

Fact Sheet: The ERAF Property Tax Shift

In 1992, the State of California found itself in a serious deficit position. To meet its obligations to fund education at specified levels under Proposition 98, the state enacted legislation that shifted partial financial responsibility for funding education to local government (cities, counties and special districts). The state did this by instructing county auditors to shift the allocation of local property tax revenues from local government to “educational revenue augmentation funds” (ERAFs), directing that specified amounts of city, county and other local agency property taxes be deposited into these funds to support schools.

In fiscal 2006-07, the annual impact of the ERAF shift is a shortstopping of some **\$6.7 billion** from cities, counties, special districts and the citizens those entities serve. Since their inception, the ERAF shifts have deprived local governments of over **\$65 billion**. Counties have borne some 73 percent of this shift; cities have borne 16 percent.

The state has provided some funding to local governments that it considers mitigation of ERAF. However, the vast majority of these funds are earmarked for particular purposes. Moreover, a relatively small portion of these funds has gone to cities. In 1992, California voters approved Proposition 172, which provided sales tax funding for police, fire and other public safety programs. Proposition 172 funds provide only \$2.9 billion annually to local government, **leaving local citizens facing a \$3.8 billion net ERAF gap in FY 2006-07**. Considering all state subventions that the Legislative Analyst defines as “ERAF mitigation,” the net ERAF impact on cities is over \$1 Billion in the current year.¹

As a part of the budget agreement that put Proposition 1A of 2004 on the ballot to protect city revenues from additional shifts and state takeaways, cities counties and special districts agreed to contribute an additional \$1.3 billion per year in FY04-05 and FY05-06. Although these ERAF III shifts ended in FY06-07, the original shifts that began in 1992-94, have not been reduced at all.² Proposition 1A, which passed by an unprecedented 84% yes vote, constitutionally protects major city revenues from additional shifts to the state and strengthens local government’s ability to get reimbursement for unfunded mandates. However, it did not provide local governments with any new revenue nor reduce or alter the ERAF I and II shifts.

The ERAF takeaways have had real impacts on Californians’ quality of life and the attractiveness of local communities to business. City residents have experienced the following consequences of the ERAF shift:

- Cuts in human services, including parks, libraries and other community services
- Deferred maintenance on the public’s investment in its infrastructure
- Greater pressure for increases in local taxes, fees and assessments
- Reductions in reserves and greater reliance on debt rather than cash financing for capital improvements

All of this comes at a time when California’s population is growing rapidly and is creating demands for additional services and facilities. Indeed, the population growth in cities (57 percent) has exceeded the statewide population growth rate (46 percent) over the past 20 years.

mjgc

¹ Cities not including the City/County of San Francisco.

² Subsequent to the transfer of these funds, they are reallocated within each county back to cities and counties to compensate for the state’s repeal of the VLF backfill in 2004 and the temporary ¼ cent sales tax shift to support the state deficit reduction bonds. However, this mechanism does not alter the existence or real effect of the ERAF I and II shifts.

Impacts of ERAF and Proposition 172 (\$ in millions)

