

# Property Tax Increment Workshop

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January 24, 2011



# Discussion Outline

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- Proposition 13 and its Implementation
- Jurisdictional Changes
  - Policy Options for Future Annexations

# Proposition 13 and its Implementation

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Senate Bill 154

Assembly Bill 8

Calculation & Distribution of Tax Increment

# Before Proposition 13

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- ❑ Local governments levied their own tax rates
- ❑ The total tax rate for an individual parcel was the sum of the separate tax rates levied by each local government (county, city, special districts, school district, etc.)
- ❑ Average statewide property tax rate was 2.67%

# Hypothetical Example

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Total Assessed Value	\$2,000,000,000
Cumulative Tax Rate	2.00%
Total Taxes	\$40,000,000

## FY 1977-78

### **Local Agencies**

County General Fund	\$ 10,000,000
Community Serv. District	3,000,000
Fire District	2,000,000
Water District	1,000,000
<b>Total Local Agencies</b>	<b><u>16,000,000</u></b>

### **Schools**

Elementary School	\$ 10,000,000
High School	10,000,000
College District	3,000,000
County Office of Ed.	1,000,000
<b>Total Schools</b>	<b><u>24,000,000</u></b>

<b>Grand Total</b>	<b><u>\$ 40,000,000</u></b>
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# Proposition 13

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- Limited the total property tax rate to 1%
  - Total tax “pie” was reduced
- Allocation of property tax assigned to the state
- Property valued for tax purposes at:
  - The 1975 lien date, or
  - The date of ownership change, or
  - When newly constructed
- Assessed value grows at the lesser of increase in CPI or 2%
- State & local governments prohibited from imposing any new ad valorem (based on value) property taxes





# Implementing Proposition 13

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## Senate Bill 154

# SB 154: Prop 13 Implementation

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- Distributed property tax among local agencies according to pre-Prop 13 percentage share of countywide total
  - Historical percentage share was based on a three-year average:
    - FY 1975-76
    - FY 1976-77
    - FY 1977-78
- Schools share based on one-year average
- Included state bailout to partially offset tax loss



# SB 154: Applied to Example

	<u>FY 1975-76</u>	<u>FY 1976-77</u>	<u>FY 1977-78</u>	<u>Average</u>	<u>Percentage</u>
<b>Local Agencies</b>					
County General Fund	\$ 9,000,000	\$ 9,500,000	\$ 10,000,000	\$ 9,500,000	0.6746
Community Serv. District	2,000,000	2,500,000	3,000,000	2,500,000	0.1775
Fire District	1,000,000	1,500,000	2,000,000	1,500,000	0.1065
Water District	250,000	500,000	1,000,000	583,333	0.0414
<b>Total Local Agencies</b>	<b><u>12,250,000</u></b>	<b><u>13,500,000</u></b>	<b><u>16,000,000</u></b>	<b><u>14,083,333</u></b>	<b><u>1.0000</u></b>
<b>Schools</b>					
Elementary School			\$ 10,000,000	\$ 10,000,000	0.4167
High School			10,000,000	10,000,000	0.4167
College District			3,000,000	3,000,000	0.1250
County Office of Ed.			1,000,000	1,000,000	0.0417
<b>Total Schools</b>			<b><u>24,000,000</u></b>	<b><u>24,000,000</u></b>	<b><u>1.0000</u></b>
<b>Grand Total</b>			<b><u>\$ 40,000,000</u></b>		

# SB 154: Effect on Example

Total Assessed Value	\$2,000,000,000
Tax Rate	1.00%
Local Share (40%)	\$8,000,000
Schools Share (60%)	\$12,000,000
Total Taxes	\$20,000,000

	Historical Average Percentage Share	<u>FY 1978-79</u>	<u>Percent to Total</u>
<b>Local Agencies</b>			
County General Fund	0.6746	\$ 5,396,450	0.2698
Community Serv.District	0.1775	1,420,118	0.0710
Fire District	0.1065	852,071	0.0426
Water District	0.0414	331,361	0.0166
<b>Total Local Agencies</b>	<b>1.0000</b>	<b>8,000,000</b>	<b>0.4000</b>
<b>Schools</b>			
Elementary School	0.4167	\$ 5,000,000	0.2500
High School	0.4167	5,000,000	0.2500
College District	0.1250	1,500,000	0.0750
County Office of Ed.	0.0417	500,000	0.0250
<b>Total Schools</b>	<b>1.0000</b>	<b>12,000,000</b>	<b>0.6000</b>
<b>Grand Total</b>		<b>\$ 20,000,000</b>	

