



CITY OF COMMERCE AGENDA REPORT

TO: Honorable City Council **Item No. _____**

FROM: City Manager

SUBJECT: Adoption of the City of Commerce Fiscal Year 2019-2020 Capital Improvement Program (CIP); and Reallocation of the Use of Measure AA Sales Tax Revenues for Economic Development Projects and Activities

MEETING DATE: August 5, 2019

RECOMMENDATION:

Staff is requesting that the City Council approve the following:

- (1) Adopt the City of Commerce Fiscal Year 2018-19 Capital Improvement Program (CIP); AND
- (2) Adopt a Resolution to Amend Resolution No. 13-41, to Approve the Modification of the Criteria and Specified Percentages of the Allocation of Measure AA Sales Tax Revenues for Economic Development Activities and Projects; OR
- (3) Adopt Alternative Action(s), including Adopting a Resolution to Amend Resolution No. 13-41, to Approve the Modification of the Criteria and Specified Percentages of the Allocation of Measure AA Sales Tax Revenues for Economic Development Activities and Projects with a sunset date of June 30, 2020 or June 30, 2023 as a compromise between Measure AA committee and staff's recommendations; OR
- (4) And/or Provide Staff Alternate Directives.

BACKGROUND/DISCUSSION:

In November 2012, Measure AA was approved by the City of Commerce ("City") voters to raise revenue to offset severe budget cuts and provide funding for such things as repair, maintenance and improvement of streets, sidewalks, public facilities, parks, libraries and other services in the City. Measure AA proposed to enact a one-half of

one percent (1/2 of 1%) transactions and use (sales) tax to fund “general municipal services.”¹ Specifically, the intended purpose of the tax would be a general tax “whose proceeds shall be deposited in the city’s general fund and expended for any lawful purposes of the city.”²

On May 7, 2013, Resolution No. 13-41 was adopted by the City Council, establishing the composition of the Measure AA Advisory Committee (“Committee”), setting the terms of office of the Committee members, and defining the scope of the Committee’s responsibilities, which at a minimum include reviewing the annual auditor’s report and making recommendations to the City Council for use of the tax revenue. Section 3(c) of Resolution No. 13-41 provides that the Committee’s recommendations to the City Council for use of the Measure AA sales tax are required to be consistent with the following criteria, allocating for a specified percentage of the tax revenues for specific projects, including:

- 70% shall be used for one-time infrastructure / capital items
- 10% shall be maintained as reserves
- 10% shall be used for economic development activities / projects
- 5% shall be used to cover administrative costs
- 2.5% shall be used for City beautification activities / projects
- 2.5% shall be used for public safety activities

ANALYSIS:

Proposed Amendments to Resolution No. 13-41, Modifying the Criteria and Specified Percentages of the Allocation of Measure AA Sales Tax Revenues for Economic Development Activities and Projects:

Economic development is generally defined as the expansion of capacities that contribute to the advancement of society through the realization of individuals’, firms’ and communities’ potential and is essential to creating the conditions for economic growth/prosperity, a high quality of life and ensuring the city’s economic future. For example, on March 20, 2018, the City Council received a report from City staff on the Green Zones Action Plan (“GZAP”), which includes the initiative to design, develop and offer support services to new and existing businesses to cultivate a healthy and green economy in the City, while also creating, administering and overseeing programs and efforts designed to promote a sustainable economy through business development, retention, attraction and beautification. Of note, this City Council has reiterated on several occasions that as a policy matter, housing will be a part of, rather than be a by-product, of its economic development process going forward. For economic development to succeed it requires collective action through government – this City Council recognizes this and understands that better infrastructure is predicated on

¹ City of Commerce, Ordinance No. 649, codified as Chapter 3.09, “Transactions and Use Tax,” of the Commerce Municipal Code.

² Commerce Municipal Code Section 3.09.030(A).

successful economic development.

With that said, Staff is recommending the following modifications to the allocation criteria, commencing with the 2019/20 fiscal year:

	<u>Current</u>	<u>Proposed</u>
Infrastructure	70%	0%
Reserves	10%	10% (No Change)
Economic Development	10%	85%
Staff Allocation	5%	5% (No Change)
Public Safety	2.5%	0%
Beautification	2.5%	0%

Premised on the aforementioned recommendation, commencing with the 2019/2020 fiscal year, a projected amount of **\$7,225,000** would be set-aside for economic development related projects and/or activities (including, but not limited to, land acquisition, housing element, economic development incentives, etc.) for this fiscal year.

