



**City Council Special Study Session**  
**May 19, 2021**

# INTRODUCTIONS

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# AGENDA



Property Taxes in California



School District Funding and How Property Taxes Fit In



Property Taxes with School District Reorganization



# PROPERTY TAXES IN CALIFORNIA



# PROPERTY TAXES IN CALIFORNIA

- Property taxes are levied on real property (land and buildings), some types of personal property, aircrafts, and vessels.
- Proposition 13 (1978) limits the general property tax on real property to 1% of assessed value.
  - Assessed value is set based on the price paid for the property.
    - Increases in one of 2 ways: (1) annual increase by the lesser of 2% or the change in the California Consumer Price Index, or (2) by the value of an improvement to the property, which is then inflated each subsequent year.
  - Personal property is taxed based on its market value.
- If approved by voters/landowners, the property tax bill also includes other levies above the 1% general tax.
  - Voter approved debt (e.g., General Obligation Bonds)
  - Direct Levies (e.g., Assessment Districts, parcel taxes, sewer service charges)

Property Taxes Per \$100,000  
of Market Value



This map shows the property taxes paid per \$100,000 of market value for homes in a Los Angeles zip code. Property taxes are based on the assessed value, which typically grows more slowly than market value. Because of this, significant differences in assessed value arise among property owners solely because they purchased their properties at different times.

2016

ANNUAL PROPERTY TAX BILL

2016

CITIES, COUNTY, SCHOOLS AND ALL OTHER TAXING AGENCIES IN LOS ANGELES COUNTY
SECURED PROPERTY TAX FOR FISCAL YEAR JULY 1, 2016 TO JUNE 30, 2017

Table with columns: PROPERTY IDENTIFICATION, MAILING ADDRESS, ELECTRONIC FUND TRANSFER (EFT) NUMBER, DETAIL OF TAXES DUE FOR, VALUATION INFORMATION, ASSESSOR'S REGIONAL OFFICE, and SPECIAL INFORMATION.



Sample

Table with columns: PROPERTY LOCATION AND/OR PROPERTY DESCRIPTION, TOTAL TAXES DUE, VALUATION INFORMATION, ASSESSOR'S REGIONAL OFFICE, and SPECIAL INFORMATION.

Form for 2ND installment payment including fields for mailing address change, payment due date, and payment payable to.

Form for 1ST installment payment including fields for mailing address change, payment due date, and payment payable to.

1ST

SAMPLE PROPERTY TAX BILL

# PROPOSITION 13 LIMITED LOCAL PROPERTY TAXES

Before Prop.13, property tax had been a local tax levied directly by local governments for local services.

- Statewide, the average property tax rate was 2.67%.

Prop. 13 made three primary changes to property taxes:

- Changed the method for determining a property's value (called assessed value) for tax levies,
- Limited a property's overall tax rate from all local governments serving the property to no more than 1%,
- Directed the state to determine how to allocate property tax revenue from the 1% rate.

## SB 154 SET FORTH THE ORIGINAL SHARE OF PROPERTY TAXES AN AGENCY WOULD RECEIVE POST-PROPOSITION 13

Under SB 154 (1978), a local government's share of the property tax was based on the share of the property tax going to that local government before Proposition 13.

- This share was determined by averaging the agency's property tax revenue for the three fiscal years from 1975 to 1978 for local agencies excluding schools.
- The school's percentage was based on a one-year average.

Statewide, these relative shares have been frozen since that time.