# SB 154 State Bailout

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- State tries to make up for lost property taxes
- Block grants replaced nearly 60% of 1978-79 tax losses
  - \$1.4 billion to counties
  - \$250 million to cities
  - \$192 million to special districts
  - \$2.5 billion to schools
- Permanently adjusted the 1978-79 property tax “base”

# SB 154: Inequities and Challenges

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- SB 154 locked in apportionment disparities
  - On-going share of property tax based on share of tax in place before Prop 13
    - Local agencies with a low mid-1970's tax rate stuck with a lower share in perpetuity
    - Local agencies with a high mid-1970's tax rate rewarded with a larger share in perpetuity
  - Tax system no longer responsive to changing local agency service responsibilities



# Implementing Proposition 13

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## Assembly Bill 8

# Assembly Bill 8

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- ❑ A long term solution to the state bailout
- ❑ How to allocate growth in assessed valuation
- ❑ How to redistribute property taxes resulting from changes in jurisdictional boundaries and/or services
  
- ❑ Note: Processes described in AB 8 are mandatory



# AB 8: Solution to State Bailout

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- City, County and Special District property tax shares increased by SB 154 block grant amount
  - AB 8 deflator reduced local government support over time
- Schools share of property tax decreased by same amount
- School reductions backfilled with state funding

# AB 8: Applied to Example

	<u>FY 1978-79</u> (Prop 13)	<u>State Assistance</u> (SB 154)	<u>Adjusted Base</u> <u>Year Allocation</u> (AB 8)
<b>Local Agencies</b>			
County General Fund	\$ 5,396,450	\$ 1,000,000	\$ 6,396,450
Community Serv.District	1,420,118	500,000	1,920,118
Fire District	852,071	300,000	1,152,071
Water District	331,361	200,000	531,361
<b>Total Local Agencies</b>	<b>8,000,000</b>	<b>2,000,000</b>	<b>10,000,000</b>
<b>Schools</b>			
Elementary School	\$ 5,000,000	\$ (1,000,000)	\$ 4,000,000
High School	5,000,000	(750,000)	4,250,000
College District	1,500,000	(200,000)	1,300,000
County Office of Ed.	500,000	(50,000)	450,000
<b>Total Schools</b>	<b>12,000,000</b>	<b>(2,000,000)</b>	<b>10,000,000</b>
<b>Grand Total</b>	<b>\$ 20,000,000</b>		<b>\$ 20,000,000</b>



# AB 8: Allocation of Growth (post Prop 13)

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- Local governments receive property tax equal to prior fiscal year (“base”) plus its share of change in assessed value within its boundaries (“increment”)
- Annual Tax Increment Factors created to allocate increment with specified geographical areas (tax rate areas)
  - Tax rate area is a geographical area composed of a unique combination of taxing jurisdictions
    - Now over 400 TRA’s in the County of El Dorado



# Implementing Proposition 13

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## Calculation & Distribution of Tax Increment

# AB 8: Increment Calculation

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Where is the agency's service located?

	<u>TRA 01</u>	<u>TRA 02</u>	<u>TRA 03</u>
County General Fund	X	X	X
Community Serv.District	X	X	
Fire District	X	X	
Water District	X	X	X
Elementary School	X	X	
High School	X	X	
College District		X	X
County Office of Ed.	X	X	

# AB 8: Increment Calculation %

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What percentage of an agency's total property tax is collected in each Tax Rate Area?

	<u>TRA 01</u>	<u>TRA 02</u>	<u>TRA 03</u>	<u>Total</u>
County General Fund	0.50	0.40	0.10	1.00
Community Serv.District	0.60	0.40		1.00
Fire District	0.70	0.30		1.00
Water District	0.60	0.20	0.20	1.00
Elementary School	0.80	0.20		1.00
High School	0.80	0.20		1.00
College District		0.90	0.10	1.00
County Office of Ed.	0.75	0.25		1.00

# AB 8: Increment Calculation



How is an agency's total property tax distributed across  
Tax Rate Areas?

