



**Excellence and Equity in Education**

Nancy Magee • County Superintendent of Schools

October 9, 2019

To: San Mateo County Board of Education

From: Nancy Magee, County Superintendent of Schools *nam*

Subject: **Excess Property Tax for County Offices of Education**

Per the Board's request, the Excess Property Tax for County Offices of Education discussion item is included on the October 16, 2019, agenda.

Forwarded to the Board:

*Nancy Magee*

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Nancy Magee, County Superintendent of Schools

# COE "Excess Property Tax"/2013-14 Trial Court Offset

## PROBLEM

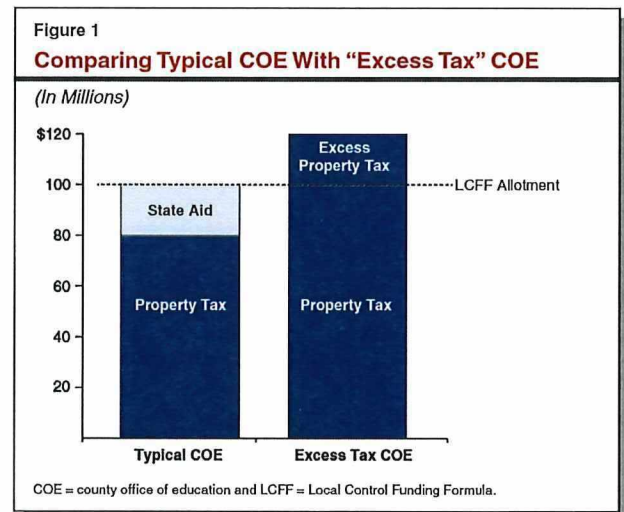
A number of county offices of education (COE) lack the authority in law to spend a portion of local county property tax revenues. These COEs are essentially flat funded each year, despite increased demand for services for our state's most vulnerable student populations, including special education pupils, incarcerated youth, and English learners.

## BACKGROUND

**County Offices of Education Funded Through the Local Control Funding Formula (LCFF).** A primary source of funding for COEs is the LCFF. Each COE's annual LCFF allotment is determined by formula. A COE's annual LCFF entitlement is funded first with local property tax revenue, with the remainder covered by state Proposition 98 General Fund.

**Property Taxes** – Under Proposition 13, all residential and commercial property are taxed 1 percent of assessed value, and annual increases in assessed value are capped at 2 percent unless the property changes ownership. Property tax revenue remains within the county in which it was collected to be used exclusively by local governments. Property tax revenue from the 1 percent tax rate (excluding voter-approved debt, other taxes, etc.) is distributed by the county to various local governments, including counties, cities, K-12 schools (including COEs), community college districts, and special districts.

**Some COEs Collect Property Tax Revenue in Excess of Their LCFF Allotment.** Some COEs do not receive state LCFF funding because they collect enough property tax revenue in a given year to cover their entire LCFF entitlement. In virtually all of these cases, the COEs collect more in property tax revenue than their LCFF allotment. The state refers to this as a COE's "excess property tax." Figure 1 illustrates this concept for two COEs with the same annual LCFF allotment of \$100 million. The first COE receives a combination of property tax revenue and state aid to meet its LCFF allotment. In contrast, the second COE receives \$20 million in property tax revenue in excess of what it needs to meet its LCFF allotment. Because the amount of property tax revenue collected changes from year to year, a COE's excess property tax status also can change from year to year. (Note: this excess property tax also existed prior to establishment of LCFF, the major difference was the COE entitlement was established through a revenue limit calculation.)



Similarly, some school districts receive property tax revenues beyond their LCFF entitlements and are allowed to retain those excess property taxes for district use. These excess property tax districts are also known as basic aid districts.

## COE "Excess Property Tax"/2013-14 Trial Court Offset

**Excess Property Tax COEs.** As of February 2019, projections show there are ten excess property tax COEs, including:

- Marin
- Monterey
- Napa
- Orange
- Placer
- San Diego
- San Luis Obispo
- San Mateo
- Santa Barbara
- Santa Clara

**2013-14 Trial Court Offset.** Since 2013-14, state law has required that any excess property tax revenue COEs collect beyond their LCFF allotments be transferred to trial courts. This excess property tax revenue offsets what would have been state non-Proposition 98 General Fund support for trial courts. The transfer occurs at the direction of the Department of Finance and the State Controller's Office the year after the taxes are collected. For example, excess property taxes collected in 2015-16 offset the state's General Fund support to trial courts in 2016-17. The Legislative Analysts' Office (LAO) projects the total excess county property tax to grow to over \$100 million by 2020-21 and are recommending the Legislature continue to use the excess to fund trial courts in these counties.

It should be noted that, unlike the treatment of COEs where any excess property tax revenues are transferred away from the COE and unavailable for use in providing educational services, basic aid school districts are allowed to retain all excess property tax revenues to use to provide services to the districts' students.

### **EDUCATION CODE**

The law relevant to this issue is contained in [Education Code Sections 2574-2579](#) which details the county Local Control Funding Formula, specifically of relevance:

- [Section 2575](#) Calculation of base entitlement
- [Section 2578](#) Fund transfer to trial courts