

City of Hercules

111 Civic Drive
Hercules, CA 94547



Report to City Council on Measure B and N Revenue for Fiscal Year 2023 and 2024

Prepared by Finance Commission
Measure B and Measure N Sub-Committee:
Commissioner Janet Stallman

Prepared May 2, 2025

City of Hercules Finance Commission
Measure B and Measure N Annual Report
Fiscal Year Ending June 30, 2024

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Purpose

This is the Annual Report by the Finance Commission as the Oversight Committee for Measure B - Transactions and Use Tax Revenues (originally adopted as Measure O in June 2012) and Measure N - Utility Users Tax Rate Revenues (originally adopted as Measure A in June 2013 and Measure C in November 2015). This report fulfills the Finance Commission requirements specified in City of Hercules Municipal Code to:

- Provide oversight under Title 8 (Finance Revenue and Taxation), Chapter 9 (Temporary Transaction and Use Tax).
- Provide oversight under Title 8 (Finance Revenue and Taxation), Article 4 (Continuation of Increase to Utility Users Tax Rate).

Conclusions

Measure B:

For Fiscal Year ending June 30, 2024, local add-on half cent (0.50%) transaction and sales tax revenues approved by Hercules voters were spent in accordance with the voter approved Measure O adopted in June 2012 and subsequently extended by the voter approved Measure B adopted November 2015. Measure B would retain the half cent (0.50%) add-on until such time as the City Council determines it is no longer necessary.

Henceforth in this document, we will use Measure B to reference this voter approved measure.

Measure N:

For Fiscal Year ending June 30, 2024, incremental two percent (2%) Utility User Tax (UUT) funds approved by Hercules voters were spent in accordance with the voter approved Measure A (June 2013), Measure C (November 2015), and Measure N (voter approved November 2022).

The City of Hercules established a UUT of six percent (6%) which was to expire on January 1, 2025. In 2013 voters approved measure A which established a two percent (2%) increase to the UUT to a total of eight percent (8%) which would expire in 2018. In 2015 voters approved measure C which would extend the two percent (2%) UUT increase until January 1, 2025. On November 8, 2022, voters approved the 2% increase to remain indefinitely until either terminated by voter decision or repealed by the City Council.

Henceforth in this document, we will use Measure N to reference this voter approved measures.

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Recommendations

- Recommend that the incremental transaction and use tax provided for in Measure B be retained since the City of Hercules has not yet achieved long term financial stability with adequate financial reserves.
- Recommend that the incremental Utility User tax provided for in Measure N be retained since the City of Hercules has not yet achieved long term financial stability with adequate financial reserves.
- Monitoring revenue from Measures B and N shall be a part of every regularly scheduled meeting of the Finance Commission.

Reporting Period and Scope

This annual report covers the Fiscal Year ending June 30, 2024.

This report focuses on the General Fund because it provides the funding for the concerns expressed on the Measure B and Measure N ballot measures.

Actions Taken

The Finance Commission provided Oversight for Measure “B” and Measure “N” by the following actions:

1. On January 15, 2025 the audited Measure B & N Revenues for FY 2024 were provided to the commission by staff, at which time a subcommittee was formed to prepare this report.
2. Reviewed the Budgets, Financial Reports and variance analyses for the Fiscal Year ending June 30, 2024.
3. Reviewed periodic Long-Term Forecasts and Working Cash Balance reports prepared by City of Hercules Finance staff.
4. Reviewed City of Hercules audited Annual Financial Reports for the fiscal years ending June 30, 2024.
5. Reviewed The Pun Group report on “Independent Accountants’ Report On Applying Agreed-Upon Procedures” – Measure B, December 19, 2024.
6. Reviewed The Pun Group report on “Independent Accountants’ Report On Applying Agreed-Upon Procedures” – Measure N, December 19, 2024.
7. Formed a sub-committee to develop this report.

