

# Demystifying the California Property Tax Apportionment System

*A Step-by-Step Guide  
through the AB 8 Process*


This Page Left Intentionally Blank



# Demystifying the California Property Tax Apportionment System

*A Step-by-Step Guide  
through the AB 8 Process*

*Prepared by:  
David G. Elledge  
Controller-Treasurer  
County of Santa Clara*



*Thanks to the following who reviewed the document:*

*Robert Campbell, Assistant County Counsel, Santa Clara County*

*Irene Lui, Tax Apportionment Manager, Santa Clara County*

*Steve Ybarra, Auditor-Controller, Contra Costa County*

*Richard Arrow, Auditor-Controller, Marin County*

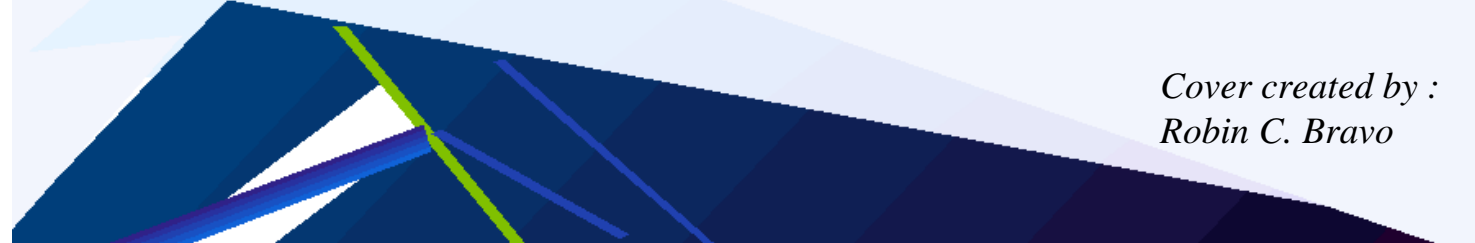
*Rod Dole, Auditor-Controller, Sonoma County*

*Annika Wilkes, Retired*

*And special thanks to Cecilia Delgado, who typed these numerous pages from hand written copy.*

*May 2006*

*Cover created by :  
Robin C. Bravo*



## **Table of Contents**

Introduction		1
Chapter 1	The Provisions of Proposition 13	2
Chapter 2	SB 154 – The First Year	3
Chapter 3	AB 8 – The Long Term Solution	15
Chapter 4	Tax Equity Allocation (TEA)	31
Chapter 5	Education Revenue Augmentation Fund (ERAF)	34
Chapter 6	SB 1096 – Triple Flip, VLF Swap and ERAF III	43
Chapter 7	SB 813 – Supplemental Roll	56
Chapter 8	AB 454 – Unitary Roll	60
Chapter 9	SB 2557 – Property Tax Administrative Fees	64
Conclusion		66

This Page Left Intentionally Blank

## **Introduction**

The California property tax system is often perceived as a mysterious process understandable by only the technicians who work its applications. It is deemed by all to be complex with its complexity increasing with each related statutory change. There is no single feature of the apportionment system that is difficult to comprehend. In fact, each individual procedure would appear to be rather simple. The complexities lie with the multifarious procedures and formulas and how each procedure and formula interrelates and affects the final outcome.

In light of this, the most useful tool to enable the reader to understand the AB 8 process is a simple model demonstrating its important features and formulas. The model in this report provides that needed step-by-step approach. The foundation of the model was developed by Woody McWaters of Ventura County. California counties will have variations from the processes demonstrated by the model (as the saying goes, “there are 58 counties and 59 ways of doing things”), however, the essence will be the same.

This report also includes discussions on legislative history and the effect each change has made to the apportionment process. It does not include a history of events that led to the passage of Proposition 13. The best source to learn about the chain of events leading to the tax revolt is David Doerr’s “California Tax Machine: A History of Taxing and Spending in the Golden State”, published by the California Taxpayers’ Association. Also, for a more detailed description and discussion on the intricacies of the property tax apportionment system, the reader should refer to the “California Property Tax Managers’ Reference Manual” and various other uniform guidelines published by the State Association of County Auditors.

This Page Left Intentionally Blank



## **Chapter One**

### The Provisions of Proposition 13

Prior to the passage of Proposition 13, local governments were authorized to levy individual property tax rates. The total tax rate applicable to any individual parcel was the total of the separate rates levied by each local taxing jurisdiction serving that property, i.e. county, city, special districts, school districts, community college, Office of Education. The average statewide combined tax rate in 1977/78 (the year of Proposition 13's passage) was equivalent to 2.67% of full cash value. For 1977/78, statewide property tax revenues totaled \$10.3 billion and represented 57 percent of combined city and county general purpose revenues.

Proposition 13 limited the tax rate for each individual piece of property to one percent, exclusive of bonded indebtedness approved by the voters prior to adoption of the initiative or at the same election. Property would be valued for taxing purposes as of the 1975 lien date, or as of the date of ownership change or as newly constructed after the 1975 lien date. For subsequent lien dates, annual assessed value adjustments are limited to the lesser of the increase in the California consumer price index or two percent. State and local governments are prohibited from imposing any new ad valorem (based on value) taxes on real property. Proposition 13 reduced property taxes by \$7 billion in the first year of its implementation.

This Page Left Intentionally Blank

## Chapter Two

### SB 154 – The First Year

#### **Immediate Issues.**

Since Proposition 13 was passed on the first Tuesday in June, there were three weeks to implement the initiative for the upcoming fiscal year. The pressure on the legislature was intense. There were four key issues that needed to be resolved.

- 1) How to divide up the one percent property tax rate among all of the local governments.
- 2) How much state assistance (bailout) to give counties, cities and special districts.
- 3) How to fund schools.
- 4) How to implement the acquisition value assessment systems. (*Doerr, 2000, p.151*)

With a week to spare, SB 154 was passed followed by twelve more bills to add clarifying provisions. The legislature chose to divide up the one percent property tax rate based on an historical shares methodology to maintain an “as you were” approach. For example, if a city received five percent of the property taxes collected for all taxing jurisdictions in the county prior to the passage of Proposition 13, the city would receive five percent of the property taxes collected at the one percent rate.

#### **SB 154 Apportionment Formula.**

The mechanics of the SB 154 property tax apportionment system is illustrated in the following three schedules. The first schedule (Schedule 2.1) reflects the 1977/78 property taxes received by each taxing jurisdiction. You will notice that, with

redevelopment deducted from the total, local agencies received 40 percent of the property taxes collected and schools received 60 percent.

**Schedule 2.1**

	1977-78 Property Taxes Received	
County of Hewega	\$ 20,000,000	
Knowbookiez County Library	3,250,000	
City of Maulsgalor	10,000,000	
City of Yucantkomen	5,000,000	
NoH2Ohoz Fire District	500,000	
Uliteumwesavum Fire District	150,000	
Weekillum Mosquito Abatement	350,000	
Yugottago Sanitation District	<u>750,000</u>	
 Total Local Agencies	 \$ 40,000,000	 40%
County Office of Education	\$ 5,000,000	
Wrugrats Elementary School	26,500,000	
Nozaverythin High School	20,000,000	
Knotau Community College	<u>8,500,000</u>	
 Total Schools Share	 \$ 60,000,000	 60%
Redevelopment Agencies	<u>\$ 7,000,000</u>	
Total 1977-78 Property Taxes Received	<u><u>\$ 107,000,000</u></u>	

The next step, as illustrated in Schedule 2.2, determines the percentage to be used for each individual local agency (share of 40% split) and each individual school entity (share of 60 % split) based on prior year(s) property taxes received. It was argued that the local agencies' apportionment percentage should be based on a three-year average to minimize the affect of one-year anomalies. Each school's percentage was based on a one-year average since the state was obligated to fund fiscal requirements not met with property tax revenue.

**Schedule 2.2**

**COUNTY OF HEWEGA  
PROPERTY TAX APPORTIONMENT  
1978-79**

	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>Average</u>	<u>Percentage</u>
County of Hewega	\$ 19,000,000	\$ 19,500,000	\$ 20,000,000	\$ 19,500,000	0.516419
Knowbookiez County Library	3,000,000	3,125,000	3,250,000	3,125,000	0.082760
City of Maulsgalor	9,000,000	9,500,000	10,000,000	9,500,000	0.251589
City of Yucantkomen	3,000,000	3,250,000	5,000,000	3,750,000	0.099311
NoH2Ohoz Fire District	1,000,000	450,000	500,000	650,000	0.017214
Uliteumwesavum Fire District	125,000	130,000	150,000	135,000	0.003575
Weekillum Mosquito Abatement	300,000	400,000	350,000	350,000	0.009269
Yugottago Sanitation District	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>	<u>0.019862</u>
Total Local Agencies	<u>\$ 36,175,000</u>	<u>\$ 37,105,000</u>	<u>\$ 40,000,000</u>	<u>\$ 37,760,000</u>	<u>1.000000</u>
County Office of Education			\$ 5,000,000	\$ 5,000,000	0.083333
Wrugrats Elementary School			26,500,000	26,500,000	0.441667
Nozaverythin High School			20,000,000	20,000,000	0.333333
Knotau Community College			<u>8,500,000</u>	<u>8,500,000</u>	<u>0.141667</u>
Total Schools Share			<u>\$ 60,000,000</u>	<u>\$ 60,000,000</u>	<u>1.000000</u>

The final schedule pertaining to the SB154 apportionment (Schedule 2.3) provides the final apportionment percentages for all county taxing jurisdictions, net of redevelopment. These were the percentages to be used to apportion every dollar of property tax revenue received for the 1978/79 fiscal year.

**Schedule 2.3**

COUNTY OF HEWEGA  
**PROPERTY TAX APPORTIONMENT  
 1978-79**

1978-79 Property Taxes Estimated (net RDA) =	\$50,000,000
Local Agencies Share @ 40% =	\$20,000,000
Schools Share @ 60% =	\$30,000,000

	<u>Three/One Year Average</u>	<u>1978-79 Property Taxes</u>	<u>Percent To Total</u>
County of Hewega	0.516419	\$ 10,328,380	0.206568
Knowbookiez County Library	0.082760	1,655,200	0.033104
City of Maulsgalor	0.251589	5,031,780	0.100636
City of Yucantkomen	0.099311	1,986,220	0.039724
NoH2Ohoz Fire District	0.017214	344,280	0.006886
Uliteumwesavum Fire District	0.003576	71,520	0.001430
Weekillum Mosquito Abatement	0.009269	185,380	0.003708
Yugottago Sanitation District	<u>0.019862</u>	<u>397,240</u>	<u>0.007945</u>
Total Local Agencies	<u>1.000000</u>	<u>\$ 20,000,000</u>	0.400000
County Office of Education	0.083333	\$ 2,499,990	0.050000
Wrugrats Elementary School	0.441667	13,250,010	0.265000
Nozaverythin High School	0.333333	9,999,990	0.200000
Knotau Community College	<u>0.141667</u>	<u>4,250,010</u>	<u>0.085000</u>
Total Schools Share	<u>1.000000</u>	<u>\$ 30,000,000</u>	<u>0.600000</u>
			<u>1.000000</u>

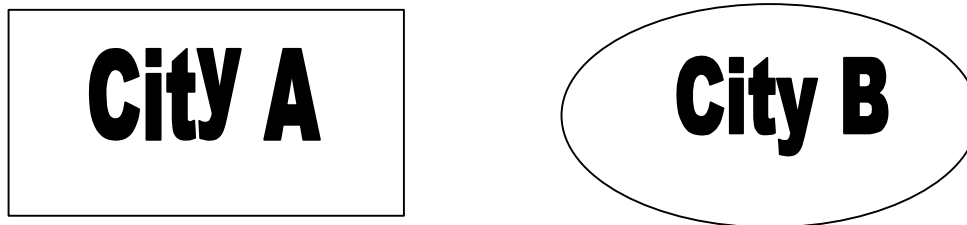
**Apportionments Cross Geographical Boundaries.**

One key concept of SB 154 needs to be recognized as it adds complexity to the property tax apportionment process, particularly when combined with the provisions of AB 8 which was enacted the following year. The apportionment of property tax revenue under SB 154, as illustrated above, was based on an entity's prior year taxes received on a countywide basis and not a geographical area within the county. Because of this, property taxes, within the county, cross geographical boundaries. The illustration shown below will help to understand why this is true.

The example in Figure 2.1 compares two hypothetical cities, each with a \$1 million in assessed valuation. Prior to Proposition 13, the aggregate property tax rate levied by the taxing entities in City A was three percent, while those in City B levied one percent. The

City A area generated \$30,000 in property tax revenue, City B \$10,000. Of the total \$40,000 of tax revenue, the City A entities are credited with 75 percent while those in City B are credited with 25 percent. Now, following the provisions of Proposition 13, (for simplistic purposes we keep the assessed value the same for both areas at \$1 million) the tax rate is one percent. Thus the areas of City A and City B both generate \$10,000 each for a total of \$20,000. However, using the SB 154 apportionment formula based on the prior year share of countywide property tax revenue received, the entities in City A received \$15,000 of the \$20,000 and those in City B received \$5,000.

**Figure 2.1**  
**PROPERTY TAXES CROSS GEOGRAPHICAL BOUNDARIES**



Pre Proposition 13

Assessed Value = \$1,000,000  
 Tax Rate = 3%  
 Tax Revenue = \$30,000

Assessed Value = \$1,000,000  
 Tax Rate = 1%  
 Tax Revenue = \$10,000

SB 154

Assessed Value = \$1,000,000  
 Tax Rate = 1%  
 Tax Revenue = \$10,000

Assessed Value = \$1,000,000  
 Tax Rate = 1%  
 Tax Revenue = \$10,000

Apportionment = \$15,000

Apportionment = \$5,000

Each county had numerous taxing jurisdictions and hundreds to thousands of tax rate areas. Areas within the county also had high property values which yielded high property tax revenues when juxtaposed to other county areas. So the actual dollars that migrated from one area to another is not readily identifiable. **What can be concluded though, is generally the areas with a Pre Proposition 13 tax rate less than the countywide average lost tax dollars to the areas with a greater Pre Proposition 13 tax rate.** This is particularly true in regard to unincorporated areas which historically had lower tax rates as compared to incorporated areas.

The SB 154 apportionment formula based on each entity's property tax revenue to the county total rather than a distribution by specific geographical areas created complexity in the tax apportionment system later with the enactment of AB 8. Under SB 154, property taxes cross the geographical boundaries. Under AB 8, property tax growth is allocated strictly within a specified geographical area. The difference in methodologies is the reason why auditor-controllers have difficulty answering the simple questions from government officials of "where do my taxes come from?" or from taxpayers of "where do my taxes go?". Illustrations and discussions regarding the complexity created by the different methodologies will be included later in Chapter 3 under the AB 8 legislation. It should be noted, however, that with each passing year the annual allocation of growth by situs will gradually reduce the impact of the 1979 apportionment.