# AB 8 AND ALLOCATION OF ONGOING PROPERTY TAX REVENUES

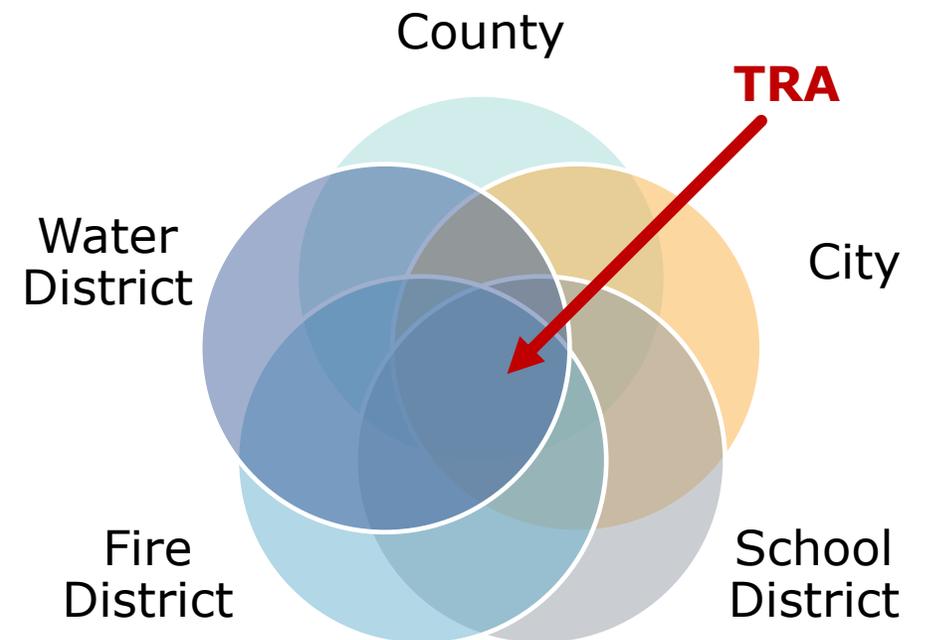
- AB 8 (1979) set the methodology for how property taxes are allocated from change in assessed values every year.
  - In any fiscal year, a local government will receive property tax revenue equal to what it received in the prior fiscal year (called "base") plus its share (whether positive or negative) of growth in revenue due to changes in assessed value within its boundaries (called "increment").

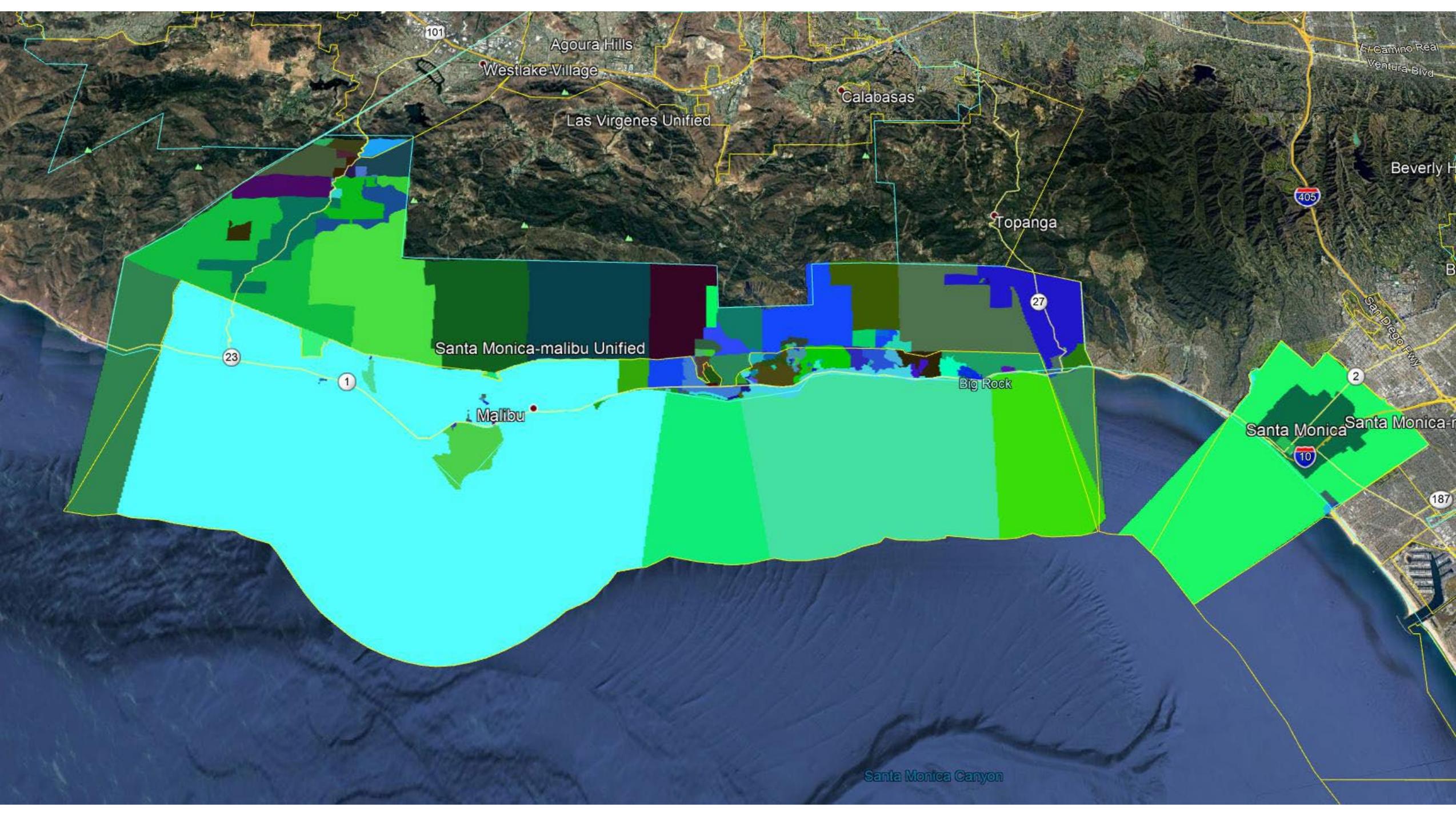
$$\text{Base} + \text{Increment} = \text{Current Year Property Tax } \$$$

