

# Funding for Property Tax Administration

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## Introduction

The local property tax is administered almost entirely by county officials.<sup>1</sup> For fiscal year 2010-11, local property tax levies totaled more than \$48 billion statewide. These revenues, which never leave the county from which they are generated, are allocated to school districts, cities, special districts, and the counties themselves.

But the revenues allocated to the counties are disproportionately small relative to the counties' administrative costs. In 1993-94, for example, counties received only 21 percent of property tax revenues, but paid 72 percent of administration costs. More recently, changes in the funding mechanisms for the local property tax meant that counties would receive an estimated 25 percent of property tax revenues, but pay 63 percent of administration costs.<sup>2</sup>

Despite that recent improvement, the disparity between the costs of administration and the revenues received has created a financial hardship for the counties. More pointedly, the Legislature has found that the disparity has created a financial disincentive for counties to adequately fund local property tax administration.<sup>3</sup>

At the same time, the State has a significant financial interest in a properly administered local property tax. The State's interest is because of its mandate to fund local education—where local property tax revenues allocated to school districts fall short of fully funding local education, the difference must be made up from the State's general fund.

From 1995 until 2006, the Legislature attempted to address in various ways the tension between the counties' disincentive to fully administer the local property tax on the one hand, and the State's financial stake in a full and proper administration of the tax on the other hand. Since 2006, however, there has been no State support for local property tax administration.

## Administration Costs and Revenue Distribution

Under existing law, counties may recover property tax administration costs from the local agencies, except for school districts, that receive property tax revenue. The amount of the

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<sup>1</sup> Some administrative costs are borne by the State in its assessment of centrally assessed property such as intercounty railroads, utilities, and pipelines, and in its local property tax functions. Those costs are insignificant, however, in the context of the funding needed for the overall statewide task of administering the local property tax, and are not considered here.

<sup>2</sup> *California's Property Tax*, Legislative Analyst's Office, April 2012.

<sup>3</sup> See Revenue and Taxation Code section 95.35.

recovery is in proportion to the actual costs incurred to generate the revenues allocated to the local agencies.<sup>4</sup>

The counties bear all the costs of generating property tax revenue for school districts. The extent of the disparity between the counties' costs of administration and the revenues received results from the fact that school districts receive the greatest share of property tax revenues.

## **The State's Interest**

Prior to the enactment of Proposition 13, the costs of local property tax administration were paid out of the revenues generated. If a county needed more revenue to pay these costs, it could increase the county-wide property tax rate.

Proposition 13 capped the property tax rate at 1 percent. Thus, counties could no longer be assured of the funding needed to fully administer the property tax. Court decisions after Proposition 13 and minimum funding levels for local education approved by voter initiative mean that the State has a significant, albeit indirect, interest in the local property tax.

Specifically, since local school funding now comes from a combination of local property tax revenues and amounts from the State's general fund, and since the State must meet certain minimum spending levels on local education each year, every dollar of property tax revenue that goes toward local schools generally means one less dollar that must come from the State's general fund. Thus, in the Proposition 13 era, the State is the largest single beneficiary of the local property tax.

## **Providing Counties with Financial Support**

Since 1995 the State has recognized this issue and attempted to provide solutions at varying times and in various ways. The State-County Property Tax Administration Loan Program (1995 to 2001) allowed county assessors to contract with the State to receive performance-based loans. The State-County Property Tax Administration Grant Program (2001 to 2006) converted the loan program to a grant program.

Since 2006 several bills have been introduced that would have addressed the need for State support of funding the administration of the local property tax. For example, Assembly Bill 1717 (2006), Assembly Bill 83 (2007), and Assembly Bill 1181 (2012) contained language that would have created new funding programs or reauthorized past programs. None of the proposals in those bills were enacted.

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<sup>4</sup> Revenue and Taxation Code section 95.3.