Coleman Advisory Services

Statewide Property Tax Shares – Cities, Counties, et al.

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What share of the property tax goes to cities? … to counties? …to schools? These are not the simple questions they may seem. The simple answer may be found in Tables 14 and 15 of the State Board of Equalization (see Attachment 1). Here, for every county and statewide, is shown the amount of property tax revenue apportioned to cities, to counties, to special districts (including redevelopment agencies), and to schools (including ERAF).

Last year, an attendee of the Joint Committee on State/Local Fiscal Reform distributed these tables to members, pointing out the dramatic differences among counties and concluding from this that there are vast inequities. There may indeed be inequities in the allocation of the property tax, but these tables can't tell you that. There are dramatic differences in the degree of incorporation, the use of redevelopment, and the governance structures (e.g. full service versus not-full-service cities, etc.) that account for much of these differences.

It is erroneous to assume that the countywide share of property taxes received by Sierra County with a single small incorporated city (Loyalton) should be the same as Solano County which is 95% incorporated in seven cities. Nor should anyone expect either of these counties to have the same share as Trinity County which is entirely unincorporated. Neither should one expect a county that funds municipal services from its general fund to have the same chare as a county that has established special districts to provide these services – districts that receive property tax share to fund these services.

Three years ago, state legislators[1] argued against a bill to freeze ERAF using a similar faulty view of this data. Based on historic summaries of these BOE tables provided by the state Department of Finance, the legislators pronounced that cities were as well off as they were 20 years earlier prior to Proposition 13 … that counties have been the real victims. But there were fatal flaws in the 4/23/98 Department of Finance memo.

The 4/23/98 DOF piece contained the following table:

ALLOCATION OF PROPERTY TAX REVENUE
PERCENTAGE ON A STATEWIDE BASIS

	1977-78	1996-97 /a
Cities	10	11
Counties	30	20
Special Districts /b	7	16
Schools	53	53

/a Latest Data Available
/b Includes redevelopment agencies (in 1996-97 about 8 percent of the property tax is allocated to redevelopment).

[1] Including a Senator who is now Attorney General.

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The legislator's conclusions were flawed in two ways:

1. DOF staff took the total "city property taxes allocated and levied" statewide as a percent of the statewide AV. But not all of the state is incorporated - and the proportion that is has grown significantly since 1977-78.

2. This compares the pre-Prop 13 share of property tax revenues with the post-ERAF share of property tax revenues. But as we all know Prop 13 wacked total statewide property tax revenue by 53%. It's no big surprise that the intention of ERAF was to take us down to our old pre-AB8 shares - and thereby (twenty years later) reveal the true impact of Prop 13.

The underlying logic here is that ERAF is just the repeal of AB8 - which local governments should always have viewed as borrowed state money. There is ample evidence to support the League contention that the "bail-out" was universally considered permanent and that, by contrast, ERAF was intended to be temporary.

Moreover, the notion that local government shares should be reset to their pre-Prop 13 levels - holding the state harmless from impact or responsibility ignores:

1. The state reaped a $1 billion annual income tax windfall from Prop 13 from the reduction in deductible local property taxes <u>($2.7 billion in today's dollars)</u>.
2. The state was sitting on a $3.8 billion surplus (about $10.2 billion in today's dollars) and in the months leading up to Prop 13, failed to accomplish property tax reform. This fueled the perception among voters that there was ample government revenue among state and local governments - and the implicit voter expectation that the state should reallocate it's excess revenues to local governments.

<u>What the BOE Tables Do Tell Us</u>

The simple/gross property tax share approach of BOE Tables 14 and 15 do tell us where property tax revenue data goes in the state. One just needs to be careful about comparing county to county or year to year, unless adjustments are made. It is accurate to say that 11% of the property tax revenues collected in California goes to City general funds, and 19% to counties, and 52% to schools. Table 1a below shows this statewide allocation for 1977-78, 1987-88 and 1997-98 with redevelopment agencies broken out from other special districts.