- AB 8 provided that the increment (whether due to change in ownership, new construction, or the 2% inflation factor) accrues only to those jurisdictions where the increase took place.

# TAX RATE AREAS (“TRAs”)

- Annual Tax Increment factors (“AB 8 Factors”) were created to enable county auditor-controllers to allocate increment within specified geographical areas called Tax Rate Areas (“TRAs”).
  - A TRA is a geographical area comprised of a unique combination of taxing jurisdictions.
  - These factors mostly remain constant from one year to the next, only changing for jurisdictional changes.
  - Each TRA is composed of the following jurisdictions:
    - County, City (if incorporated territory), School Districts (Elem, High, Unified, College, Office of Ed), and Special Districts





101

Agoura Hills

Westlake Village

Las Virgenes Unified

Calabasas

Topanga

El Camino Real

Ventura Blvd

Beverly H

405

San Diego Fwy

Santa Monica-malibu Unified

23

1

Malibu

Big Rock

27

2

Santa Monica

Santa Monica-r

10

187

Santa Monica Canyon

## SAMPLE Property Tax Allocation By TRA

<b>2019-20 AV \$6,894,469,790</b>	
<b>2020-21 AV \$6,920,459,872</b>	
Property Taxes Generated	\$69,204,599
Increment	\$259,901

