



## **STAFF REPORT TO THE CITY COUNCIL**

**DATE:** Regular Meeting of May 22, 2018

**TO:** Members of the City Council

**SUBMITTED BY:** David Biggs, City Manager

**SUBJECT:** Property Tax Update

**RECOMMENDATION:** Receive report, discuss, and provide direction, if any.

**COMMISSION/SUBCOMMITTEE ACTION AND RECOMMENDATION:** Not applicable.

**FISCAL IMPACT OF RECOMMENDATION:** There is no direct impact from the consideration of this report. However, were the City successful in modifying its share of property taxes, there would be additional resources available to the meet community needs and support services.

**DISCUSSION:** The City of Hercules is classified as a low-to-no property tax jurisdiction, in that the City's share of the base 1% property tax rate is lower than most other jurisdictions at just under 4% of the total base property taxes collected in Hercules. This report will provide historical information about the low property tax share, how Hercules compares to other cities, and the steps the City is taking to perhaps modify that in the future.

The City's share of property tax has been of ongoing concern since the approval by California voters of Proposition 13 in 1978. The 2017 City Strategic Plan has an objective which relates to property tax as follow:

**Goal A: Strengthen Financial Stability**

**Strategy 1(b): Balance the Budget and Increase Revenues**

**Objective:** Push County and State elected officials to increase Hercules's share of each dollar of property taxes that is collected in Hercules.

## **Pre- 1978 Property Tax Rates**

Prior to 1978, local taxing agencies would establish their tax rates annually. The tax rate for a city like Hercules would generally be established by taking the amount of revenue the City needed to support its proposed budget for the upcoming year, after other resources were considered, divided by the assessed value of all properties in that community. Each tax agency in a community would undertake the same exercise, and the accumulation of these property tax rate levies became the total tax rate for that community.

While the City of Hercules has been incorporated since 1900, the City was primarily a company town with low service levels, consisting of two high value properties – the former dynamite plant and a refinery, and no residential population for much of that time. In 1970, the City of Hercules had a population of 252 people. The first residential subdivisions were occupied after 1975 and by 1980, the population had grown to be just 5,963 people, which meant fewer services were offered and expenses were relatively low. As such, prior to the passage of Proposition 13 in 1978, the City had a very low property tax rate.

## **Effects of Proposition 13**

In response to concerns about increasing taxes, driven in no small part by increasing home values, California voters approved Proposition 13 in 1978. This measure rolled back assessed values on properties, put a 1% total base tax rate cap for all taxing agencies combined, and limited future increases in assessed value to be no more than 2% per year.

The way the reallocation of tax rates worked with the Proposition 13, and the new 1% total base rate cap, was that each taxing agency received its percentage share of the pre-Proposition 13 total tax rate which greatly exceeded 1% as its share of the new 1% total base tax rate. The City of Hercules which levied a relatively low tax rate got locked into this percentage under the new 1% tax rate, with no ability to modify this base tax rate percentage. However, voters can approve special taxes in addition to the 1% base tax rate.

While well intended, the one-size fits all nature of a Statewide proposition had unintended consequences for which Hercules is a poster-child. As a relatively frugal, and small but growing community, Hercules found itself receiving a very small share of property taxes, while larger cities with more expansive services and programs which resulted in higher overall taxes were rewarded with a higher percentage share of local taxes. This inequity continues into present times. While the City of Hercules was initially harmed by Proposition 13, in subsequent years, the impact was also exacerbated by the loss of the high assessed value dynamite/fertilizer factory and refinery.

## **Post Proposition 13 Environment**

Initially, the State of California used its then budget surplus to mitigate for some of the effects of Proposition 13 on local government. Since then, true control of the allocation of property taxes has resided with the State of California.

