

SB 154

SB 154 was passed within weeks of the June 1978 election. SB 154, also known as the Bailout Bill, provided a methodology for allocating property tax revenues within each county. It set in place an approach that was entirely different from the pre-Proposition 13 process. Starting with the 1978-79 fiscal year, a local taxing entity's share of the new maximum 1% property tax levy was based upon its proportional share of countywide property taxes collected prior to Proposition 13.

The methodology used to determine each local taxing agency's proportional share included its own complicated nuances. Different approaches were taken to determine the proportional shares of the schools versus all other taxing agencies. For example, for school agencies, a one-year "average" was used (1977-78). For all other taxing entities, a three-year average was applied (1975-76, 1976-77, and 1977-78). The end result, however, was that each taxing agency was allocated a share of the 1978-79 countywide property taxes based upon its pre-Proposition 13 share of the countywide total. Thus, SB 154 resulted in a disconnect between the property tax revenues raised within the physical jurisdiction of a local taxing entity and the revenues it actually received. Property taxes crossed geographical boundaries. The following overly simplified tables attempt to demonstrate this point.

Pre-Proposition 13 Property Tax Allocation

	Agency A	Agency B	Total
Assessed Value	\$1,000,000	\$1,000,000	--
Tax Rate	3%	1.5%	--
Revenue Received	\$30,000	\$15,000	\$45,000
% of Total	66.7%	33.3%	100.0%

SB 154 Property Tax Allocation

	Agency A	Agency B	Total
Assessed Value	\$1,000,000	\$1,000,000	--
Prop. 13 Tax Rate	1%	1%	--
Revenue Received	\$10,000	\$10,000	\$20,000
Actual Allocation	\$13,400	\$6,600	\$20,000
From(To) Outside Area	\$3,400	(\$3,400)	--

The tables illustrate that both agencies ended up losing about 56% of their property tax revenues, having received allocations of \$13,400 and \$6,600 instead of the pre-Proposition 13 levels of \$30,000 and \$15,000 respectively. However, because of the "proportional share" approach included in SB 154, \$3,400 of Agency B's locally generated property taxes were allocated outside its jurisdictional boundaries and Agency A was allocated \$3,400 of property taxes that were actually generated elsewhere. In general, areas with a pre-Proposition 13 tax rate less than the countywide average lost tax dollars to the areas with a pre-Proposition 13 tax rate that was more than the countywide average.

SB 154 also provided block grants ("bailouts") to all levels of local government to partially offset the loss of property taxes. In 1978-79, about \$1.9 billion in State surplus funds were transferred to local governments for this purpose, replacing nearly 60% of lost property tax revenues. Another \$2.5 billion was transferred to the schools, moving the total resources available up to over 85% of what it had been prior to Proposition 13.

Thus, SB 154 dramatically modified the property tax allocation process, largely unlinking local taxing agencies from the property tax revenues received from properties within their local jurisdictional boundaries. Each agency received a percent of the total countywide property tax "pot" based upon its pre-Proposition 13 proportional share and without regard to how much of the "pot" was actually generated within the local agency.

AB 8

AB 8 became effective for the 1979-80 fiscal year. It was designed to provide a long-term replacement for the "bailout" program included in SB 154 and to specify how revenues stemming from growth in assessed valuation would be distributed going forward. AB 8 did several things:

- ☑ It made the property taxes received by a taxing entity in 1978-79 through SB 154 the "base" for that agency, thus memorializing the allocation of property taxes on a county-wide basis.
- ☑ It then increased that base by adding a percentage of the block grant/bailout funds received in 1978-79 (about 95% for Special Districts). The State shifted property taxes from the schools to support this base increase and provided an equivalent amount of State general fund money to the schools to offset the loss.
- ☑ It established a process for allocating the growth in property tax revenues for 1979-80 and beyond, allocating the growth "increment" to those local taxing agencies serving the property where the increase took place, returning at least a part of the property tax allocation process to a "situs" based methodology (it should be noted that declines in property taxes are also allocated on a situs basis).

AB 8 also required that, beginning in 1980-81, each local government would receive the same amount of property tax it received in the prior year plus its share of any growth or decline in property tax revenue that occurred in its jurisdiction.

It should be noted that allocations to taxing entities are not made directly to the entities. The actual allocation process utilizes Tax Rate Areas (TRA's). Each county is divided into TRA's in order to ensure that each local government receives the property tax growth from the properties it serves. A TRA is a physical area that includes the various taxing entities that provide services to the properties within the area. For example, one TRA might include properties served by City A, the county, Water District A, Fire District A, and School District A. A second TRA might include properties served by City A, the county, Fire District A, and School District B. A TRA receives its proportional share of the base county-wide property taxes and the "increment" from growth in the assessed value of the properties within it. The taxing entities within that TRA then receive their proportionate share (called a TRA factor) of the growth increment in addition to their prior year's base amount.

Post AB 8

There have been a number of changes to the AB 8 system that was established in 1979. These include the advent of the Educational Revenue Augmentation Fund (ERAF), whereby local agency property taxes were shifted to the schools to replace State general fund dollars. Basically, however, the property tax system established through AB 8 remains largely in place.

CONCLUSION

A local tax entity's property taxes are allocated based upon the statutes promulgated by the State through SB 154 in 1978 and AB 8 in 1979. An oversimplified way of thinking about the allocation process vis-à-vis the District is as follows:

1. County-wide property taxes were "pooled" in 1978-79 and the District received its proportional share of that pool, based upon the prior three year average of its property taxes as a percentage of total county property taxes. It also received "bailout funds" from the State's surplus to make up a part of its lost property tax revenue.
2. The 1978-79 property tax revenues became the District's base for property tax receipts for 1979-80, adjusted upward by about 95% of the "bailout" amount. It then received its proportional share of all the growth increment from all of the properties within its jurisdictional boundaries (through the Tax Rate areas).
3. In 1980-81 and beyond, the District's prior year property tax receipts became its new base, to which the growth increment from properties within its boundaries was added.
4. Later legislation introduced other factors, such as the shift of property taxes to the schools through the creation of the ERAF, but the basic allocation methodology was not modified.
5. In 2013-14, the District's base was its property tax revenues from 2012-13, allocated from the county-wide "pot" of property taxes, plus its share of the growth increment from all the properties within the District. The property taxes are thus allocated on a county-wide basis each year, adjusted upward (or downward) to reflect the growth or decline in assessed value of the properties within the District. The allocation process is therefore a kind of "hybrid" system, using both a county-wide and "situs" based approach. **It should be emphasized that the District does not receive any of the property taxes that are attributable to the cities it serves.** This is an often heard claim that has no basis in fact.