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Findings

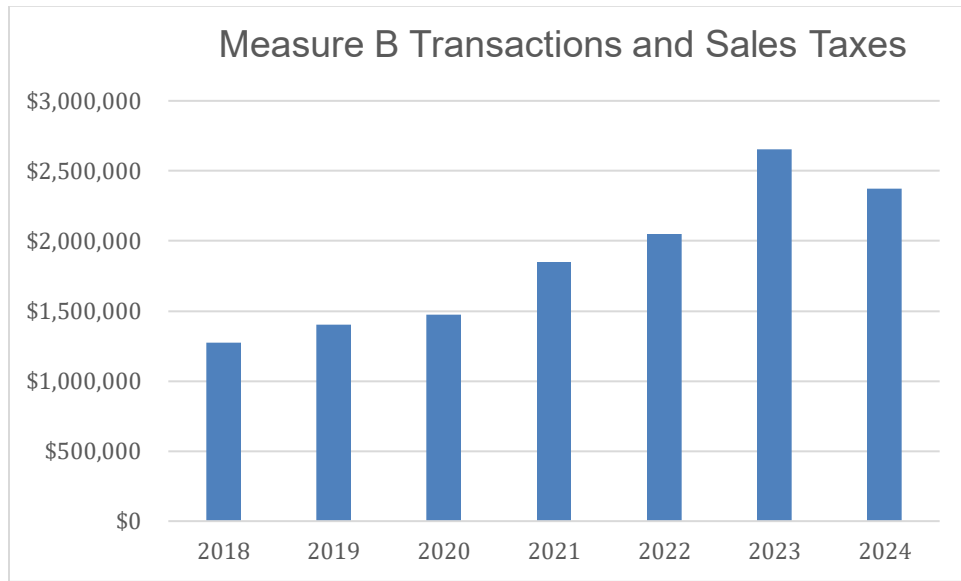
Measure B:

Measure B Transaction and Use Tax Revenue receipts are summarized as follows:

For Fiscal Year 2024 the tax revenue received for Measure B was \$2,372,651. This is a decrease from 2023, after 5 years of progressive increases in Measure B revenue. However, since the budgeted tax revenue for Measure B was \$1,936,000, this resulted in a net increase revenue of \$496,005.

Fiscal Year (Ending June 30)	Actual Received Per General Ledger
2018 ²	\$1,275,479
2019 ²	\$1,403,874
2020 ³	\$1,473,913
2021 ³	\$1,847,749
2022 ³	\$2,051,658
2023 ³	\$2,653,841
2024 ³	\$2,372,651

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Transaction and Use Tax revenue received in Fiscal Year 2024 under Measure B has been properly collected and paid into the General Fund as required per Ordinance 470 Section 8.9.12 "Use of Tax Proceeds" which states that "All proceeds of the tax levied and imposed under this Article shall be paid into the general fund for use by the City of Hercules." This conclusion is based on the Finance Commission's review of the City's audited Annual Financial Reports, the Quarterly Financial Statements, and The Pun Group report on "Independent Accountants' Report On Applying Agreed-Upon Procedures" – Measure B, December 19, 2024, which states that proceeds of taxes levied and confirmed under Measure B were paid into the City's General Fund for use by the City with no exceptions.