### **Disparities in Apportionment.**

The SB154 provision that a local government's share of the property tax be based on the share of the property tax going to that local government before Proposition 13 became the foundation of the apportionment system subsequently enacted the following year under AB 8. Therefore, it is the basis of why some local governments receive a greater share of the property tax distribution than others. The legislature determined that in order to ensure that essential services be maintained, property taxes would not be subject to a redistribution process, but would be given proportionately to those local governments currently providing the services.

The most significant factor in explaining the differences among local governments' shares of tax dollars is the difference in service responsibility. Local governments that provided a full range of governmental services typically receive more property taxes than governments that provided fewer services. This salient point is exemplified by Michael Coleman, Special Consultant to the League of California Cities, when he reported that less than 1/3 of California cities are "full service". A "full service city" means a city that is financially responsible for the full set of basic tax-dependent municipal services within its jurisdiction including police, fire, parks and recreation, library, streets and land use planning. Twenty-eight percent of the cities are not responsible for fire protection. Sixty three percent are not responsible for library services. Cities relying on special districts to



provide local services are apt to receive a lesser share of the one percent distribution than full service cities. (Coleman, 1999, pp.1-2)

A lower share of property tax distribution can also be attributable to political decisions made in the 1970's.

For almost two decades prior to Proposition 13's passage, property tax reform was continually a hot button issue in California politics. In fact, the passage of SB 90 of 1972 imposed property tax rate limits on cities, counties, and special districts for the first time in California history. For schools, a system of revenue controls was devised to limit school property tax rates. Some local leaders aware of the increasing burden property taxes placed on its constituents made conscientious decisions to keep property taxes low and were subsequently stuck with a lower share.

For example, one official from Humboldt County testified that the County budgeted part of Federal Share Revenue Sharing funds for on-going operations. The county felt the hit with the lower share of property tax dollars under SB154 and then again in the mid 1980's after the demise of the Federal Revenue Sharing program. In Nevada County, the Penn Valley Fire District put on a rodeo show to subsidize funding for fire protection to keep property taxes manageable for its constituents. Three decades later, they are still in the rodeo business and recently expanded its business practices to a thrift store enterprise. In Siskiyou County, the Lake Shastina Community Services District was formed by petition in 1978. They promised their voters that they would not levy a tax rate until the district was fully established and then the tax rate would increase gradually commensurate with the services provided. The District under SB 154 was left out of the property tax apportionment equation and to this day district residents pay for municipal type services through special assessments in addition to paying Proposition 13's one percent rate. Implementation of SB 154 left 31 cities (called no tax cities) without a share of property tax apportionment. Their remedy is discussed in Chapter 4, Tax Equity Allocation (TEA).

Local governments on the winning side of the SB 154 provisions included those who subsidized enterprise and other user charge type activities with property tax dollars prior

to Proposition 13. Local governments who set a higher property tax rate to mitigate electric or sanitation fees, for example, could easily justify a post Proposition 13 increase in those user fees to fully recover the cost of providing the enterprise service while reaping the benefits of a higher property tax share. Conversely, the local governments who set a lower property tax rate and set the user charge commensurate with the costs of providing the enterprise activity did not have that option.

Other taxing entities who set a property tax rate during the three years window period (1975/76 to 1977/78) to finance one-time expenditures, were also on the winning SB 154 edge. For example, a cemetery district which set a high rate during one or two of those years to pay for a street overlay on their property, benefited on an on-going basis.

Examination of property tax receipts for individual county governments also reflect the disparity caused by SB 154. For 2003/04, the latest data available from the State Board of Equalization at the time of this writing, counties with a greater share of property tax apportionments include San Francisco (a city and county) at 64 percent, Alpine at 62 percent and Sierra at 51 percent. Counties on the low end include Orange County at six percent and Yolo at nine percent. The statewide average for counties was 18 percent. (*State Board of Equalization, 2004, p. A-19*)

A better representation of the disparities is shown, however, when comparing the percentage of property taxes apportioned to schools versus non-school entities. Since, as discussed above, there are manifold combinations of service providers by California's local governments, the non-school percentage reflect the property tax portion available for municipal type services within a county, regardless of which government sector provides the service. The low tax counties include Stanislaus at 25 percent and Lassen and Madera, each at 28 percent. The highs include Alpine at 74 percent and the City and County of San Francisco at 71 percent. The statewide average for non-school apportionments was at 47 percent. (*State Board of Equalization, 2004, p.A-19*) If by chance a redistribution to equalize property tax revenue on a statewide basis is entertained by the State legislature, the non-school apportionments should be the keystone of the change.

The apportionment percentages shown above do not include the transfers of property taxes resulting from the Triple Flip, VLF Swap, and ERAF III as described in Chapter 6.

**SB 154 Base Year Errors.**

Some taxing entities receive a higher share of property taxes due to errors in the SB 154 calculation. This came to light following the *Carmen v Alford* (1982) Supreme Court ruling.

According to reports filed by cities and counties to the State Controller for 1977/78, 53 cities and six counties levied separate property tax rates for voter approved pension obligations. Some cities and counties that levied the separate property tax rate to finance their pension systems before Proposition 13 counted the revenues from these rates for the SB 154 calculation and received a larger share of property tax revenues. A second group of cities and counties did not count these revenues for SB 154, paying their pension system costs out of their general funds as with any other local program. A third group of cities and counties excluded these revenues from their SB 154 base share but continued to levy a separate tax rate for their pension cost, in excess of the one percent limit. The City of San Gabriel was one of 13 cities in this last category. The *Carmen* decision interpreted the term “indebtedness” under Proposition 13 to cover the City of San Gabriel’s pension obligations and therefore allowed the ad valorem tax in excess of the one percent limit. (*Detwiler, 1983, p.1*)

The Legislative Counsel and the Los Angeles County Counsel were each asked to render an opinion of the auditor-controller duties in this scenario. Both concluded that a local government which levied a separate tax rate to pay for the costs of their pension system prior to Proposition 13 could not inflate their share of property tax revenue under the SB 154 formula. The auditor-controller was obligated to recapture and reallocate the property tax revenues which had been incorrectly apportioned over the past five years (1978/79 to 1982/83). The Legislative Analyst estimated that, statewide, the reallocation for the five years amounted to \$1.04 billion. (*Detwiler, 1983, p.2*)

Local water agency officials, during the Carmen discussions, reported similar issues. Under the Burns-Porter Act, approved by the voters at a statewide election in 1960, 30 water agencies signed binding water delivery contracts with the State of California. In *Goodman v County of Riverside* (1983), the Supreme Court considered the state contracts to be long term debts, permitting the water agencies to levy separate property tax rates in excess of the one percent rate. The court held that the indebtedness also included the cost of maintaining and operating the State Water Project. (*Detwiler, 1983, p.8*) In some cases, the property tax revenue generated from the separate tax rate for state water contracts made its way into the SB 154 calculations, allowing water districts to double dip from the one percent rate and the extraordinary rate.

The past misallocations were referred to as “an honest and colossal error”. The legislature addressed the error with the passage of AB 377 which (1) placed a two year moratorium from increasing property tax rates above 1982/83 levels for indebtedness other than for bonds, water contracts or lease purchase obligations and (2) specified that the amount to be apportioned for 1983/84 and 1984/85 was to be based on the 1982/83 apportionments, even if they were incorrect. For 1985/86, the apportionments were to be corrected by computing a corrected amount for 1982/83 and then using that figure as a new base. (*Detwiler, 1983, p.7*)

AB 13, passed two years later in 1985, made the two year moratorium of the extraordinary property tax rates into a permanent freeze. It also specified that there was to be no reallocation of property tax revenue from the one percent rate for local agencies which had their one percent SB 154 base computed by using their pension override levy and also levied an indebtedness rate for pensions or “other” indebtedness in excess of the one percent. In other words, the past errors were permanently forgiven and no reallocations were to occur. Extraordinary property tax rate increases would be permitted to continue repayment of water contracts approved by the voters prior to Proposition 13, provided that the tax rate not exceed the 1983/84 rate if the rate increase is for the purpose of reducing water rates. (*Doerr, 1985, pp.1-2*)

### **State Assistance (Bailout).**

SB 154 also provided for the distribution of state assistance (bailout) to make up, in part, for local property tax losses. The schedule on page 14 (Schedule 2.4) continues our model since it plays an integral role in the AB 8 process discussed in the next chapter.

The state assistance payments from the State to local agencies replaced nearly 60 percent of the Proposition 13 property tax losses in 1978/79. The cost to the state totaled \$1.9 billion and was funded from the state surplus. Another \$2.5 billion in state assistance was designated to replacing lost school property tax revenue to ensure 85 to 91 percent of anticipated revenue.

For cities, the State granted \$250 million. The distribution was based on each city's property tax loss in relation to the property tax loss of all cities statewide. The actual allocation was reduced by one-third of the city's reserves which were in excess of 5 percent of its total 1977/78 revenues. Cities were required to use the funds to ensure continuation of the same level of police and fire protection as was provided in 1977/78.

The relief for counties equated to \$436 million in cash grants plus state assumption of \$1 billion associated with mandated health and welfare programs. The State assumed for one year the counties fiscal responsibility for Medi-Cal, \$418 million; SSI/SSP, \$168 million; and AFDC, \$458 million. In addition, the state waived for 1978/79 the required 10 percent match by counties for mental health, alcohol, and drug abuse programs. The distribution of the cash grant was based on each county's net property tax loss after taking into consideration the assistance provided by the state assumption of health and welfare programs. Counties were subject to the same reductions due to general fund reserves as cities. Like cities, counties were required to use the state assistance payments to ensure the same level of sheriff and fire protection as provided in 1977/78.

Special districts received three separate appropriations totaling \$192 million. The distribution of \$125 million was based on the county's special districts' collective property tax loss in relation to statewide special district property tax loss. The county board of supervisors (or city councils having subsidiary districts within their jurisdictions) were given the discretion in determining the amount of state assistance

payments for each district. Priorities for police and fire services and criteria regarding reserves similar to cities and counties were required to be followed. For multi-county districts, the block grants were remitted directly to them.

Later \$37 million was appropriated for special districts with “unmet needs”. The funds were allocated by the State Department of Finance based upon the previously set procedures and criteria.

An additional \$30 million was made available by legislation enacted in early 1979 to be distributed by boards of supervisors and city councils to districts found to have critical unmet funding needs and met other specified criteria. (*Assembly Office of Research, 1985, pp.232-233*)

Schedule 2.4 provides the state assistance (bailout) cash grants to the taxing entities in Hewega County that will be used for the AB 8 shift in the next chapter.

**Schedule 2.4**

<b>COUNTY OF HEWEGA 1978-79 Bailout</b>		<u>Statewide</u>
County of Hewega	\$1,550,000	<u>Counties</u> \$436 Million + Buyout of Certain Health & Welfare Programs
City of Maulsgalor	\$600,000	<u>Cities</u> \$250 Million
City of Yucantkomen	\$240,000	
Knowbookiez County Library	\$335,000	<u>Special Districts</u> \$192 Million Allocated by Board of Supervisors
NoH2Ohoz Fire District	\$86,000	
Uliteumwesavum Fire District	\$15,000	
Weekillum Mosquito Abatement	\$15,000	
Yugottago Sanitation District	\$0	
County Office of Education Wrugrats Elementary School Nozaverythin High School Knotau Community College		<u>Schools</u> Total Appropriation of \$2.5 Billion Ensuring 85% to 91% of Anticipated Revenue

## Chapter Three

### AB 8 – The Long Term Solution

The second fiscal year under Proposition 13 provisions created new challenges. Specifically, the legislature had to address:

- 1) A long term solution to the state assistance (bailout) program.
- 2) How to distribute growth in assessed valuation.
- 3) How to redistribute property taxes resulting from changes in jurisdictional boundaries and/or services.

#### **AB 8 Shift.**

The AB 8 long term solution for the bailout program used to alleviate the effects of the property tax shortfall consisted of a one time adjustment (“shift”), which created a new property tax base for each local agency. Each county’s, city’s and special district’s share of property taxes was increased by an adjusted amount of its’ 1978/79 block grant and school districts’ property tax shares were reduced by the same aggregate amount. Schools’ share of the total property tax base declined from over 50 percent to 36 percent. School reductions were replaced with state funding.

The property tax base for each local agency was adjusted as follows. Cities received added property taxes equal to 82.91 percent of the city’s 1978/79 block grant. Special districts received added property taxes equal to 95.24 percent of the district’s 1978/79 block grant. Counties received 100 percent of the 1978/79 block grant plus a small adjustment for AFDC costs minus the amount of the indigent health block grant. Six counties (Alpine, Lassen, Mariposa, Plumas, Stanislaus, and Trinity) were not awarded additional property taxes under the AB 8 shift. The same calculation was applied to these counties as were applied to the others, however, the value of the indigent health block grant was so great in the six counties that it exceeded the value of the adjusted SB 154 block grant. The AB 8 shift in those six cases resulted in a reduction of property tax base

instead of an increase. These counties, therefore, were referred to as “negative bailout counties”. (Newman, 1996, p.11)

The next two schedules reflect the County of Hewega’s AB 8 shift of property taxes from the school tax base and added to the local agencies’ base as described above.

**Schedule 3.1**

**COUNTY OF HEWEGA  
1979-80 Adjusted Bailout**

	<u>1978-79 Bailout</u>	<u>Adjustments</u>	<u>Adjusted Bailout</u>
County of Hewega	\$ 1,550,000	( A )	\$ 1,325,000
City of Maulsgalor	600,000	( B )	497,460
City of Yucantkomen	240,000	( B )	198,984
Knowbookiez County Library	335,000	( C )	319,054
NoH2Ohoz Fire District	86,000	( C )	81,906
Uliteumwesavum Fire District	15,000	( C )	14,286
Weekillum Mosquito Abatement	15,000	( C )	14,286
Yugottago Sanitation District	-	( C )	-
Totals	<u>\$ 2,841,000</u>		<u>\$ 2,450,976</u>

( A ) Adjusted for State buyout of AFDC program and offset of state grant for health services

( B ) Adjusted amount for cities = 82.91%.

( C ) Adjusted amount for special districts = 95.24%.

