

# City of Hesperia

## STAFF REPORT



**DATE:** September 18, 2018

**TO:** Mayor and Council Members

**FROM:** Nils Bentsen, City Manager

**BY:** Rachel Molina, Assistant to the City Manager  
Julie Ryan, Management Analyst

**SUBJECT:** Resolutions Supporting Statewide Propositions on the November 6, 2018 General Election Ballot

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### RECOMMENDED ACTION

It is recommended that the City Council adopt Resolution No. 2018-60, supporting Proposition 6, which would repeal Senate Bill 1 (SB 1), known as the "Road Repair and Accountability Act" and adopt Resolution No. 2018-61, supporting Proposition 5, the Property Tax Transfer Initiative, which would amend Proposition 13.

### BACKGROUND

Voters will be asked to weigh in on a variety of proposed statewide ballot measures during the November 6, 2018, General Election. At the request of Council Member Brosowske, it is recommended that the City Council take a support position on Proposition 6 and Proposition 5.

#### Proposition 6

On April 28, 2017, the Governor signed SB 1, the 2017 transportation tax and fee bill, which is funded by the newly established Road Maintenance and Rehabilitation Account (RMRA), and receives four sources of new revenue to address basic road maintenance, rehabilitation and critical safety needs on both the state highways and local streets and road system. RMRA sources of funds include increases to the fuel excise taxes, diesel fuel sales taxes, and vehicle registration fees.

SB 1 established the Road Maintenance and Rehabilitation Account and funds it with revenues derived from the following sources, all of which are indexed to inflation on an annual basis:

- Effective November 1, 2017, an increase in the gasoline excise tax of 12 cents per gallon. This adjustment restores the purchasing power of the gasoline excise tax to 1994 levels.
- Effective November 1, 2017, an increase of 20 cents per gallon in the diesel excise tax. Under the provisions of SB 1, half of the revenues from this increase would be deposited into the Road Maintenance and Rehabilitation Account. The other 50 percent would go to a new Trade Corridor Enhancement Program for corridor-based freight projects nominated by local agencies and the state from submitted grant applications.
- Effective January 1, 2018, a new transportation improvement fee assessed per year by the Department of Motor Vehicles (DMV) that will range from \$25 to \$175 based on the market value of an individual's vehicle.
- Effective July 1, 2020, a new vehicle registration surcharge of \$100 per year imposed on zero-emission vehicles. This surcharge will be paid starting with the second year of ownership of a new zero-emission vehicle model year 2020 or later.

These revenues are distributed to a range of existing transportation and cap-and-trade programs such as the State Highway Operation and Protection Program (SHOPP), the State Transit Assistance (STA) Program and Active Transportation and Transit and Intercity Rail Capital (TIRCP) programs, as well as newly established categories created by SB 1. These new categories include the Local Streets and Roads Program, the Solutions for Congested Corridors program, the Trade Corridors Enhancement Program and the Local Partnership Program.

It is important to note that funds raised by the gasoline tax are dedicated to road maintenance and rehabilitation and split 50/50 between the State Highway Program and Local Streets and Roads. It is the diesel tax along with a portion of the transportation fee that funds transit and rail.

When all taxes and fees are in effect in 2021, the following sources are projected to generate significant statewide revenues:

- Gasoline Excise Tax: \$2.4 billion
- Diesel Excise Tax: \$700 million
- Zero Emission Vehicle Registration Fees: \$18 million

On June 25, 2018 the California Secretary of State announced that proponents of a repeal of Senate Bill 1 (Beall) the "Road Repair and Accountability Act of 2017" (SB 1) had garnered enough valid signatures to place the measure before California voters in the general election on November 6, 2018.

California State Transportation Agency (CalSTA) has indicated that, if Proposition 6 is passed by the voters and SB 1 were to be repealed, their stated goal would be to try to support the completion of projects that are currently under construction, and to wind down SB 1 programs by discontinuing future grant awards.

### Proposition 5

Proposition 5 is an amendment to California Proposition 13, the Tax Limitations Initiative, which was first on the ballot for the election on June 6, 1978. Voters approved Proposition 13 that required properties be taxed at no more than 1 percent of their full cash value shown on the 1975-1976 assessment rolls and limited annual increases of assessed (taxable) value to the inflation rate or 2 percent, whichever was less. When a property is sold or transferred to new owners, however, the property is reassessed at 1 percent of its full cash value and the limit on increases to assessed value resets.

