

# El Dorado County Auditor-Controller

## Property Tax Overview & Updates for Districts

Presented 12/8/14

# Agenda

- Property Tax Revenue Estimates
  - Myths
  - Winter/Spring calls: “what’s next year going to be?”
  - General information
  - Outcome of calculations
  - Detail steps
  - Why aren’t supplemental revenues included?
- Local Agency Special Tax & Bond Accountability Act
- AB 2109 - Report Special Taxes to the State
- What’s available on the website
  - Related to revenues
  - Related to tax bills
  - Related to direct charges
- Revised Cost Recovery Structure for Direct Charges

# Property Tax Revenue Estimates

## *Top 3 Myths*

- Property taxes are sent to the State.
  - No property taxes are sent to the state or taxing jurisdictions outside of the county (some inter-county taxing jurisdictions do receive property taxes).
  - Most K-12 school districts are backfilled to their Prop 98 funding levels to make up for whatever is lacking in property tax allocations.
- The Auditor determines who gets what property taxes, and can change it unilaterally at will.
  - Proposition 13 gave the power to determine how property taxes are distributed to the State legislature. The State legislature accomplished this primarily via AB-8 along with subsequent legislation over the past 35 years (e.g. ERAF, SDAF, VLF Swap, Triple Flip, etc.).
  - The allocation calculations are administered by the County Auditor-Controller pursuant to specific statutes along with any locally negotiated changes to allocations.
  - Taxing Jurisdictions can use R&T Code §99 et seq. to reallocate their property taxes via annexations/detachments/formations/dissolutions (typically done via LAFCO) or via within negotiated based/future increment within the same TRA(s) shared by the collaborating taxing jurisdiction.
- There is a nexus between taxes paid, their distribution, and the level of service provided to the specific property.
  - Proposition 13, amplified by subsequent legislation, essentially severed these nexuses.

# Property Tax Revenue Estimates

*Winter/Spring phone calls: “what are next year revenues going to be?”*

- Short answer:
  - Your guess is as good as mine.
  - We don’t have the information needed to make an estimate until after July 1.
- Long answer:
  - Assessor working on January 1 lien date assessment roll. No one else has access. Assessor might be able to give generalities, but information is of limited benefit (see next few slides).
  - Until Assessment roll is delivered, the information is by Assessor Parcel Number (APN), not Tax Rate Area (TRA). Since revenue distribution is by TRA, individual APN information not beneficial for creating meaningful estimates.
  - Assessor doesn’t deliver roll until July 1 (statutory date, unless takes up to 30 day extension [normally doesn’t])
  - Once delivered, the roll becomes public information.
  - We having nothing to “work with” to determine revenue estimates until the roll is delivered (plus State Board of Equalization’s (SBE) assessment roll is received [late July]).

# Property Tax Revenue Estimates

## *Revenue Estimate Letters – General*

- Courtesy information, not statutory
- Done as soon as possible, but worked around other statutorily required work/reporting (busiest time of year). Also, have to wait for certain pieces of information (e.g. SBE's Assessment Roll [late July]).
- Posted online as soon as done (typically late August)
- Multi-year history available at website

# Property Tax Revenue Estimates

## *Revenue Estimate Letters – Outcome of Calculations*

- Based on actual assessment roll and distribution laws
  - If there are no changes, estimate will equal actual.
    - By the end of the fiscal year for Teetered (distributed by the end of the fiscal year).
    - At some point in time for the non-Teetered (distributed when collected).
  - But there are always changes that over course of the year that cause net changes to billings. These can be significant/insignificant and positive/negative.
  - Many of the changes are beyond control of Assessor (e.g. late filed homeowner's exemptions; calamity claims).
  - General rule = Assessor can make roll changes for up to 4 years.
- Ultimately, picture a pie, sliced into 85 pieces (taxing jurisdictions) of varying size.
  - The pie typically grows each year, but can shrink (and has).
  - A taxing jurisdiction's piece of the pie may grow while, in the same year, others will remain flat or shrink.
  - Even if a taxing jurisdiction's percentage of the pie shrinks, they may end up with more actual revenue if the overall pie is larger. Conversely, even if a taxing jurisdiction's percentage of the pie grows, they may end up with less actual revenue if the overall pie is smaller.
- The basic premise of AB 8 is to allocate to each taxing jurisdiction the amount it received in the prior year, plus the additional taxes that have occurred in the current year within its boundaries.