	<u>1978-79 Tax Revenue Received</u>	<u>Percent to Total</u>	<u>State Assistance</u>
County Office of Education	\$2,499,990	0.083333	(\$204,248)
Wrugrats Elementary School	13,250,010	0.441667	(1,082,515)
Nozaverythin High School	9,999,990	0.333333	(816,991)
Knotau Community College	4,250,010	0.141667	(347,222)
Totals	<u>\$30,000,000</u>	<u>1.000000</u>	<u>(\$2,450,976)</u>



**Schedule 3.2**

**COUNTY OF HEWEGA  
1979-80 Adjusted Base**

	1978-79 Property Tax Revenue Received	State Assistance	Base Year Revenue For Allocation
County of Hewega	\$ 10,328,380	\$ 1,325,000	\$ 11,653,380
Knowbookiez County Library	1,655,200	319,054	1,974,254
City of Maulsgalor	5,031,780	497,460	5,529,240
City of Yucantkomen	1,986,220	198,984	2,185,204
NoH2Ohoz Fire District	344,280	81,906	426,186
Uliteumwesavum Fire District	71,520	14,286	85,806
Weekillum Mosquito Abatement	185,380	14,286	199,666
Yugottago Sanitation District	397,240	-	397,240
<b>Total Local Agencies</b>	<b>20,000,000</b>	<b>2,450,976</b>	<b>22,450,976</b>
County Office of Education	2,499,990	(204,248)	2,295,742
Wrugrats Elementary School	13,250,010	(1,082,515)	12,167,495
Nozaverythin High School	9,999,990	(816,991)	9,182,999
Knotau Community College	4,250,010	(347,222)	3,902,788
<b>Total Schools Share</b>	<b>30,000,000</b>	<b>(2,450,976)</b>	<b>27,549,024</b>
	<b>\$ 50,000,000</b>	<b>\$ -</b>	<b>\$ 50,000,000</b>

**AB 8 Deflator.**

One of the overriding concerns of the state legislature during the development of the AB 8 legislation was whether, over the long term, the state could afford to sustain the assistance program. For this reason, a mechanism known as the AB 8 Deflator was included stipulating that the total costs of the AB 8 program of any given year were to be automatically reduced if insufficient state funds were available.

For any fiscal year, if state revenues did not increase by the California Consumer Price increase (CPI) and population growth, the amount of the shortfall would be made up by reductions in state assistance. Fifty percent of the amount of the shortfall would be reflected in across the board percentage cuts in school assistance. Reductions for the remaining 50 percent would be effected through reductions in state subvention payments to local agencies. (*Assembly Office of Research, 1985, p.234*)

As a result of a flagging economy, for three straight years (1981/82 to 1983/84) the AB 8 Deflator was to trigger large reductions in local government aid. In each year, the legislature suspended the deflator and set targeted reductions at a lesser amount. The AB 8 Deflator was repealed later with the “Long Term Financing Plan” enacted with the passage of SB 794 and AB 1849 of 1984.

### **Special District Augmentation Fund (SDAF).**

The California legislature created the Special District Augmentation Fund in AB 8 to maintain the authority of boards of supervisors and city council to continually determine the distribution of block grant payments to special districts solely within their boundaries. A conference committee, convened to find a solution to the continuing financial troubles of local governments, gave its staff members one-and-a-half hours during lunch to develop alternative methods for allocating special district money. The legislative staffers ate lunch at Original Mac’s restaurant in downtown Sacramento. The formula developed and written on a napkin was immediately dubbed the “Mac’s Factor”. (*O’Brien, 1985, pp.2-3*)

Each year, the county auditor-controller would compute the size of the Special District Augmentation Fund. Using a ratio based on the district’s bailout of 1978/79 and the growth in its assessed valuation, (the Mac’s Factor) the auditor-controller would reduce the property tax apportionment to each district which received bailout monies, and place the amount in the Augmentation Fund (see schedule below). The board of supervisors or city council would then have discretion of the annual distribution. State statute which governed the Special District Augmentation Fund and its provisions was repealed for 1993/94 with the passage of SB 1135. Its’ features, however, were used to determine special districts shifts to the Educational Revenue Augmentation Fund (ERAF) for 1993/94.

**Schedule 3.3**

COUNTY OF HEWEGA  
**Special District Augmentation Fund Formula**

$$\frac{95.24\% \text{ of State Bailout Amount}}{95.24\% \text{ of State Bailout Amount} + \text{Property Tax Revenue}} = \text{Special District Augmentation Factor}$$

Knowbookiez County Library	319,054 / ( 319,054 + 1,655,200 )	= 16.1607%
NoH2Ohoz Fire District	81,906 / ( 81,906 + 344,280 )	= 19.2184%
Uliteumwesavum Fire District	14,286 / ( 14,286 + 71,520 )	= 16.6492%
Weekillum Mosquito Abatement District	14,286 / ( 14,286 + 185,380 )	= 7.1549%

**Annual Tax Increment Allocation.**

AB 8 established the basic property tax apportionment system ensuring that in any fiscal year, a local government will receive property tax revenue equal to what it received in the prior fiscal year (called “base”) plus its share (whether positive or negative) of growth in revenue due to growth in assessed value within its boundaries (called increment). AB 8 stipulated that the property tax proceeds on value growth (whether due to change in ownership, new construction, or the 2 percent inflation factor) accrue only to those jurisdictions where the increase took place.

The 1979/80 base created for each taxing jurisdiction includes the combined amounts received the previous year under SB 154 plus the effects of the “AB 8 shift”. Each year thereafter, the increment attributable to growth in assessed value is added to the previous year’s base, which together become next year’s base amount.

Annual Tax Increment Factors were created to enable county auditor-controllers to allocate increment within specified geographical areas (called tax rate areas). A “tax rate area” is a geographical area composed of a unique combination of taxing jurisdictions. The following four schedules illustrate the methodology used by most counties to establish the annual tax increment factors. The procedures mirror the model developed by Dwayne “Woody” McWaters of Ventura County and is known as the Ventura Model. Schedule 3.4 models the Blue Line chart provided to counties by the State Board of

Equalization. It denotes all of the taxing jurisdictions providing service in each tax rate area.

**Schedule 3.4**

COUNTY OF HEWEGA  
Blue Line Chart

	<u>TRA 01</u>	<u>TRA 02</u>	<u>TRA 03</u>	<u>TRA 04</u>	<u>TRA 05</u>
County of Hewega	X	X	X	X	X
Knowbookiez County Library			X	X	X
City of Maulsgalor	X	X			
City of Yucantkomen			X	X	
NoH2Ohoz Fire District			X	X	
Uliteumwesavum Fire District					X
Weekillum Mosquito Abatement	X	X			X
Yugottago Sanitation District			X	X	
County Office of Education	X	X	X	X	X
Wrugrats Elementary School	X	X			
Nozaverythin High School			X	X	X
Knotau Community College	X	X	X	X	X

Schedule 3.5 determines the percentage of each taxing jurisdiction’s assessed value by tax rate area (TRA). For example, the assessed value in TRA 01 is \$1,700,000,000. The county’s total assessed value is \$5,000,000,000. Therefore, 34 percent (.34000000) of the county’s total assessed value lies in TRA 01.

Schedule 3.6 allocates the 1979/80 Adjusted Base using the percentages from the previous schedule to each tax rate area as determined by the Blue Line. For example, the previous schedule established that 34 percent of the county’s assessed value lies in TRA 01. Now 34 percent would be used to allocate the county’s 1979/80 Adjusted Base of \$11,653,380 for TRA 01. The result is \$3,962,149.

# Schedule 3.5

## COUNTY OF HEWEGA

### Calculation of Annual Tax Increment Factors (1 of 3)

	1978-79 Assessed Valuation	<u>TRA_01</u>	<u>TRA_02</u>	<u>TRA_03</u>	<u>TRA_04</u>	<u>TRA_05</u>	<u>Total</u>
County of Hewega	\$ 5,000,000,000	0.34000000	0.29000000	0.04400000	0.22200000	0.10400000	1.00000000
Knowbookiez County Library	\$ 1,850,000,000			0.11891892	0.60000000	0.28108108	1.00000000
City of Maulsgalor	\$ 3,150,000,000	0.53968254	0.46031746				1.00000000
City of Yucantkomen	\$ 1,330,000,000			0.16541353	0.83458647		1.00000000
NoH2Ohoz Fire District	\$ 1,330,000,000			0.16541353	0.83458647		1.00000000
Uliteumwesavum Fire District	\$ 520,000,000					1.00000000	1.00000000
Weekillum Mosquito Abatement	\$ 3,670,000,000	0.46321526	0.39509537			0.14168937	1.00000000
Yugottago Sanitation District	\$ 1,330,000,000			0.16541353	0.83458647		1.00000000
County Office of Education	\$ 5,000,000,000	0.34000000	0.29000000	0.04400000	0.22200000	0.10400000	1.00000000
Wrugrats Elementary School	\$ 3,150,000,000	0.53968254	0.46031746				1.00000000
Nozaverythin High School	\$ 1,850,000,000			0.11891892	0.60000000	0.28108108	1.00000000
Knotau Community College	\$ 5,000,000,000	0.34000000	0.29000000	0.04400000	0.22200000	0.10400000	1.00000000
		\$ 1,700,000,000	\$ 1,450,000,000	\$ 220,000,000	\$ 1,110,000,000	\$ 520,000,000	

# Schedule 3.6

## COUNTY OF HEWEGA

### Calculation of Annual Tax Increment Factors (2 of 3)

	1979-80 Adjusted Base Tax Revenue	TRA 01	TRA 02	TRA 03	TRA 04	TRA 05
County of Hewega	\$ 11,653,380	3,962,149	3,379,480	512,749	2,587,050	1,211,952
Knowbookiez County Library	1,974,254			234,776	1,184,552	554,925
City of Maulsgalor	5,529,240	2,984,034	2,545,206			
City of Yucantkomen	2,185,204			361,462	1,823,742	
NoH2Ohoz Fire District	426,186			70,497	355,689	
Uliteumwesavum Fire District	85,806					85,806
Weekillum Mosquito Abatement	199,666	92,488	78,887			28,291
Yugottago Sanitation District	397,240			65,709	331,531	
County Office of Education	2,295,742	780,552	665,765	101,013	509,655	238,757
Wrugrats Elementary School	12,167,495	6,566,585	5,600,910			
Nozaverythin High School	9,182,999			1,092,032	5,509,799	2,581,167
Knotau Community College	3,902,788	1,326,948	1,131,809	171,723	866,419	405,890
	<u>\$ 50,000,000</u>	<u>\$ 15,712,757</u>	<u>\$ 13,402,057</u>	<u>\$ 2,609,961</u>	<u>\$ 13,168,438</u>	<u>\$ 5,106,788</u>

Annual Tax Increment Factors were now created by prorating the property taxes to the total for each tax rate area in Schedule 3.6. For example, for the county, \$3,962,149 was attributable to TRA 01. The total property tax revenue attributable to TRA 01 is \$15,712,757. That creates an annual tax increment factor of 25.216129 percent, for the county in TRA 01.

**Schedule 3.7**

COUNTY OF HEWEGA  
Calculation of Annual Tax Increment Factors (3 of 3)

	<u>TRA 01</u>	<u>TRA 02</u>	<u>TRA 03</u>	<u>TRA 04</u>	<u>TRA 05</u>
County of Hewega	0.25216129	0.25216129	0.19645849	0.19645838	0.23732178
Knowbookiez County Library			0.08995383	0.08995387	0.10866419
City of Maulsgalor	0.18991155	0.18991159			
City of Yucantkomen			0.13849326	0.13849342	
NoH2Ohoz Fire District			0.02701075	0.02701072	
Uliteumwesavum Fire District					0.01680234
Weekillum Mosquito Abatement	0.00588617	0.00588619			0.00553988
Yugottago Sanitation District			0.02517624	0.02517618	
County Office of Education	0.04967632	0.04967633	0.03870288	0.03870277	0.04675287
Wrugrats Elementary School	0.41791431	0.41791421			
Nozaverythin High School			0.41840932	0.41840954	0.50543845
Knotau Community College	<u>0.08445036</u>	<u>0.08445039</u>	<u>0.06579524</u>	<u>0.06579512</u>	<u>0.07948049</u>
	<u>1.00000000</u>	<u>1.00000000</u>	<u>1.00000000</u>	<u>1.00000000</u>	<u>1.00000000</u>

The factors, as shown in the schedule above, are used each year to apportion increment to the respective taxing jurisdictions. For example, for every \$1 of growth in TRA 01, the county receives a little over 25 cents, the City of Maulsgalor nearly 19 cents, etc.

A few counties re-compute the annual tax increment factors on an annual basis. For most counties, however, these factors remain constant and only change for jurisdictional changes. A jurisdictional change occurs when a taxing entity's boundaries change through annexations, detachments and incorporations. If a jurisdictional change affects local agencies, then the schools annual tax increment factors cannot change. Likewise, if

a jurisdictional change affects schools, then the factors for local agencies cannot change. A negotiated tax exchange between the affected local governments or the provisions of a previously negotiated master agreement through LAFCO is used as the basis to redistribute tax base, annual tax increment factors or both, resulting from changes in local governments' boundaries.

County auditor-controllers often use the annual tax increment factors to answer the question from their constituents, "where do my taxes go?" The results, however, can be misleading because of the effects of the SB 154 allocation of the one percent tax based on property taxes received relative to the countywide total. If the tax rate for the area was near the countywide average in 1978, then the results of using the annual tax increment factors will be close. If the tax rate was markedly higher or lower than the average, the results would be skewed. Remember, under SB 154, property taxes crossed geographical boundaries.

Some counties use a method (called the Tax Rate Area Method) that allocates the SB 154 base, and each newly established base for each year thereafter, to each tax rate area in the county. This provides accurate information of the distribution of property taxes by tax rate area. However, the property taxes attributable to each tax rate area will never equal the Assessor's assessed value for the tax rate area multiplied by the one percent tax rate.

The next schedule (Schedule 3.8) illustrates the mechanics used to allocate the property tax increment to each taxing entity. The first step determines the growth in tax for each tax rate area. Then, using the annual tax increment factors of Schedule 3.7, that growth is allocated within each tax rate area. The total increment is determined by adding the amounts from all tax rate areas for each entity.



## Schedule 3.8

### COUNTY OF HEWEGA

#### Increment Calculation

##### Change in Assessed Value

	<u>TRA 01</u>	<u>TRA 02</u>	<u>TRA 03</u>	<u>TRA 04</u>	<u>TRA 05</u>	<u>TOTAL</u>
1978-79 AV	\$1,700,000,000	\$1,450,000,000	\$220,000,000	\$1,110,000,000	\$520,000,000	\$5,000,000,000
1979-80 AV	1,750,000,000	1,725,000,000	210,000,000	1,500,000,000	580,000,000	5,765,000,000
Change In AV	50,000,000	275,000,000	(10,000,000)	390,000,000	60,000,000	765,000,000
1% Tax Rate	\$500,000	\$2,750,000	(\$100,000)	\$3,900,000	\$600,000	\$7,650,000

##### Distribution of Tax Increment

County of Hewega	\$126,081	\$693,444	(\$19,646)	\$766,188	\$142,393	1,708,459
Knowbookiez County Library			(8,995)	350,820	65,199	407,023
City of Maulsgalor	94,956	522,257				617,213
City of Yucantkomen			(13,849)	540,124		526,275
NoH2Ohoz Fire District			(2,701)	105,342		102,641
Uliteumwesavum Fire District					10,081	10,081
Weekillum Mosquito Abatement	2,943	16,187			3,324	22,454
Yugottago Sanitation District			(2,518)	98,187		95,669
County Office of Education	24,838	136,610	(3,870)	150,941	28,052	336,570
Wrugrats Elementary School	208,957	1,149,264				1,358,221
Nozaverythin High School			(41,841)	1,631,797	303,263	1,893,219
Knotau Community College	42,225	232,239	(6,580)	256,601	47,688	572,173
	<u>\$500,000</u>	<u>\$2,750,000</u>	<u>(\$100,000)</u>	<u>\$3,900,000</u>	<u>\$600,000</u>	<u>\$7,650,000</u>

## **Redevelopment.**

The California Community Redevelopment Act of 1945 enables any city or county to establish a redevelopment agency to combat urban blight that hinders private development and growth within a community. The cost of eliminating blight is generally high and redevelopment agencies cannot levy taxes. Therefore, they incur debt to finance operations.

