



**San Diego County**  
**Local Agency Formation Commission**  
 Regional Service Planning | Subdivision of the State of California

**7b**

**AGENDA REPORT**  
 Business | Information

October 2, 2023

**TO:** Commissioners

**FROM:** Keene Simonds, Executive Officer  
 Michaela Peters, Local Government Analyst I

**SUBJECT: Informational Report |**  
**Property Tax Allocations and Exchanges in San Diego County**

**SUMMARY**

The San Diego County Local Agency Formation Commission (LAFCO) will receive an informational report in the form of a brochure on property tax allocations and exchanges in San Diego County. The item has been prepared as an administrative holdover from the prior fiscal year workplan with a focus on the decision-making process with respect to whether property taxes will be reapportioned among local agencies in conjunction with LAFCO approving jurisdictional changes. The item is being presented for information with the opportunity for the Commission to provide feedback before staff finalizes the brochure for formal publication and distribution.

**BACKGROUND**

**LAFCOs and Property Tax**

The 1% property tax serves as a primary funding source for the majority of municipal services provided by the local agencies (cities and special districts) subject to San Diego LAFCO’s regulatory and planning powers. As detailed, whenever LAFCO approves jurisdictional changes, State law requires a determination – either directly by the Commission or through negotiated agreements by the agencies – on whether exchanges should be made in the

<p><b>Administration</b>          Keene Simonds, Executive Officer          2550 Fifth Avenue, Suite 725          San Diego, California 92103          T 619.321.3380          www.sdlafco.org          lafco@sdcounty.ca.gov</p>	<p>Chair <b>Jim Desmond</b>          County of San Diego</p> <p><b>Joel Anderson</b>          County of San Diego</p> <p><b>Nora Vargas, Alt.</b>          County of San Diego</p>	<p><b>Kristi Becker</b>          City of Solana Beach</p> <p><b>Dane White</b>          City of Escondido</p> <p><b>John McCann Alt.</b>          City of Chula Vista</p>	<p>Vice Chair <b>Stephen Whitburn</b>          City of San Diego</p> <p><b>Marni von Wilpert, Alt.</b>          City of San Diego</p>	<p><b>Jo MacKenzie</b>          Vista Irrigation</p> <p><b>Barry Willis</b>          Alpine Fire Protection</p> <p><b>David Drake, Alt.</b>          Rincon del Diablo</p>	<p><b>Andy Vanderlaan</b>          General Public</p> <p><b>Harry Mathis, Alt.</b>          General Public</p>
---	--	---	---	--	--

apportionments of the 1% property tax. The date of any reapportionments filed with the State Board of Equalization by December 1<sup>st</sup> will become effective on the following July 1<sup>st</sup>.

### **Adopted Workplan | Prior Direction to Prepare Informational Report on Property Taxes**

San Diego LAFCO's activities are guided by an adopted workplan outlining specific projects in priority order and reset every fiscal year. Most projects remain on subsequent fiscal year workplans until they are completed unless the Commission determines to drop the item and reallocate resources to other priorities. Exceptions involve projects that are expected to be completed between the workplan's adoption in early May and June 30<sup>th</sup> or closely thereafter and require limited staff resources going into the new fiscal year. These exceptions are administrative holdovers with a current example from the prior fiscal year involving an informational report on property taxes and relationship to approved jurisdictional changes.

### **DISCUSSION**

This item is for San Diego LAFCO to receive an informational report in the form of a brochure outlining the relationship and related processes between jurisdictional changes overseen by the Commission and the allocation of the 1% property tax among local agencies. This includes providing context on the current allocation of the 1% property tax in San Diego County and the approval process to make any changes – or exchanges – in the apportionment to align with LAFCO approved jurisdictional changes. The item has been prepared by staff and presented to the Commission as an administrative holdover from the prior fiscal year workplan. The item is for information with the opportunity for the Commission to provide feedback before staff finalizes the brochure for formal publication and distribution.

### **ANALYSIS**

See attachment.

### **RECOMMENDATION**

This item is presented to San Diego LAFCO for information.

### **ALTERNATIVES FOR ACTION**

None.