In 1986, voters approved Proposition 60, which amended Proposition 13 to allow homeowners over the age of 55 to transfer the taxable value of their present home to a replacement home, assuming the replacement home was of equal or lesser value, located within the same county, and purchased within two years of selling the original home.

Proposition 13 was again amended in 1988 when voters approved Proposition 90, which allowed qualified homeowners age 55 or older to transfer the current taxable value of their original home to a replacement home in another county, but only if the county in which the replacement home is located agrees to participate in the program.

Proposition 5, if passed, would amend Proposition 13 again to allow homebuyers who are age 55 or older or severely disabled to transfer their tax assessments between any counties, not just the counties adopting ordinances for the transfers.

## **ISSUES/ANALYSIS**

### **Proposition 6**

The majority of revenues generated by fuel tax increases flow into the State's Road Maintenance and Rehabilitation Account (RMRA) and are then distributed to formula and competitive grant programs such as:

- Local Streets and Roads Program (\$1.5 billion);
- Local Partnership Program (\$200 million);
- Active Transportation Program (\$100 million);
- State Highway Operation and Protection Program (\$1.5 billion); and
- State Transportation Improvement Program.

SB 1 was enacted into law on April 28, 2017, without a vote by the people. As of 2018, increasing a tax in California requires a two-thirds vote of each state legislative chamber and the governor's signature. Proposition 6 would create the additional step of voter approval (via ballot propositions), along with legislative passage and the governor's signature, to impose, increase, or extend fuel taxes or vehicle fees. The requirement that tax increases receive voter approval would affect taxes and tax rates enacted after January 1, 2017, meaning fuel taxes and vehicle fees that were created or increased in 2017 or 2018 would be repealed. This would have the effect of repealing the Road Repair and Accountability Act of 2017 (RRAA), which the state legislature approved along party lines in April 2017.

### **Proposition 5**

California Proposition 13, the Tax Limitations Initiative, was on the ballot for the election on June 6, 1978. Voters approved Proposition 13, with 64.79 percent voting for passage. Proposition 13 required that properties be taxed at no more than 1 percent of their full cash value shown on the 1975-1976 assessment rolls and limited annual increases of assessed (taxable) value to the inflation rate or 2 percent, whichever was less. When a property is sold or transferred to new owners, however, the property is reassessed at 1 percent of its full cash value and the limit on increases to assessed value resets.

Proposition 5 would amend Proposition 13 to allow homebuyers who are age 55 or older or severely disabled to transfer the tax-assessed value from their prior home to their new home, no matter (a) the new home's market value; (b) the new home's location in the state; or (c) the number of moves. As of 2018, homebuyers over 55 years of age were eligible to transfer their tax assessments from their prior home to their new home if the new home's market value is equal to or less than the prior home's value and once in their lifetimes. Furthermore, counties, not the state, decide whether tax assessments can be transferred across county lines.

If the new home is a different value than the prior home, the initiative would allow for an adjusted value between the old and new values. If the new home has a higher market value

then the prior home, the assessed value would be adjusted upward. If the new home has a lower market value than the prior home, the assessed value would be adjusted downward

The change to Proposition 13 through the amendments proposed by Proposition 5 is important because seniors, who are often on a fixed income, fear they will not be able to afford a big property tax increase if they sell their existing home and buy another one, discouraging them from ever moving. As a result of this “moving penalty” almost three-quarters of homeowners 55 and older haven’t moved since 2000.

## **FISCAL IMPACT**

While there is significant fiscal impact if Proposition 6 is approved and SB 1 is repealed, there is no impact with approval of these recommendations.

The following represents revenues the City would lose if the Propositions pass:

### Proposition 6:

- SB 1 Local Partnership Program Grant Award: \$3.9 million for Ranchero Road.
- SB 1 Sustainable Communities Planning Grant Award: \$238,146 for I Avenue Alignment Study.
- SB 1 Local Funding: \$1.56 million for Main Street pavement rehabilitation from La Junta to the west.

### Proposition 5:

- The possibility of some annual property tax losses that help pay for infrastructure and public safety.
- This possibility is unlikely as this region tends to have lower assessed values than surrounding areas.

## **ALTERNATIVES**

1. Do not support the Propositions.
2. Take no position.
3. Provide further direction to staff.

## **ATTACHMENT**

1. Resolution No. 2018-60
2. Resolution No. 2018-61