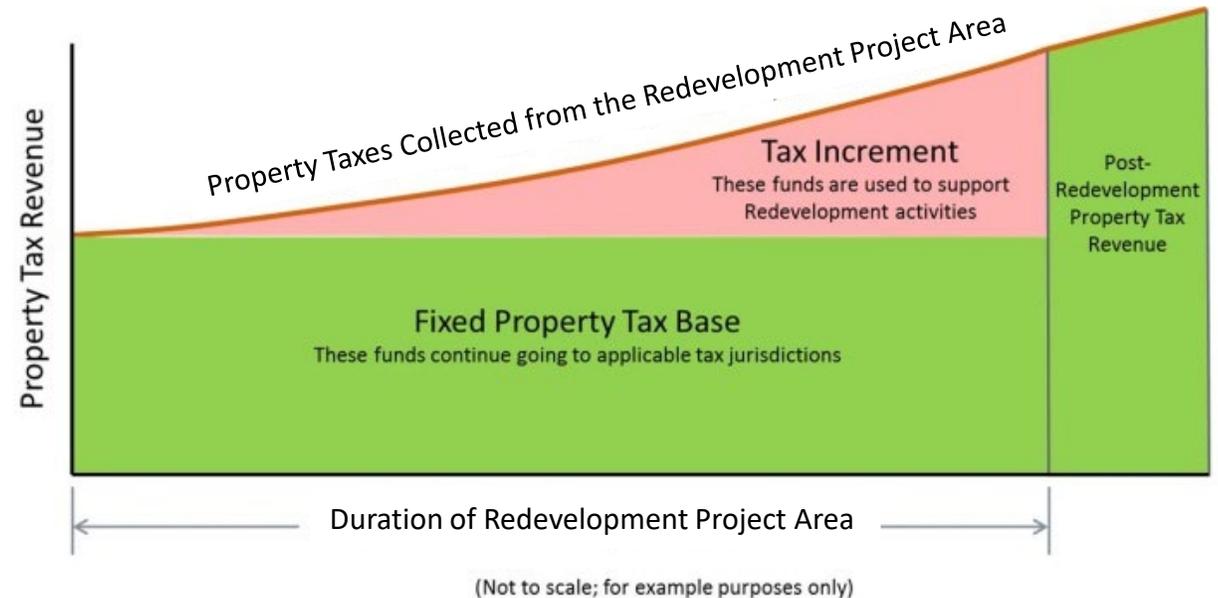
	(1)	(2)	(3)	(4)
	TRA Allocation	Annual Tax	Base (Prior)	Total Revenue
<b>TRA 10853 Taxing Jurisdictions</b>	<b>Factor</b>	<b>Increment</b>	<b>Year Allocated</b>	<b>to TRA 10853</b>
		<b>(1) x Increment</b>	<b>Revenue</b>	<b>(2) + (3)</b>
LOS ANGELES COUNTY GENERAL	0.268352	\$69,745	\$18,501,454	\$18,571,199
L.A. COUNTY ACCUM CAP OUTLAY	0.000118	\$31	\$8,168	\$8,199
L A COUNTY LIBRARY	0.024497	\$6,367	\$1,688,941	\$1,695,308
CONSOL. FIRE PRO. DIST.OF L.A.CO.	0.182167	\$47,345	\$12,559,441	\$12,606,786
L A C FIRE-FFW	0.006706	\$1,743	\$462,366	\$464,109
L.A.CO.FL.CON.DR.IMP.DIST.MAINT.	0.001839	\$478	\$126,818	\$127,297
LA CO FLOOD CONTROL MAINT	0.010410	\$2,706	\$717,699	\$720,404
L A CO WATER WORKS NO 29 MAINT	0.006227	\$1,618	\$429,337	\$430,955
L A CO WATER WKS NO 29 CAP OUT	0.016325	\$4,243	\$1,125,550	\$1,129,793
L A CO WEST VECTOR CONTROL DIST.	0.000259	\$67	\$17,865	\$17,932
CITY-MALIBU	0.070442	\$18,308	\$4,856,588	\$4,874,896
EDUCATIONAL REV AUGMENTATION FD	0.079634	\$20,697	\$5,490,338	\$5,511,035
EDUCATIONAL AUG FD IMPOUND	0.133378	\$34,665	\$9,195,685	\$9,230,350
COUNTY SCHOOL SERVICES	0.001469	\$382	\$101,303	\$101,685
CHILDREN'S INSTIL TUITION FUND	0.002916	\$758	\$201,051	\$201,809
SANTA MONICA CCD	0.038327	\$9,961	\$2,642,433	\$2,652,394
SANTA MONICA-MALIBU USD	0.155065	\$40,301	\$10,690,879	\$10,731,180
CO. SCH. SERV. FD.-SNTA MON-MLBU	0.000406	\$106	\$28,011	\$28,117
DEV CTR HDCPD MINOR-STA MON-MLBU	0.000541	\$140	\$37,267	\$37,407
SNTA MON-MLBU=CHILDRENS CTR. FD.	0.000921	\$239	\$63,506	\$63,745
<b>Total</b>	<b>1.000000</b>	<b>\$259,901</b>	<b>\$68,944,698</b>	<b>\$69,204,599</b>

# CHANGES IN JURISDICTION AND IMPACT ON PROPERTY TAX DISTRIBUTION

- Changes in the local governments' jurisdictions can affect property tax shares.
  - Formation of a new agency
    - Generally, local governments formed after Proposition 13 receive property tax revenue based on the services they take over from existing local governments.
  - Boundary Changes
    - Sometimes the boundaries of cities, schools, and special districts change. In these cases, the local governments affected by the boundary change must negotiate how much property tax revenue should be exchanged.
  - Dissolution
    - Local governments can dissolve if their services are taken over by another local government or private provider. Generally, there are two ways to redistribute the agency's property taxes: (1) reduce residents' property tax rates (based on the share of property taxes the dissolved local government received) or (2) distribute the property taxes to another local government taking over some portion of the dissolved government's services.

