



City of Huntington Beach

File #: 19-471

MEETING DATE: 5/20/2019

REQUEST FOR CITY COUNCIL ACTION

SUBMITTED TO: Honorable Mayor and City Council Members

SUBMITTED BY: Lori Ann Farrell Harrison, Interim City Manager

PREPARED BY: Gilbert Garcia, Chief Financial Officer

Subject:

Adopt Resolution No. 2019-25 authorizing the City to levy the Annual Retirement Property Tax For Fiscal Year 2019/20 to pay for Pre-1978 Employee Retirement Benefit Levels

Statement of Issue:

The retirement property tax has been levied each year since 1966. The retirement property tax is collected on all real property in the City of Huntington Beach to recover costs related to pre-1978 public employee retirement benefit levels. On July 16, 2012, the City Council adopted Chapter 3.07 of the Municipal Code, the Retirement Tax Cap. The Retirement Tax Cap states that the tax rate "shall be set at the rate adopted for Fiscal Year 2012/13, which is \$0.01500 per \$100 of assessed valuation."

Financial Impact:

Pursuant to Chapter 3.07 of the Municipal Code, the Proposed Budget for Fiscal Year 2019/20 assumes the continuation of the Retirement Tax Cap of \$0.01500 per \$100 of assessed value. As of the most recent audited financial statements, this tax rate resulted in \$5.6 million in General Fund revenue in Fiscal Year 2017/18. This recurring revenue source is included in the Proposed FY 2019/20 Budget; hence, any reductions in the tax rate would potentially result in proportionate ongoing General Fund budget reductions.

Recommended Action:

Adopt Resolution No. 2019-25, "A Resolution of the City Council of the City of Huntington Beach Levying a Retirement Property Tax for Fiscal Year 2019/20 to Pay for Pre-1978 Public Employee Retirement Benefits" of \$0.01500 per \$100 of assessed valuation. The tax rate of \$0.01500 would continue the tax rate included in the current Fiscal Year 2018/19 Adopted Budget.

Alternative Action(s):

Do not approve the recommended action and direct staff accordingly.

Analysis:

On July 16, 2012, the City Council adopted an ordinance to permanently cap the tax rate at \$0.01500

per \$100 of assessed valuation. Therefore, the requested tax levy for FY 2019/20 reflects the same tax rate of \$0.01500 per \$100 of assessed valuation effective in FY 2012/13 pursuant to Chapter 3.07 of the Municipal Code. Fiscal Year 2019/20 will represent the eighth year of the application of the permanent cap.

As background, on June 25, 2012, the Registrar of Voters of the County of Orange certified a measure to be placed on the ballot to repeal the Employee Tax Override in its entirety. However, on November 6, 2012, the ballot measure, known as Measure Z, was defeated by a majority of Huntington Beach voters.

The current capped Employee Tax Override results in an approximate \$75 annual tax levy for a property assessed at \$500,000. Revenue generated from this property tax helps the City fund employee pension costs associated with pre-1978 retirement benefit levels. As such, the tax can only pay for the estimated costs associated with the pension benefit formulas in place prior to the enactment of Proposition 13 on July 1, 1978. Hence, the tax can only pay for retirement benefits for all retired, current, and future City employees that were contracted for prior to July 1, 1978 (such as the 2% at 50 benefit formula for Safety employees in place before enactment of Proposition 13).

Please note that even before the adoption of a permanent cap, this assessment has not been increased since Fiscal Year 2009/10, and can now only be modified by a vote of the electorate as the adoption of the Retirement Tax Cap contained in Chapter 3.07 of the Municipal Code established a permanent cap. Based on the most recent CalPERS actuarial valuations the cost of pre-1978 retirement benefit levels for Safety personnel total \$24.8 million. As such, the proposed tax rate is recouping only 24 percent of eligible Safety personnel retirement costs.

Due to the County of Orange's timeline for approving the tax rate and the city's budget cycle, the rate must be set before the City Council takes action on its annual budget. The recommended assessment rate helps the City maintain essential General Fund services in the Fiscal Year 2019/20 budget.

Environmental Status:

Not applicable

Strategic Plan Goal:

Strengthen long-term financial and economic sustainability
Enhance and Maintain Public Safety

Attachment(s):

1. Resolution No. 2019-25 "A Resolution of the City Council of the City of Huntington Beach Levying a Retirement Tax for Fiscal Year 2019/20 to Pay for Pre-1978 Public Employee Retirement Benefits."
2. Ordinance No. 3954 "An Ordinance of the City of Huntington Beach Amending the Huntington Beach Municipal Code by Adding Chapter 3.07 Relating to Capping the Retirement Property Tax at Fiscal Year 2012/13 Rates."

