

## MEMORANDUM

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**TO: JOHN DOWNS, DIRECTOR OF FINANCE  
CITY OF PALOS VERDES ESTATES**

**FROM: DANIELLE WOOD, ASSOCIATE DIRECTOR  
REENA ARVIZU, FINANCIAL ANALYST**

**CC: FIRE AND PARAMEDIC SERVICES FUNDING COMMITTEE**

**SUBJECT: EVALUATION OF FIRE AND PARAMEDIC SERVICES SPECIAL TAX RATE FORMULAS**

**DATE: SEPTEMBER 23, 2016**

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On March 6, 2007, by over a two-thirds majority, the voters of the City of Palos Verdes Estates (the "City") approved the establishment of the City's Fire and Paramedic Services Special Tax (the "Special Tax"). The Special Tax funds the cost of fire and paramedic services throughout the City and associated administrative expenses. The Special Tax was to be levied for a period of 10 years beginning with Fiscal Year 2007/08. The Special Tax sunsets on June 30, 2017 and, as such, the City has formed the Fire and Paramedic Services Funding Committee (the "Committee") in order to formulate and recommend a ballot measure to renew the Special Tax in 2017.

The City retained NBS to participate in a meeting with the Committee, provide an overview of the existing Auditor's Report and prepare an evaluation of alternative methods to levying the Special Tax, as recommended by the Committee. The City and Committee requested that the following alternatives be evaluated and compared to the existing Special Tax formula:

1. Reduce the rates of the Special Tax to the rates applied in Fiscal Year 2007/08, when the Special Tax was approved
2. Apply a flat tax to all parcels
3. Apply a formula that narrows the range between the lowest and highest tax payers

The following provides an overview of the Special Tax and a summary of the most recent levy:

- There are currently 5,192 taxable parcels within the City.
- Special Tax revenue amounted to approximately \$4,708,600 for Fiscal Year 2016/17.
- The Fiscal Year 2016/17 estimated budget (fire/paramedic services and administrative costs) amounted to \$4,664,668.
- For Fiscal Year 2016/17, there is expected to be a surplus in revenue collected compared to the amount necessary to fund the activities and services outlined in the budget and, as a result, approximately \$43,950 will be deposited into the City's Fire and Paramedic Services Special Tax Operating Fund.
- The Special Tax rates applied to taxable parcels do not differ by land use classification.
- All vacant parcels are levied a base rate.
- All developed parcels are levied a base rate plus the improvement rate per building square foot (SF).
- The average Special Tax levied per parcel in Fiscal Year 2016/17 is \$906.90.

The following table summarizes the land use classifications of parcels within the City and Special Tax revenue for Fiscal Year 2016/17:

Land Use	Number of Parcels	Building SF	Base Rate/Parcel	Improvement Rate/ Building SF	Total Special Tax Revenue for FY 2016/17 <sup>(1)</sup>
Single Family Homes	4,924	15,317,618	\$328.16	\$0.187952	\$4,494,836.78
Condo/Multi-Family Residential	172	427,053	328.16	0.187952	136,708.99
Commercial	28	242,466	328.16	0.187952	54,760.45
Vacant (Undeveloped)	68	0	328.16	0.000000	22,314.88
<b>Totals</b>	<b>5,192</b>	<b>15,987,137</b>	--	--	<b>\$4,708,621.09</b>

(1) May not total due to rounding.

By utilizing the parcel dataset used to calculate the Fiscal Year 2016/17 Special Tax, NBS has modeled the three alternatives previously outlined and the findings of the alternatives are summarized within this memorandum.

### Alternative 1: Reduce the Rates to Fiscal Year 2007/08 Level

Alternative 1 applies the base and improvement rates from Fiscal Year 2007/08 to the current parcel dataset. The reduction of rates results in a 23.7% decrease in the Special Tax levy to each parcel.

As shown below, reducing the rates to the Fiscal Year 2007/08 level results in an estimated \$3,593,000 in revenue, which is approximately \$1,071,600 less than the amount required to fund the services outlined in the Fiscal Year 2016/17 budget.