# Property Tax Revenue Estimates

## *Revenue Estimate Letters – How It's Done (Steps)*

- The AV (secured + unsecured + homeowner's exemption) of 130,000 APNs are rolled up into 400 TRAs. TRAs may contain only 1 or thousands of APNs.
- The summed TRA AV is multiplied by Proposition 13's 1% tax rate for each TRA.
- Subtract the same calculation for the prior year. The result is the growth in each TRA (AKA Annual Tax Increment [ATI]).
- Split each ATI among the revenue jurisdictions based on their ATI Factors.
  - The ATI Factors can vary significantly from TRA to TRA (e.g. Rescue Fire gets 9.3811% of the growth in TRA 072-034 and 15% of the growth in TRA 100-228).
  - The amount of ATI in each TRA can vary significantly (e.g. TRAs 054-069/054-135/100-180 FY14/15 had ATI of \$(1,112.24)/\$1,656,456.10/\$9.86 with EDH CSD ATI Factors of 13.8%/10.5%/11.2%, respectively).
- Each revenue jurisdiction's ATI at the TRA level is summed to determine a "jurisdictional level" ATI.
- The jurisdictional level ATI is added to the prior year's base (the revenue jurisdiction's original Proposition 13 allocation plus each prior years' jurisdictional level ATI). For the prior year's base, think "the core of a tree with 35 years of growth rings". The outcome of the calculation is 85 newly sized trees where some trees may get larger while others may get smaller. Some trees may grow faster than others.
- ERAF I & ERAF II are calculated and applied, for those taxing jurisdictions affected.
- The AB-8 Allocation Factors are finalized (A final pie is produced showing each taxing jurisdiction's percentage). The Revenue Estimate letters are based on this final pie.
- Also shown on the Revenue Estimate letters:
  - Unitary revenue (a completely different calculation methodology).
  - Redevelopment Successor Agency Tax Increment for the 11 taxing jurisdictions affected.

# Property Tax Revenue Estimates

## *Why aren't supplemental revenues included?*

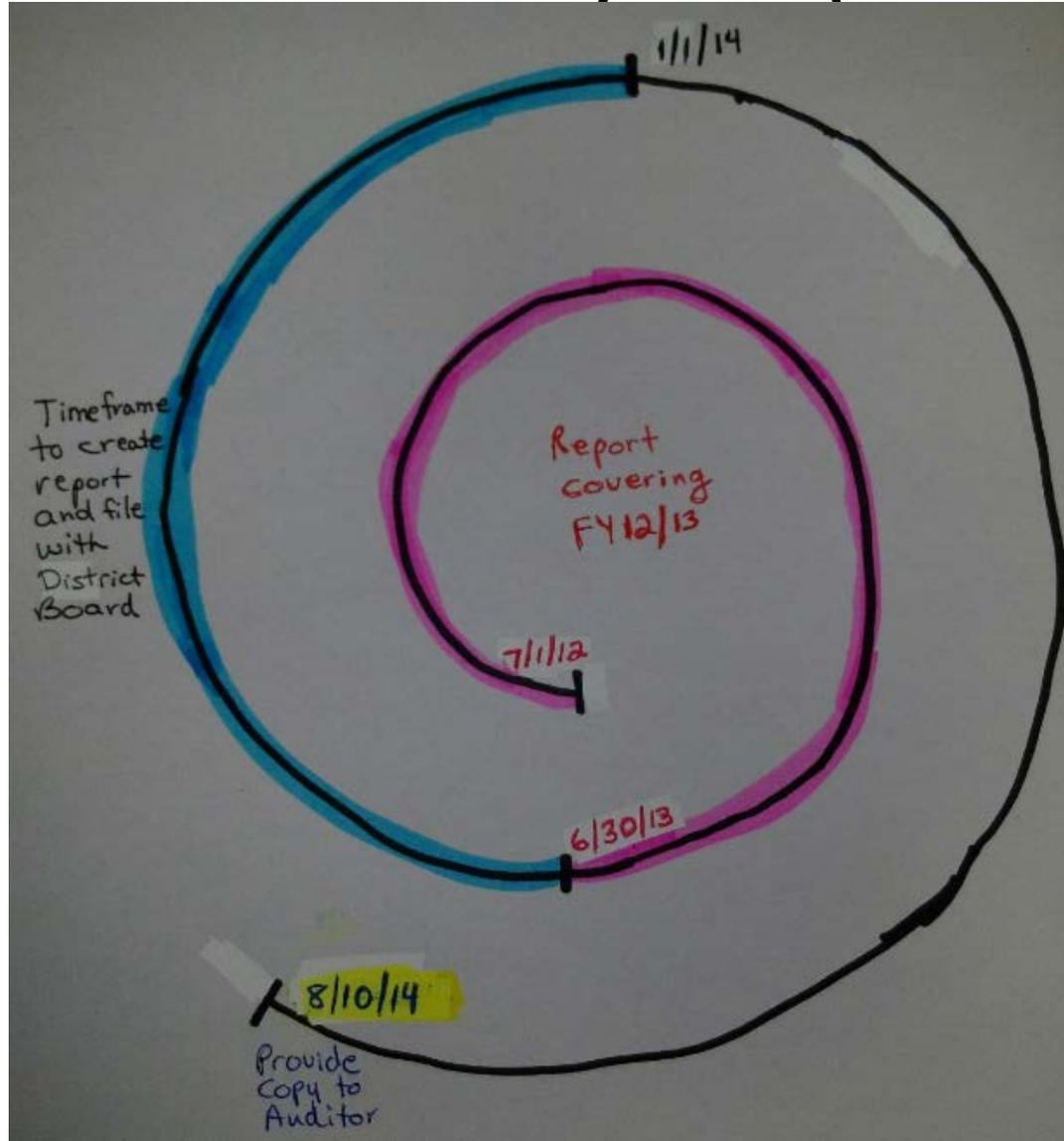
- Short answer:
  - We don't know what net billings are until they are enrolled (bill is calculated).
  - Not on the Teeter Plan, so revenues not booked until collected.
- Long answer:
  - Supplemental “Events” are due to sales and completion of new construction.
  - Typically 5-6 months from Event to Billing.
    - Recorded as Recorder/Clerk (or Building Permit final).
    - Recording transmitted to Assessor and “skeletal record” input.
    - Assessor determine and input Assessed Values (AV).
    - Assessor mails “Notice of Supplemental Assessment” to taxpayer.
    - 30 day statutory waiting period for Assessor to transmit to Auditor (to provide taxpayer chance to disagree or file homeowner's exemption for instance).
    - Enrolled (& mailed) 5-10 days after 30 day statutory waiting period ends.
    - Supplemental Billing enrollment is run weekly.
  - Bills are due & payable immediately, but delinquency dates can range from 30 days to 9 months (most people delay until near the delinquency date which may be the subsequent fiscal year).
  - Refunds are made <30 days to avoid interest penalties.
- Note: Supplemental Revenues always “lag” from the actual market fluctuation (e.g. if housing prices were to double today, a sale recorded 1/15/2015 might not be collected until December 2015 & April 2016).