Table 1a: Gross Property Tax Shares as Presented in BOE Annual Report

(Totals may not add due to rounding)

Showing Redevelopment Agencies separate from other special districts

	1977-78	1987-88	1997-98	$ millions 1997-98
Cities	10%	13%	11%	$ 2.2
Counties	30%	33%	19%	$ 3.8
Redevelopment	2%	7%	8%	$ 1.6
Special Districts	5%	11%	9%	$ 1.8
Schools (incl ERAF)	54%	36%	52%	$ 10.3
TOTAL	100%	100%	100%	$ 19.7

"Pre-Redevelopment Tax Increment" Shares

Technically, redevelopment does not garner a "share" of property taxes in the same manner as other local agencies. A redevelopment agency receives part or all of the incremental property tax revenue within its jurisdiction. When the agency has completed it's work, the increment is flows to the other local taxing jurisdictions based on their AB8 tax apportionment shares. So, for some purposes, it may be more accurate to exclude redevelopment when we talk about "shares." Table 1b below presents this view.

Table 1b: Gross Property Tax Shares
Excluding Redevelopment Property Tax Increment

				$ millions
	1977-78	**1987-88**	**1997-98**	**1997-98**
Cities	10%	14%	12%	$ 2.2
Counties	30%	36%	21%	$ 3.8
Special Districts (excluding Redevelopment)	5%	11%	10%	$ 1.8
Schools (incl ERAF)	55%	39%	57%	$ 10.3
TOTAL	100%	100%	100%	$ 18.1

This table tells us the "real" shares in the absence of redevelopment. It also tells us the proportion of non-redevelopment growth (tax increment being pledged to bonded debt and constitutionally restricted).

Tax Shares in Cities

As discussed above, a major problem with the BOE view is that cities serve about 81% of the state's population, while counties serve all 33 million (in 1998). Because nearly 20% of the state is in unincorporated areas, the 11% statewide share for cities significantly understates the portion of the average city property owner's bill that goes to the city. Moreover, the percentage of the state's population served by cities has grown over time, a fact often ignored when state analysts look at comparative changes in local government finance.

Table 2a shows estimated average property tax shares from within incorporated areas.

Table 2a: Average Property Tax Share in Incorporated Areas
(excluding San Francisco)

	1977-78	1987-88	1997-98
Cities	14%	18%	15%
Counties	27%	29%	16%
Redevelopment	2%	9%	10%
Special Districts	5%	10%	9%
Schools (incl ERAF)	53%	35%	50%
TOTAL	100%	100%	100%

But relatively few Californians live in a redevelopment area. So, for the typical city resident not living in a redevelopment area, the property tax is allocated as shown in Table 2b.

Table 2b: Average Property Tax Share in Incorporated Areas
(*non-redevelopment* & excluding San Francisco)

	1977-78	1987-88	1997-98
Cities	14%	19%	16%
Counties	27%	31%	18%
Special Districts (excluding Redevelopment)	5%	11%	10%
Schools (incl ERAF)	54%	38%	56%
TOTAL	100%	100%	100%

Now, keep in mind that the city amount shown is an average of cities that are full service to those that are not; from those that provide police, fire, library, parks, and streets – to those that get substantially less property tax because large hunks go to a fire district and a library district that serve the city residents. Thus, most full service cities can be expected to get substantially more than 16%, and most non-full-service cities will understandably get substantially less.

Per Capita Share

Of course all of this "share" talk belies the fact that the total property tax pie has declined wince Proposition 13. Taking into account population growth and inflation we can see that only special districts (redevelopment and non-redevelopment alike) are better off today than in 1977-78.