Number of Parcels	Building SF	Base Rate/Parcel	Improvement Rate/ Building SF	Estimated Special Tax Revenue
5,192	15,987,137	\$250.41	\$0.143422	\$3,593,035.88

### Alternative 2: Apply a Flat Tax

Alternative 2 applies a flat tax to all parcels within the City based upon the current Fiscal Year 2016/17 budget of \$4,664,668. The flat tax rate was determined by dividing the Fiscal Year 2016/17 budget by the number of taxable parcels. This results in a flat tax amount equivalent to \$898 per parcel, or rounded to \$900.

As shown below, applying a flat tax of \$900 evenly among every taxable parcel in the City results in an estimated \$4,672,800 in revenue, which provides sufficient revenue to fund the services outlined in the Fiscal Year 2016/17 budget.

Number of Parcels	Flat Tax Rate/Parcel	Estimated Special Tax Revenue
5,192	\$900.00	\$4,672,800.00

### Alternative 3: Apply a Tiered Rate Structure

Alternative 3 provides a formula that narrows the range between the lowest and highest Special Tax payers by applying a tiered rate structure based upon the size of improvements on a parcel. The following rates have been applied to taxable parcels:

Building SF	Number of Parcels	Rate/Parcel	Estimated Special Tax Revenue
Vacant (Undeveloped)	68	\$500.00	\$34,000.00
2,000 SF and Under	1,198	800.00	958,400.00
2,001 SF to 3,000 SF	1,829	850.00	1,554,650.00
3,001 SF to 4,000 SF	1,137	900.00	1,023,300.00
4,001 SF and Greater	960	1,150.00	1,404,000.00
<b>Totals</b>	<b>5,192</b>	<b>--</b>	<b>\$4,674,350.00</b>

It is estimated that \$4,674,350 can be realized by applying the Alternative 3 tiered rates, which provides sufficient revenue to fund the current year's services.

### Summary of Alternatives to Existing Methodology

The following table summarizes the estimated revenue that may be collected by applying the various alternative Special Tax formulas:

Estimated	Existing Methodology	Alternative 1	Alternative 2	Alternative 3
Estimated Annual Revenue	\$4,708,621.09	\$3,593,035.88	\$4,672,800.00	\$4,674,350.00
FY 2016/17 Budget	(4,664,668.00)	(4,664,668.00)	(4,664,668.00)	(4,664,668.00)
Surplus/(Deficit)	\$43,953.09	(\$1,071,632.12)	\$8,132.00	\$9,682.00

As shown, Alternative 1 which reduced rates to the Fiscal Year 2007/08 level does not provide sufficient revenue to fund the current year's fire and paramedic services budget. The balance will need to be funded by an unrestricted revenue source.

Alternative 2, which applies a flat tax of \$900 on all taxable parcels regardless of the size of the property or the amount of improvements that are developed on the property, provides sufficient revenue to fund the current year's budget.

Alternative 3 provides sufficient revenue to fund the current year's budget while also narrowing the range between parcels with smaller structures and parcels with larger structures. Narrowing the range between the lowest and highest tax payers by using the tiered rates slightly increases the Special Tax to parcels with smaller structures and decreases the Special Tax to parcels above the 4,000-SF threshold.

In order to illustrate the impact that one alternative has over another, the following sample Special Tax calculations, by building size, are provided below:

Alternative	Vacant Parcel	2,000 SF Building	2,500 SF Building	3,000 SF Building	4,000 SF Building	8,000 SF Building	12,000 SF Building
Existing	\$328.16	\$704.06	\$815.90	\$892.02	\$1,079.97	\$1,831.78	\$2,583.58
1	250.41	537.25	622.59	680.68	824.10	1,397.79	1,971.47
2	900.00	900.00	900.00	900.00	900.00	900.00	900.00
3	500.00	800.00	850.00	850.00	900.00	1,125.00	1,125.00

## Conclusion

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Parcel taxes are a major source of revenue for many communities throughout California. Since a parcel tax requires two-thirds voter approval, there are several items that the City and Committee should consider when selecting the special tax formula:

- Equity – A tax on building square footage can be perceived as more equitable than a flat tax because the level of funding is proportionate to the improvements located on the parcel and the level of services that are provided to that parcel.
- Stability – Taxpayers may be more receptive to approving a tax that contains clearly defined increases, which do not cause sudden and unexpected fluctuations to their property tax bill.
- Growth – The tax rate(s) should account for inflation, economic changes, and changes to the level of services to be provided.

Regardless of the proposed special tax formula, the formula should be objective and easily understood by voters.