Low to no property tax cities in a post-Proposition 13 environment were struggling in comparison to other cities. In response to this first decade of post-Prop 13 Experience, according to the firm of HdL Coren & Cone, a property tax adviser to cities:

“In 1989, the Legislature adopted AB 1197, which proposed to remedy this unintended consequence of Proposition 13. Since counties ended up with larger proportionate shares of the 1% levy per AB-8 in cities that had no or a very low share of the 1% levy, AB 1197 called for the phasing in of the equivalent of a 7% share of the general levy that would be taken from the county’s share and transferred to the Tax Equity Allocation (TEA) qualifying cities. The 7% portion would be phased in over a seven-year period beginning in 1989–90 to be completed in 1995–96. From 1989–90 through 1991–92, the allocation was transferred to the cities as a direct payment from the county.”

Based on calculations used by Contra Costa County in 1989, the City of Hercules was determined to be just above the 7% minimum property tax share established by the Tax Equity Act. The City of Hercules has identified that the calculations of this share made in 1989 may have been in error and the City should have been eligible for the Tax Equity Act minimum.

Even with the Tax Equity Act “fix” in place, low-to-no property tax cities continued to struggle. Subsequent raids on the post-Proposition 13 backfill by the State during lean budget years called Educational Revenue Augmentation Funds has resulted in the 7% minimum share being reduced to 6.6%, with similar reductions for non-TEA cities. This further impacted low-to-no property tax cities like Hercules.

One of the impacts of Proposition 13 was the acceleration of what is called the fiscalization of land use. As cities grappled with the loss of property tax revenues, they turned the pursuit of land uses which generated revenues like sales tax and hotel bed taxes, among others, as opposed to residential land uses which tended to only generate limited revenues and often not in an amount sufficient to offset the cost of providing services to these new residents.

This also led to an increase in the use of another tool provided to cities under State law to spur the elimination of blight and foster economic activity – Redevelopment. Many cities turned to redevelopment as a means to expand their tax base and provide services to their residents and to improve community. Under redevelopment, a geographic portion of a city is designated as a redevelopment project area. After that takes place, any of the growth in property taxes from the base 1% rate due to new development or redevelopment, which is called tax increment, is captured by the redevelopment agency for reinvestment back into the redevelopment project area.