In 1951, when the Legislature re-codified the various redevelopment laws as the Community Redevelopment Law, it provided for tax increment financing. The following year, the voters ratified this action by passing a constitutional amendment authorizing the distribution of property tax revenues to redevelopment agencies from increased assessed values in project areas. The rationale behind the amendment was to relieve taxpayers of the costs of redevelopment by making projects self-supporting. Property tax increment financing is based on the assumption that a revitalized project area will generate more property taxes than were being generated before redevelopment.

When a redevelopment project has been approved, the base year valuations are established. The taxing jurisdictions continue to receive property taxes levied only on the base year valuation of the project. Any revenue resulting from the increase in assessed valuation is paid to the redevelopment agency.

Schedule 3.9 illustrates the processes involved with determining the annual increment for distribution of the increment from the taxing jurisdictions within the project area. Since increment is distributed to taxing entities using the annual tax increment factors, they are used to determine the charge to each entity for the payment to the redevelopment agency.

## Schedule 3.9

### COUNTY OF HEWEGA

#### Calculation and Adjustment for RDA Increment

	<u>RDA Base Year</u>	<u>TRA</u>	<u>Base Year A/V</u>	<u>Current Year A/V</u>	<u>Incremental A/V</u>
Maulsgalor RDA Project	1975/76	02	1,325,000,000	1,725,000,000	400,000,000
Yucantkomen RDA Project	1969/70	04	1,000,000,000	1,500,000,000	<u>500,000,000</u>
Total					<u><u>900,000,000</u></u>

	<u>TRA 02</u>	<u>RDA Adjustment</u>	<u>TRA 04</u>	<u>RDA Adjustment</u>	<u>Total RDA Adjustment</u>
County of Hewega	0.25216129	\$1,008,645	0.19645838	\$982,292	\$1,990,937
Knowbookiez County Library			0.08995387	449,769	449,769
City of Maulsgalor	0.18991159	759,646			759,646
City of Yucantkomen			0.13849342	692,467	692,467
NoH2Ohoz Fire District			0.02701072	135,054	135,054
Weekillum Mosquito Abatement	0.00588619	23,545			23,545
Yugottago Sanitation District			0.02517618	125,881	125,881
County Office of Education	0.04967633	198,705	0.03870277	193,514	392,219
Wrugrats Elementary School	0.41791421	1,671,657			1,671,657
Nozaverythin High School			0.41840954	2,092,048	2,092,048
Knotau Community College	0.08445039	337,802	0.06579512	328,976	666,777
	<u>1.00000000</u>	<u>\$4,000,000</u>	<u>1.00000000</u>	<u>\$5,000,000</u>	<u>\$9,000,000</u>

Assembly Bill 1290, enacted in 1993, introduced significant changes to the redevelopment plan and amendment processes for projects that are adopted or amended after December 31, 1993. One of the major changes made by AB 1290 was that it replaced the fiscal review committee process and negotiated pass-through payments to affected taxing jurisdictions with a statutory schedule of mandatory pass-through.

A pass-through is the return of tax dollars from a redevelopment agency to affected taxing jurisdictions. Prior to January 1, 1994, taxing jurisdictions could either negotiate pass-through with an redevelopment agency or, before a project is adopted, elect to receive the annual inflationary increases in assessed valuation (up to 2%) and/or tax rates levied for voter-approved debt approved prior to January 1, 1989. Any redevelopment project adopted on or after January 1, 1994, including amendments to existing projects that add increment or territory, is subject to the mandatory pass-through provisions of AB 1290. County auditors distribute the calculated tax increment to redevelopment agencies. It is the responsibility of the redevelopment agencies to distribute pass-through payments to the taxing jurisdictions.

Two Attorney General opinions addressed the characteristics of pass-through payments from redevelopment agencies to taxing jurisdictions. Attorney General opinion # 90-501 dated October 25, 1990 made it clear that pass-through agreement payments do not constitute an allocation of property tax revenue. Also, Attorney General opinion #93-209 dated July 14, 1993 states that “although a pass-through agreement may provide for a taxing agency to be paid directly by the auditor, such arrangement would only be for sake of convenience and would not affect the legal character of the funds” to the redevelopment agency. Per the opinions, it is readily apparent that pass-through agreements do not alter the amount of increment funds to be allocated to a redevelopment agency. This fact is the basis for county auditors to use gross tax increment for calculation of property tax administration charges (discussed in Chapter Nine) and for various property tax revenue reports.

### **AB 8 Master Apportionment Schedule.**

Schedule 3.10 derives the final product of the processes of the AB 8 property tax apportionment system as it looked in 1979. The base year allocation reflects the provisions of SB 154 and the AB 8 tax shift from schools to local agencies. The 1979/80 tax increment was calculated using the annual tax increment factors. For special districts, adjustments were made to contribute to the Special District Augmentation Fund and then redistributed by the county board of supervisors or city councils. Adjustments were also made to provide tax increment to redevelopment agencies.

The result provides the net due to each taxing entity which then allows for the calculation of the “AB 8 Factors” used to apportion property tax dollars. The model shows redevelopment agencies receiving an AB 8 Factor. Many counties exclude redevelopment agencies from this worksheet and do not assign them a factor, but make a separate allocation apart from the AB 8 Master Apportionment Schedule. Either method results in the same outcome.

## Schedule 3.10

### COUNTY OF HEWEGA

#### Schedule of Property Tax Apportionment Factors

	Base Year Revenue For Allocation	1979-80 Increment	Gross Levy Prior To Adjustments	SDAF Factor	Amount	Redistribution of SDAF Funds	RDA Increment Adjustment	1979-80 Net Due Each Jurisdiction	AB 8 Factors
County of Hewega	\$11,653,380	\$1,708,459	\$13,361,839				(1,990,937)	\$11,370,902	0.19724028
Knowbookiez County Library	1,974,254	407,023	2,381,277	0.161607	(384,831)	350,000	(449,769)	1,896,677	0.03289986
City of Maulsgalor	5,529,240	617,213	6,146,453				(759,646)	5,386,807	0.09343984
City of Yucantkomen	2,185,204	526,275	2,711,479				(692,467)	2,019,012	0.03502189
NoH2Ohoz Fire District	426,186	102,641	528,827	0.192184	(101,632)	100,000	(135,054)	392,141	0.00680210
Uliteumwesavum Fire District	85,806	10,081	95,887	0.166492	(15,964)	68,320	-	148,243	0.00257143
Weekillum Mosquito Abatement	199,666	22,454	222,120	0.071549	(15,892)	-	(23,545)	182,683	0.00316882
Yugottago Sanitation District	397,240	95,669	492,909			-	(125,881)	367,028	0.00636649
County Office of Education	2,295,742	336,570	2,632,312				(392,219)	2,240,093	0.03885677
Wrugrats Elementary School	12,167,495	1,358,222	13,525,717				(1,671,657)	11,854,060	0.20562116
Nozaverythin High School	9,182,999	1,893,220	11,076,219				(2,092,048)	8,984,170	0.15583990
Knotau Community College	3,902,788	572,173	4,474,961				(666,777)	3,808,184	0.06605696
Maulsgalor RDA Project	-	-	-				4,000,000	4,000,000	0.06938422
Yucantkomen RDA Project	-	-	-				5,000,000	5,000,000	0.08673027
	<u>\$50,000,000</u>	<u>\$7,650,000</u>	<u>\$57,650,000</u>		<u>(\$518,320)</u>	<u>\$518,320</u>	<u>-</u>	<u>\$57,650,000</u>	<u>1.00000000</u>

## Chapter Four

### Tax Equity Allocation (TEA)

The 1981/82 Budget Year was the first year in which the state began to experience significant fiscal problems since the passage of Proposition 13. It was projected that the AB 8 Deflator would trigger, resulting in substantial reductions in state funding to schools and local agencies. The AB 8 Deflator was suspended in favor of a permanent repeal of three local subventions and a one-time reduction in the Vehicle License Fund Subvention. The three subventions repealed were the Liquor License Fee, Highway Carrier's Uniform Business Tax and the Financial Aid to Local Agencies (FALA) Fund.

Thirty-one cities which existed prior to Proposition 13 never levied a property tax (other than for voter approved indebtedness). Therefore, under SB 154, they did not share in the property tax apportionment. It was argued that since these cities did not sustain a property tax loss under Proposition 13, and thus did not receive any state assistance under the AB 8 shift, it was inequitable to include them in any reductions in local government assistance which results from the state's inability to continue to finance the AB 8 program. Accordingly, an in-lieu appropriation of \$2.2 million was provided for the "no property tax cities" to offset their revenue losses from the repeal of the three subventions. (*Assembly Local Government Committee, 1983, pp.17-19*)

In 1984, historic legislation was passed in an attempt to remove local government financing from the state budget debate. Two bills, AB 1849 and SB 794 enacted the local government financing program for 1984/85. These two bills were foreseen to fulfill cities and counties top goal of the year to restore local control over traditional sources of funding for local governments and return predictability of the local budget process. Two primary features of the bills included the repeal of the AB 8 Deflator and restoring the Vehicle License Fee as a local agency revenue source.

At the time, the state received an 18  $\frac{3}{4}$  percent share of the Vehicle License Fee. AB 1849 transferred the \$210 million that would have gone to the state General Fund to the no property tax cities (\$2 million) and to counties (\$208 million).

The City of Yorba Linda (Orange County) was one of the 31 no property tax cities. Yorba Linda officials contended that by not receiving local property tax revenues, they had a difficult time paying for public facilities and services needed to keep up with population growth. An agreement was reached and carried in SB 794.

SB 794 created a “Tax Equity Allocation” (TEA) formula for the city providing 10 percent of the property taxes generated within the city. The shift provided an estimated \$1.2 million to the city for the fiscal year. The shift created a loss to the County of Orange of \$700,000 and a loss to other special districts of \$500,000. The property tax apportionments to schools and the redevelopment agency was not affected. By getting a share of the property tax revenue, the City of Yorba Linda would not receive any part of the State’s share of Vehicle License Fees. (*Senate Committee on Local Government, 1984, p.4*)

The action of SB 794 sparked a hot button political issue for the next four years. The remaining 30 no property tax cities and a number of cities receiving some but less than 10 percent of the property taxes generated within their boundaries strove to receive the new 10 percent mark. SB 794 opened the door for change in the SB 154 property tax guiding principle of the “as you were” approach based on services provided to the taxing area. Arguments against a property tax redistribution were made based on the same points discussed in Chapter 2. Cities’ property tax shares were attributable to the services that were provided prior to Proposition 13. Many of the municipal type services were provided by special districts who share in the tax distribution. In addition, many of these cities had disproportionate shares of other revenue sources that should be considered in a redistribution discussion such as sales taxes and vehicle license fees.

The issue was resolved during the midnight hour with the passage of the Brown-Presley Trial Court Funding Act of 1988. The original Trial Court Funding legislation provided for over \$400 million in state appropriation to partially fund the trial courts, including the addition of judicial positions. In order to qualify for Trial Court Funding dollars, counties were required to make payments out of the county share of property taxes to cities deemed “no and low property tax cities”.



AB 709, the first TEA legislation, required 17 counties to shift some of their property taxes to 49 qualifying cities. The original plan was to shift 10 percent of the taxes generated within the city boundaries to the cities over a 10-year period. AB 1197 amended TEA legislation providing that most qualifying cities receive 7 percent of the property tax revenues generated within their boundaries phased in over a 7-year period, beginning in 1989/90. In addition, AB 1197 took into account the impact of redevelopment and growth, and added certain other adjustments to the calculation.

Several additional bills have been passed over the years, primarily to clarify implementation issues or provide special provisions for particular cities and counties. The two bills above, however, provide the basic framework still in effect today.

Most county auditors have incorporated the TEA transfers within the AB 8 process. The qualifying cities receiving the TEA allocation participate in the ERAF shift discussed in the following chapter but their property tax shares are not to be negatively affected by the Triple Flip or VLF Swap as described in Chapter 6.

This Page Left Intentionally Blank

## Chapter Five

### Educational Revenue Augmentation Fund (ERAF)

In 1992/93 and 1993/94, to resolve serious budget deficits, the State legislature permanently shifted \$3.6 billion of annual AB 8 property tax revenue from counties, cities, and special districts to the Educational Revenue Augmentation Fund (ERAF). Statewide, this represented approximately 17% of AB 8 property tax revenue. ERAF also receives its share of each year's annual tax increment (growth). For 2004/05 and 2005/06, a temporary shift of an additional \$1.3 billion was enacted by the legislature.

The state budget benefits because California schools are guaranteed a minimum amount of funding based on their average daily attendance (ADA). To the extent that property tax revenues do not meet this minimum requirement, the State must cover the difference from its general fund revenues. Thus the increased property tax revenue apportioned to schools decreased the State's obligation to support schools, but provided no increase in school revenue. The ERAF shift is sometime perceived as a revenue transfer to the State because it freed State general fund revenues for discretionary purposes.

The sections below detail the provisions of the 1992/93 shift (ERAF I) and the 1993/94 shift (ERAF II). The 2004/05 and 2005/06 temporary ERAF shift (ERAF III) will be discussed in the following chapter under the enactment of SB 1096.

### **1992/93 ERAF Shift (ERAF I).**

A deep recession in the early 1990's created hard times for State government. For 1992/93 the State legislature and Governor struggled to balance an \$11 billion budget deficit. The State increased taxes by \$7.3 billion in 1991, so politically it was not realistic to ask for further tax increases. The budget bills were finally passed in an unprecedented 64 days passed its due date. The final resolution was to significantly limit growth in state spending and shift costs to local government.

The intent of the 1992/93 ERAF shift was to reverse a portion of the property tax shift of 1979 (AB 8) and relieve the state budget deficit by \$1.3 billion. The formulas used to reverse the AB 8 shift in part for local government sectors and individual taxing entities was dissimilar to the 1979 shift.

The largest and permanent component of the 1992/93 ERAF shift for counties was an amount specified in State code multiplied by .953649. How the State derived the specified amount was not revealed. In addition, a per capita reduction for each county, applicable only for 1992/93, was determined by multiplying the given populations (for both the incorporated and unincorporated areas) by \$1.92.