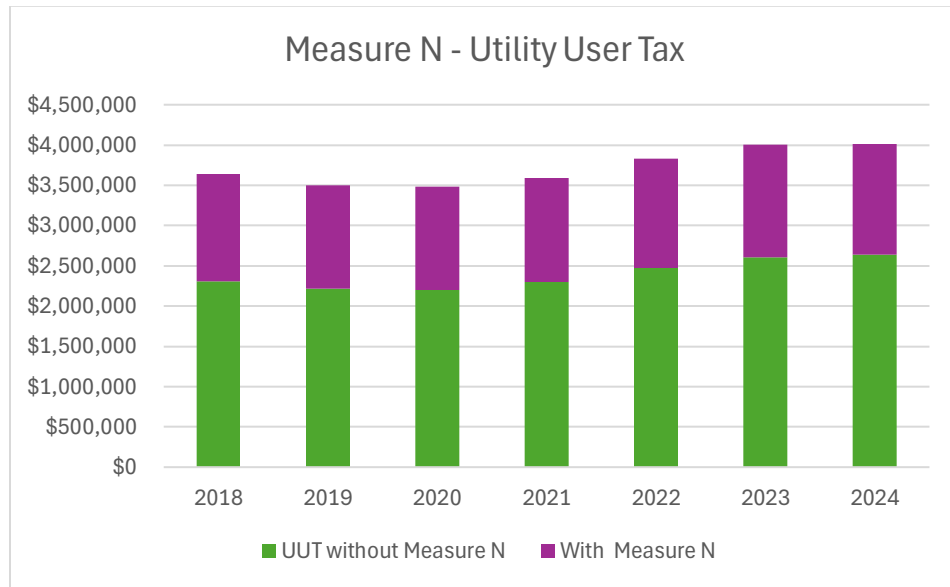
Measure N:

Measure N Utility Users Tax (UUT) Rate Revenues are summarized as follows:

For Fiscal Year 2024 the tax revenue received for Measure N was \$1,372,350. The budgeted tax revenue for Measure N was \$939,158 (25% of \$3,756,633¹). This resulted in a net excess revenue of \$433,192.

Fiscal Year (Ending June 30)	Actual UUT w/ Measure N	Estimated UUT w/o Measure N	Increase in Revenue due to Measure N
2018 ²	\$3,642,120	\$2,310,030	\$1,332,091
2019 ²	\$3,502,264	\$2,219,720	\$1,282,545
2020 ³	\$3,483,843	\$2,200,886	\$1,282,957
2021 ³	\$3,590,649	\$2,302,961	\$1,287,687
2022 ³	\$3,828,410	\$2,471,041	\$1,357,369
2023 ³	\$3,996,274	\$2,608,182	\$1,394,092
2024 ³	\$4,011,166	\$2,638,817	\$1,372,350

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Utility Users Tax revenue received under Measure N has been properly collected and paid into the General Fund per Ordinance 481, Section 8-8.402 “Use of Additional Tax Proceeds” which states that “All proceeds of the tax levied and imposed under this Article shall be paid into the general fund for use by the City of Hercules”. This conclusion is based on the Finance Commission’s review of the City’s audited Annual Financial Report for the Fiscal Year ending June 30, 2024, and The Pun Group report on “Independent Accountants’ Report On Applying Agreed-Upon Procedures” – Measure N, December 19, 2024.

Effect on General Fund

The General Fund increased from 2018-June 30, 2019, as shown by the Annual Reports for each respective year. In Fiscal Year ending June 20, 2020, the General Fund had a net decrease, primarily due to the DOF Settlement of \$1,812,075. For the fiscal years 2021-2022 the general fund was steady. In 2023 and 2024, the general fund increased.

Fiscal Year	General Fund Revenue⁴	General Fund Expenses⁴	(Deficit) / Surplus
2018	\$16,490,956	\$12,929,170	\$3,561,786
2019	\$17,563,562	\$14,615,734	\$2,947,828
2020	\$16,706,848	\$18,541,346	(\$1,834,498)
2021	\$16,463,953	\$14,136,478	\$2,327,475
2022	\$16,650,894	\$16,109,032	\$541,862
2023	\$19,494,938	\$17,656,832	\$1,838,106
2024	\$20,329,001	\$18,244,538	\$2,084,463

