrates that City revenues are not projected to keep pace with these rising costs.

With expenses increasing every year and revenues flat or declining, the current structure of services is not sustainable. Property tax increases are minimal, Utility Users Tax (UUT) revenues are declining, and sales tax revenue is flat or declining. Without new revenue sources, the City will be forced to function with significantly less staff, requiring the downsizing or elimination of programs and services.

What is the anticipated budget shortfall?
A five-year forecast identifies a budget shortfall of over $1 million in Fiscal Year 2020-21 increasing to almost $2 million in five years.

How much would be raised by the proposed sales tax?
The increase would generate about $1.5 million a year.

How would the additional sales tax revenue be used by the City?
This revenue would close the budget gap for the next several years allowing current service levels and infrastructure investment to continue, along with investment in strategic initiatives such as technology.

What other cities are adopting a local sales tax?

Similar sales tax measures have been adopted, or are being proposed, by many cities in the San Gabriel Valley, including Pasadena, Glendale, Burbank, Glendora, Pomona, and Arcadia. Claremont and Monrovia have also placed a similar measure on the November 2019 ballot.

With only ¾-cent available before reaching the allowable state cap, many neighboring cities are choosing to collect this revenue and keep it local. This would also prevent other regional entities from capturing the additional ¾-cent increase at a future time.

Why is the City facing higher pension costs?
Increased demands from CalPERS have added significant costs for cities throughout California.

The State's pension fund lost almost 35% of its value during the last recession. As with pension programs across the Country, CalPERS has found some of its fundamental assumptions to be unsustainable. For example, retirees are living much longer than originally planned and are pulling benefits for at least a decade longer than anticipated. This is the same issue faced by Social Security and most State pension plans created in the early 20th Century.

With few other options, PERS has mandated huge payments from member cities to cover the additional costs. Pension reforms have been enacted at the State level to reduce future costs to cities, but those changes will not be fully realized for another 20 years. In the meantime, nearly every city in the State is struggling to fund the increases, with experts estimating many small cities will go bankrupt as a result.

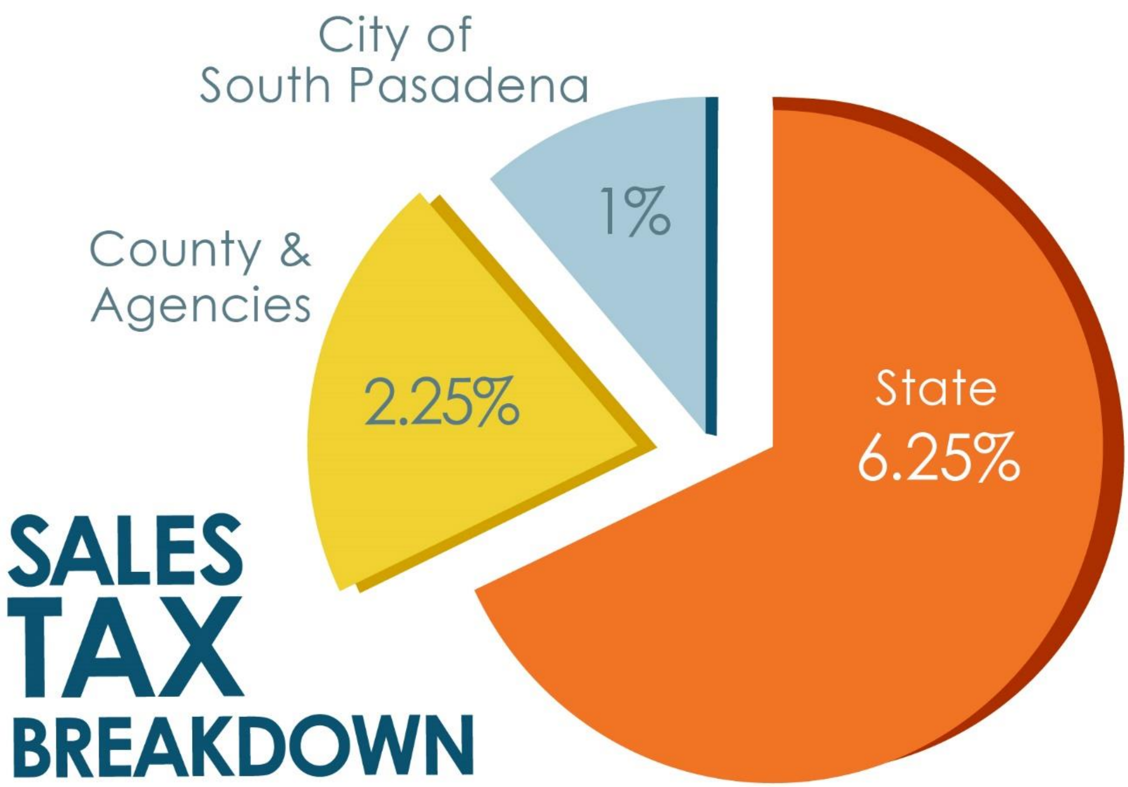
Can't the City do more at the local level to control pension costs?
South Pasadena offers the lowest possible pension formula (2% at 55) which has kept the City's costs lower when compared to cities that pay 2.5%, 2.7% or even 3.0% at 50.

