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California State Controller

February 16, 2021

SUBJECT: Excess Educational Revenue Augmentation Fund Revenue Guidance

Dear County Official:

The State Controller's Office is sending this notice to provide guidance to counties regarding the calculation and allocation of excess Educational Revenue Augmentation Fund (ERAF) revenues, in accordance with Revenue and Taxation Code (RTC) section 97.2(d)(2)(B). This guidance is effective beginning in fiscal year 2019-20.

BACKGROUND

The State Constitution requires that the proceeds of property taxes be allocated among the local government agencies in the county where the revenue is collected. Recipients of property tax revenue include cities, counties, special districts, K-12 school districts, and community college districts. Proposition 98 (approved by California voters in 1988) established a minimum funding requirement for school and community college districts, commonly known as the "minimum guarantee." The guaranteed funding level is met through a combination of revenues from the state General Fund and local property taxes. A set of formulas in the State Constitution determines the "minimum guarantee" calculation each year.

In 1992, the California State Legislature (Legislature) permanently redirected a portion of property tax revenue from cities, counties, and special districts into a county-held account known as ERAF. Revenue from ERAF is allocated to school and community college districts to offset the funding that these entities would otherwise receive from the state General Fund. In the mid-1990s, the Legislature enacted a law returning the portion of ERAF not needed for school and community colleges districts to cities, counties, and special districts in proportion to the amount of property taxes that the non-educational local government agencies contributed to ERAF. The returned ERAF funds are known as Excess ERAF.

In accordance with the state laws noted in the guidance below, beginning in fiscal year 2019-20, counties should complete the following steps when calculating and allocating Excess ERAF.

GUIDANCE

To calculate Excess ERAF pursuant to RTC sections 97.2(d) and 97.3(d):

1. Determine the amount of ERAF revenues^{1, 2}
2. Reduce ERAF allocations to required funding levels or “ERAF Entitlement” for the following school entities/programs:
 - K-12 school districts³ and the County Office of Education (non-excess tax school entities only); see RTC sections 97.2(d)(2) and 97.3(d)(2)
 - Community college districts (non-excess tax school entities only); see RTC sections 97.2(d)(3) and 97.3(d)(3)
 - Special Education; see RTC sections 97.2(d)(4)(B)(i)(II) and 97.3(d)(4)(B)(i)(II)
3. Remaining ERAF revenues are considered “Excess ERAF.” If Excess ERAF exists, distribute it as follows pursuant to RTC sections 97.2(d)(4)(B)(i)(III) and 97.3(d)(4)(B)(i)(III):
 - Determine the taxing entities that contributed to ERAF (e.g. cities, county, and special districts)
 - Allocate the Excess ERAF revenues among the affected taxing entities in proportion to the amounts of ad valorem property tax revenue otherwise required to be shifted from those local agencies to the county’s ERAF for the relevant fiscal year.

If you have any questions regarding this letter, please contact the Local Government Policy Unit at LocalGovPolicy@sco.ca.gov.

¹ Redevelopment Agencies’ (RDA) residual revenues from the Redevelopment Property Tax Trust Fund and revenues from other RDA functions, such as asset sale proceeds, may not contribute to an increase in Excess ERAF pursuant to Health and Safety Code (HSC) section 34188(d). However, the distribution of pass-through payments is not subject to the limitations of HSC section 34188(d) and should not be excluded from the calculation of Excess ERAF.

² Former RDA revenues distributed to basic aid school districts pursuant to HSC section 34188(d) should not be included in the Excess ERAF calculation.

³ Charter schools are not included in the definition of school districts for the calculation of Excess ERAF because they do not directly receive property tax revenue pursuant to RTC sections 97.2 and 97.3, but from the sponsoring district in accordance with Education Code section 47635.