




Office of the City Manager

INFORMATION CALENDAR
July 24, 2012

To: Honorable Mayor and Members of the City Council
From:  Christine Daniel, City Manager
Submitted by: Eric Angstadt, Director, Planning and Development
Subject: Audit Status Report: Improved Workflow Systems Will Help Ensure Property Taxes are Adjusted for New Construction

INTRODUCTION

The Auditor's Office presented the *Improved Workflow Systems Will Help Ensure Property Taxes are Adjusted for New Construction* audit to the City Council on December 15, 2009. The audit included sixteen recommendations for improved workflow systems to help ensure that property taxes are adjusted for new construction. This included recommendation 3.5 recommending that the City Manager consider a ballot measure to adjust the definition of tax eligible square footage to match the Building Code definition of gross floor area. The City Manager has considered this recommendation and this information report explains that because of the newer International Building Code definition of gross floor area, adjusting the definition of tax eligible square footage would potentially remove currently eligible square footage from the tax rolls. Accordingly, the City Manager will not pursue this approach.

This is the second status report to the City Council. It provides information on the status of the one remaining audit recommendation that was not fully implemented at the time of our last status report issued on July 6, 2010.

The audit and status reports are available at:

- http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/Property%20Taxes%20Adjusted%20for%20New%20Construction.pdf
- http://www.ci.berkeley.ca.us/uploadedFiles/Clerk/Level_3_-_City_Council/2010/07Jul/2010-07-06_Item_27_Audit_Status_Report_Improved_Workflow_Systems.pdf

CURRENT SITUATION AND ITS EFFECTS

Finding 3: Finance and Planning have not clearly assigned responsibilities for capturing taxable building square footage.

Recommendation 3.5: City Manager should consider whether increased accuracy and efficiency of special tax calculations is worth the cost of a special election to simplify the Berkeley Municipal Code definition of building square footage. City Manager, with input from Planning, should consider aligning the definition with Planning's. The City's practice of using square footage for more equitable distribution of the special tax would not change.

City Manager's Response: Implemented

In the City of Berkeley, special taxes are levied on the basis of eligible square footage, rather than on a flat per parcel basis, primarily as a way of equitably distributing the tax burden. The Berkeley Municipal Code taxation chapter and the ballot measures approving the special taxes have a definition of eligible square footage that matches the Planning Division definition of gross floor area but differs from the Building Code definition of gross floor area. Staff acknowledges the Auditor's finding that having two definitions adds complexity to the system as staff is required to use and track two separate definitions of floor area for purposes of ensuring accurate assessment of taxes. However, revising the definitions to conform to the new International Building Code definition has a significant downside in terms of potential revenue loss.

BACKGROUND

The City Auditor recommended the City Manager consider whether the cost of a special election to change the definition of tax eligible square footage to match the Building Code definition of gross floor areas was worth the increased accuracy and efficiency of tax collection. When the audit was conducted, the Building Code definition of gross floor area was more inclusive than the tax definition. This is no longer the case with the new International Building Code definition. If the tax definition was changed to match the new Building Code definition, all property square footages would have to be recalculated, and it is unknown if the net change would increase or decrease tax revenue.

POSSIBLE FUTURE ACTION

The City Manager, in conjunction with the Planning and Development Department, has considered finding 3.5 and recommends that because of the costs of a special election, the unknown fiscal impact of a successful election to change the definition of taxable square footage, and the difficulty of amending the Berkeley Municipal Code and all ballot measures authorizing special taxes that no further action be taken.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

None.

CONTACT PERSON

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