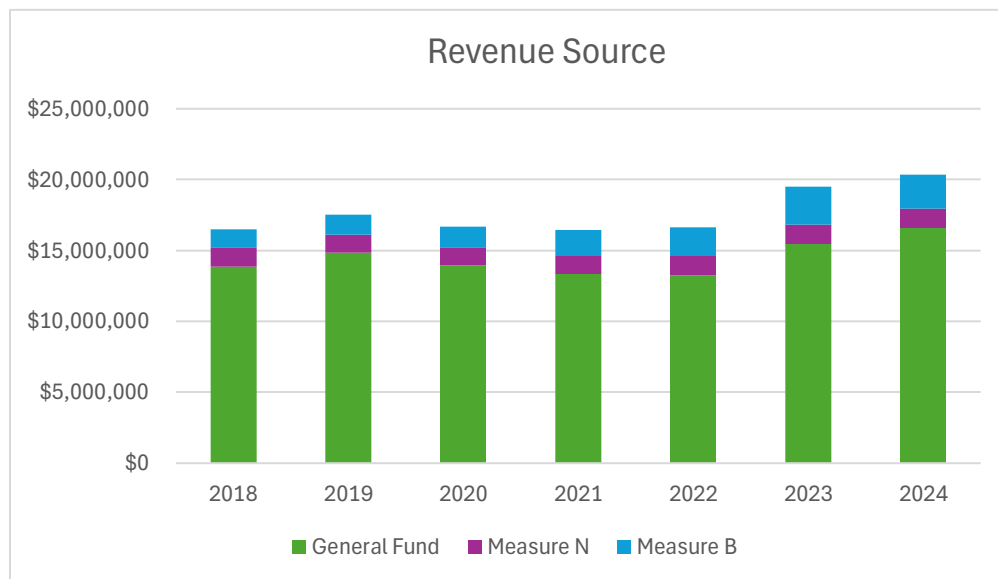
The following is a summary for the fiscal years ending June 30, 2018, through June 30, 2024:

Fiscal Year	Revenue Source			
	General Fund	Measure B	Measure N	Total
2018	\$13,883,386	\$1,275,479	\$1,332,091	\$16,490,956
2019	\$14,827,597	\$1,403,874	\$1,332,091	\$17,563,562
2020	\$13,949,978	\$1,473,913	\$1,282,957	\$16,706,848
2021	\$13,328,517	\$1,847,749	\$1,287,687	\$16,463,953
2022	\$13,241,867	\$2,051,658	\$1,357,369	\$16,650,894
2023	\$15,447,005	\$2,653,841	\$1,394,092	\$19,494,938
2024	\$16,584,000	\$2,372,651	\$1,372,350	\$20,329,001

	Revenue Source
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Fiscal Year	General Fund	Measure B	Measure N	Total
2018	84.2%	7.7%	8.1%	100%
2019	84.4%	8.0%	7.6%	100%
2020	83.5%	8.8%	7.7%	100%
2021	81.0%	11.2%	7.8%	100%
2022	79.5%	12.3%	8.2%	100%
2023	79.2%	13.6%	7.2%	100%
2024	81.6%	11.7%	6.8%	100%



Without the Measure B or Measure N revenues, the City would have had deficits in Fiscal Years 2020- 2024 and would have had much smaller surpluses for the Fiscal Years 2018 and 2019.

The following is a summary for Fiscal Years ending June 30, 2018 to June 30, 2024 if Measure B and N Revenues were excluded.

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Fiscal Year	Revenue (excluding Measures B & C)	Expenditures	(Deficit) / Surplus
2018	\$13,883,386	\$12,929,170	\$954,216
2019	\$14,827,597	\$14,615,734	\$211,863
2020	\$13,949,978	\$18,541,346	(\$4,591,368)
2021	\$13,328,517	\$14,136,478	(807,961)
2022	\$13,241,867	\$16,109,032	(\$2, 867,165)
2023	\$15,447,005	\$17,656,832	(\$2,209,827)
2024	\$16,584,000	\$18,244,538	(\$1,660,538)

The General Fund is used to account for all revenue and expenditures necessary to carry out basic governmental activities of the City that are not accounted for through other funds. For the City, the General Fund includes such activities as police, planning, engineering, public works, operations and maintenance, and legal and administrative services.

