

City of Glendale Elimination of Sales Tax Sunset – FAQ

June 25, 2014



- **When was the temporary sales tax increase implemented and why?**
 - In June 2012, the Glendale City Council approved an increase to the city's sales tax. Revenue generated from this tax is for the main budget (General Fund) which provides funding for services such as public safety, code compliance, libraries and parks and recreation. The last time Glendale increased the general sales tax rate was more than 20 years ago. The council approved the temporary sales tax increase to generate revenue because of the economic recession and the city's decrease in state shared revenue and sales tax revenue. In addition, Glendale has debt obligations for programs and services and the operation and maintenance of city-owned facilities like recreation centers, the arena and spring training stadium.

- **How much was the increase?**
 - The old rate was 2.2% and the new rate in 2012 was 2.9% -- an increase of .7% for every one dollar.
 - Example: Spend \$50.00 and you'll pay 35-cents more in sales tax.
 - Example: Spend \$100.00 and you'll pay 70-cents more in sales tax.
 - For single item purchases over \$5,000, the tax rate remains at 2.2%.

- **What does "temporary" and "sunset" mean?**
 - The Council approved tax had an effective date of August 2012 effective date and an end date of August 2017 – five years -- thus calling it "temporary." This is often called a "sunset," meaning, the tax will expire, or sunset at that time.

- **Why was it recommended to eliminate the sunset and make the tax permanent?**
 - The temporary sales tax has done what was intended -- bring extra revenue to the city to continue providing important services to citizens. However, nearly two years into the temporary tax, it is obvious when you look at the future and the city's five-year forecast, if the tax goes away, the city is right back where it started. This forces the city to either maintain the revenue through the continuation of the tax or significantly cut services and staff. This is a reality that Glendale has recently watched other cities struggle with.

- **Why is Glendale so challenged with its budget?**
 - Glendale has a General Fund debt problem that is larger than most cities. The General Fund provides most of the basic city services such as police, fire, recreation programs, court services, code compliance, city festivals, economic development, etc. What makes the situation problematic is not just the debt itself, but how the debt is structured. The best practice for a city with debt is to have it equal less than 10% of overall costs. Due to the way Glendale's debt is structured to be paid off, the city's debt is at 22% of its costs. The level of debt is unique to Glendale and while it is not a new issue, it continues to be part of the city's overall budget challenge.

- **Can't you get rid of the debt or "foreclose" on some of it?**
 - Glendale's debt is non-negotiable. Commitments of how and when to pay off the debt were made years ago. The way the debt was structured puts the city in the difficult position of choosing to pay the debt or provide services. One example of the city's debt is the spring training facility, Camelback Ranch-Glendale. Glendale cannot default on those debt payments and have the spring training facility foreclosed on or repossessed. The debt is not backed by the facility but is backed by general city revenues. In other words, a bank can't just take over the spring training facility because the city pledged to make the payments on that facility with recurring sales tax.

- **Didn't anyone see this possibly happening when the temporary tax was voted on?**
 - It's hard to "Monday morning quarterback" nearly two years after decisions were made. But the new leadership within Glendale's city management has created a type of budget forecasting, done in most cities as a best business practice, called a five-year forecast and adopted a zero-based budgeting approach. This forecast focuses on the city's long-term financial health, instead of just looking at the budget for the current year or the next year. When you calculate the numbers over the next five years and include the elimination of the temporary tax, you will see a dramatic drop in revenue. Financial experts advise to not solve long-term problems (city debt) with short-term solutions (a tax that expires). In most people's personal lives, long-term financial obligations, like a home mortgage, are solved with long-term financial plans, like a 30-year payment plan. For Glendale, the current best solution is to not eliminate a revenue source, such as the temporary tax, when the city is not yet fiscally stable.

- **Why eliminate the sunset now, three years early, and not just wait until 2017?**
 - Ultimately, management is responsible for stability and that starts with financial stability. If the tax goes away, then the city needs to start making preparations today because of how it affects the city's budget tomorrow. That means, right now, the city must start gradually working toward cutting services to prepare for the end of the tax. Those cuts would mean instability over the next three years. Plus, credit rating agencies, which report on Glendale's financial status and plan, are currently monitoring the city to see what actions are being taken to stabilize the city's finances. Eliminating the sunset on the tax which brings the city closer to financial stability is one of those actions.