The City can also control its pension costs by simply controlling the number of employees. In the last five years, the city has increased the number of full-time staff by only three positions. South Pasadena has roughly .5 employees per 1,000 residents. In comparison, cities with larger budgets, such as Pasadena, have 1.3 employees per thousand residents, or more than twice the ratio of South Pasadena. The scope and scale of South Pasadena's government has remained focused and efficient within the available budget.

As a result of conservative fiscal management, South Pasadena's pension burden is modest compared to many other cities. According the California Policy Center, South Pasadena's burden ranks 242 out of 459 cities. Cities facing the largest threats, some in the San Gabriel Valley, allocate over 12% of their total revenue toward pension contributions. In comparison, South Pasadena allocates approximately 5% of total revenue.

Couldn't the City save money by exiting CalPERS?
It has been suggested that the City exit CalPERS in favor of a 401(k)-type plan for employees. This action triggers a termination fee imposed by CalPERS that would increase pension costs substantially. In effect, the exiting agency is required to prepay all contractual future pension obligations. Some agencies have undertaken this process, only to find that their pension liability increased by almost 500%. South Pasadena would be subject to similarly high fees that would make an exit from CalPERS unfeasible.

How much revenue does the City currently collect from sales tax?
The current 9.5% sales tax is mostly absorbed by the State, County and special districts. Just 1%, about $2 million a year, is returned to the City. Under the proposed local tax, 100% of the increase would be returned to the City, generating an additional $1.5 million a year. Sales tax is the third largest source of revenue to the General Fund, at approximately 8%, behind property taxes and the Utility Users Tax (UUT).



Did the City consider budget cuts as a way to close the deficit?
Yes, budget cuts were discussed and considered during the City's community outreach. However, most residents made clear that revenue enhancements were preferred to elimination of services and personnel. Further, budget cuts would only delay the inevitable. Costs will continue to increase over time due to inflation, regardless of flat or declining revenue. The City could not continue cutting services year after year and still provide a full range of services and meet State mandates.

Consumer prices are going up. Why isn't the City's sales tax revenue going up accordingly?
South Pasadena's business districts have struggled to sustain a vibrant mix of businesses and a full range of services and amenities to serve local residents. As a result, residents often travel to neighboring cities for dining, shopping and entertainment, leaving sales tax revenue to the City

flat in most years. The City will also focus on economic development strategies to attract and retain businesses in order to create a strong and vibrant commercial district.

Doesn’t South Pasadena have high property values? Why aren’t property taxes closing the gap?

While property values are strong in South Pasadena, increases in revenue to the City are only realized when properties are sold and reassessed. The City has seen increases of only 4-6% in property tax in recent years, a lower-than-average rate due in part to the relatively low turnover rate of properties in South Pasadena. With housing prices flattening this year, this increase may be less in future years than in recent history.

Can the City raise funds through economic development?

Investment in economic development is also a critical strategy to increase revenue long-term. Recent data show the City has experienced lower rates of sales tax growth than either Los Angeles County or the State, and lower than many surrounding communities. Studies show that the City has opportunities to capture business that is currently being diverted to other shopping areas. Investments in more vibrant business districts would engender better sustainability for small businesses that characterize South Pasadena, would create more local amenities for residents, and would ultimately result in more revenue to support City services. This issue has been raised by many community members and local businesses as a high priority.