The General Fund provides the funding for the issues expressed in the Measure “O” and Measure “A” ballot language:

1. **Measure O (Measure B):** "Local Temporary Emergency Funding Measure. To address Hercules' Fiscal Emergency, stabilize city finances, offset budget shortfalls/the impact of State budget cuts on local services, prevent reductions to the number of police officers/crime investigators, protect/maintain crime prevention, childcare, youth sports and recreation programs and other general City services, shall the City of Hercules establish a 1/2 cent sales tax legally ending after 4 years, with Independent Citizens' Oversight, Independent Audits and no money for Sacramento."
2. **Measure A, C (Measure N):** "City of Hercules Fiscal Accountability/Services Protection Measure. To restore Hercules to financial stability, enhance fiscal accountability, continue to maintain our own local Police Department, and prevent drastic cuts to neighborhood police officers, youth/senior programs, and other services, shall Hercules modernize its utility users tax with equal treatment of taxpayers regardless of technology, increase the rate by 2% for 5 years, maintain current low-income exemptions, with citizens' oversight, independent audits, and local control of revenues."

Based on the impartial ballot analysis by the City Attorney, Measure “O” did not limit use of Measure “O” funding to a specific purpose:

“Because Measure O does not limit the use of tax revenue to a specific purpose, the proposed tax is a general tax, requiring a majority vote (approval by more than fifty percent (50%) of City voters voting in the election) for passage. Therefore, the City shall use the funds for a variety of purposes, including but not limited to addressing the City's Fiscal Emergency; increasing police officer staffing, which is below Recommended Safety Levels; maintaining current levels of emergency services; providing additional funding for neighborhood police patrols, emergency response times, crime prevention and investigation resources; earthquake preparedness; after-school programs for children and teens; senior services; and parks.”

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Based on the impartial ballot analysis by the City Attorney, Measure “A” did not limit the Measure “A” funding to a specific purpose:

“Because Measure A does not limit the use of tax revenue to a specific purpose, the City may use the funds for a variety of purposes, including but not limited to maintaining financial stability and accountability; maintaining the Hercules Police Department; maintaining neighborhood police patrols, improving 9-1-1 response times; expanding neighborhood crime prevention programs; attracting business to Hercules; and preventing cuts to street maintenance.”

Finance Commission Members:

Daniel Esselsagoe, Chair

Edward Ulle, Vice-Chair

Janet Stallman, Commissioner

Sam Ahmad, Commissioner

Xxxxx xxxxx, Commissioner

Report approved by the Finance Commission on (xxxxx, XX, 2025)

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References

1. Fiscal Year 2023-2024 Annual Budget Pg. 78
2. For Fiscal years 2017-2018 and 2018-2019, the Measure B and Measure C data were based on CliftonLarsonAllen, LLP reports on Agreed Upon Procedures – Measure B and Measure C, for periods ending June 30, 2018 and June 30, 2019.
3. For Fiscal years 2019 – 2020, 2020 - 2021, 2021 - 2022, 2022 - 2023 and 2023 - 2024, the data is based on The Pun Group reports on Independent Accountants' Report On Applying Agreed-Upon Procedures – Measures B and C/N for periods ending June 30 in each of the respective years.
4. From Annual Comprehensive Financial Reports for years ending 2018, 2019, 2020, 2021, 2022, 2023 and 2024.

Appendix 1: Measure “O” Background

On July 24, 2012, Measure O, “Transactions and Use Tax Revenues” was passed by a majority vote of the City of Hercules and the Hercules City Council passed and adopted Ordinance 470 amending the Hercules Municipal Code by establishing a four year temporary transactions and use tax of 0.50% to be administered by the State Board of Equalization.

