

1 [Opposing California Department of Finance Proposal - Local Property Taxes and ERAF  
2 Provisions in the Education Omnibus Trailer Bill]

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4 **Resolution urging the California Governor to reject the Department of Finance proposal**  
5 **to shift local property taxes to the state and impose penalties; and calling on the state**  
6 **legislature to strongly oppose the Department of Finance proposal and ERAF**  
7 **provisions in the Education Omnibus Trailer Bill.**

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9 WHEREAS, In the early 1990s, in response to State fiscal challenges, the State  
10 created a craftily misnamed “Educational Revenue Augmentation Fund” (ERAF) within each  
11 county and the State funded ERAF by imposing a substantial shift of property taxes from  
12 counties and cities to offset the State’s obligations to schools; and

13 WHEREAS, Despite its name, ERAF does not result in any additional funding for  
14 schools or children because it actually offsets the State’s obligations for school funding by  
15 instead using local property taxes the State takes from counties and cities; and

16 WHEREAS, ERAF now represents a multibillion-dollar annual shift of local property  
17 taxes to benefit the State; and

18 WHEREAS, The way ERAF has always worked, once it has fulfilled the State’s school  
19 funding obligations, any remaining funds would be returned to the counties and cities that  
20 funded ERAF through property taxes—these returned funds are referred to as “excess  
21 ERAF,” although they are really returned funds originally taken from counties and cities; and

22 WHEREAS, Five Bay Area counties, including the City and County of San Francisco,  
23 currently have “excess ERAF” funds that they use for critical discretionary purposes similar to  
24 other local property taxes; and

1           WHEREAS, The State Controller has always been the independently elected official  
2 responsible for auditing local property tax calculations and distributions to determine ERAF  
3 and excess ERAF, calculations upon which the five Bay Area counties have relied; and

4           WHEREAS, The State Department of Finance (DOF), through an Education Omnibus  
5 Trailer Bill, is now seeking to take over the calculations from the State Controller in order to  
6 benefit the State's budget by imposing newly proposed guidelines which would result in the  
7 five Bay Area counties losing hundreds of millions of dollars in "excess ERAF" from their  
8 General Funds; and

9           WHEREAS, DOF's would apply the guidelines retroactively to fiscal year 2018-2019,  
10 and would impose civil penalties of 10% *per year plus 1.5% per month for annual aggregate*  
11 *interest of 28%*;

12           WHEREAS, The affected counties, including the City and County of San Francisco,  
13 strongly dispute any errors, believe the DOF's approach is contrary to law, and there is no  
14 basis for making any changes retroactively, and the proposal to impose penalties is  
15 unprecedented; and

16           WHEREAS, The City and County of San Francisco will lose an estimated \$180 million  
17 in retroactive amounts and \$60 million in ongoing, annual funding, as a result of the DOF  
18 guidance; and

19           WHEREAS, Approval of the trailer bill and DOF's proposal would result in the affected  
20 counties having to make devastating cuts to their General Funds since those counties already  
21 face hundreds of millions of dollars in deficits due to the COVID-19 pandemic and the ensuing  
22 downturn; and

23           WHEREAS, The cuts that the City and County of San Francisco and other affected  
24 counties would have to make would mean the significant reduction or elimination of programs  
25 that serve the most vulnerable of their residents; now, therefore, be it

1           RESOLVED, That the Board of Supervisors of the City and County of San Francisco  
2 calls upon the Governor to reject DOF'S punitive, retroactive proposal to shift local property  
3 taxes to the State and impose penalties; and, be it

4           FURTHER RESOLVED, That the Board calls up on the Legislature, specifically  
5 including each member of the City and County Of San Francisco's Legislative Delegation  
6 (Senator Scott Wiener, Assemblymember David Chiu, and Assemblymember Phil Ting) to  
7 strongly oppose the portions of the trailer bill that address ERAF and DOF'S proposal; and, be  
8 it

9           FURTHER RESOLVED, That a copy of this Resolution shall be provided to the  
10 Governor, the Assembly Speaker, the Senate Pro Tempore, and each member of the San  
11 Francisco Legislative Delegation.