- **How much money does the temporary tax generate and does that mean cuts would have to equal that amount?**
 - The temporary tax brings in about \$25 million per year to the city's General Fund. For the most part, yes, any proposed cuts would have to make up that loss. So, unfortunately, cuts would be very severe to fill that void of an annual \$25 million a year loss to the General Fund. An example of this type of impact can be simply made by understanding that the entire parks, recreation, library and human services General Fund budget is \$15 million a year. Even if that entire budget and those services were eliminated, the city still needs another \$10 million to make up for the loss of the temporary sales tax. If cuts are made, initial estimates indicate one in every two General Fund employees would be eliminated which is unsustainable. Therefore, cuts would be citywide and have to include significant elements of public safety, whereas previous cuts in the city had minimal impact to the police and fire departments.

- **What services does the General Fund provide?**
 - The General Fund is the main funding source for Glendale's services and amenities, examples include:
 - Police and fire departments – over 60% of the General Fund supports public safety
 - Parks, libraries, city events, code compliance, graffiti removal, court services, planning, economic development, broadcasting of council meetings, etc...

- **What else has Glendale done to fix these financial problems?**
 - Since 2009, staff has worked to reduce expenses to create a minimal affect to city services and quality of life for residents. Here are a few examples:
 - 31% cuts to departmental budgets totaling \$62 million
 - 18% decrease to city workforce through combination of turnover, layoffs and attrition
 - 2 ½ years of mandatory furloughs saving the city approximately \$5.5 million
 - Enhance revenue streams by bringing in new business and increasing fees where feasible
 - Restructuring debt to balance the budget
 - Create a five-year financial forecast to avoid the non-sustainable budgeting of years past. The five-year plan helps project financial stability to continue providing services at the current level based on projected growth and aligning revenue and costs.

- **The new City Manager has called the temporary tax a “ticking time bomb.” Why?**
 - The City Manager believes Glendale’s debt situation is very serious and knowing the tax expires in three years is like standing by knowing an implosion is about to happen. She began her tenure with Glendale in July 2013 and has 19 years of municipal experience from five cities in three states. She has vast experience in municipal budgeting and has hired staff with similar qualifications. She has said publicly the structuring of the city’s debt is largely responsible for Glendale’s financial challenges. She has said it is not a good business practice to solve a long-term budget crisis (debt) with a short-term solution (a tax that expires). The Council has directed to the City Manager that she move forward to make the tax permanent.

- **What do Glendale’s bond ratings have to do with all of this?**
 - Bond ratings are like a report card that reflects Glendale’s overall financial stability. For years, Glendale’s bond ratings were very high, but now due to the city’s financial situation, mostly with the structuring of its debt and unsustainable budget, the ratings are lower. Effects could include:
 - An impact for the city’s ability to borrow money
 - An impact of economic development because businesses may not want to relocate to Glendale
 - An impact to retaining employees and recruiting new employees

- **Are the bond rating companies watching what Glendale does to fix its finances?**
 - Yes! In fact, in March of this past year, Standard and Poor’s told the city: *“However, if management creates and executes a plan for sustainable balance, we could revise the outlook to stable.”* They cited one of their reasons for the poor grade is the sunset of the temporary sales tax in three years. The report also acknowledged that Glendale has a new City Manager and a new Finance Director and stated that if the city proceeded with a sustainable budget balancing plan, the rating could be revised to a stable outlook.

- **If the temporary sales tax becomes permanent, does that affect purchases over \$5,000?**
 - No. Single purchases over \$5,000, such as a car, will continue to pay the lower sales tax rate of 2.2%.

- **What is the latest update?**
 - Per Council’s direction, staff brought forward an ordinance on June 24, 2014 to remove the sunset and make the sales tax permanent. The Council approved the ordinance. In addition, to making the tax permanent, the Council approved new language to the ordinance that will make it mandatory for the Council to review the city’s tax rate during the regular budget process each year. That language in the ordinance will ensure the tax rate is looked at annually by the Council and discussed publicly during each fiscal year’s budget process. The belief is that a mandatory review of the city’s tax rate keeps it transparent and at the forefront for discussion each year.