# REDEVELOPMENT AGENCY IMPACTS ON PROPERTY TAX DISTRIBUTION

- Redevelopment agencies (“RDAs”) were dissolved in 2012, but their property tax revenue continues to be used to pay the former agencies’ debts and obligations.
- When RDA project areas were formed, the tax base was frozen and property taxes from any increases in value were distributed to the RDA.
  - A portion of those funds were paid to local agencies affected by the RDA to make up for the loss in property tax funding (called “pass-through payments”).
- Since RDAs were dissolved, after the debts and obligations of the former RDAs are paid, any remaining funds are redistributed to other local taxing agencies within the TRAs of the RDAs based on each agency’s AB 8 Factor (called “residual payments”).





# SCHOOL DISTRICT FUNDING AND HOW PROPERTY TAXES FIT IN



# HISTORY OF SCHOOL FUNDING EVENTS

## Serrano v. Priest (1968 court case)

- School revenues were too reliant on property taxes.
- Poor areas could not raise the same amount as rich areas.

## Revenue Limit (1972)

- Created base funding level for general school district operations

## Proposition 98 (1988)

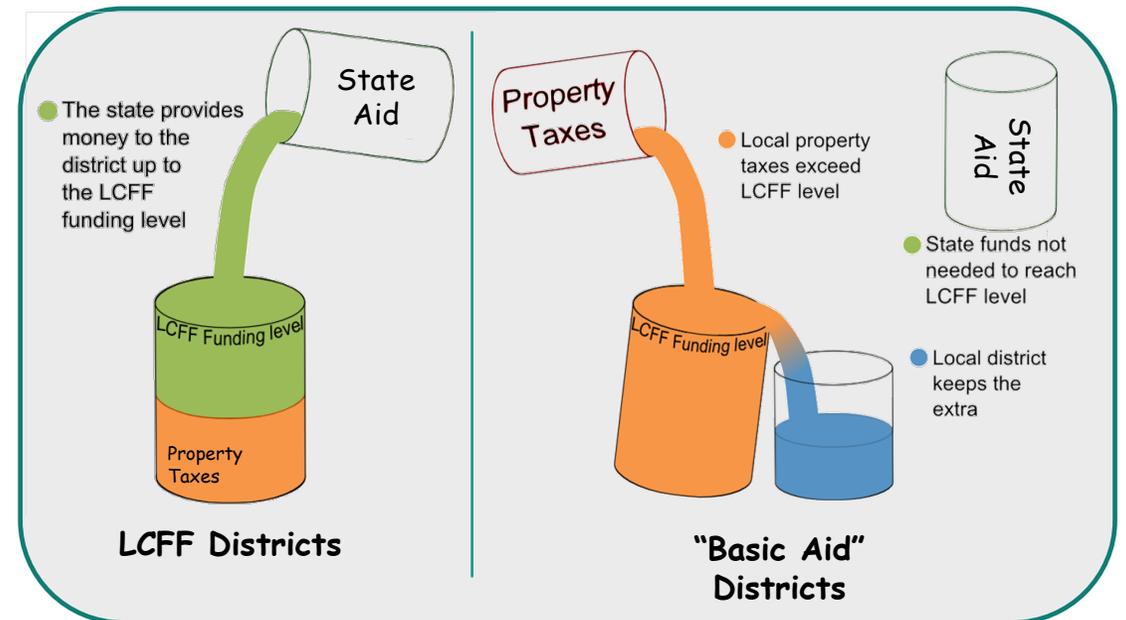
- Guaranteed predictable funding source that would grow with economy and Average Daily Attendance ("ADA")

## Local Control Funding Formula (2013)

- Replaced Revenue Limit funding model
- School districts with "higher need" students get more money to invest in those students

# HOW THE LOCAL CONTROL FUNDING FORMULA (“LCFF”) AND PROPERTY TAXES FIT TOGETHER

- LCFF sets the minimum funding amount per student.
  - That funding comes from a combination of property taxes and State aid.
  - School districts also receive program funding from the Federal Government and other local funding.
- SM-MUSD is currently “basic aid”.
  - The amount of local property taxes SM-MUSD receives exceeds the LCFF level.
    - The District keeps the extra property taxes
  - Became basic aid in 2018
    - **Currently receive just under \$4 million of excess property taxes** (as reported by the California Department of Education for 2021 P-1).
- In addition to property taxes, SM-MUSD funds general operations through basic state aid, parcel taxes, Federal program funds and several Other Local sources.





