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## Orinda's Council Evaluates Revenue Options

By Andrea A. Firth

FAC Review of Orinda's New Revenue Options		
Revenue Source	Revenue Potential	Pro/Cons
Assessment Districts	Determined by each District	<ul style="list-style-type: none"> <li>Tailored to needs of a specific neighborhood</li> <li>Requires majority vote of property owners</li> <li>Set up necessitates lots of Staff work; ongoing administrative costs of \$2K-\$5K/year</li> </ul>
City Sales and Use Tax	\$370,000/year per .25% tax rate	<ul style="list-style-type: none"> <li>Requires majority vote for general use and 2/3 vote if specific</li> <li>Administrative work is low, but State can slow payments</li> <li>May negatively impact Orinda sales; less stable due to fluctuations in gas prices</li> <li>More expensive to tax payer than other local taxes</li> </ul>
Property Tax: Parcel Tax/General Obligation Bond	For a tax of \$100/parcel: \$670,000/year or a \$13 million bond for 30 years at 3%	<ul style="list-style-type: none"> <li>Always requires 2/3 voter approval</li> <li>Long-term residents don't like this tax</li> <li>Can be structured with inflators and no sunset</li> </ul>
Property Tax: Ad Valorem Tax/General Obligation Bond	At a .1 mill rate: \$440,00 per year or a \$8.6 million bond for 30 years at 3%	<ul style="list-style-type: none"> <li>Requires majority vote for general use and 2/3 vote if specific</li> <li>New homeowners object to this tax</li> <li>Annual revenue can fluctuate up or down</li> </ul>
Real Estate Tax Transfer	At a 1% rate, about \$2 million a year	<ul style="list-style-type: none"> <li>Requires Charter City status</li> <li>May only be used for general purpose</li> <li>Realtors may object</li> </ul>
Utility Users' Tax	At an 8% rate: from \$4 million per year, Securitization possible	<ul style="list-style-type: none"> <li>Requires majority vote for general use and 2/3 vote if specific</li> <li>Based on utility usage and can include cable, phone, and internet</li> </ul>

New taxes may be the solution posed to Orindans as a way to get their crumbling roads repaired. At the November 17th City Council meeting, Carol Penskar, Chair of the Finance Advisory Committee (FAC), provided a detailed review of five new funding sources from taxation that can provide the City with annual revenues or be securitized. Some of the taxes are familiar to voters, such as property taxes like parcel and ad valorem taxes, while other revenue possibilities venture into new tax territory for Orinda residents. Working off the recommendations of Orinda's Revenue Enhancement Task Force from last year, the FAC researched the revenue options and spoke with representatives from other municipalities, the County, and the State to get a complete picture. The revenue options outlined were assessment districts, a city sales and use tax, property tax additions, a real estate transfer tax, and a utility users' tax. These options are summarized below and in the adjacent table.

Assessment Districts. Special assessments are commonly levied for public land improvements such as street repair, lighting, and landscaping. Orinda currently has five assessment districts. Formed by a majority vote of the landowners, these assessments can only be used to benefit the properties defined by the district, i.e., the specific neighborhood. A disadvantage of this special tax is the considerable up-front work required. Council Member Amy Worth stated that it may be problematic to aggressively promote the establishment of special assessment districts throughout the City, however she noted that the assessment district option does not require a ballot measure.

City Sales and Use Tax. If a tax of .25% were added to goods sold in Orinda and purchases delivered from outside Orinda, such as

vehicles, the City could raise about \$370,000 annually (\$220,000 from local sales and \$150,000 from vehicle sales and leases). The current sales tax in Orinda is 9.25% of which the City keeps 0.95%. Richmond, Pinole, and El Cerrito have enacted 0.5% taxes of this sort, but these cities border Berkeley and Oakland that have comparably higher tax rates.

Council members acknowledged the disadvantage this tax could present to local business owners, and the FAC described the variability of the revenue source posed by fluctuating gas prices. According to Penskar, the administrative work associated with the tax is low, however the money is disbursed by the State and payments can be slowed when the State's cash flow is tight. This tax requires a majority or two-thirds vote depending upon the tax's use, general or specific, and presents an income tax disadvantage to individuals as compared to other local taxes.

Parcel Tax. The two-thirds voter approval required to pass a parcel tax is a formidable obstacle to these flat-rate property taxes. An annual parcel tax of \$100 would generate about \$670,000 annually for the City and would support a \$13 million bond for 30 years at an interest rate of 3%. Long-term residents with lower property values, especially those on fixed incomes, often object to parcel taxes. The local school districts and the Orinda Library have recently been able to pass fixed rate parcel taxes with no expiration.

Ad Valorem Tax. The ad valorem tax can be passed with a majority vote for a general measure; 2/3's voter approval is necessary for a specific measure. At a 0.1 mill rate, an ad valorem tax would yield \$440,000 a year for the City, and this amount could service an \$8.6 million bond for 30 years at a 3% interest rate. Because the tax is based on assessed property value, new homeowners generally object. The potential for fluctuation in property values lends some variability to this revenue source.

Real Estate Transfer Tax. In addition to serving as a potentially significant source of revenue, the big change for Orinda associated with the real estate transfer tax is the Charter City requirement. Currently, Orinda is a general law city. To become a Charter City requires a majority voter approval in a General Election. The benefit of becoming a Charter City is the ability to exercise more control over day-to-day operations. Lafayette and Moraga are also investigating Charter City status.

The real estate transfer tax is imposed when a property is sold, and the liability is on the seller. The tax may only be used for general purposes. Real estate transfer tax rates in the area range from \$2.00 (Santa Rosa) to \$15.00 (Berkeley, Oakland) per \$1,000 sales value. A real estate transfer tax of 1% (\$10,000 on a \$1 million home) would generate a little over \$2 million a year for Orinda. The Council Members discussed the fact that the real estate markets across Lamorinda are tightly linked, and this tax would likely raise objections from realtors in the city.

Utility Users' Tax. Several communities now tax their residents' consumption of household utilities (e.g., gas, electricity), cable, phone, and Internet services.

The tax requires a majority or 2/3's voter approval depending upon whether it is designated for general or specific purpose. The average utility users' tax rate in Contra Costa County is 8%. In Orinda, this rate would generate annual revenue of approximately \$3,970,000 that can likely be securitized.

Non-Revenue Funding Options. The FAC also evaluated two non-revenue funding options—a draw down of the City reserves and improving the operating budget margin. In both cases the FAC concluded that these options were not viable revenue sources for the

City. Back in April of this year, the FAC advised the City Council to maintain its current level of reserves as a prudent measure to protect the City against a State tax grab or further economic downturn. The FAC's annual report issued in September concluded that City services are delivered in a cost-effective way and further cutting of the operating budget would curtail services. Penskar did note that the cost of police services through the Sheriff's Department is an area of the budget that the City can not control.

Next Steps. No one new revenue source will be able to address the City's infrastructure needs, noted Mayor Sue Severson. The Council will get an idea of how much it will cost to get an acceptable road network in Orinda when the Citizen's Infrastructure Oversight Commission presents its plan at the December 15th City Council meeting. The City tentatively plans to conduct a public opinion poll regarding proposed solutions to the infrastructure problem in early 2010.

Reach the reporter at: [andrea@lamorindaweekly.com](mailto:andrea@lamorindaweekly.com)

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