

Date of Hearing: April 18, 2018

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Cecilia Aguiar-Curry, Chair

AB 2711 (Chen) – As Amended March 20, 2018

SUBJECT: Property tax revenue allocations: County of Orange: county equity amount.

SUMMARY: Increases Orange County's share of ad valorem property taxes over time to a maximum of 12%. Specifically, **this bill:**

- 1) Defines "county equity amount" for the 2019-20 fiscal year (FY) as one percent of the total amount of property tax revenues required to be allocated to the county Educational Revenue Augmentation Fund (ERAF).
- 2) Defines "county equity amount" for FY 2020-21, and each FY thereafter, as the sum of the following three amounts:
 - a) The county equity amount for the prior FY;
 - b) The county equity amount for the prior FY times the percentage change from the prior FY to the current FY in gross taxable assessed calculation within Orange County, as reflected in the equalized assessment roll for those FYs; and,
 - c) If the county property tax threshold is less than 12% of the countywide ad valorem property tax revenues and the percentage change from the prior FY to the current FY in gross taxable assessed valuation within Orange County, as reflected in the equalized assessment roll for those FYs, is greater than 3%, the total amount of property tax revenue required to be allocated to the county ERAF times the percentage change from the prior FY to the current FY in gross taxable assessed valuation within Orange County minus 3%.
- 3) Defines the "county property tax threshold amount" as Orange County's countywide ad valorem property tax revenue, excluding the ad valorem property taxes dedicated for fire protection purposes, plus the county equity amount for the prior year.
- 4) Requires the Orange County auditor to increase the total amount of ad valorem property tax revenue allocated to the county by the county equity amount and decrease the amount of ad valorem property tax revenue that is otherwise required to be allocated to the county's ERAF by the county equity amount.
- 5) Specifies that if, for any FY, there is not enough ad valorem property tax revenue that is otherwise required to be allocated to the county ERAF for the auditor to complete the allocation reduction, the auditor must additionally reduce the total amount of ad valorem property tax to all school districts in the county for that FY by an amount equal to the difference between the county equity amount and the amount of ad valorem property tax revenue required to be allocated to the county ERAF for that FY. School districts do not include any districts that are excess tax school entities.

- 6) Specifies that the allocation adjustments made by this bill do not affect the allocation of ad valorem property taxes to the other local agencies within Orange County.
- 7) Provides that, if the Commission on State Mandates determines that this bill contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made pursuant to current law governing state mandated local costs.
- 8) Contains findings and declarations.

EXISTING LAW:

- 1) Makes the state responsible for the allocation of property taxes pursuant to Proposition 13.
- 2) Specifies a property tax allocation system (the AB 8 formula) in response to voter approval of Proposition 13.
- 3) Adjusts tax allocation by shifting property taxes from cities, counties, and special districts to an ERAF in each county, which in turn provides funds to public schools within the county.
- 4) Requires, pursuant to Proposition 98, that schools must remain whole.

FISCAL EFFECT: This bill is keyed fiscal and contains a state-mandated local program.

COMMENTS:

- 1) **Ad Valorem Property Taxes.** Prior to voters' approval of Proposition 13 (1978), local governments set their own property tax rates. Proposition 13 capped the rate of ad valorem taxes on real property at one percent, cutting statewide property tax revenues by 57%. The power to allocate the remaining property tax revenues became the Legislature's duty.

The Legislature responded by allocating property tax revenues to counties, cities, special districts, and school districts based on each agency's pro rata share of the property taxes collected within a county in the three FYs prior to 1978-79 (SB 154, Rodda, 1978). For example, a county government that had a low property tax rate before Proposition 13 received a small share of the remaining property tax revenues. In 1979, the Legislature permanently restructured the allocation of property taxes (AB 8, L. Greene, 1979). AB 8 used SB 154's property tax allocations as a base and then, in place of block grants, shifted some of the schools' property tax revenues to local agencies and replaced the schools' losses with increased subventions from the State General Fund.

Two changes to property tax allocations in the nearly four decades since AB 8 created the property tax allocation system have significantly affected local governments. In the mid-1980s, Legislators ordered counties to shift some of their property tax revenues to cities that either never levied a property tax before Proposition 13 or levied only low property tax rates. In response to state budget deficits in the early 1990s, the Legislature reduced State General Fund spending on education by shifting property taxes from counties, cities, and special districts, to schools (the so-called ERAF shifts).