Disaster relief was granted for counties affected by a federally declared disaster between October 1989 and October 1992. These were primarily associated with the Northridge and Loma Prieta earthquakes and the Oakland Hills fire. The ERAF shift was reduced by an amount provided by the State Department of Finance. The relief was reversed in 1997/98.

The largest and permanent component for cities consisted of a nine percent shift of city property taxes to ERAF. A per capita reduction for each city, applicable only for 1992/93, was determined by multiplying the given population by \$1.65. The same disaster relief provisions also applied to cities.

The 1992/93 special district shift concluded at the lesser of 40 percent of the prior year AB 8 revenue or 10 percent of total annual revenues as reported in the 1989/90 State Controller's Report on Financial Transactions Concerning Special Districts. Property tax

revenues pledged for debt service payments could be excluded if the debt was issued for the acquisition of capital assets. Exemptions from the 1992/93 shift were granted to multi-county districts, local hospital districts, and city dependent districts. For a countywide water agency that did not sell water at retail, the shift was limited to 10 percent of taxes.

The State Department of Finance determined the amount that each redevelopment agency paid to ERAF. Each redevelopment agency made the cash payment to the county auditor-controller by May 15. The amount remitted by the redevelopment agencies was not included in the AB 8 apportionment formula, but was handled strictly as a cash payment to ERAF.

Schedule 5.1 provides the ERAF I calculations for the taxing jurisdictions of Hewega County.

## Schedule 5.1

### COUNTY OF HEWEGA

#### 1992-93 ERAF Shift

	<u>Reported Population</u>	<u>Per Resident Amount</u>	<u>Per Resident Tax Shift</u>	<u>Section 95.2 Amount</u>	<u>95.3645% of Sec. 95.2</u>	<u>9% of 1991-92 P/T Revenue</u>	<u>Less DOF Disaster Share</u>	<u>Net 1992-93 ERAF Shift</u>
County of Hewega	11,653	1.92	\$22,374	2,058,633	\$1,963,205		(\$524)	\$1,985,055
City of Maulsgalor	5,529	1.65	\$9,123			\$854,957	(\$269)	\$863,811
City of Yucantkomen	2,185	1.65	\$3,605			\$482,357	(\$137)	\$485,825

	<u>1989-90 SCO Reported Revenue</u>	<u>Less Debt</u>	<u>10%</u>	<u>1991-92 AB 8 Amount Net RDA</u>	<u>Less Debt</u>	<u>40% of P/Y Amount Less Debt</u>	<u>Lesser of 10% Rev 40% P/T</u>	<u>Net 1992-93 ERAF Shift</u>
Knowbookiez County Library	2,563,750			2,355,289		942,116	256,375	\$256,375
NoH2Ohoz Fire District	1,158,247			1,000,624		400,250	115,825	\$115,825
Uliteumwesavum Fire District	166,847			145,367		58,147	16,685	\$16,685
Weekillum Mosquito Abatement	259,632			199,852		79,941	25,963	\$25,963
Yugottago Sanitation District	2,520,489	(100,000)		525,698	(98,000)	171,079	171,079	\$171,079

### **1993/94 ERAF Shift (ERAF II).**

Shortly after the passage of the 1992 budget, state officials realized that they would encounter the third straight year of unprecedented shortfalls. Legislative Analyst, Elizabeth Hill predicted a deficit ranging from \$7.5 billion to \$9 billion. The key provisions of the 1993 budget included a \$2.6 billion shift of property taxes from cities, counties and special districts to schools. The \$2.6 billion shift was in addition to the permanent ERAF shift from the year before. The budget also extended a 0.5 percent sales tax rate for six months to provide funding for local public safety services. Proposition 172 was placed on the ballot box that November to ask the voters to extend the 0.5 percent sales tax for public safety in perpetuity.

The 1993/94 ERAF shift for counties was targeted for \$1.998 billion, cities were to shift \$288 million. The amounts of the ERAF shift for each individual city and county was to be determined by the State Department of Finance. A permanent shift based on population was also featured. Counties shifted \$0.78 per person and cities \$0.99 per person.

Counties implementing the “alternate method of apportionment” (Teeter Plan) were allowed a one-time credit to the ERAF shift. The Teeter Plan is an alternative procedure for the distribution of property tax on the secured roll. It is an accrual method that recognizes taxes receivable as an expendable resource and subsequently simplifies the tax apportionment process. The one-time credit was equivalent to the net benefit of the Teeter buy-out of delinquencies to schools receiving state funding. The five counties already using the Teeter method of apportioning (Contra Costa, Solano, El Dorado, Siskiyou, Modoc) could not take advantage of the one-time credit to the ERAF shift.

Special districts were earmarked for a \$244 million ERAF shift that was based on a “net bailout equivalent”. A special district’s net 1992/93 AB 8 share was multiplied by its Special District Augmentation Fund (SDAF) factor to determine the current value of the 1979 bailout. The 1992/93 ERAF shift was deducted from this amount to determine the remaining bailout equivalent to shift in 1993/94. If a special district did not receive a

1979 bailout allocation, hence had no SDAF factor, it had no additional 1993/94 ERAF shift. It was still subject, however, to the 1992/93 ERAF shift. The SDAF was henceforth permanently abolished.

Provisions were included in the ERAF shift legislation to maintain the tax revenue for fire protection districts at their 1992/93 levels, including revenues received from SDAF. Many fire districts received a positive ERAF shift (shift from ERAF to the district) as a result of this provision.

Exemptions from the 1993/94 ERAF shift were given to hospital districts, transit districts, police protection districts, memorial districts, multi-county districts, and water agencies that did not sell water at retail, but excluding those whose revenues were substantially for flood control. Exemptions were granted to certain library districts. The library districts not exempted were statutorily protected from future ERAF shifts.

Schedule 5.2 provides the ERAF II calculations for the taxing jurisdictions of Hewega County.



## Schedule 5.2

### COUNTY OF HEWEGA

#### 1993-94 ERAF Shift

	Section 95.3 Amount	Per Capita Offset	Reported Population	Per Capita Amount	Net 1993-94 ERAF Shift
County of Hewega	\$ 8,225,875	0.78	11,653	\$ 9,089	\$ 8,234,964
City of Maulsgalor	\$ 1,258,963	0.99	5,597	\$ 5,541	\$ 1,264,504
City of Yucantkomen	\$ 599,623	0.99	2,305	\$ 2,282	\$ 601,905

	1992-93 AB 8 Allocation (pre ERAF) (Net RDA)	Less 92-93 Shift to ERAF (Fire Dist)	SDAF Ratio	Current Bailout Equivalent	Less 92-93 Shift to ERAF (Other Dist)	Net C/Y Bailout Equivalent	Contribution to SDAF 92-93	92-93 SDAF Received	Net Loss from Oper of SDAF	Amounts due ERAF To/(From)
Knowbookiez County Library	2,449,500		0.161607	395,856	(256,375)	139,481				\$ 139,481
NoH2Ohoz Fire District	758,325	(115,825)	0.192184	123,478		123,478	88,957	100,000	34,521	\$ (11,043)
Uliteumwesavum Fire District	166,847	(16,685)	0.166492	25,001		25,001	20,125	20,000	4,876	\$ 125
Weekillum Mosquito Abatement	356,982		0.071549	25,542	(25,963)	(421)				\$ -
Yugottago Sanitation District	583,615			-	(171,079)	(171,079)				\$ -

\* Net Loss from Operations of SDAF for NoH2Ohoz Fire = 123,478 - 88,957  
 Amounts due ERAF To/(From) for NoH2Ohoz Fire = 123,478 - 100,000 - 34,521

### **ERAF Growth.**

Each year beginning with 1992/93, ERAF receives its share of growth in assessed valuation. For counties that apportion based on the jurisdictional methodology, as reflected in the model, growth is determined using the following formula.

$$\frac{\text{Current Year Property Tax minus redevelopment increment}}{\text{Prior Year Property Tax minus redevelopment increment}} \times \text{Prior Year ERAF}$$

For counties that use the tax rate area methodology, ERAF owns an annual tax increment factor within each tax rate area that is used to determine ERAF's annual share of growth.

### **AB 8 Master Apportionment Schedule.**

Schedule 5.3 illustrates a typical master apportionment schedule as it would have appeared in 1993/94. The schedule includes the base and adds tax increment. It also deducts redevelopment funds from the prior year tax and the current year tax to determine the percentage to use for ERAF's share of growth. The outcome is the AB 8 Factors used to apportion the current year one percent tax. Property Tax apportionment to redevelopment agencies in this example is handled separately outside of the AB 8 schedules.

**Schedule 5.3**

**COUNTY OF HEWEGA  
Schedule of Property Tax Apportionment Factors**

	(Column A)	(Column B)	(Column C)	(Column D)	(Column E)	(Column F)	(Column G)	(Column H)	(Column I)	(Column J)	(Column K)	(Column L)
	Equalized Roll Base Tax	Redevelopment Project Increment	Net Tax  (Column A + B)	AB 8 Tax Increment	Equalized Roll  (Column A + D)	Redevelopment Project Increment	Net Tax  (Column E + F)	Prior Year ERAF	Ratio for ERAF Growth (Column G / C)	ERAF Shift w/ Growth (Column H * I)	AB 8 Tax Before Redevelopment (Column E + J)	Current Year AB 8 Factors (Column K / Total)
County of Hewega	\$ 22,653,380	\$ (3,851,562)	\$ 18,801,818	\$ 1,016,578	\$ 23,669,958	\$ (4,324,489)	\$ 19,345,469	\$ (10,833,467)	1.028915	\$ (11,146,715)	\$ 12,523,243	0.12165174
Knowbookiez County Library	3,474,254	(825,367)	2,648,887	159,525	3,633,779	(929,339)	2,704,440	(419,607)	1.020972	(428,407)	3,205,372	0.03113723
City of Maulsgalor	10,529,240	(1,492,578)	9,036,662	527,115	11,056,355	(1,684,902)	9,371,453	(2,256,192)	1.037048	(2,339,780)	8,716,575	0.08467347
City of Yucantkomen	4,185,204	(1,500,005)	2,685,199	145,264	4,330,468	(1,551,210)	2,779,258	(1,153,067)	1.035029	(1,193,457)	3,137,011	0.03047316
NoH2Ohoz Fire District	826,186	(248,996)	577,190	28,544	854,730	(268,877)	585,853	(114,469)	1.015009	(116,187)	738,543	0.00717426
Uliteumwesavum Fire District	165,806	-	165,806	6,958	172,764	-	172,764	(17,819)	1.041965	(18,567)	154,197	0.00149788
Weekillum Mosquito Abatemen	399,666	(48,567)	351,099	19,564	419,230	(53,279)	365,951	(27,521)	1.042301	(28,685)	390,545	0.00379378
Yugottago Sanitation District	597,240	(299,997)	297,243	20,634	617,874	(310,239)	307,635	(256,572)	1.034961	(265,542)	352,332	0.00342258
County Office of Education	4,295,742	(995,228)	3,300,514	192,912	4,488,654	(1,046,742)	3,441,912				4,488,654	0.04360313
Wrugrats Elementary School	24,167,495	(4,189,357)	19,978,138	1,209,873	25,377,368	(4,436,794)	20,940,574				25,377,368	0.24651768
Nozaverythin High School	19,182,999	(5,383,997)	13,799,002	881,535	20,064,534	(5,614,654)	14,449,880				20,064,534	0.19490841
Knotau Community College	7,902,788	(1,700,005)	6,202,783	354,898	8,257,686	(1,779,475)	6,478,211				8,257,686	0.08021579
ERAF	-	-	-	-	-	-	-	15,078,714		15,537,340	15,537,340	0.15093090
	<u>\$ 98,380,000</u>	<u>\$ (20,535,659)</u>	<u>\$ 77,844,341</u>	<u>\$ 4,563,400</u>	<u>\$ 102,943,400</u>	<u>\$ (22,000,000)</u>	<u>\$ 80,943,400</u>	<u>\$ 0</u>		<u>\$ 0</u>	<u>\$ 102,943,400</u>	<u>1.00000000</u>

This Page Left Intentionally Blank

## Chapter Six

### Triple Flip, VLF Swap and ERAF III

#### **Triple Flip.**

During the State of California Budget process for FY 2003/04 and FY 2004/05, there were three significant financial transactions legislated to cope with the State's recurring fiscal problems. The first set of transactions to occur was a mechanism known as the Triple Flip.

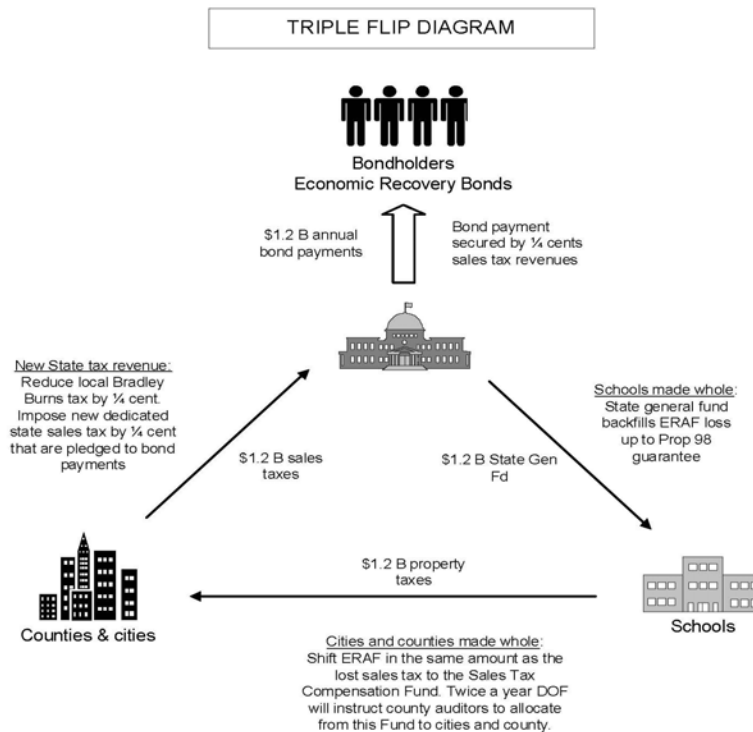
The Triple Flip was first enacted in 2003 as part of the California Fiscal Recovery Financing Act (ABX1 7, Statutes of 2003). The bonds authorized by that Act were never issued, largely because of legal concerns over the fact that the debt financing was not approved by the California voters. Later, Proposition 57, the Economic Recovery Bond Act, was proposed by the legislature in ABX5 9 in December 2003 to address the voter approval issue. Proposition 57 was passed by the voters on March 2, 2004.