## PROCEDURES FOR CONSIDERATION

This item has been placed on San Diego LAFCO's agenda for action as part of the business calendar. The following procedures are recommended in the consideration of this item:

- 1) Receive verbal presentation from staff unless waived.
- 2) Invite comments from interested audience members if any.
- 3) Discuss and provided feedback to staff as needed.

Respectfully submitted,



Michaela Peters  
Local Government Analyst I

Attachment:

- 1) Property Tax Basics

**Blank for Photocopying**



# Property Tax

## ALLOCATIONS, EXCHANGES, + MORE

The Basics of the 1% Property Tax in San Diego County



### Key Takeaways

- The 1% property tax serves as the primary funding source for most local government agencies (County, cities, special districts, & school districts) in San Diego County and has generated an average annual sum of \$5.9 billion over the last five years.
- Almost half of all property tax – \$0.47 cents out of every \$1.00 – collected in San Diego County goes to local school districts.
- Most of the remaining property tax collected in San Diego County – about \$0.38 cents out of every \$1.00 – goes to the County and the 18 cities.
  - 40% of the County of San Diego’s general fund revenue currently comes from property taxes.
  - 34% of the 18 cities combined general fund revenue comes from property taxes.
- Most jurisdictional changes processed by LAFCO include an exchange where property taxes are reapportioned among the subject agencies.
- LAFCO decides the exchange for incorporations and special district formations while the rest – annexations, detachments, etc. – are negotiated between local agencies.
  - There are several “master tax exchange” agreements dating back to the early 1980s to govern exchanges in property taxes between the County and cities, should an annexation (to the city) or detachment (to the County) be approved.
- The master agreements provide for the reapportionment of the County’s existing allocation of the 1% in property taxes anywhere between 34% (Lemon Grove) to 53% (Oceanside).
- At any time, the County, cities, and special districts can request individual negotiations.
  - A seven-step process in statute guides the negotiations for exchanges between the County and cities.





# Covering The Basics

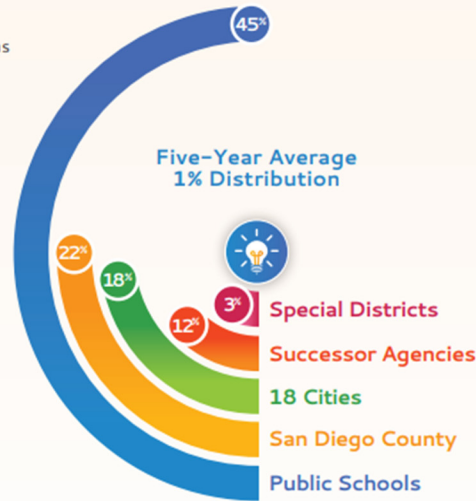
## Property Taxes in California

With limited exceptions, all property (land and improvements) in California are taxed at 1% of their assessed value. The 1% rate was set by Proposition 13, which was approved by voters in June 1978 by nearly two-thirds of the electorate. It also reset all properties' market value to 1975 levels while limiting increases going forward to no more than 2% annually. All monies generated from the 1% property tax goes to local government – and specifically counties, cities, special districts, and school districts – and can be used for any general public purpose.

