Budget Resolution
June 4, 2019
Appendix D

CITY OF EMERYVILLE

COMMERCIAL PROPERTY TRANSFER TAX POLICY

Purpose
The purpose of this policy is to provide guidance for the allocation of commercial property transfer tax revenue to ensure proper funding for capital projects, pension obligations, and other important city projects.

Background
The City received a portion of the County real estate transfer tax ($0.55 per $1,000 of sale) prior to January 1, 2015. The passage of Measure V in November 2014 enabled the City to collect $12 per $1,000 of property value per transaction. Revenue from this source is dependent on the level of real estate activity in the City.

Allocation to Capital Improvement Program
On June 21, 2016, as part of the 2016-18 budget adoption the City Council approved a policy committing revenues from "commercial" real estate transfer tax to support the City's capital program. Commercial property transfer tax is unpredictable and specific projects can be phased to match the timing when this revenue is realized. In some years, commercial property transfer tax may exceed budgeted revenue resulting in excess funds.

Allocations to Pension Reserve/Trust and Other Discretionary Projects
Pension costs are expected to increase significantly in the future due to CalPERS discount rate reductions and shorten amortization periods. Key actuarial assumptions such as retirement formula, annual payroll growth, projected investment returns, retirement age, and retiree life expectancy may also impact the City's unfunded pension liabilities.

The City is committed to funding its pension obligations and has established a Pension Reserve/Trust to prefund its pension liabilities. The City desires to contribute excess commercial property transfer tax to the Pension Reserve/Trust.

In a two-year budget cycle, if the commercial property transfer tax revenue exceeds the budget, including budget adjustments made during that budget cycle, 50% of the excess funds shall be allocated either toward the annual contribution payments of the City's pension costs or to the Pension Reserve/Trust, and the remaining 50% shall be allocated to any one-time expenditures based on City Council direction.

The Finance Department shall calculate the excess funds after the City's annual audit and Comprehensive Annual Financial Report have been published. Before funding pension costs and other one-time expenditures, the Finance Department shall review the fund balance in the Capital Project Fund to ensure resources are available to fund capital projects. In some budget cycles, actual revenues may be lower than budgeted revenues resulting in a funding deficiency. Allocations shall be adjusted accordingly before submitting budget adjustments/projects to City Council for consideration.

For example, if the amount of excess funds is $1,000,000 from a budget cycle and the funding deficiency is $200,000 from a prior budget cycle, the amount that is available for allocation is $800,000, including $400,000 for pension costs and $400,000 for other one-time expenditures.

Conclusion

The Commercial Property Transfer Tax Policy ensures adequate funding for the City's Capital Improvement Program, pension liabilities, and other important city projects.