The Triple Flip is purely an exchange of revenues generated from 0.25% of the Bradley-Burns sales and use tax that was previously credited to the general funds of all cities and counties within the State of California. The idea here was that in order to pledge a sales tax revenue stream to the bondholders who purchase the State Economic Recovery Bonds, the state "flipped" the sales and use tax from the counties and cities to the bond trustee for debt service payments. To compensate lost revenue to cities and counties, a direct dollar for dollar replacement is made to the county and each city in the county from the county Education Revenue Augmentation Fund (ERAF). Since local ERAF fund amounts would be reduced, any additional revenue that would be lost from each ERAF would be replaced by direct subventions from the State of California's General Fund to each school, community college, and office of the county superintendents to maintain their respective funding levels.

Below is a diagram prepared by Howard Newens, Yolo County Auditor-Controller picturizing the effects of the Triple Flip.

Effective 7/1/04 for up to 14 years

2004-05 Budget



Yolo County Auditor-Controller

HN - 9/1/04

The State of California first imposed the sales tax in 1933 at a rate of 2 ½ percent. By the 1940's, many cities began to impose their own sales taxes, without legislative authority. Each city tax was administered separately by each city. California retailers were faced with filing a multitude of local tax returns and complained of unfair competition from merchants in non-taxed jurisdictions.

In 1955, the State legislature responded with the passage of the Bradley-Burns Uniform Local Sales Tax Act. (*Revenue and Taxation Code Section 7200 et seq.*) The Act allowed counties to impose a sales tax rate of one percent, and allowed a city to levy a tax up to one percent as a credit against the county tax. If a city adopted a one percent rate,

the county would not receive sales tax revenue within the city. The combined state-local sales tax was four percent, three percent to the state and one percent for local government. (Doerr, 2000, pp.53-54)

Today, California has a statewide sales and use tax rate of 7.25 percent that is reduced 0.25 percent if the state reserves exceed three percent of general fund revenues in the prior fiscal year. The distribution of the 7.25 is as follows:

State general fund	5.00%
Incorporated/Unincorporated (Bradley Burns)	1.00%
Countywide Transportation fund (Transportation Development Act)	0.25%
County mental health/welfare	0.50%
Public safety augmentation fund (Prop 172)	0.50%
<u>Total</u>	<u>7.25%</u>

Additional sales and use taxes referred to as “transaction taxes” can be authorized in 0.25 percent increments for special districts and authorities. These are often imposed for transportation purposes. More than one transaction tax may be imposed although the total in any jurisdiction may not exceed 2 percent for a total rate of 9.25 percent. (HdL Companies, 2004, p.1)

The sales tax applicable to the Triple Flip provisions are strictly from the 1.00 percent incorporated/unincorporated (Bradley Burns) rate.

The State Department of Finance notifies county auditors by September 1 of the Triple Flip adjustment amount for each city and county for that fiscal year. The adjustment amount will be based on the actual sales and use taxes received by the entity for the prior fiscal year and any projected growth for the current fiscal year. The statewide total adjustment amount will match the estimate included in the State Budget. Each December and April, county auditors process the standard allocation and transfer adequate ERAF funds to the Sales and Use Tax Compensation Fund. County auditors then allocate to cities and the county one half of the State Department of Finance specified amount each January and the balance of that amount each May.

The September 1 notification from the Department of Finance will also include reconciliation between the prior year’s sales and use tax adjustments and the actual losses of sales and use tax due to the Triple Flip. If the allocations from the Sales and Use Tax Compensation Fund for the prior years, as determined by the reconciliations are more or less than the actual loss, the adjustment to actual loss will be completed during the January allocation.

Our model shows the Triple Flip transferable amounts for the County of Hewega below.

	DOF Estimated 1% Bradley-Burns Sales Tax	Sales Tax Rate to State (0.25%)
County of Hewega	\$4,500,000	\$1,125,000
County of Maulsgalor	12,000,000	3,000,000
City of Yucantkomen	9,000,000	2,250,000
<u>Total</u>		<u>\$6,375,000</u>

**VLF Swap.**

The second set of financial transactions enacted during the fiscal year 2004/05 was the “swapping” of the discretionary motor vehicle license fees (VLF) from cities and counties to the State of California. To ensure that no cities and counties were financially impacted, a dollar for dollar amount of funds was replaced to each county and city in FY 2004/05 only. The source of these funds is similar to the sales tax exchange in that each county’s ERAF is the source of these payments. Unlike the triple flip, however, the “swap” for FY 2004/05 is permanent. The growth of the “in lieu VLF” corresponds to the annual local growth of each city and county increases in assessed valuation of taxable property. If the ERAF in any county is insufficient to satisfy the VLF for property tax swap, any additional amounts required will be drawn from the non-basic aid schools share of property tax, which will then be replenished by the State General Fund.

The VLF, also referred to as the automobile in-lieu tax, is assessed for the privilege of operating a vehicle on the public highways of California. The in-lieu tax is so called because it is imposed in lieu of a local personal property tax on automobiles. The VLF



was equal to 2 percent of a vehicle's market value. The market value is the manufacturer's suggested base price plus options, adjusted by a depreciation schedule. The fee is paid annually and administered by the Department of Motor Vehicles. (*Assembly Revenue and Taxation Committee, 1984, pp.72-73*)

VLF revenues were historically allocated to local governments. The amount returned to local governments, however, were affected by the post Proposition 13 state local government fiscal arrangements. In 1981/82 through 1983/84, VLF subventions to local governments were reduced as an alternative to triggering the AB 8 Deflator. On July 16, 1984, Governor Duukmejian signed into law AB 1849 guaranteeing that VLF would be returned in total to local governments for 1984/85 and thereafter. At that time, the net VLF revenues (after the deduction of administration costs) were distributed at 81.25 percent, half to cities and half to counties on the basis of population and 18.75 percent to no property tax cities (\$2 million) and counties. (*Assembly Office of Research, 1985, p.169*)

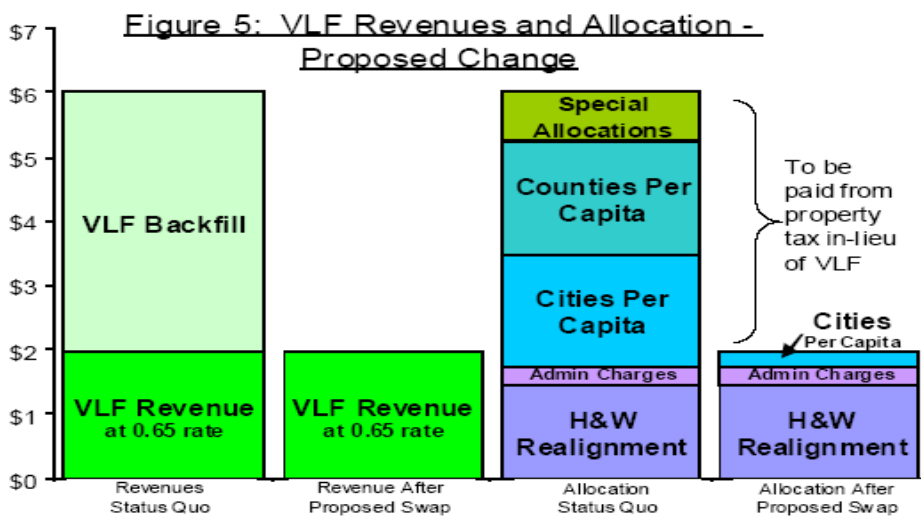
In 1991, the state enacted a major change in the state and local relationship known as realignment. In the areas of mental health, social services and public health, realignment shifted program responsibilities from the state to counties and adjusted cost-sharing ratios. The state increased the sales and use tax and amended the VLF depreciation schedule and dedicated the increased revenues for the increased financial obligations of counties. The VLF earmarked for health and welfare realignment now composed 24.33 percent of the total. (*Cohen, 2001, p.2*)

Governor Wilson signed a bill offsetting the VLF by 25 percent to a 1.5 percent rate effective January 1, 1999 with deeper cuts possible in future years depending on the adequacy of state general fund revenues. In 1999, the law was amended accelerating the tax cut by 35% in year 2000. In 2000, the cut was further accelerated to 67.5 percent commencing January 1, 2001. Under the law, local governments were to be backfilled by the state general fund for any loss of revenue due to the VLF reductions. (*Coleman, 2004, p.2*)

SB1096, Statutes of 2004, eliminated the past offset mechanisms and permanently set the VLF rate for taxpayers at 0.65 percent. The bill eliminated the VLF backfill payments to counties and cities and replaced them with property tax revenues. Property taxes used to replace counties and cities VLF funds are diverted from each county's Educational Revenue Augmentation Fund (ERAF). The State henceforth backfills K-14 ERAF loss to fund education.

The passage of Proposition 1A, passed by the voters on November 2, 2004 essentially locked in constitutionally what SB1096 did statutorily. Proposition 1A set the VLF rate at 0.65 percent and dedicated the revenue source for counties and cities. The proposition also constitutionally set limitations on the State Legislature's authority to change local revenues. Under Proposition 1A, the state cannot decrease VLF revenues without providing replacement funding; they cannot reduce local sales tax rates or alter the method of allocation; and they are generally prohibited from shifting property taxes from local governments to K-12 schools or community colleges.

The graph below, prepared by Michael Coleman, Special Consultant to the League of California Cities, illustrates the changes resulting from the VLF Swap. Health and Welfare realignment programs, the Department of Motor Vehicles administration fees and a residual amount to cities will be paid with the continuing 0.65 percent rate. The difference of the 2.0 percent rate from the 0.65 percent rate will be financed through the VLF Swap as described above.



The VLF adjustment amounts for 2004/05 were determined by the State Controller. For 2005/06, the prior year adjustment amount will include a true-up amount to 2004/05 actual revenue (that would have been deposited to the Motor Vehicle License Fee Account in the Transportation Tax Fund). Growth for the VLF adjustment amount, beginning with 2005/06, is calculated by dividing the current year gross taxable assessed valuation (including redevelopment) within the boundaries of a jurisdiction by the prior year gross taxable assessed valuation. Each December and April, county auditors transfer adequate ERAF funds to the Vehicle License Fee Property Tax Compensation Fund. County auditors then allocate to cities and the county one half of the VLF adjustment amount by January 31 and one half by May 31. Our model shows the VLF transfer amount below for the County of Hewega.

County of Hewega	\$6,600,000
City of Maulsgalor	4,500,000
City of Youcantkomen	2,750,000
Total	\$13,850,000

**ERAF III.**

The third set of financial transactions to occur was the increased contributions by local government (counties, cities, special districts, and redevelopment agencies) to each county’s Education Revenue Augmentation Fund. The amount to be increased during the specified years (FY 2004/05 and FY 2005/06) to the statewide ERAF funds is an aggregate of \$1.3 billion for each of the two years. This amount is in addition to the present statute that requires current ERAF contributions (ERAF I & II). The main difference here is that the ERAF III shift (1) does not include year-to-year growth; and (2) will cease for FY 2006/07 and thereafter.

It was determined that counties’ share of the ERAF III shift would be \$350 million, cities \$350 million, special districts \$350 million and redevelopment agencies \$250 million. The State Controller’s Office determined the dollar amount of each entity’s ERAF III shift.

Each county's ERAF III shift reflects its share of the 2003/04 statewide county non-realignment VLF revenue. Each city's ERAF III shift was based 1/3 on its proportionate share of statewide city VLF revenues, 1/3 on its share of ad valorem property taxes, and 1/3 on its share of sales and use taxes. Each city's reduction must be at least 2 percent and not more than 4 percent of the city's general purpose revenues.

Calculations of the ERAF III shift for individual special districts was based on data published in the 2001/02 State Controller's Special Districts Annual Financial Transactions Report. Enterprise districts, except for transit districts, transfer the lesser of 40 percent of reported property taxes (less an amount pledged for debt) or 10 percent of total revenues. Transit districts' transfer is set at 3 percent. Non-Enterprise districts transfer 10 percent of reported property taxes (less an amount pledged for debt).

Enterprise districts that also perform non-enterprise functions shift an amount, using the percentages described above, in proportion of property tax revenue as reported in the State Controller's 2001/02 Report. Tax revenues pledged for debt include only amounts required as a sole source of repayment to pay debt service costs in 2001/02 on debt instruments issued by the district for acquisition of fixed assets. Fixed assets mean land, buildings, equipment, and improvements, including improvements to buildings.

Fire, police, library, memorial, mosquito abatement or vector control, and local health care districts are exempt from the ERAF III shift.

Any shortfall in the earmarked \$350 million ERAF III shift for special districts is to be made up by increasing the ERAF III shift from enterprise special districts (excluding transit districts) on a proportionate basis, subject to the cap of 10 percent of total revenues for any district. The State Controller made many iterations of the special district calculations to achieve the \$350 million target. As a result, many enterprise special districts will contribute 100 percent of their property taxes to ERAF for the two fiscal years.

Redevelopment agencies make cash payments directly to county auditor-controllers by May 10 for the two years subject to ERAF III. Each agency's payment is based on the

total amount of tax increment it received in proportion to the total amount of tax increment received by all redevelopment agencies. Fifty percent of the ERAF III payment is based on gross tax increment received and 50 percent based on net tax increment received after pass-through payments to other taxing entities. Tax increment data for the 2004/05 payment was taken from the 2002/03 State Controller’s Redevelopment Agencies Financial Transactions Report. The 2005/06 payments will be based on the 2003/04 State Controller’s Report.

Redevelopment agencies are allowed to borrow from their Low and Moderate Housing Funds (but not from any fund balance) to make the ERAF III payments or from their “parent” city or county.

Statutory RDA time limits can be extended by one year for each year of the ERAF payments if the existing time limit has no more than 10 years remaining or if the existing time limit is between 10 years and 20 years provided that the agency is in compliance with housing requirements.

The ERAF III shifts for the taxing jurisdictions within the County of Hewega are listed below.

County of Hewega	\$3,500,000
Knowbookiez County Library	exempt
City of Maulsgalor	900,000
City of Yucantcomen	400,000
NoH2Ohoz Fire District	exempt
Uliteumwesavum Fire District	exempt
Weekillum Mosquito District	exempt
Yugottago Sanitation District	350,000
Maulsgalor RDA Project	2,000,000
Maulsgalor RDA Project	1,250,000
<b>Total</b>	<b>\$8,400,000</b>

### **County Auditor Schedules.**

The property tax transfers for the Triple Flip, VLF Swap, and ERAF III are done at the jurisdictional level, outside of the AB 8 process. County auditors recommended that the transfers remain outside of AB 8 to simplify the process and accomplish the intent of the transfers without affecting other components of the property tax apportionment process. For example, the Triple Flip and VLF adjustments are a direct dollar for dollar property tax exchange in lieu of sales and use tax and vehicle license fee based revenues. Placing the transfers within the AB 8 process would affect the tax increment calculation for redevelopment agencies as well as the corresponding charges to cities and counties. It would also include a growth calculation dissimilar to the method described in state law. Likewise, ERAF III is a two-year only shift not subject to growth and not conducive to AB 8 procedures allocating growth by increased assessed valuation within tax rate areas.