	1979-80 Adjusted Base Year Allocation	<u>TRA 01</u>	<u>TRA 02</u>	<u>TRA 03</u>
County General Fund	\$6,396,450	\$3,198,225	\$2,558,580	\$639,645
Community Serv.District	\$1,920,118	\$1,152,071	\$768,047	
Fire District	\$1,152,071	\$806,450	\$345,621	
Water District	\$531,361	\$318,817	\$106,272	\$106,272
Elementary School	\$4,000,000	\$3,200,000	\$800,000	
High School	\$4,250,000	\$3,400,000	\$850,000	
College District	\$1,300,000		\$1,170,000	\$130,000
County Office of Ed.	\$450,000	\$337,500	\$112,500	
Total	\$20,000,000	\$12,413,062	\$6,711,021	\$875,917

# AB 8: Increment Calculation

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	<u>TRA 01</u>	<u>TRA 02</u>	<u>TRA 03</u>
County General Fund	25.7650	38.1250	73.0257
Community Serv.District	9.2811	11.4446	
Fire District	6.4968	5.1501	
Water District	2.5684	1.5835	12.1327
Elementary School	25.7793	11.9207	
High School	27.3905	12.6657	
College District		17.4340	14.8416
County Office of Ed.	2.7189	1.6763	
Total	100.0000	100.0000	100.0000

# Example: Change in Assessed Value

	<u>TRA 01</u>	<u>TRA 02</u>	<u>TRA 03</u>	<u>Total</u>
1978-79 AV	\$500,000,000	\$1,250,000,000	\$250,000,000	\$2,000,000,000
1979-80 AV	575,000,000	1,275,000,000	240,000,000	2,090,000,000
Change in AV	75,000,000	25,000,000	(10,000,000)	90,000,000
1% Tax Rate	750,000	250,000	(100,000)	900,000

# Using Tax Increment Factors to Allocate Change in Assessed Value

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	<u>TRA 01</u>	<u>TRA 02</u>	<u>TRA 03</u>
County General Fund	\$193,237	\$95,313	(\$73,026)
Community Serv.District	69,608	28,611	
Fire District	48,726	12,875	
Water District	19,263	3,959	(12,133)
Elementary School	193,345	29,802	
High School	205,429	31,664	
College District		43,585	(14,842)
County Office of Ed.	20,392	4,191	
Total	750,000	250,000	(100,000)



# State “Twists and Turns” to Property Tax System

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- Redevelopment
- ERAF
- VLF Swap
- Triple Flip
- Teeter Plan



# General Conclusions

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- ❑ Little nexus between property taxes paid and government services received
- ❑ Distribution of property taxes is based on mid-1970's service priorities and is no longer equitable
- ❑ Property tax is a “zero-sum game”
- ❑ Property tax is regulated by the state

# Legislative Analyst's Conclusions

**Figure 1**

## Property Tax Allocation: Existing Problems

- Lack of Information Impedes Government Accountability**
  - No entity-by-entity rates.
  - Outdated formulas reflect 1970s preferences.
  - Lack of accountability by officials.
- Lack of Local Control**
  - No ability to raise or lower property tax shares.
  - System susceptible to state-controlled revenue shifts.
  - Inability to shift revenues among priorities.
- Skewed Development Incentives**
  - Fiscal incentives encourage retail over other uses.
  - Fiscal incentives encourage proliferation and misuse of redevelopment.
- Other Related Issues**
  - Assessment practices act as barrier to new businesses.
  - Reliance upon nondeductible taxes to finance government services.
  - Competition for resources results in inefficient intergovernmental program coordination.

# Jurisdictional Changes

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# Examples of Jurisdictional Changes Subject to AB 8

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- ❑ Annexations to special districts
- ❑ Detachments from special districts
- ❑ Special district formation
- ❑ City incorporation
- ❑ Consolidation/merger of districts
- ❑ Dissolution of districts

# Property Tax Redistribution Process

(from LAFCO website)

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- LAFCO notifies Assessor when a preliminary submittal is received.
- Assessor provides assessed valuation to the County Auditor.
- Tax information on the parcels in the project area prepared by the Auditor and sent to all the affected agencies. This starts a 60-day deadline.
- County CAO's Office uses Auditor's information to prepare and send a redistribution proposal to the affected agencies for negotiations, if needed, among the agencies.
- With the 60-day clock running, the Board of Supervisors and certain agencies must formally approve the tax agreement with a resolution. **IF THESE RESOLUTIONS ARE NOT COMPLETED WITHIN 60 DAYS, UNDER STATE LAW THE PROJECT IS TERMINATED.**

# 60 Day Deadline for Negotiation

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- Revenue & Taxation Code § 99(b)(4):  
“Upon receipt of the estimates pursuant to paragraph (3) the local agencies shall commence negotiations to determine the amount of property tax revenues to be exchanged between and among the local agencies. This negotiation period shall not exceed 60 days.”

