



OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller
Todd Rydstrom
Deputy Controller

MEMORANDUM

TO: Mayor London Breed
Members of the Board of Supervisors

FROM: Ben Rosenfield, Controller

DATE: November 29, 2018

SUBJECT: Property Tax Allocations

Under State law, property taxes are distributed by the County Controller to the cities, school districts and other taxing entities within its borders, with a unique formula for each county. In 1992 and 1993, as a means of balancing the State budget, the State directed all counties to create an Educational Revenue Augmentation Fund (ERAF) and shift local property tax revenue into the fund. Revenue from ERAF is then allocated to schools and community colleges, reducing State funding required to meet their obligation to schools established under Proposition 98. In San Francisco, 65% of collections from the base property tax rate is allocated to the City, a total of 10% is allocated directly to the San Francisco Unified School District (SFUSD), Community College District (CCD) and other taxing entities, and the remaining 25% is allocated to ERAF.

In San Francisco, the property tax roll has grown by 20% in the last two years, increasing both ERAF and direct property tax allocations to schools to a level that exceeds the State revenue limits of both the SFUSD and the CCD. Under State law, this overage – “excess ERAF” – must first be used to fund special education programs, and the remaining balance must be returned to the entities that initially suffered revenue losses as a result of ERAF. In San Francisco, this is only the City.

We estimate the City will recognize approximately \$415 million in excess ERAF property tax revenue in the current fiscal year (FY), of which \$208 million is attributable to FY 2017-18 and \$207 million to FY18-19. Under Charter provisions adopted by the voters, approximately \$78 million must be allocated to various baselines and approximately \$156 million to Rainy Day Reserves, as shown in the following table, leaving approximately \$181 million available for any public purpose.

	<u>FY 18-19</u>
Excess ERAF	
FY 17-18	208
FY 18-19	207
Subtotal, Excess ERAF	415
Baseline Contributions	
MTA	(38)
Library	(9)
Schools & Early Education	(13)
Children & TAY Baselines	(15)
Street Tree Maintenance	(2)
Subtotal, Baselines	(78)
Reserves	
Rainy Day Reserve - City	(78)
Rainy Day Reserve - One Time	(52)
Rainy Day Reserve - School	(26)
Subtotal, Reserves	(156)
Net Available	181

The State Controller’s Office has reviewed and validated our ERAF apportionment methodology, and these funds are available for appropriation. However, our office will need to reserve appropriations of these funds until monthly cash flow from the State is confirmed.

Given our current working estimates, the City would receive significant excess ERAF allocations in future years, but it is subject to significant risk given formula volatility, cash flow changes, and possible modifications to property tax allocation law by the State, which has occurred frequently in the past. Other counties with excess ERAF have responded to these risks by adopting financial policies that limit some or all spending of these proceeds to one-time purposes.

We will keep you apprised of developments with this issue in the months ahead, including changes in our projections, communications with the State, and the results of our review of any changes in prior year allocations. As always, please feel free to reach out to me with any questions or concerns.

cc: Angela Calvillo, Clerk of the Board
 Severin Campbell, Board of Supervisors Budget and Legislative Analyst
 Kelly Kirkpatrick, Mayor’s Budget Director
 Carmen Chu, Assessor