

# **Middletown Tax Exploratory Committee**

## **Minutes:**

- Tax Committee met at the Middletown Fire Station**

- Aug 24, 2016**

- Meeting called to order at 6:35 p.m.**

- Attendees:**

- Antone Viveiros - President**

- Larry Connell - Secretary**

- Tom Heaney - Member**

**•Dana Gelb - Resident**

**Purpose: Examine the way the Town of Middletown assesses and levies property taxes.**

**Objective: Compare and contrast alternative methods for levying residential property taxes. Present findings and recommendations to the Middletown Town Council.**

**Old Business:**

**•Approval of minutes.**

**•Motion: Approve minutes from July 25, 2016 Committee board meeting**

**•Vote: Motion carried**

**•Resolved: Minutes from the meeting on July 25, 2016 approved**

**without modification**

## **New Business: Alternative Methods for taxing residential properties**

### **Discussion:**

- **Discussion on phasing of increases to municipal employees i.e. we cannot afford to give a blanket 4% raise to all departments or even a single department. COLA raises must be phased in.**
  
- **Discussion on the merits of Proposition 13 in California.**
  
- **A Prop 13 type model would give Middletown taxpayers affordable, predictable, and transparent tax liability. Discussion on using a fixed rate of tax increase and equal distribution of line items and services provided by the town.**
  
- **Discussion of Prop 13 follows:**

## **Understanding California and Middletown Property Taxes**

**The Property Tax Is One of the Largest Taxes Paid. In some years, Middletown taxpayers pay more in property taxes and charges than they do in state personal income taxes.**

**The Property Tax Base Is Diverse. Property taxes and charges are imposed on many types of property, the 1 percent rate, owner-occupied residential properties.**

**Certain properties—including property owned by governments, hospitals, religious institutions, and charitable organizations—are exempt from the 1 percent property tax rate.**

**Economists evaluate taxes using five common tax policy criteria—growth, stability, simplicity, neutrality, and equity. The state's property tax system exhibits strengths and limitations when measured against these five criteria. Since 1979, revenue from the 1 percent rate has exceeded growth in the state's economy. Property tax revenue also tends to be less volatile than other tax revenues in California due to the acquisition value assessment system. (Falling**

real estate values during a recession, however, caused some areas of the state to experience declines in assessed value and more volatility than in the past.) Although California's property tax system provides governments with a stable and growing revenue source, its laws regarding property assessment can result in different treatment of similar taxpayers. For example, newer property owners often pay a higher effective tax rate than people who have owned their homes or businesses for a long time. In addition, the property tax system may distort business and homeowner decisions regarding relocation or expansion.

The purpose of this report is to serve as an introductory reference to this key funding source. The report begins by explaining the most common taxes and charges on the property tax bill and how these levies are calculated. It then describes how the funds collected from property tax bills are distributed.

Specifically, we examine California property taxes relative to the criteria commonly used by economists for reviewing tax systems, including revenue growth, stability, simplicity, neutrality, and equity. The report is followed with an appendix providing further detail about the allocation of property tax revenue.

**What is on the Property Tax Bill?**

**A California property tax bill includes a variety of different taxes and charges. As shown on the sample property tax bill in Figure 1, these levies commonly include:**

- The 1 percent rate established by Proposition 13 (1978).**
- Additional tax rates to pay for local voter–approved debt.**
- Property assessments.**
- Mello–Roos taxes.**
- Parcel taxes.**

### **Sample Annual Property Tax Bill**

**The Constitution establishes a process for determining a property’s taxable value for purposes of calculating tax levies from the 1 percent**

rate and voter–approved debt. In our sample property tax bill, “Box A” identifies the taxable value of the property and “Box B” shows the property’s tax levies that are calculated based on this value. Levies based on value—such as the 1 percent rate and voter–approved debt rates—are known as “ad valorem” taxes.

Under the Constitution, other taxes and charges on the property tax bill (shown in “Box C”) may not be based on the property’s taxable value. Instead, they are based on other factors, such as the benefit the property owner receives from improvements.

As shown in “Box D,” the total amount due on most property tax bills is divided into two equal amounts. The first payment is due by December 10 and the second payment is due by April 10.

## **Taxes Based on Property Value**

**The 1 Percent Rate.** The largest component of most property owners’ annual property tax bill is the 1 percent rate—often called the 1 percent general tax levy or countywide rate. The 1 percent of assessed value as shown on our sample property tax bill, the owner of a property assessed at \$350,000 owes \$3,500 under the 1 percent rate. The 1 percent rate is a general tax, meaning that local governments may use its revenue for any public purpose.

**Next Meeting: Next committee meeting is scheduled for Sep 26 2016.**

**Topics for next meeting:**

- Analysis of potential modifications of the CA Prop 13 Model**

- Develop plan for updating Town Council on progress of the committee**

**Meeting Adjourned: Meeting adjourned at 7:45 p.m.**