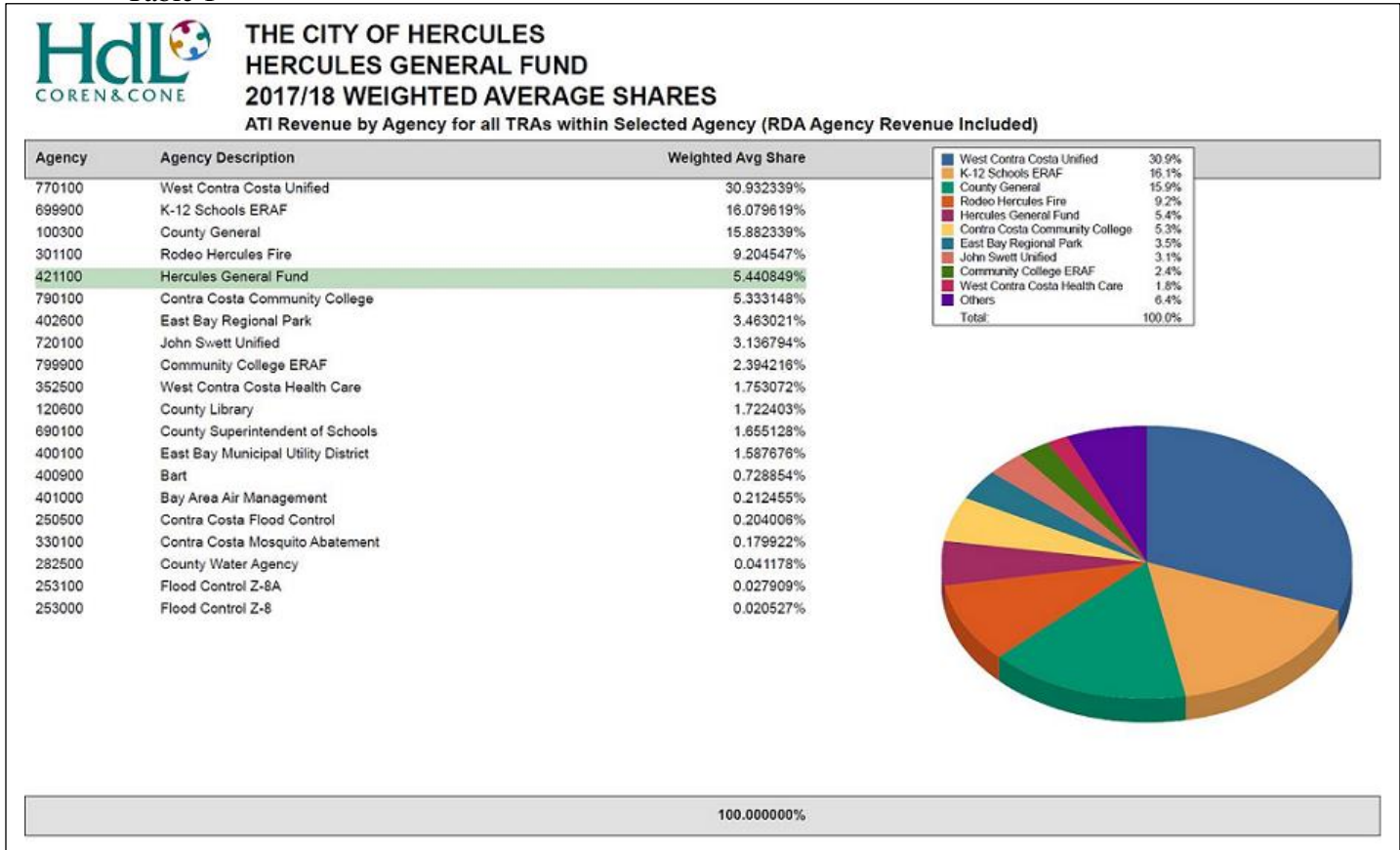
While redevelopment has the potential to assist a local community in bootstrapping itself into a better overall position financially, the diversion of tax increment does erode the overall percentage of property taxes which the City receives for its general fund.

As a low-to-no property tax city, Hercules embraced the use of redevelopment with much of the City’s former industrial areas and undevelopable or hard to develop areas placed in redevelopment projects areas. Redevelopment was used to facilitate the development of the Victoria by the Bay, the former refinery site, and other new residential communities which have been developed on portions of the former dynamite factory site. However, in 2011, the State of California dissolved redevelopment agencies and the anticipated future benefits therefrom are not being realized and the revenue stream from redevelopment has been diverted, in effect, to the State. As such, with redevelopment factored in, the City of Hercules continues to see its share of property taxes diminish as a percentage of the total property taxes collected in Hercules.

## Current Share and Allocations

Many residents do not realize the number of taxing agencies which share in the base 1% property tax rate here in Hercules. Set forth below is a graphic which shows all of the taxing agencies and their respective share of the 1% base rate. This does not factor in the diversion of tax increment due to redevelopment.

Table 1



The above only represents the base 1% tax rate. There are other voter approved overrides appearing on the local tax bill including school bond measures and parcel taxes for other taxing agencies, though none for the City of Hercules. In addition, there are certain other assessments and service charges, which are not taxes, which may also appear on a tax bill. These assessments and charges are subject to approval by separate processes not controlled by Proposition 13 but as authorized by State law and controlled by other initiatives like Proposition 218.

The magnitude of the range of local share of property taxes in Contra Costa County is illustrated in the chart and information below which is prior to the impact from redevelopment. The City of Hercules receives the second lowest share of the base 1% tax rate of all Contra Costa cities. When the loss of redevelopment is factored into the equation, the net share for Hercules drops to be 3.41% and as noted above, this will continue to decline as more development occurs in the former redevelopment project areas until the point in time where senior redevelopment obligations are repaid and some of the former tax increment starts to flow to the City based on the City's share of the base 1% tax rate.