Per Section 8.9.13 of Ordinance 470:

“The Finance Commission, created pursuant to Title 2, Chapter 2, Article 6, shall meet pursuant to Section 2-2.607 to oversee expenditures of the revenues received by the City from the sales and use taxes imposed pursuant to this Chapter, and to ensure that tax revenues are spent by the City in a manner consistent with the voter approved measure adopting this Chapter as well as any voter approved or Council approved priorities adopted to implement the provisions of this Chapter. (Ord. 528 § 1 (part), 2020: Ord. 488 § 1 (part), 2015: Ord. 481 § 3 (part), 2014: Ord. 470 § 2 (part), 2012)”

Per Section 8-9.14 paragraph (a) of Ordinance 470:

(a) The Commission is charged with the following responsibilities: (1) reviewing all appropriations of revenues received by the City from the sales and use taxes imposed pursuant to the provisions of this Chapter to determine whether such funds are to be used as provided for in this Chapter and the voter approved measure that adopted this Chapter; (2) reviewing the audit prepared by an independent auditor retained by the City to perform the City’s Comprehensive Annual Financial Report to determine whether such funds have been spent as provided for in this Chapter and the voter approved measure; (3) prepare and issue the Commission’s own annual report setting forth their findings in regard to the foregoing; and (4) determining when the City has met its goal of achieving long term financial stability with adequate financial reserves, and issuing a report to Council detailing such findings, pursuant to Sec. 8-9.01(d).

(b) The Commission shall, for the purpose of fulfilling oversight responsibilities pursuant to Measure O, confine itself specifically to funds received by the City from the sales and use

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taxes imposed pursuant to the provisions of this Chapter.

(c) In order to preserve the integrity and independence of the oversight process, Commission members will not play a formal role in decision-making on spending priorities, financing plans, or tax rate projections or assumptions. (Ord. 488 § 1 (part), 2015: Ord. 481 § 3 (part), 2014: Ord. 470 § 2 (part), 2012. Formerly 8-9.17)

On August 20, 2014, the Measure O Citizen's Oversight Committee approved the Measure O Annual Report for the Fiscal Year 2013 (July 1, 2012 to June 30, 2013).

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Appendix 2: Measure “A” Background

On June 4, 2013, Measure A “Utility Users Tax Rate Revenues” was passed by a majority vote of the City of Hercules and the Hercules City Council passed and adopted Ordinance 475 modernizing Title 8, Chapter 8 of the Hercules Municipal Code with respect to the existing 6% Utility Users Tax, and establishing a five year temporary increase of 2% to the Utility Users Tax. The Ordinance established citizens’ oversight with the existing Citizens Finance Advisory Committee (which became the Citizen’s Finance Commission) appointed by the Hercules City Council.

Per Section 8-8.404 of Ordinance 475,:

The Finance Commission, created pursuant to Title 2, Chapter 2, Article 6, or a subcommittee of the Commission established for this purpose, shall meet pursuant to Section 2-2.607 and review all revenues and expenditures under this Chapter in order to ensure that the funds are spent in accordance with the voter approved measure adopting this Chapter as well as any voter approved or Council approved priorities adopted to implement the provisions of this Chapter. (Ord. 528 § 1 (part), 2020: Ord. 489 § 1 (part), 2015: Ord. 481 § 2 (part), 2014: Ord. 475 § 1 (part), 2013)

Per Section 8-8.406 of Ordinance 475:

(a) The Commission is charged with the following responsibilities: (1) reviewing all appropriations of revenues received by the City from the sales and use taxes imposed pursuant to the provisions of this Chapter to determine whether such funds are to be used as provided for in this Chapter and the voter approved measure that adopted this Chapter; (2) reviewing the audit prepared by an independent auditor retained by the City to perform the City’s Comprehensive Annual Financial Report to determine whether such funds have been spent as provided for in this Chapter and the voter approved measure; (3) prepare and issue the Commission’s own annual report setting forth their findings in regard to the foregoing; and (4) determining when the City has met its goal of achieving long term financial stability with adequate financial reserves, and issuing a report to Council detailing such findings, pursuant to Section 8-8.409.