California's property tax allocation system is excessively complex. After over 25 years of voter initiatives, legislative reactions, and local adjustments, the state/local fiscal relationship

is nearly incomprehensible. It is lacking in equity as there is significant variation in local governments' shares of property tax revenues. For example, Alpine County received 62% and Orange County received only 6% of the total property tax within their respective jurisdictions in FY 2015-16. It should be noted that Alpine County has comparatively fewer taxing entities competing for property tax revenue (for example there are no cities in Alpine County). The County of San Francisco receives 58%, but similarly, as the city and county are the same and many of the services provided in San Francisco are departments of the county, there are fewer taxing entities competing.

- 2) **Bill Summary.** This bill attempts to solve a complex problem by providing a mechanism for property tax relief to Orange County starting in FY 2019-2020. Essentially, this measure would increase Orange County's share of ad valorem property tax in years where assessed property value grows by 3% over the previous year. The property taxes would be shifted from the County's ERAF to the County over time until the County is guaranteed 12% of all ad valorem property taxes within its jurisdiction. AB 2711 is sponsored by Orange County.
- 3) **Author's Statement.** According to the author, "Property tax revenue is Orange County's largest source of funding for essential program that provide critical services to a diverse and dynamic population. Orange County receives the lowest percentage of property tax revenue of any county in California – about six cents on the dollar, in part because the formula for distributing local property taxes has not changed since the allocation system, commonly referred to as AB 8, was first implemented in 1979. Over the years, some local governments, including Orange County, have become increasingly critical of the state's property tax allocation system because it is an outdated formula that does not allocate revenue in a way that reflects current needs and creates significant funding inequities between counties. For instance, Orange County receives 11% less than the 17% average for the 15 largest California counties. AB 2711 seeks to provide Orange County a measure of parity with the other counties in terms of its property tax revenues.

"Since the property tax allocation was locked in, Orange County's population has nearly doubled and service needs have drastically increased. Orange County contributes more and receives less than other counties, leaving them at a disadvantage in serving their needy populations. This structural inequity disadvantages county residents who rely on the County to provide critical services. If the County received an equitable share of property tax that correlated more closely with local government service responsibilities, they could spend more on homeless services, crisis treatment, public safety, and addressing the needs of at-risk youth.

"AB 2711 gradually achieves a measure of property tax equity for the County of Orange by increasing the County's share of property tax revenues over time until it reaches twelve percent. Orange County's share of property taxes only increases during years where assessed property value growth is greater than three percent in order to phase in this bill. Once the County's share reaches twelve percent, the County's share no longer increases and will remain constant."

- 4) **Zero-Sum Game.** Allocating property tax revenues is a zero-sum game; every reallocation creates winners and losers. AB 2711 makes a winner out of Orange County. This bill would shift property taxes from the County's ERAF to the County. In some years, the fiscal loser will be the state General Fund, which must backfill the property tax revenues that schools

will not receive from ERAF. The annual loss to the state General Fund will grow in the future in accordance with property tax revenues.

- 5) **Prior and Related Legislation.** Several previous bills attempted to modify counties' share of property taxes: AB 2682 (Daucher) and AB 405 (Duvall), which were held in Assembly Appropriations Committee in 2006 and 2007 respectively, required tax increment to be directed to the county upon expiration of a redevelopment agency if the county is a low wealth county; AB 1033 (Daucher), which was held in Assembly Appropriations Committee in 2005, increased the property tax allocations to certain county governments that received less than the statewide average percentage of property tax revenues allocated to each county for FY 2002-03 by transferring property tax revenues from ERAF in each qualifying county; SB 1909 (Machado), which was vetoed by the Governor in 2004, established an 11% floor for property tax allocations to county governments; SB 1047 (Committee on Budget and Fiscal Review), a budget trailer bill that was nearly identical to SB 1909, died on the Senate Floor in 2003; AB 1568 (Correa), which specified that counties would receive a minimum of 15.5% of property taxes collected, was held in the Assembly Appropriations Committee in 2003; AB 1880 (Brewer), nearly identical to AB 1568, died in the Assembly Appropriations Committee in 2000; AB 2471 (Brewer) died in the Assembly Appropriations Committee in 1998; AB 661 (Brewer) died in the Assembly Local Government Committee in 1997; and AB 3334 (Brewer) died in the Assembly Local Government Committee in 1996.
- 6) **Arguments in Support.** Supporters argue that Orange County receives an unfair share of the ad valorem property tax revenue that is collected within its jurisdiction. Orange County needs this escalation in revenue to properly fund critical services, and as the County's population continues to rise, providing these services becomes increasingly difficult.
- 7) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

Orange County [SPONSOR]
Orange County Business Council

Opposition

None on file

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