Table 2

The average 1% property tax share levied in Contra Costa County is **11.93** cents.

The same is true for the State of California where the average share of all cities is between **11 and 12** cents.

The City of Hercules' 1% share is **5.4408¢**. Before the Educational Revenue Augmentation Fund (ERAF) shifts were implemented in the early 1990s, the County records show the City was receiving about **8.5176¢** share of the 1% general levy. Cities lost between 25% and 35%, on average, of their 1% levy due to the two ERAF shifts.



# CONTRA COSTA COUNTY - 2017/18

## REPRESENTATIVE GENERAL LEVY SHARE ESTIMATE

Estimate of City Representative Share of the General Levy

City	City Rate*	Other Rates*	Total
Richmond	0.2851	0.0027	0.2878
El Cerrito	0.2223		0.2223
Pinole	0.1884		0.1884
Pittsburg	0.1848		0.1848
Brentwood	0.1649		0.1649
Martinez	0.1592		0.1592
Antioch	0.1141		0.1141
Concord	0.1058		0.1058
San Pablo	0.0983		0.0983
Walnut Creek	0.0941	0.0030	0.0970
San Ramon	0.0959		0.0959
Oakley	0.0708	0.0121	0.0828
Danville	0.0762		0.0762
Pleasant Hill	0.0566	0.0183	0.0749
Orinda	0.0739		0.0739
Lafayette	0.0666		0.0666
Clayton	0.0663		0.0663
Hercules	0.0544		0.0544
Moraga	0.0532		0.0532
County Average:	0.1174	0.0019	0.1193

## Efforts to Increase Local Property Tax Share

Consistent with the Strategic Plan Objective discussed earlier, the City of Hercules is working to possibly increase its share of the 1% base property tax rate. City Staff, the City Attorney's Office and our property tax consultant and advisor HdL Coren & Cone have been reviewing the background information on how the City was determined to have not been eligible for the Tax Equity Act minimum in 1989. This has included securing records and information from the County Auditor Controller, the agency which did the calculations in 1989, and that information is now being assessed. Ultimately, if there is information which supports a recalculation, we will consult with the County on that calculation. However, since any recalculation would come out of the County's share of property taxes, it is likely that litigation may be necessary to get an adjustment made on a forward going basis.

An alternative strategy would be to seek some type of legislative resolution of the matter. Given the diverse interests of cities and the prospect for there to be winners and loser in such a readjustment, unless the State were to off-set these impacts with their resources, a legislative solution is not likely.



## Understanding Your Local Property Tax Bill

Each year, Hercules property owners receive a tax bill from the County Treasurer/Tax Collector. The tax bill is based upon the current assessed value of your property as determined by the County Assessor subject to the Proposition 13 limits on maximum changes in assessed value which is 2% a year unless a property is sold or improved.

The base 1% tax rate is applied to the assessed value and the property taxes due and payable to all of the taxing agencies per table 1 above. The other items appearing on your tax bill include any voter approved overrides for items like bonds and parcel taxes. Assessments also appear on your tax bill. In addition, the City of Hercules collects its sewer service charge, which is a charge for service like any other utility, on the tax bill, though this is not a tax.

A current illustrative local tax bill for a townhouse here is Hercules with footnotes is provided below:

Table 3

PROPERTY ADDRESS		ASSEESSEE AS OF JANUARY 1, 2017	
HERC			
PAY ONLINE AT <a href="http://WWW.CCTAX.US">WWW.CCTAX.US</a>		PROPERTY ASSESSMENT	
HERCULES CA		LAND 193,181 IMPROVEMENTS 236,233 PERSONAL PROP GROSS VALUE 429,414 EXEMPTIONS HOMEOWNERS 7,000 NET VALUE ON JAN. 1, 2017 422,414	
SEE BACKSIDE FOR MORE INFORMATION IMPORTANT MESSAGE(S) TO TAXPAYER			
Asterisk (*) next to special tax or assessment below indicates SENIOR exemption may be available. Call number next to asterisk below for further information.			
PARCEL NUMBER	BILL NUMBER	TRA	ISSUE DATE
04001	09/15/2017	ORIGINAL	
SPECIAL TAXES & ASSESSMENTS		AD VALOREM TAXES & ASSESSMENTS	
DESCRIPTION	CODE	INFORMATION	AMOUNT
③ HERCULES 83-2 Z1	BE	(925) 867-3400	58.24
MOSQUITO & VECTOR	DV	(925) 867-3400	3.12
④ EMERGENCY MED B	DY	(925) 846-4690	10.00
HERCULES SEWER	GP	(510) 799-8247	625.80
③ HERCULES 83-2 Z10	G7	(925) 867-3400	120.44
FED STORMWATER A-6	II	(925) 313-2023	35.00
SFBRA PCL TAX	18	(888) 508-8157	12.00
② WCCUSD ASSESSMENT	JA	(800) 273-5167	72.00
EASTBAY TRAILS LLD	KA *	(888) 512-0316	5.44
RODEO/HERC FIRE	KI	(510) 799-4561	111.00
WCC HEALTH-PRCL TX	NR	(888) 807-6864	52.00
TOTAL SPECIAL TAXES & ASSESSMENTS			1,105.04
DESCRIPTION	RATE	AMOUNT	
① 1% COUNTYWIDE TAX	1.0000	4,224.13	
ADD:			
BART	.0063	26.61	
BART BOND 2016	.0021	8.87	
EAST BAY REG PK BD	.0021	8.87	
WEST CC UNIF BD 98	.0053	22.39	
WCC UNIF BOND 2000	.0184	77.72	
② WCCUSD 2002 BOND	.0800	253.45	
WCC UNIF BOND 2005	.0600	253.45	
WCCUSD 2010 BOND	.0480	202.76	
WCCUSD 2012 BOND	.0480	202.75	
OTHER BONDS/ TAX	.0114	48.16	
TOTAL AD VALOREM TAXES	1.2616	5,329.16	
ADD: SPECIAL TAXES & ASSESSMENTS		1,105.04	
DELINQUENT PENALTY		0.00	
DELINQUENT COST		0.00	
LESS: PAYMENTS RECEIVED		0.00	
TOTAL AMOUNT DUE			6,434.20

Notations:

1. The 1% base rate generated taxes which is allocated to all taxing agencies by the percentages shown in Table 2. The City of Hercules share outside a redevelopment project area is 5.44% which for this property would be \$229.80 of the \$4,224.13 in base taxes.
2. West Contra Costa Unified School District Bonds, Assessments, and Parcel Taxes, which for this property total \$1,084.53, together with their 47% share of the 1% base taxes of \$1,985.34 total \$3069.87.
3. Two Landscape & Lighting District assessments are highlighted and contribute to the annual cost of operating the City and provide neighborhood specific services. Hercules 83-2 Zone 10 is a city-wide assessment and the funds generated pay for the maintenance of City parks and facilities. Hercules 83-2 Zone 2 is a neighborhood Landscape & Lighting assessment which pays for a neighborhood park, open space maintenance, street lighting, landscaping, and other neighborhood services.
4. The annual fee for the provision of sewer services is collected by the City via the property tax bill instead of being separately billed and collected.

**Summary & Conclusions**

Property taxes and local government finance have become very complicated in California due to voter initiatives and actions of the State of California. These complications confuse our residents and property owners as there is little to no connection between the tax bill which they receive, the total amount paid, and the services received. Many people mistakenly believe that the City receives much more of the property taxes they pay than Hercules actually receives. This is a very common phenomenon throughout the State of California, however it is especially magnified in low-to-no property tax cities.

The City of Hercules works to provide the best services possible with the resources allocated to us by the property tax system and other local measures and revenues. Securing a higher share of the local property tax share, while desirable, is an uphill battle. Though, we are actively engaged in moving towards a resolution one way or another towards that goal.

**ATTACHMENTS:** None