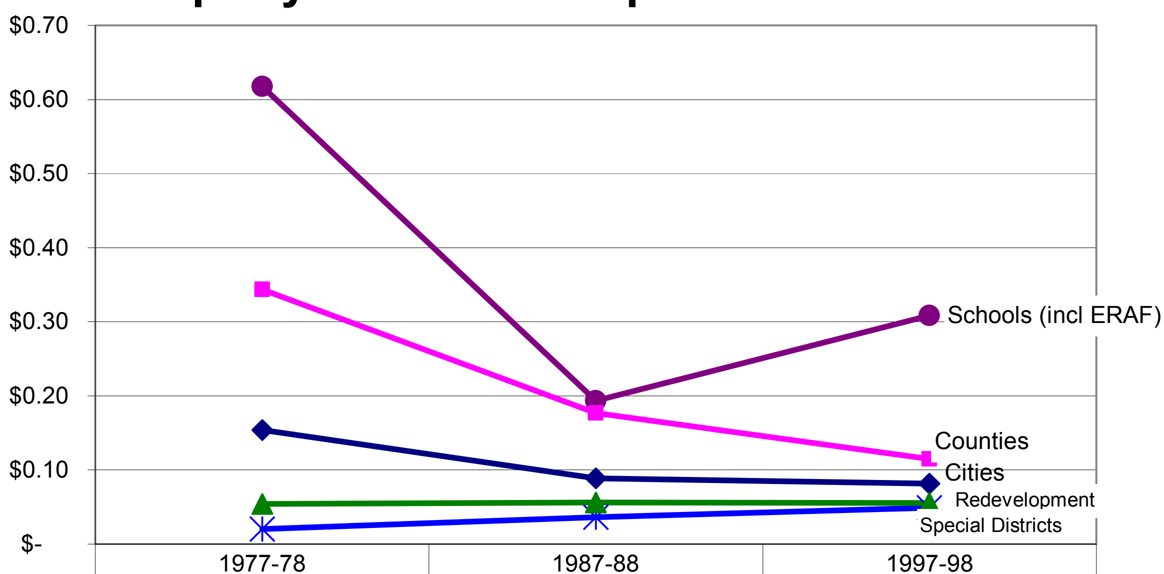
Table 3: PropTax Rev per Resident (excluding San Francisco)				
	1977-78	**1987-88**	**1997-98**	**% change**
Cities	$ 0.15	$ 0.09	$ 0.08	-47%
Counties	$ 0.34	$ 0.18	$ 0.11	-67%
Redevelopment	$ 0.02	$ 0.04	$ 0.05	143%
Special Districts	$ 0.05	$ 0.06	$ 0.06	2%
Schools (incl ERAF)	$ 0.62	$ 0.19	$ 0.31	-50%

Cities are OK? Even if you add the entire redevelopment allocation to cities, we are in terms of property tax … not.

Why are non-redevelopment special districts better off today? Because the largest of these (the fire districts) have been held harmless from ERAF. Thus, they have been able to retain their AB8 "bail-out" unlike any other local agencies.

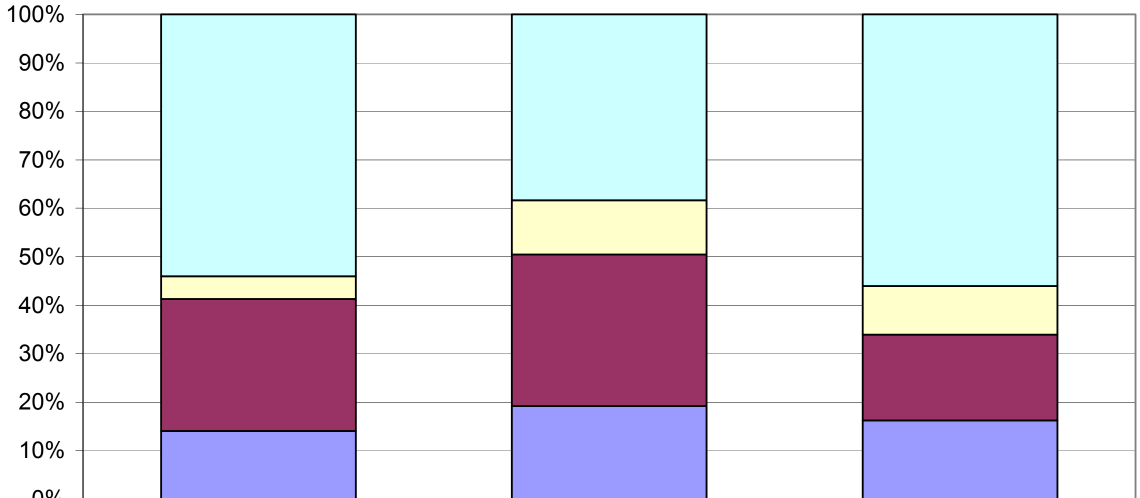
Of course we are looking purely at property tax here. This doesn't take "ERAF mitigation" including Proposition 172 and trial court reform. As I've shown in other analyses, these mitigations largely benefit counties.

Property Tax Revenue per Resident*



	1977-78	1987-88	1997-98
Schools (incl ERAF)	$0.62	$0.19	$0.31
Counties	$0.34	$0.18	$0.11
Cities	$0.15	$0.09	$0.08
Redevelopment	$0.02	$0.04	$0.05
Special Districts	$0.05	$0.06	$0.06

Average Property Tax Share in Incorporated Areas



	1977-78	1987-88	1997-98
Schools (incl ERAF)	54.0%	38.4%	56.0%
Special Districts	4.8%	11.2%	10.1%
Counties	27.2%	31.3%	17.7%
Cities	14.1%	19.2%	16.3%

Non-redevelopment areas and excluding San Francisco

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