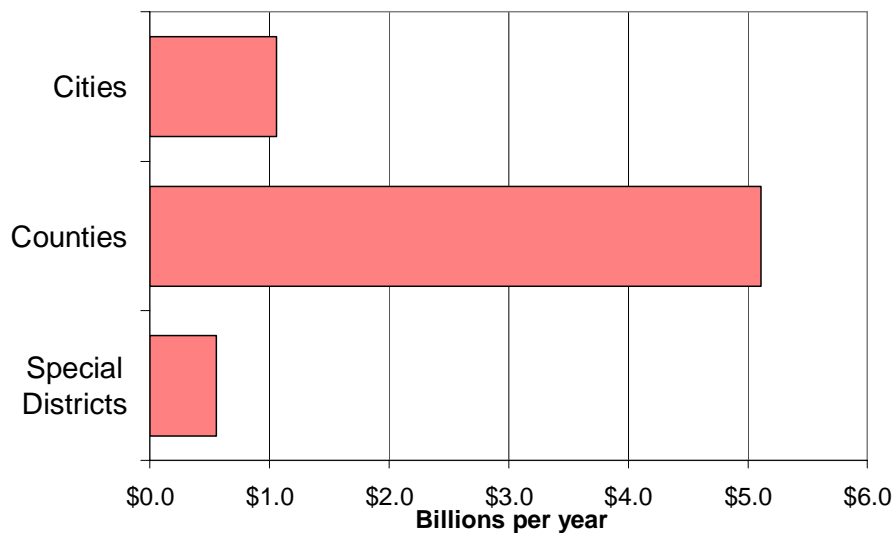
																Sum	
ERAF	<u>1992-93</u>	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07e</u>	Total	
Cities	-216	-483	-525	-523	-518	-511	-574	-606	-652	-704	-760	-807	-1,214	-1,303	-1,058	-10,454	
Counties	-544	-2,374	-2,583	-2,567	-2,540	-2,665	-2,787	-2,934	-3,181	-3,447	-3,688	-3,930	-4,545	-4,953	-5,109	-47,848	
Spec Districts	-212	-252	-281	-285	-279	-271	-316	-339	-339	-364	-384	-409	-797	-851	-556	-5,935	
Redev't Agencies	-200	-65	-65	0	0	0	0	0	0	0	-75	-135	-250	-250	0	-1,040	
	-1,173	-3,175	-3,454	-3,374	-3,337	-3,447	-3,677	-3,879	-4,171	-4,515	-4,906	-5,281	-6,806	-7,357	-6,723	-65,276	
																1,1100	
																	Sum
Proposition 172	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07e</u>	Total		
Cities	84	88	92	91	104	109	123	131	134	130	139	149	159	163	1,697		
Counties	1,301	1,400	1,510	1,595	1,682	1,757	1,974	2,153	2,096	2,143	2,274	2,456	2,628	2,707	27,676		
Spec Districts	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
	0	1,385	1,488	1,602	1,686	1,786	1,877	2,119	2,283	2,218	2,273	2,413	2,606	2,787	2,871	29,373	
																1,0300	
																	Sum
ERAF net of Prop172	<u>1992-93</u>	<u>1993-94</u>	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07e</u>	Total	
Cities	-216	-399	-437	-431	-426	-407	-465	-483	-520	-570	-630	-668	-1,065	-1,145	-895	-8,757	
Counties	-544	-1,073	-1,183	-1,057	-945	-983	-1,030	-960	-1,028	-1,351	-1,544	-1,656	-2,089	-2,325	-2,402	-20,172	
Spec Districts	-212	-252	-281	-285	-279	-271	-316	-339	-339	-364	-384	-409	-797	-851	-556	-5,935	
Redev't Agencies	-200	-65	-65	0	0	0	0	0	0	0	-75	-135	-250	-250	0	-1,040	
	-1,173	-1,789	-1,966	-1,772	-1,651	-1,662	-1,812	-1,782	-1,887	-2,285	-2,633	-2,868	-4,201	-4,570	-3,853	-35,903	

Sources:PSAF (Prop 172) actuals through 2000-01 from State Controller. ERAF and PSAF actuals by agency from Calif State Assn of Counties survey of County Auditors. FY06-07 is estimated. Updated Aug06.

Loss to E.R.A.F.

annual statewide in 2006-07

Chart 2A

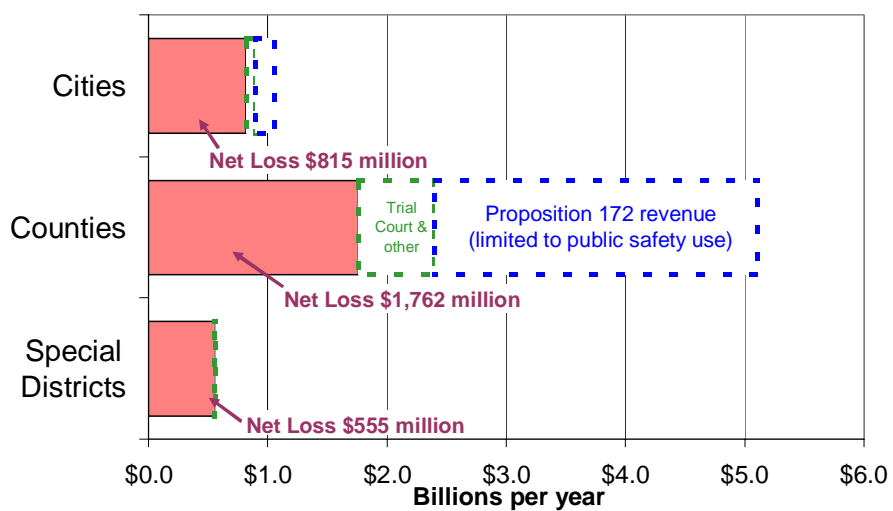


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Net Loss: E.R.A.F. & "Mitigations"