# Local Agency Special Tax &

## Bond Accountability Act (SB 165)

- Effective 2001 annual reporting for Voter-Approved Special Taxes & Mello-Roos Special Tax bonds required for ongoing annual levies.
  - “affect the general welfare of all Californians”.
  - “an issue of statewide concern and not merely a municipal affair”.
  - “legislature intends that the procedures created by this act shall apply to all local agencies”.
  - “Earning the voters’ confidence to support special taxes and bonds requires local agencies to demonstrate to the voters that they spend these funds on the intended facilities and services”.
- Reporting requires short laundry list. Include additional info at option of Board.
- Reporting is made by the district staff to the district’s board
  - The district isn’t doing the report for the Auditor.
  - Auditor doesn’t want the original, which is the property of the district’s board.
  - District is doing the annual reporting because state law mandates it (not optional).
- The law gives the districts 6 months to file the report from the end of the fiscal year (presuming June 30 FYE). See next page graphic.
- Under the Public Records Act, the Auditor asks for copy in August of the report filed by the previous January. See next page graphic.
  - Notable the number of reports filed late.
  - Notable the number of districts who omitted filing with their board altogether.
  - It appears that these local agencies may be violating state law

# Local Agency Special Tax & Bond Accountability Act (SB 165) pg 2



# AB 2109 – Report Special Taxes to State

- New mandatory reporting by districts to State Controller (SCO) effective 1/1/15.
- Includes:
  - Type & rate
  - # of APNs subject and exempt
  - Sunset date, if any
  - Amount of revenue received and manner spent
- SCO currently working with a consortium to implement procedures and they will be in contact with you.
- See “first blush” list of who may need to report.
- District’s responsibility to:
  - determine what needs to be reported.
  - Complete the report.
  - Ensure the report is filed with the State Controller.