PROPERTY TAXES WITH SCHOOL DISTRICT  
REORGANIZATION



## DETERMINATION OF PROPERTY TAX REVENUE BY TRA

Typically, with a jurisdictional change, the county assessor provides the county auditor a report of assessed value for the territory subject to change and the TRAs in which the territory exists (Revenue and Taxation Code Section 99(b)(1)-(2)).

- Then, the county auditor estimates the annual property tax revenue generated within the territory, and what proportion of the property tax revenue is attributable to each local agency.

With this property tax information, the affected agencies can negotiate the terms for redistributing the property tax revenues.

**2019-20 AV \$6,894,469,790**  
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 Increment \$259,901

**SAMPLE TRA**  
**Showing**  
**Replacement of**  
**SM-MUSD with**  
**Malibu USD**

TRA 10853 Taxing Jurisdictions	(1) TRA Allocation Factor	(2) Annual Tax Increment Revenue (1) x Increment	(3) Base (Prior) Year Allocated Revenue	(4) Total Revenue to TRA 10853 (2) + (3)
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# MOST RECENT CITY OF MALIBU PROPOSAL FOR REDISTRIBUTION OF PROPERTY TAX REVENUES

- City of Malibu's most recent proposal:

Allocate property taxes currently distributed to SM-MUSD to the new school districts based on the revenue generated from the TRAs served by each district.

- In other words, property taxes generated in Malibu would go to Malibu USD and property taxes generated in Santa Monica would go to Santa Monica USD.

Provide additional property tax revenues from Malibu USD to Santa Monica USD in order to fully fund their LCFF funding amount in order to keep the State whole.

- Required to meet one of the State's reorganization feasibility criterion

Allocate additional funding from Malibu USD to Santa Monica USD for up to 10 years if total LCFF funding and Other Local funding declines.

- Calculated on a per pupil basis

## SM-MUSD's CONCERNS WITH PROPOSAL

- SM-MUSD does not believe that there is a way to calculate where the property taxes come from geographically.
- Additionally, since property taxes were based on pre-Proposition 13 property taxes, SM-MUSD does not believe there is a way to equitably distribute the pre-1979 dollars.
- The District's interpretation of the City's proposal demonstrated a significant shortfall which would result in significant budget cuts, estimated to be approximately \$19 million.
  - Their interpretation did not accurately reflect the City's intent for how property taxes would be distributed and did not properly account for how the City would provide funding in the event that operational funding declined.
  - Even under the District's interpretation of the City's proposal, the estimated \$19 million of budget cuts cannot be explained as the District currently only receives \$4 million in excess taxes and would receive at least their Local Control Funding Formula minimum funding from the State.

# SM-MUSD PROPOSAL FOR REDISTRIBUTION OF PROPERTY TAXES

- SM-MUSD's proposal:

Permanently allocate property tax revenue between Malibu USD and Santa Monica USD based on student enrollment.

All Other Local funding sources remain with Santa Monica USD.

- Not clear about how parcel taxes will be addressed since the District did not support special legislation to ensure that the two districts would retain their parcel taxes.

***The District's proposal has remained unchanged throughout "negotiations."***

# CITY OF MALIBU'S CONCERNS WITH SM-MUSD PROPOSAL

- The proposed property tax allocation will permanently redistribute property tax money generated from the Malibu community to the Santa Monica community
  - Equating to approximately \$250 million over the first 10 year and approximately \$4 billion over 50 years.
    - Malibu would be subsidizing Santa Monica taxpayers forever, limiting the educational program that could be offered to Malibu students.
  - The proposed formula does not equitably take into consideration the Other Local funding that is predominately generated in Santa Monica and would stay in Santa Monica.
- It is not clear how this proposal would be implemented as TRAs are geographically set based on service area.

## SUMMING IT UP

- Property tax funding for local agencies in California is derived from the proportion of taxes raised pre-Proposition 13 plus the growth in their own local tax base since that time.
- School funding is typically funded from a combination of property taxes and State aid up to the Local Control Funding Formula funding level.
  - However, SM-MUSD is basic aid and receives excess property taxes in addition to Local Control Funding Formula funding, plus significant Other Local funding to fund their general operations.
- The biggest difference between the City's funding proposal for school separation and the District's is related to the allocation of property taxes.
  - The City has proposed to allocate taxes based on the territory served by each school district.
  - The District has proposed to allocate taxes based on student enrollment.