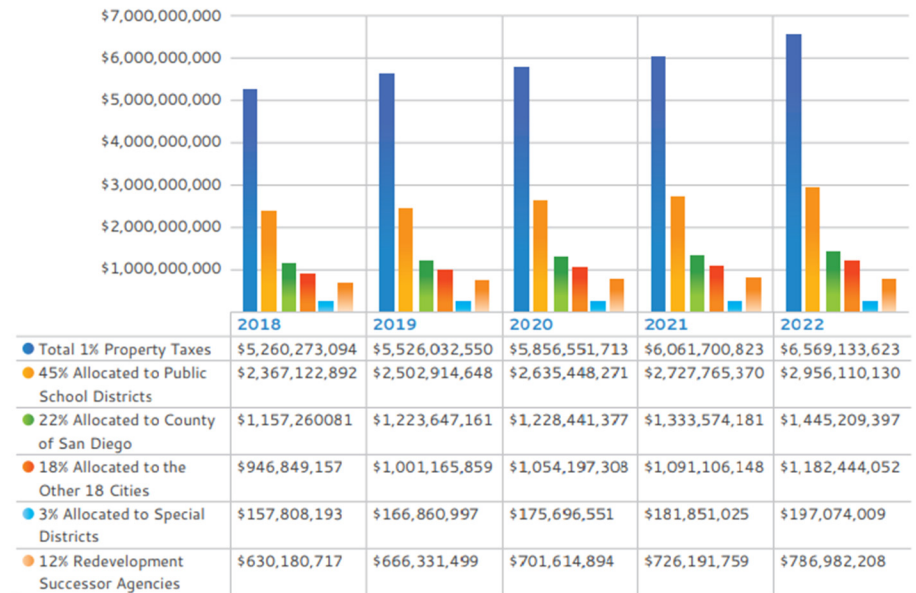
## Property Taxes in San Diego County

The average annual amount of the 1% of property tax collected and allocated in San Diego County has been \$5.862 billion over a five-year period ending in 2022–2023.

Almost one-half – specifically 45% – of all property tax collected during this 60-month period has gone to 47 local public-school districts (elementary, high school, unified, and community college). Another 22% of the overall total has gone to the County of San Diego with a majority therein funding public safety and general administrative services. The remaining collection is divided between the 18 cities at 18%, redevelopment successor agencies at 12%, and special districts at 3%. Overall, the total amount of the 1% property tax revenue collected in San Diego County has increased by 20% over the five-year period and results in an average year adjustment of 4%.



## San Diego County 1% Property Tax Allocations



**Almost half of all property tax – \$0.47 cents out of every \$1.00 – collected in San Diego County goes to local school districts.**

## Significance of Property Tax Revenue

Revenue collected from the 1% property tax serves as primary funding source for most local government agencies' general purpose activities in San Diego County with the notable exception of enterprise special districts (i.e., water and wastewater providers). For example, the County of San Diego's use of the 1% property tax equals 39.5% of all operating revenue for the 2021-2022 fiscal year. Amounts and related percentages of the 1% property tax revenue collected by the 18 cities follows.

## Cities' Collection of the 1% Property Tax and Overall Significance

Fiscal Year 2021-2022

City	Actual Revenue Received	% of Total Operating Revenue
Carlsbad	\$81,012,000	51.4%
Chula Vista	\$69,565,097	30.2%
Coronado	\$34,299,322	58.2%
Del Mar	\$7,771,396	34.6%
El Cajon	\$23,485,978	25.5%
Encinitas	\$55,505,022	60.2%
Escondido	\$31,209,631	25.7%
Imperial Beach	\$6,779,578	25.8%
La Mesa	\$16,687,577	23.2%
Lemon Grove	\$3,518,827	22.4%
National City	\$16,753,096	25.6%
Oceanside	\$74,505,579	40.0%
Poway	\$26,360,676	58.5%
San Diego	\$684,513,000	35.0%
San Marcos	\$26,695,907	18.0%
Solana Beach	\$10,523,133	41.7%
Santee	\$21,363,100	41.9%
Vista	\$28,981,824	22.9%
<b>Average</b>	<b>\$67,751,708</b>	<b>34.3</b>

## The Mechanics

### The Journey from Assessment to Distribution

A four-part process underlies the administration of the property tax in San Diego County with respect to its journey from assessment to distribution. A building permit automatically triggers notice to the Assessor and the opportunity to initiate a reassessment if warranted. Additionally, a property owner is entitled to request a property value reassessment if they felt their assessment to be inaccurate.

- The County Assessor's Office is responsible for determining the taxable value of property (land and structures) and preparing the annual assessment roll. This includes applying allowable exemptions.
- The County Auditor's Office draws from the assessment roll generated by the Assessor's Office to compute tax rates and applies them to the properties' taxable value to generate tax bills.
- The County Tax Collector mails the tax bills generated by the Auditor's Office, collects monies, and updates taxpayer accounts.
- The Auditor's Office completes the administrative process and allocates and distributes monies collected by the Tax Collector to local agencies.