# Negotiation Backstop

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□ Revenue & Taxation Code § 99.01(a)(4):

“If a special district involved in the negotiation (other than the district which will provide one or more services to the area where those services have not been previously provided) fails to adopt a resolution providing for the exchange of property tax revenue, the board of supervisors of the county in the area subject to the jurisdictional change is located shall determine the exchange of property tax revenue for that special district.”



# Auditor's Estimate

Total Assessed Value in TRA Subject to AB 8 **\$100,000**

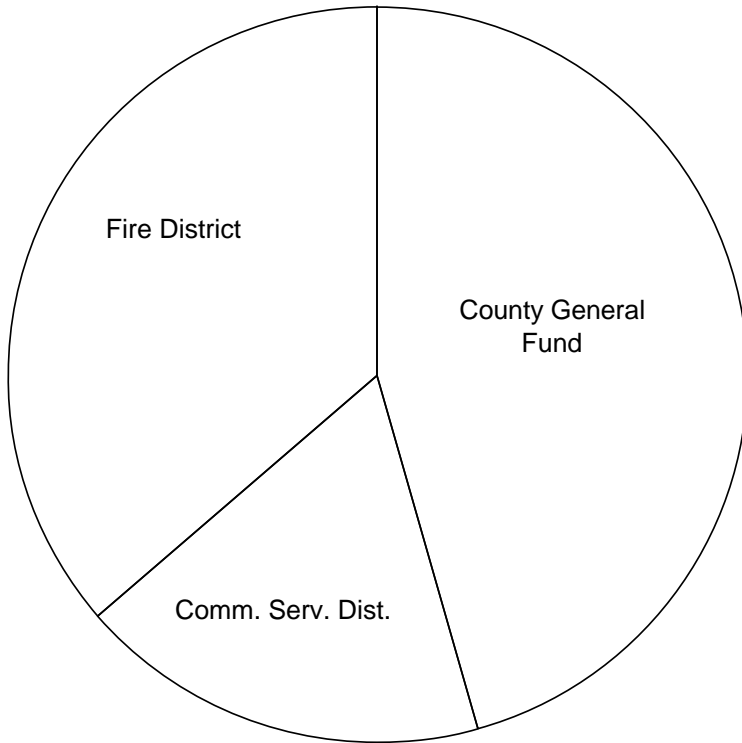
1% Property Tax Revenue **\$1,000**

	Current Share of Tax Levy in Existing TRA	Estimated Portion of Current Tax Revenue
<b>Local Agencies</b>		
County General Fund	25.0000%	\$250
Community Services District	10.0000%	\$100
Fire District	20.0000%	\$200
<b>Total Local Agencies</b>	<b>55.0000%</b>	<b>\$550</b>