# What's Available on the Website

## *Related to Distribution of Revenues*

- Pictorial of “the Pie”
- Various State Legislative Analyst Office links:
  - Understanding California Property Taxes
  - Property Tax Reductions to Diminish as Housing Market Improves
  - Why some Local Governments Get More Than Others
  - Reconsider AB-8: Exploring Alternative Ways to Allocate Property Taxes
  - Major Milestones: Four Decades of the State-Local Fiscal Relationship
- Revenue Estimate letters (8 years history)
- ATI within TRA information
- Assessed Value by TRA and by district (16 years history)
- TRA information (districts within each TRA)

# What's Available on the Website

## *Related to Tax Bills*

- Copies of tax bills
- FAQs for calculations of bills/refunds
- Property Tax Cycle (cartoon)
- Various State Legislative Analyst Office links:
  - Understanding California Property Taxes
  - Property Tax Reductions to Diminish as Housing Market Improves
- Fundamentals for Debt Service of each G/O Bond
- How was the Debt Service rate calculated
- Tax Rates (per TRA and per District)
- Non-ad valorem Direct Charges
- Links to property tax or property related departments

# What's Available on the Website

## *Related to Direct Charges*

- Policy and Procedures Manual, including exhibits
- Inactive status APNs (APNs inventoried, but don't get tax bills)
- TRA information
  - TRA listing for a particular district
  - Purpose, use, key information, and operational aspects
  - Links to LAFCO and their district maps
- Ledgers and accounts receivable details
- Listing of APNs levied for each direct charge (and visa versa)
- Grand totals # and \$ of each direct charge levy
- APNs added after the extension of the roll
- Master index of all direct charges including public contact
- Forms
- Letters/Notices of importance for direct charges (e.g. recent statewide lawsuit on "uniformity" and the memo regarding "bill separations")
- Link to State Legislative Analyst's office "Understanding Prop 218"

# Revised Cost Recovery Structure for Direct Charges (Effective 2015/16)

- Last update late 1990's by adding the nominal "\$50 minimum" criteria.
- Various California statutes allow the County to recover reasonable costs to ensure:
  - The County remains revenue neutral in the performance of the statutory duty to levy, bill, maintain, report, collect, & apportion.
  - Costs associated with non-ad valorem Direct Charges aren't commingled with or subsidized by Prop 13's General Tax (SB 2557) (or visa versa).
  - Recognize that not all districts that receive a share of the General Tax also have Direct Charges (and visa versa).
- Direct Charges play an ever increasing role on the tax bill.
  - 2000/01 = 438k Direct Charges on 108k APNs & 204 Codes
  - 2014/15 = 629k Direct Charges on 133k APNs & 247 Codes  
43.5% increase                      23.7% increase                      21.1% increase

# Revised Cost Recovery Structure for Direct Charges (Effective 2015/16) Pg 2

- The district may only talk to the Property Tax Division once a year at the time of levy, but daily/weekly/monthly/annual work related to Direct Charges occurs.
- Current Cost Recovery structure is one of the following:
  - 30¢ per APN, up to a maximum of 1% of the levy, with a \$50 minimum.
  - 1% of the levy, with a \$50 minimum.
  - .75% of the levy, with a \$50 minimum.
  - Greater of 1% of the levy or 30¢ per APN, with a \$50 minimum.
- The \$50 minimum is not feasible cover the costs to levy, bill, maintain, report, collect, and apportion.
- Current Cost Recovery
  - Overcharging some and undercharging others.
  - Not based on sound cost accounting principles.
- A proposed revised Cost Recovery structure will be sent to each district shortly with a couple of months provided to comment and make suggestions.

# Revised Cost Recovery Structure for Direct Charges (Effective 2015/16) Pg 3

- Revised Cost Recovery structure needs to take into account:
  - Cost Recovery for Direct Charges should not subsidize, commingle, overlap, or gap with SB 2557 Property Tax Administrative Cost for Proposition 13's General Tax portion of the tax bill.
  - Cost Recovery amounts should accurately and reasonably reflect the level of effort necessary to levy, bill, maintain, report, collect, and apportion Direct Charge levies.
  - 1915 Bonds have a statutory maximum Cost Recovery of \$16 per APN (not an issue for any existing levies).
  - The cost associated with a \$10 levy is the same as a \$1,000 levy. Thus, the Cost Recovery amount should not be indexed to the amount levied.
  - More effort is required for the initial creation of a new Direct Charge code than the ongoing maintenance of an existing Direct Charge code.
  - A minimum level of effort is required to maintain an existing Direct Charge code whether 1 levy is made or 10,000 levies are made.
  - “Economy of Scale” does exist. In other words, the level of effort necessary for 5,000 levies is not 100 times more than that necessary for 50 levies.