annual statewide in 2006-07

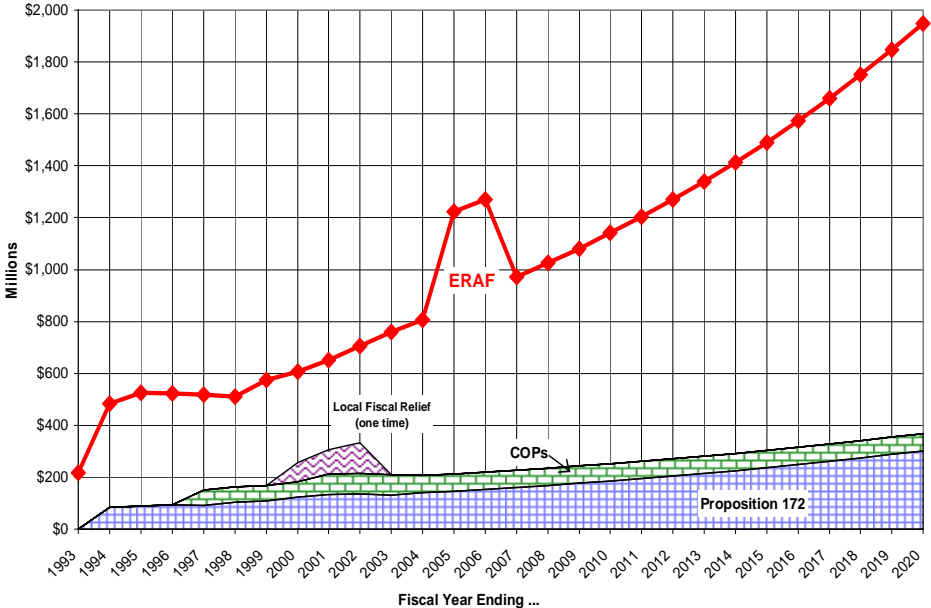
Chart 2B



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Chart 3A

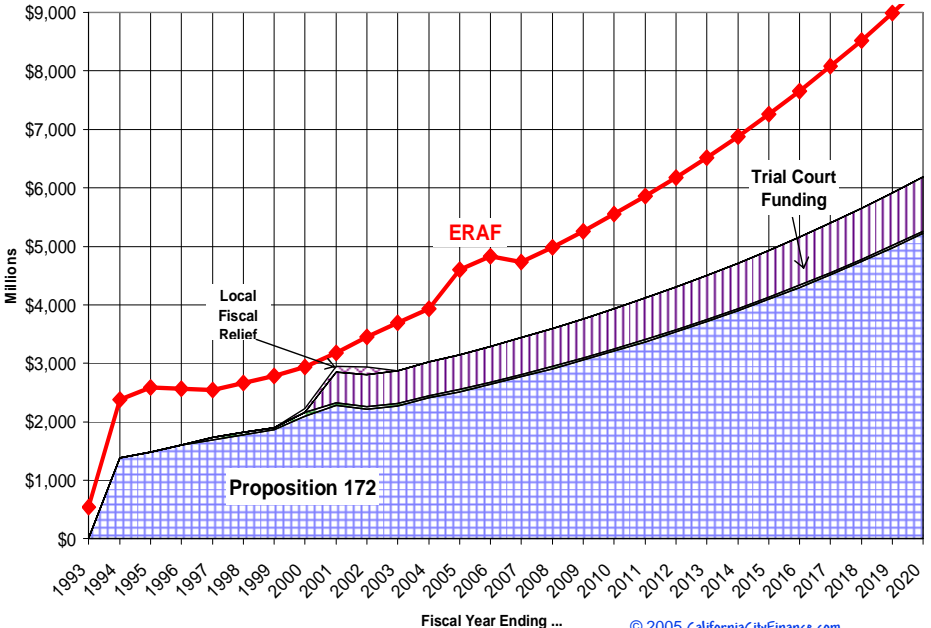
ERAF versus "Mitigations" - Calif Cities



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Chart 3B

ERAF versus "Mitigations" - Calif Counties



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