In the event that something unforeseen occurs during the 2019/2020 fiscal year requiring allocation for infrastructure, public safety and/or beautification projects, the Committee and City Council have access to approximately **\$2.7 million** in discretionary reserve funds.

It is important to note that Staff made the aforementioned recommendation to the Committee at the last Measure AA Committee meeting. The Committee concurred with the aforementioned recommendation, with one exception – that the proposed allocation criteria include a sunset provision, providing for an automatic repeal of the section amended for June 30, 2020.

Staff is of the opinion that in order to substantively support the City's future plans for economic development, and to be able to quantify a long-standing and positive impact by the increase of Measure AA tax revenues allocated for economic development activities and projects, that no sunset clause be implemented at this time. Instead, for purposes of accountability and transparency, Staff is recommending that Resolution No. 13-41 be amended to also require that Staff provide mandatory annual reports to the Committee and City Council providing a full and complete accounting of the reallocation of funds. The report listing out the City's economic development projects and activities benefitting from the increased Measure AA tax revenues will allow the Committee and City Council to ascertain whether the City's objectives and goals are being positively impacted and/or met by the reallocation of funds. As a result, the City Council will have the discretion to rescind the proposed Resolution amending Resolution No. 13-41 at any time.

If City Council prefers to incorporate a sunset clause, as recommended by the Committee - to deem this more as a “pilot program” - Staff recommends that the sunset clause be for three (3) or five (5) years, to have a more long-term impact.

Adoption of the City of Commerce Fiscal Year 2019-2020 Capital Improvement Program (CIP)

Separately, however related, on July 9, 2019 the Measure AA Advisory Committee was presented with the preliminary list of ten (10) CIP projects (outside the scope of economic development mentioned above) recommended for approval for the FY 2019-2020 Capital Improvement Program. The Committee took action as follows:

➤ Pavement Management Program	\$4,300,000
➤ Public Facilities / Parks Mitigation	\$ 250,000
➤ Engineering Support Services	\$ 200,000
➤ Excursion Bus Lease	\$ 200,000
➤ Planning Support Services	\$ 150,000
➤ Key Card Security System	\$ 150,000
➤ Housing Support Services	\$ 100,000
➤ Baseball Dugouts – Structures	\$ 85,000
➤ Teen Center Floor Replacement	\$ 56,000
➤ Main / Bandini Libraries – RFID Solutions	\$ 48,167 (Lease)
Total	\$5,539,167

FISCAL IMPACT:

As presented, the Capital Improvement Program for FY 2019/20 will be predicated on two funding buckets:

- **OLD MONIES** -- As it relates to the ten (10) items being recommended outside the scope of economic development, Measure AA funds being requested **(\$5,539,167)** for FY 2019-2020 will comprise of past project savings and/or the reprogramming of funds from current projects that have been placed on-hold.
- **NEW MONIES** – Commencing with fiscal year 2019/2020, a projected amount of **\$7,225,000** will be set-aside for economic development related projects and/or activities (including, but not limited to, land acquisition, housing element, incentives, etc.) to be used at the discretion of the City Council.

RELATIONSHIP TO STRATEGIC GOALS:

This item is related to a specific 2016 Strategic Goal to “develop and implement a sustainable Capital Improvement Program to ensure the quality of the existing infrastructure and support future plans for the City.” Further, it relates to the 2016 strategic planning goal: “City Organization” Guiding Principle 2: Foster an environment

that continuously seeks to improve service and organizational responsiveness to internal and external customers.

Further, the modification of the criteria and specified percentages of the allocation of Measure AA Sales Tax Revenues for economic development activities and projects is also consistent with Economic Growth Guiding Principle 1, which focuses on creating and strengthening our identity as a community that promotes opportunity and success for businesses that meet the strategic focus for economic growth, which will have a positive impact on the quality of life and the City's financial sustainability.

Prepared by: Vilko Domic, Director of Finance
Reviewed by: Norma Copado, City Attorney
Respectfully submitted: Edgar P. Cisneros, City Manager

ATTACHMENTS:

Resolution Amending Resolution No. 13-41