(b) In order to preserve the integrity and independence of the oversight process, Commission members will not play a formal role in contracting, project management, construction, or any other aspect of the funding. In addition, the Commission is not charged with decision-making on spending priorities, construction schedules, project details, funding source decisions (e.g., leveraged funds, developer fees, etc.), financing plans, tax rate assumptions, or selection of consultants, design, and construction firms. (Ord. 489 § 1 (part), 2015: Ord. 481 § 2 (part), 2014: Ord. 475 § 1 (part), 2013)

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Appendix 3: Measure “B”, Measure “C” and Measure “N” Background

On July 28, 2015 the Hercules City Council unanimously approved placing the City of Hercules Financial Stability and Essential Services Continuation Measures, on the November 3, 2015 ballot to protect and maintain essential city services and fiscal stability.

On November 3, 2015, Measure B, “Transactions and Use Tax Revenues” was passed by a majority vote of the City of Hercules. Measure B extends indefinitely the Measure “O” half-cent per dollar local sales tax previously scheduled to end in 2016.

Measure B states, “Whereas the tax extension would be in effect until the Finance Commission finds, and the City Council approves by a 2/3 vote, that the City has achieved long term financial stability with adequate financial reserves.”

On November 3, 2015, Measure C “Utility Users Tax Rate Revenues” was passed by a majority vote of the City of Hercules. Measure C extends the Measure “A” 2 percent utility user’s tax that was previously scheduled to sunset in 2018, now scheduled to sunset in 2025.

Measure C states, “**Measure C** would extend the 2013 voter approved two percent (2%) UUT increase. If adopted, Measure C would make the eight percent (8%) total rate effective until January 1, 2025. The City Council could terminate the two percent (2%) increase at any time before January 1, 2025 and reduce the total UUT rate to six percent (6%) either on its own initiative or at the recommendation of the City’s Finance Commission upon a determination that the additional two percent (2%) increase provide for in **Measure C** is no longer necessary because the City has met its goal of achieving long term financial stability with adequate financial reserves.”

On November 8, 2022, **Measure N** was approved by voters. This measure provides for indefinite continuation of the previously established 2% increase in Utility Users Tax (UUT) Rate until either terminated by voter decision or repealed by the City Council.

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Appendix 4: Finance Commission Background

On November 23, 2014, the Hercules City Council passed and adopted Ordinance 481 amending the Hercules Municipal Code as follows:

1. Added Title 2, article 6, Section 202.601 through Section 2-2.609 to create the Finance Commission.
2. Amended Title 8, Chapter 8, Article 4, to provide for the Finance Commission oversight of Measure A, “Utility Users Tax Rate Revenues”
3. Amended Title 8, Chapter 8, Article 9, to provide for the Finance Commission oversight of Measure O, “Transactions and Use Tax Revenues”

Per Section 2.2.609 of Ordinance 481:

The Finance Commission shall be advisory to the City Council with no authority to direct staff, and shall have the following duties:

- (a) Quarterly review of City’s financial status; review and comment on audit reports; review and comment on the proposed budget; and review and comment on items of extraordinary financial impact.
- (b) Make recommendations to the City Council with respect to budget priorities.
- (c) Review and comment on the City’s annual operating and capital improvement budgets.
- (d) Advise the City Council on matters of policy and public interest related to the management of the City’s finances and budget.
- (e) Serve as the Oversight Committee for Measure “A,” including providing an annual report, to ensure that utility user tax funds are spent in accordance with the voter approved measure adopted in June 2013.
- (f) Serve as the Oversight Committee for Measure “O,” including providing an annual report, to ensure that the sales tax revenues approved by Hercules voters are spent in accordance with the voter approved measure adopted in June 2012.
- (g) Take on any additional review and advisory functions assigned by the City Council by duly adopted resolution. (Ord. 519 § 2 (part), 2019: Ord. 481 § 1 (part), 2014)