## Schedule 6.1

### COUNTY OF HEWEGA Schedule of ERAF Adjustments

<u>Jurisdiction</u>	<u>Triple Flip</u>	<u>Triple Flip</u>	<u>VLF Swap</u>	<u>VLF Swap</u>	<u>ERAF III</u>	<u>ERAF Adjustment</u>
ERAF	(6,375,000)		(13,850,000)		8,400,000	(11,825,000)
Sales & Use Tax Comp Fund	6,375,000	(6,375,000)				-
VLF Property Tax Comp Fund			13,850,000	(13,850,000)		-
County of Hewega		1,125,000		6,600,000	(3,500,000)	4,225,000
Knowbookiez County Library						-
City of Maulsgalor		3,000,000		4,500,000	(900,000)	6,600,000
City of Yucantkomen		2,250,000		2,750,000	(400,000)	4,600,000
NoH2Ohoz Fire District						-
Uliteumwesavum Fire District						-
Weekillum Mosquito District						-
Yugottago Sanitation District					(350,000)	(350,000)
Maulsgalor RDA Project					(2,000,000)	(2,000,000)
Yucantkomen RDA Project	-	-	-	-	(1,250,000)	(1,250,000)
<b>TOTALS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Schedule 6.2 is used to determine if ERAF will receive sufficient property tax revenue to complete the transfer to cities and the county for the Triple Flip and VLF Swap. If the AB 8 Balance after Adjustments is negative, then a Reverse ERAF allocation is necessary. The Reverse ERAF is allocated to individual Non-Basic Aid school districts in proportion to the total property taxes received for all non-basis aid schools.

**Schedule 6.2**

COUNTY OF HEWEGA  
Schedule of Reverse ERAF Necessity and Allocation

ERAF (Apportioned Tax - after RDA)	\$15,576,925
ERAF III	8,400,000
Triple Flip	(6,375,000)
VLF Swap	(13,850,000)
AB 8 Balance after Adjustments	<u>\$3,751,925</u>

Jurisdiction	AB 8 Tax Apportionment	Reverse ERAF Allocation Factors	Reverse ERAF ( if applicable)
County Office of Education	N/A		
Wrugrats Elementary School	25,377,368	0.4725803110	
Nozaverythin High School	20,064,534	0.3736440957	
Knotau Community College	8,257,686	0.1537755932	
	<u>53,699,588</u>	<u>1.0000000000</u>	

Schedule 6.3 below applies the ERAF Adjustment to the traditional AB 8 tax apportionment process. Again, the transfers applicable to the Triple Flip, VLF Swap and ERAF III are handled outside of AB 8. Redevelopment agencies receive their full AB 8 apportionment and make cash payments for ERAF III directly to county auditors by May 10.

Cities and counties record the Triple Flip revenue under the revenue account “In Lieu Local Sales and Use Tax”. Similarly, revenue account “Property Tax In Lieu of VLF” is used to record VLF adjustment amounts.



# Schedule 6.3

## COUNTY OF HEWEGA Schedule of Property Tax Allocation

Jurisdiction	AB 8 Tax Apportionment	ERAF Adjustment	Reverse ERAF (if applicable)	Net Due thru Tax Allocation	RDA Cash Payment	Net Property Tax Apportioned
ERAF	15,576,925	(15,075,000)		501,925	3,250,000	3,751,925
County of Hewega	12,523,243	4,225,000		16,748,243		16,748,243
Knowbookiez County Library	3,205,372			3,205,372		3,205,372
City of Maulsgalor	8,716,575	6,600,000		15,316,575		15,316,575
City of Yucantkomen	3,137,011	4,600,000		7,737,011		7,737,011
NoH2Ohoz Fire District	698,958			698,958		698,958
Uliteumwesavum Fire District	154,197			154,197		154,197
Weekillum Mosquito District	390,545			390,545		390,545
Yugottago Sanitation District	352,332	(350,000)		2,332		2,332
County Office of Education	4,488,654			4,488,654		4,488,654
Wrugrats Elementary School	25,377,368			25,377,368		25,377,368
Nozaverythin High School	20,064,534			20,064,534		20,064,534
Knotau Community College	8,257,686			8,257,686		8,257,686
Maulsgalor RDA Project	12,550,000	*		12,550,000	(2,000,000)	10,550,000
Yucantkomen RDA Project	9,450,000	*		9,450,000	(1,250,000)	8,200,000
<b>TOTALS</b>	<u>124,943,400</u>	<u>0</u>	<u>0</u>	<u>124,943,400</u>	<u>0</u>	<u>124,943,400</u>

\* AB 8 tax increment of \$3,250,000 representing ERAF III shift paid directly to RDA. RDA makes cash payment to ERAF.

This Page Left Intentionally Blank

## Chapter Seven

### SB 813 – Supplemental Roll

SB 813 was known as the Hughes-Hart Educational Reform Act of 1983. It was considered the most comprehensive education reform bill in California history. The breadth of the bill covered school finance, personnel management, staff credentialing, curriculum time, standards and measures, innovative curricular and support programs, school facilities, student discipline, and special studies of problem areas. The bill had an expensive price tag. The legislature recognized, however, that a healthy infusion of state funds to basic school programs was essential given a several year erosion of support for schools since Proposition 13's passage. The costs for SB 813 for 1983/84 were estimated at \$840 million.

The Legislature enacted plans and combinations of tax increases to finance SB 813. These included increases in the bank and corporation tax, cigarette tax, personal income tax for limited partnerships, alcoholic beverage tax, and the elimination of windfall profit deductions on personal income tax or bank and corporations tax. Also included was the implementation of the supplemental property tax roll, the largest financing mechanism for SB 813.

The supplemental roll was estimated to generate \$408 million for 1983/84. Counties could retain up to 5 percent to pay for administrative costs which left \$388 million to fund SB 813 school reform provisions. Revenues generated from the supplemental property tax were targeted exclusively for schools for 1983/84 and 1984/85. After two years, supplemental taxes were to revert to all local governments that receive property tax revenues. The amendments of SB 794 (discussed in Chapter Four) enacted for the 1984/85 state budget, moved the sharing of the supplemental property tax to all local taxing jurisdictions one year earlier than previously planned.

A supplemental tax is the result of a reassessment of real property, effective when there is a change of ownership or new construction is completed. Under the old system, those

assessed value changes would not result in higher taxes until the tax year (July 1 to June 30) following the lien date when the new values were placed upon the tax roll. Thus, the new value could avoid taxation for a period up to 16 months. For example, a change of ownership on October 1, 1980 was not reflected in higher taxes until the 1981/82 fiscal year, beginning in July 1981, nine months later.

State officials deemed this as a tax loophole and not aligned with the true meaning of Proposition 13. According to the legislative intent language in SB 813, pre-SB 813 assessment practice "...results in an unwarranted reduction of taxes for some taxpayers with a proportionate and inequitable shift of tax burden to other taxpayers". (*CalTax*, 1983, p.2)

Post-SB 813 supplemental assessments pick up the higher value on the property immediately by using a "floating lien date" instead of waiting until the January 1 lien date. The added assessed value is placed on a separate property tax roll (the supplemental roll) on the date of the event. A tax bill is issued only on the added value, and is prorated for the portion of the remaining fiscal year. For the next fiscal year, the entire new assessed value of the real property is added to the regular roll, and there is no further supplemental roll liability for that property.

For example, assume a house with a recent change of ownership as of September 13 has an assessed value of \$500,000 and is in an area with a tax rate of 1.1 percent. The assessed value on the secured roll is \$400,000. The supplemental roll value will equal \$100,000 (\$500,000-400,000) and the supplemental tax bill will be \$825.

$$[\$100,00 \times .011 \text{ tax rate} = \$1,100 \times .75 \text{ prorating the nine months (Oct 1-June 30)} = \$825]$$

Supplemental Apportionment Factors are calculated annually by county auditors and used for the apportionment of the Proposition 13 one percent tax revenue from supplemental taxes. Supplemental Apportionment Factors are adjusted AB 8 factors. The AB 8 factors are modified for K-12 school districts to apportion using the average daily attendance (ADA) data provided by the State Department of Education. Basic aid school districts

and non-county-of-control school districts are not eligible to participate in the distribution of supplemental revenues.

The AB 8 factors are also adjusted for cities and counties to account for the transfer of property tax revenue in lieu of VLF as described in Chapter Six. The VLF adjustment was a true exchange of VLF for property tax dollars. The exchange grows annually by the increase in the city's or county's gross assessed value within its boundaries. The supplemental roll, as stated earlier, comprises additional property taxes as a result of a reassessment of real property, effective when there is a change of ownership or new construction is completed. Therefore, the factors used to apportion the supplemental roll should include the adjustment for cities and counties due to the exchange of VLF for property tax dollars.

Contrarily, the AB 8 factors are not adjusted for Triple Flip or ERAF III. Triple Flip is an in lieu payment for the sales and use tax diverting to the state. It is not intended to convert to property tax but will maintain its sales and use tax identity. Growth is based on the estimated increase in sales tax transactions.

ERAF III is also not considered for adjusting AB 8 factors for supplemental apportionments. ERAF III is a set dollar transfer (not subject to growth) and has a short two year life.

Schedule 7.1 illustrates the calculations of the Supplemental Apportionment Factors adjusting for the VLF Swap and using the ADA information from the California Department of Education. Redevelopment agencies are not included in the schedule because all tax increment including growth attributable to supplemental taxes derived within a redevelopment agency's boundaries must be given entirely to the redevelopment agency.

**Schedule 7.1**

**COUNTY OF HEWEGA  
Schedule of Supplemental Roll Allocation**

<u>Jurisdiction</u>	<u>AB 8 Tax Apportionment</u>	<u>VLF Swap</u>	<u>Subtotal</u>	<u>Factors</u>	<u>School Districts' Factors</u>	<u>Reallocation based on ADA</u>	<u>Supplemental Apportionment Factors</u>
ERAF	\$ 15,576,925	\$ (13,850,000)	\$ 1,726,925	0.016775481			0.0167754805
County of Hewega	12,523,243	6,600,000	19,123,243	0.185764634			0.1857646338
Knowbookiez County Library	3,205,372		3,205,372	0.031137227			0.0311372269
City of Maulsgalor	8,716,575	4,500,000	13,216,575	0.128386813			0.1283868126
City of Yucantkomen	3,137,011	2,750,000	5,887,011	0.057186872			0.0571868716
NoH2Ohoz Fire District	698,958		698,958	0.006789731			0.0067897311
Uliteumwesavum Fire District	154,197		154,197	0.001497881			0.0014978814
Weekillum Mosquito District	390,545		390,545	0.003793784			0.0037937838
Yugottago Sanitation District	352,332		352,332	0.003422580			0.0034225798
County Office of Education	4,488,654		4,488,654	0.043603126			0.0436031256
Wrugrats Elementary School	25,377,368		25,377,368	0.246517679	0.2465176786	0.3692558471	0.3692558471
Nozaverythin High School	20,064,534		20,064,534	0.194908406	0.1949084060	0.0721702375	0.0721702375
Knotau Community College	8,257,686	-	8,257,686	0.080215788	-	-	0.0802157885
<b>TOTALS</b>	<b>\$ 102,943,400</b>	<b>\$ -</b>	<b>\$ 102,943,400</b>	<b>1.000000000</b>	<b>0.4414260846</b>	<b>0.4414260846</b>	<b>1.000000000</b>

## Chapter Eight

### AB 454 – Unitary Roll

Prior to 1988/89, the county apportionment of state-assessed unitary property taxes were contained in the AB 8 system. The State Board of Equalization was charged with the tasks of not only valuing the operations of railroads, gas, electric, telephone, telegraph, car and express companies, they also allocated the values to each tax rate area within the state.

Growth was then included in the county auditor's tax increment calculations using annual tax increment factors under the AB 8 process. State assessed values allocated to tax rate areas also resulted in tax collectors issuing multiple tax bills to individual utility companies, one for each tax rate area with assigned value.

AB 454 was enacted to consolidate and streamline the valuation and billing process for public utilities. The bill created one countywide tax rate area specifically designed to report utility values from the State Board of Equalization. The tax rate area lists one value for each assessee. AB 454 also created a unique formula outside of the AB 8 system to apportion the one percent unitary revenues.

The formula used for the apportionment of unitary property taxes is based on the amount of unitary revenue received by a taxing agency in 1987/88. For years after 1987/88, each taxing agency receives up to 102 percent of its prior year unitary revenue. If countywide unitary values are greater than 102 percent of prior year revenues, each taxing agency will receive a percentage share of the excess over 102 percent equal to their AB 8 Factor, modified to adjust for the VLF Adjustment (see Chapters Six and Seven). If countywide unitary revenues are less than 102 percent of prior year revenues, each jurisdiction receives the same percentage in the current year as in the prior year.

Schedule 8.1 illustrates an apportionment of the one-percent unitary revenues in a year when countywide unitary values exceed 102 percent of prior year revenues.