**40% of the County of San Diego's general fund revenue currently comes from property taxes.**

## Adjusting Property Values

The assessed value of a property – and by extension, the amount subject to the 1% property tax charge – is limited to an increase no greater than 2% each year under Proposition 13 unless a change in ownership or new construction occurs. The 2% increase is applied to the base year value. The maximum 2% increase per year continues to be applied until a change in ownership or new construction occurs. The latter category – new construction – also includes improvements considered substantive by the County Assessor's Office. This commonly includes addition to land or improvements (e.g., lot combination, square foot expansion) as well as physical alternations (i.e., remodeling, rehabilitation, or moderation) to a "like new" condition. Issuance of a building permit automatically triggers notice to the Assessor and the opportunity to initiate a reassessment if warranted. Additionally, a property owner is entitled to request a property value reassessment if they felt their assessment to be inaccurate. \*For more information on assessment appeals, scan the QR code.

Use your phone's camera for a link!



## Exchanges

Since jurisdictional boundaries are subject to changes, so too are the distribution of monies collected from the 1% property tax among local agencies. All jurisdictional changes under LAFCO oversight are subject to mandatory reviews and/or negotiations to determine what, if any, property tax exchanges shall apply. Approval of an exchange is made either by LAFCO or the subject local agencies depending on the type of jurisdictional change as provided below.

- LAFCO independently determines the property tax exchange for city incorporations and disincorporations as well as special district formations. All other jurisdictional changes require negotiated tax exchanges between the subject agencies.
- Board of supervisors are responsible for negotiating tax exchanges for jurisdictional changes involving – and with input – from one or more special districts.
- Board of supervisors and city councils are responsible for negotiating tax exchanges involving the annexation and/or detachment of lands between their jurisdictions.
- State law allows local agencies to mutually adopt "master tax exchange agreements" to govern all future jurisdictional changes between the signatories. However, the local agencies retain the ability to request individual negotiations on a case-by-case basis.

The exchange ultimately identifies the allocation of future 1% property taxes associated with the affected territory among the subject agencies going forward, should LAFCO approve the associated jurisdictional change. The exchange may also – and significantly – include other negotiated items among the subject agencies, such as the distribution of sales tax revenues, infrastructure purchases, or redistribution of regional housing assignments.



## Master Tax Exchange Agreements in San Diego County

Most common jurisdictional changes – but not all – in San Diego County are covered under existing master tax exchange agreements dating back to the early 1980s. This involves annexation of unincorporated lands to certain cities as well as annexation of lands to enterprise special districts (e.g., water and wastewater agencies).

### Annexation of Unincorporated Land to 15 Cities

The County of San Diego has adopted a master property tax exchange agreement that includes individually negotiated agreements with 15 of the 18 cities. These individual agreements were established during a two-year period between 1984 and 1985 and governs the percentage of 1% property tax revenues to be transferred to annexing cities. This master agreement specifies the base property tax revenues and annual tax increment generated from the affected territory shall be apportioned to the annexing city by an agreed-upon percentage as follows:

Carlsbad, 48%	National City, 46%
Chula Vista, 41%	Oceanside, 53%
Coronado, 53%	Poway, 43%
Del Mar, 41%	San Diego, 45%
El Cajon, 38%	San Marcos, 23%
Escondido, 36%	Santee, 43%
La Mesa, 38%	Vista, 41%
Lemon Grove, 34%	

The annexing city's percentage is applied to the combined County and detaching special districts' share of the base property tax revenue and annual tax increment. The remaining balance of the base property tax revenue and annual tax increment is then transferred to the County General Fund. There are no master tax exchange agreements between the County of San Diego and Cities of Encinitas, Imperial Beach, and Solana Beach. Any annexation to these cities would require negotiated agreements per jurisdictional change proposal.

### Annexation to Enterprise Districts: New Services

The County of San Diego has adopted a master tax exchange agreement on behalf of all enterprise special districts specific to annexing lands – whether incorporated or unincorporated – involving the establishment of new services. The agreement specifies no exchange of the 1% in property taxes will be provided.

### Annexation to Enterprise Districts: Existing Services

The County of San Diego has adopted a master tax exchange agreement on behalf of all enterprise special districts specific to annexing lands – whether incorporated or unincorporated – involving existing service functions. The agreement specifies a full – 100% – exchange of the 1% in property taxes will be provided.



## Negotiating Tax Exchange Agreements

The process for negotiating tax exchange agreements for applicable jurisdictional changes (e.g., annexations, detachments, latent service power activations, etc.) involving the 1% of property tax is prescribed under State law and ultimately covers seven steps as follows.