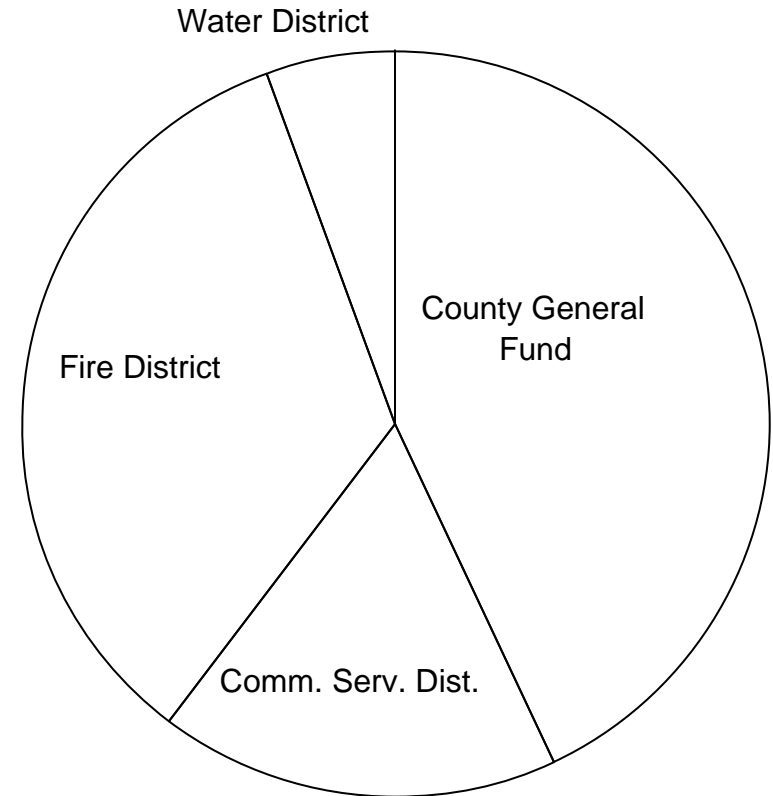
- ❑ Negotiation cannot affect school share of property tax

# “Tax Pie” Summary Charts

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Before Annexation



After Annexation

# CAO Calculations

Total Assessed Value in TRA Subject to AB 8 **\$100,000**

1% Property Tax Revenue **\$1,000**

	Current Share of Tax Levy in Existing TRA	Estimated Portion of Current Tax Revenue	Proposed Exchange of Tax Increment	Future Tax Increment
<b>Local Agencies</b>				
County General Fund	25.0000%	\$250	-1.3636%	23.6364%
Community Services District	10.0000%	\$100	-0.5455%	9.4545%
Fire District	20.0000%	\$200	-1.0909%	18.9091%
Water District	0.0000%	\$0	3.0000%	3.0000%
<b>Total Local Agencies</b>	<b>55.0000%</b>	<b>\$550</b>		<b>55.0000%</b>
<b>Schools</b>				
Elementary School	20.0000%	\$200		
High School	15.0000%	\$150		
County School Services	5.0000%	\$50		
College District	5.0000%	\$50		
<b>Total Schools</b>	<b>45.0000%</b>	<b>\$450</b>		
<b>Grand Total</b>	<b>100%</b>	<b>\$1,000</b>		

# Annexation Facilitates Growth in Assessed Value

- Existing agencies get a smaller slice of a bigger pie

	\$100,000 Assessed Value		\$1,000,000 Assessed Value	
	Current Share of Tax Levy in Existing TRA	Estimated Portion of Current Tax Revenue	New Share of Tax Levy in TRA	Estimated Portion of New Tax Revenue
<b>Local Agencies</b>				
County General Fund	25.0000%	\$250	23.6364%	\$2,364
Community Services District	10.0000%	\$100	9.4545%	\$945
Fire District	20.0000%	\$200	18.9091%	\$1,891
Water District	0.0000%	\$0	3.0000%	\$300
<b>Total Local Agencies</b>	<b>55.0000%</b>	<b>\$550</b>	<b>55.0000%</b>	<b>\$5,500</b>

# Policy Options

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- ❑ No exchange of increment
- ❑ Proportional method
- ❑ Agency minimums
- ❑ Negotiated “Magic Number”
- ❑ Exclude enterprise districts from share of property tax
- ❑ Master Tax Sharing Agreement
  - Revenue & Taxation Code § 99(d)

# Agency Minimums

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Agency	Minimum % Required By Agency for Annexation
Cameron Park CSD (Parks)	6%
Cameron Park CSD (Fire)	15%
El Dorado Hills CSD	10%
Fallen Leaf Lake FPD	13%
El Dorado County FPD	15%
Garden Valley FPD	13%
Georgetown FPD	13%
Latrobe FPD	13%
Meeks Bay FPD	13%
Mosquito FPD	13%
Pioneer FPD	13%
Rescue FPD	15%
El Dorado Hills County Water District (Fire)	17%
El Dorado Irrigation District	2.6667%



# Process Options

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- No change in current AB 8 jurisdictional change process
- Board-driven negotiation
  - Subcommittee



# Discussion Summary

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- Proposition 13
  - SB 154
  - AB 8
    - Calculation & Distribution of Tax Increment
- Jurisdictional Changes
  - Policy Options