## Schedule 8.1

### COUNTY OF HEWEGA

#### Unitary Roll

Prior Year Unitary Value	\$ 425,000,000
Current Year Unitary Value	\$ 450,000,000
1% Levy	\$ 4,500,000
102% of Prior Year's Revenue	\$ 4,335,000
Excess over 102% over Prior Year	\$ 165,000

	Prior Year Unitary Tax Revenue	Agency Unitary Tax Factors	Current Year 1.02% Apportionment	Prior Year Modified AB 8 Factor	Current Year Excess of 102 % Apportionment	Current Year Total Unitary Apportionment	Revised Unitary Apportionment Factor
ERAF	\$ 140,000	0.032941176	\$ 142,800	0.013821658	\$ 2,281	\$ 145,081	0.032240127
County of Hewega	811,994	0.191057412	828,234	0.153055247	25,254	853,488	0.189663999
Knowbookiez County Library	218,918	0.051510118	223,296	0.025654592	4,233	227,529	0.050562082
City of Maulsgalor	217,389	0.051150353	221,737	0.105780497	17,454	239,191	0.053153458
City of Yucantkomen	222,363	0.052320706	226,810	0.047117423	7,774	234,585	0.052129919
NoH2Ohoz Fire District	47,269	0.011122118	48,214	0.005594197	923	49,137	0.010919427
Uliteumwesavum Fire District	12,602	0.002965176	12,854	0.001234135	204	13,058	0.002901705
Weekillum Mosquito Abatement	11,513	0.002708941	11,743	0.003125775	516	12,259	0.002724225
Yugottago Sanitation District	44,058	0.010366588	44,939	0.002819933	465	45,404	0.010089878
County Office of Education	164,890	0.038797647	168,188	0.035925499	5,928	174,116	0.038692335
Wrugrats Elementary School	502,393	0.118210118	512,441	0.203110913	33,513	545,954	0.121323147
Nozaverythin High School	1,101,296	0.259128471	1,123,322	0.160588987	26,497	1,149,819	0.255515356
Knotau Community College	280,315	0.065956471	285,921	0.066091414	10,905	296,826	0.065961419
Maulsgalor RDA Project	-	0.000000000	-	0.100445482	16,574	16,574	0.003683001
Yucantkomen RDA Project	475,000	0.111764706	484,500	0.075634247	12,480	496,980	0.110439922
Totals	<u>\$ 4,250,000</u>	<u>1.000000000</u>	<u>\$ 4,335,000</u>	<u>1.000000000</u>	<u>\$ 165,000</u>	<u>\$ 4,500,000</u>	<u>1.000000000</u>



## Schedule 8.2

### COUNTY OF HEWEGA Modified AB 8 Factors

	<u>AB 8 Tax Apportionment</u>	<u>VLF Swap</u>	<u>Net Due Each Jurisdiction</u>	<u>Modified AB 8 Factors for Unitary Roll</u>
ERAF	\$ 15,576,925	\$ (13,850,000)	\$ 1,726,925	0.0138216584
County of Hewega	12,523,243	6,600,000	19,123,243	0.1530552474
Knowbookiez County Library	3,205,372		3,205,372	0.0256545924
City of Maulsgalor	8,716,575	4,500,000	13,216,575	0.1057804974
City of Yucantkomen	3,137,011	2,750,000	5,887,011	0.0471174228
NoH2Ohoz Fire District	698,958		698,958	0.0055941971
Uliteumwesavum Fire District	154,197		154,197	0.0012341348
Weekillum Mosquito Abatement	390,545		390,545	0.0031257754
Yugottago Sanitation District	352,332		352,332	0.0028199329
County Office of Education	4,488,654		4,488,654	0.0359254991
Wrugrats Elementary School	25,377,368		25,377,368	0.2031109126
Nozaverythin High School	20,064,534		20,064,534	0.1605889867
Knotau Community College	8,257,686		8,257,686	0.0660914142
Maulsgalor RDA Project	12,550,000		12,550,000	0.1004454817
Yucantkomen RDA Project	9,450,000		9,450,000	0.0756342472
	<u>\$ 124,943,400</u>	<u>\$ -</u>	<u>\$ 124,943,400</u>	<u>1.0000000000</u>

## Schedule 8.3

### COUNTY OF HEWEGA

#### Unitary Roll

Prior Year Unitary Value	\$ 450,000,000
Current Year Unitary Value	\$ 455,000,000
1% Levy	\$ 4,550,000
102% of Prior Year's Revenue	\$ 4,590,000
Excess over 102% over Prior Year	\$ (40,000)

	<u>Prior Year Unitary Tax Revenue</u>	<u>Agency Unitary Tax Factors</u>	<u>Current Year 1.02% Apportionment</u>	<u>Prior Year Modified AB 8 Factor</u>	<u>Current Year Excess of 102% Apportionment</u>	<u>Current Year Total Unitary Apportionment</u>	<u>Revised Unitary Apportionment Factor</u>
ERAF	\$ 145,080	0.03224000	\$ 146,692	N/A	\$ -	\$ 146,692	0.03224000
County of Hewega	853,488	0.18966400	862,971	N/A	-	862,971	0.18966400
Knowbookiez County Library	227,529	0.05056200	230,057	N/A	-	230,057	0.05056200
City of Maulsgalor	239,191	0.05315356	241,849	N/A	-	241,849	0.05315356
City of Yucantkomen	234,585	0.05213000	237,192	N/A	-	237,192	0.05213000
NoH2Ohoz Fire District	49,137	0.01091933	49,683	N/A	-	49,683	0.01091933
Uliteumwesavum Fire District	13,058	0.00290178	13,203	N/A	-	13,203	0.00290178
Weekillum Mosquito Abatement	12,259	0.00272422	12,395	N/A	-	12,395	0.00272422
Yugottago Sanitation District	45,404	0.01008978	45,908	N/A	-	45,908	0.01008978
County Office of Education	174,116	0.03869244	176,051	N/A	-	176,051	0.03869244
Wrugrats Elementary School	545,954	0.12132311	552,020	N/A	-	552,020	0.12132311
Nozaverythin High School	1,149,819	0.25551533	1,162,595	N/A	-	1,162,595	0.25551533
Knotau Community College	296,826	0.06596133	300,124	N/A	-	300,124	0.06596133
Maulsgalor RDA Project	16,574	0.00368311	16,758	N/A	-	16,758	0.00368311
Yucantkomen RDA Project	496,980	0.11044000	502,502	N/A	-	502,502	0.11044000
Totals	<u>\$4,500,000</u>	<u>1.0000000000</u>	<u>\$4,550,000</u>		<u>\$ -</u>	<u>\$ 4,550,000</u>	<u>1.00000000</u>

## Chapter Nine

### SB 2557 – Property Tax Administrative Fees

During the 1990/91 state budget deliberations, the legislature enacted SB 2557. This bill authorized counties to increase their revenues by the amount of property tax administrative costs attributable to each taxing jurisdiction. During the 1991/92 legislative session, property tax law was amended to exclude schools from the property tax administrative costs charge.

Annually, county auditors calculate the county's prior year property tax administrative costs of the assessor, tax collector, assessment appeals board, and the auditor-controller. Costs include direct costs, all activities directly involved in processing property taxes, and overhead costs, as calculated in accordance with federal Office of Management and Budget (OMB) Circular A-87 standards. Offsetting revenues, received to reimburse counties for portions of property tax administration, are deducted from the prior year costs.

Administrative Costs Apportionment Factors are determined by each taxing entity's proportionate share of the one-percent ad valorem tax including the unitary roll apportionments. Property tax law was amended in SB 1096 to prohibit the imposition of any fee, charge, or other levy on a city for the administration and calculations required for the property tax shifts of the Triple Flip or VLF Swap for the 2004/05 and 2005/06 years only. In subsequent years, costs associated with these adjustments will be included in the administrative costs allocation process.

Schedule 9.1 determines the administrative costs apportionment factors for the County of Hewega for the 2004/05 and 2005/06 fiscal years. Subsequent to 2005/06, the ERAF III adjustment will discontinue and the adjustments for Triple Flip and VLF Swap will be included.

# Schedule 9.1

## COUNTY OF HEWEGA

### Administrative Costs Apportionment Factors

For Fiscal Years 2004-05 and 2005-06

	AB 8 Tax Apportionment	Current Year Total Unitary Apportionment	ERAF III Adjustments (except RDA)	Total Amount Apportioned Each Fund	FY 2006-07 Tax Admin Cost Apportionment Factor	Allocate Tax Admin Costs	Recoverable	Not Recoverable
ERAF	\$ 15,576,925	\$ 146,692	\$ 5,150,000	\$ 20,873,617	0.16119445	\$ 2,592,544		\$ 2,592,544
County of Hewega	12,523,243	862,971	(3,500,000)	9,886,214	0.07634531	1,227,887		1,227,887
Knowbookiez County Library	3,205,372	230,057		3,435,429	0.02652976	426,687	\$ 426,687	
City of Maulsgalor	8,716,575	241,849	(900,000)	8,058,424	0.06223038	1,000,872	1,000,872	
City of Yucantkomen	3,137,011	237,192	(400,000)	2,974,203	0.02296799	369,402	369,402	
NoH2Ohoz Fire District	698,958	49,683		748,641	0.00578131	92,983	92,983	
Uliteumwesavum Fire District	154,197	13,203		167,400	0.00129273	20,791	20,791	
Weekillum Mosquito Abatement	390,545	12,395		402,940	0.00311166	50,046	50,046	
Yugottago Sanitation District	352,332	45,908	(350,000)	48,240	0.00037253	5,992	5,992	
County Office of Education	4,488,654	176,051		4,664,705	0.03602272	579,365		579,365
Wrugrats Elementary School	25,377,368	552,020		25,929,388	0.20023714	3,220,480		3,220,480
Nozaverythin High School	20,064,534	1,162,595		21,227,129	0.16392441	2,636,451		2,636,451
Knotau Community College	8,257,686	300,124		8,557,810	0.06608684	1,062,897		1,062,897
Maulsgalor RDA Project	12,550,000	16,758		12,566,758	0.09704555	1,560,816	1,560,816	
Yucantkomen RDA Project	9,450,000	502,502		9,952,502	0.07685721	1,236,120	1,236,120	
	<u>\$ 124,943,400</u>	<u>\$ 4,550,000</u>	<u>\$ -</u>	<u>\$ 129,493,400</u>	<u>1.00000000</u>	<u>\$ 16,083,331</u>	<u>\$ 4,763,708</u>	<u>\$ 11,319,623</u>

## Conclusion

California's property tax apportionment system is filled with complexities that, thus far few experts fully understand. Hopefully, this report will provide the reader with the basics of how the system works and why tax dollars are allocated by the auditor-controller as they are. It is also important that the reader understand the system's shortcomings.

The apportionment system contains disparities and inequities. The property tax base and the factors used to allocate assessed value growth are based on priorities established three decades ago. The system is regulated by the state who is often far removed from the ability to identify the opportunities to improve efficiencies and economies within a local region and lacks a redistribution mechanism for meaningful allocation change. More importantly, since the tax dollars are placed in a pot and redistributed by statutory prescribed formulas, taxpayers cannot readily associate the taxes they pay with the local services provided.

The property tax apportionment system can be characterized as a zero sum game. For every dollar that is redistributed to one local government another local government must lose a dollar. For this reason, past attempts to change the distribution of the one percent rate under AB 8 has been met with vigorous opposition. The Legislative Analyst Office describes the problem this way. "Despite the large degree of consensus on the problems, enacting reform has proven elusive because it requires making difficult tradeoffs across multiple worth policy objectives. That is, in most cases, making progress towards one desirable reform objective requires a step away from another." (*O'Malley, 2000, p.7*) To that end, the current property tax apportionment system will probably remain with us for a long, long time.

This Page Left Intentionally Blank

## **Bibliography**

Assembly Bill 8 Senate and Assembly Conference Committee. "Implementation of Proposition 13 Volume II Long-Term Local Government and School Financing." State of California. 1980.

Assembly Local Government Committee. "Overview of State Assistance to Local Governments Since Proposition 13". State of California. February 1983.

Assembly Office of Research. "California's State and Local Tax Systems: A Review of Major Revenue Sources." State of California. July 1985.

Assembly Office of Research. "SB 813 Assembly Third Reading." State of California. June 1983.

Assembly Revenue and Taxation Committee. "1982-83 Reductions in Local Government Fiscal Relief." State of California. July 1983.

Assembly Revenue and Taxation Committee. "1984 Revenue and Taxation Reference Book." State of California. January 1984.

Assembly Revenue and Taxation Committee. "1989 Revenue and Taxation Reference Book." State of California. March 1989.

Assembly Revenue and Taxation Committee. "Summary of 1983-84 Reductions in Local Government Fiscal Assistance. Major Tax Legislation of 1983. Volume 6." State of California. Fall 1983.

Attorney General Opinions. "Opinion No. 90-501 – October 25, 1990." State of California. 1990.

Attorney General Opinions. "Opinion No. 93-209 – July 14, 1993." State of California. 1993.

Beatty, David F., et al. "Redevelopment in California." Solano Press Books. 2004.

California Taxpayers' Association. "Supplemental Property Tax Roll. Adrift With a Floating Lien Date." Cal-Tax Research Bulletin. November 1983.

Cohen, Michael and Dan Carson. "Realignment Revisited: An Evaluation of the 1991 Experiment in State-County Relations." Legislative Analyst Office. February 2001.

Coleman, Michael J. "Property Tax Fairness Among Local Governments Means Consolidating Local Governance." Cal Tax Digest. November 1999.

Coleman, Michael J. "The VLF for Property Tax Swap of 2004 Facts for Local Officials." Coleman Advisory Services. CaliforniaCityFinance.com

Coleman, Michael J. "VLF Facts: A Primer on the Motor Vehicle In-Lieu Tax, the Car Tax Cut and Backfill." Coleman Advisory Services. CaliforniaCityFinance.com. May 2004.

County Accounting Standards and Procedures Committee. “1992 Legislative Session Senate Bills 617 & 1559 & Assembly Bill 3027 Property Tax Shift Uniform Guidelines for California Counties.” State Association of County Auditors. October 1992.

County Accounting Standards and Procedures Committee. “1993 Legislative Session 1993-94 Property Tax Shift Uniform Guidelines for California Counties.” State Association of County Auditors. October 1993.

County Accounting Standards and Procedures Committee. “1996-97 Uniform Guidelines for County Property Tax Administrative Costs.” State Association of County Auditors. June 1997.

County Accounting Standards and Procedures Committee. “Uniform Guidelines for the Implementation of Senate Bill No. 1096 as Amended by Assembly Bill No. 2115 Concerning Funding Provisions Relative to Counties, Cities, Special Districts, and Redevelopment Agencies in Connection with the State of California Budget for Fiscal Year 2004-05 and Beyond.” State Association of County Auditors. April 12, 2005.

County Property Tax Manager’s Association. “California Property Tax Managers’ Reference Manual.” State Association of County Auditors. November 2004.

Dardia, Michael. “Subsidizing Redevelopment in California” Public Policy Institute of California. January 1998.

Detwiler, Peter. “AB 377 and Property Tax Allocation.” Senate Committee on Local Government. August 1983.

Detwiler, Peter. “Extraordinary Property Tax Rates – Summary Report.” Senate Committee on Local Government. January 1995.

Doerr, David R. “California’s Tax Machine. A History of Taxing and Spending in the Golden State.” California Taxpayers’ Association. July 2000.

Doerr, David R. “Concurrence in Senate Amendments. AB 13 (Roos) – As Amended: May 22, 1985.” State of California. June 28, 1985.

HdL Companies. “Sales and Use Tax Reference Materials.” April 2004.

Hurst, Jean Kinney. “The Property Tax Roller Coaster: Explanations for Variations in County Property Tax Revenues.” California State Association of Counties. October 2004.

McWaters, Dwayne “Woody”. “County of Ventura. Application of AB 8.” County of Ventura. 1979.

Newman, Matt and Marianne O’Malley. “Property Taxes: Why Some Local Governments Get More Than Others.” Legislative Analyst Office. August 1996.

O’Brien, Thomas A. “Stepchild of Proposition 13: A Summary of the Special District Augmentation Fund.” Senate Committee on Local Government. March 1985.

O’Malley, Marianne and Michael Cohen. “Reconsidering AB 8: Exploring Alternative Ways to Allocate Property Taxes.” Legislative Analyst Office. February 2000.



Senate Committee on Local Government. "Local Government Finance Program." State of California. July 6, 1984.

State Board of Equalization. "2003-04 Annual Report." State of California. 2004

Western City. "AB 8 Delfator Repealed. Governor Signs Local Government Financing Legislation." League of California Cities. August 1984.