



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

**Department Name:** Auditor-Controller  
**Department No.:** 061  
**For Agenda Of:** 04/02/2024  
**Placement:** Administrative  
**Estimated Time:**  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

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**TO:** Board of Supervisors  
**FROM:** Department Betsy M. Schaffer, CPA, CPFO (805) 568-2100  
Director(s)  
Contact Info: Nicolas Nocker, CPA (805) 568-2144  
**SUBJECT: Property Tax Administrative Cost Recovery for FY 2023-24 (SB2557)**

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**County Counsel Concurrence**

As to form: Yes

**Other Concurrence:**

As to form: N/A

**Auditor-Controller Concurrence**

As to form: Yes

**Recommended Actions:**

- a) Receive and file a report prepared by the Santa Barbara County Auditor-Controller determining recoverable fiscal year (FY) 2023-24 Property Tax Administrative Costs (Exhibits I and II attached to the Resolution).
- b) Adopt the Resolution to recover property tax administrative costs pursuant to California Revenue and Taxation Code section 95.3.
- c) Determine that the above actions are not a project under the California Environmental Quality Act (CEQA) pursuant to section 15378(b)(4) of the CEQA Guidelines, because they consist of government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

**Summary Text:**

Pursuant to Revenue and Taxation Code section 95.3, the County Auditor has the authority to recover a portion of its costs attributable to assessing, collecting and allocating property tax revenues from cities, special districts and redevelopment agencies, proportionate to the tax revenues received by these entities. School districts and the Education Revenue Augmentation Fund (ERAF) are exempt from paying their proportionate share of these costs under this statute. In FY 2023-24, the recoverable property tax administrative costs are \$2,319,233 which is approximately 19% of total net costs. Non-recoverable costs consist of Schools and ERAF which are exempt from paying their share (60%); the County General Fund which is not charged for its share of the costs (18%); and special districts which receive a direct offset against other property tax fees charged (3%).

**Background:**

Revenue and Taxation Code section 95.3 establishes the method and authorizes the County Auditor to annually determine property tax administrative costs proportionately attributable to cities and special districts and to recover from each such entity its proportionate share of costs by withholding the same from each entity's property tax distribution. Senate Bill 2557 established the methodology in 1990; however, several modifications to the methodology have been approved by the legislature in the years since.

- In FY 2004-05, the Vehicle License Fee “swap” was initiated by the State of California. The “swap” reapportioned property tax revenues away from ERAF and to counties and cities. In August 2008, forty-seven cities in Los Angeles County brought a lawsuit against the County of Los Angeles regarding the calculation of the recoverable property tax administrative costs. The legal issue in dispute was whether counties can include “swap” revenues in the calculation of administrative costs that counties recover from cities. In FY 2012-13, the Supreme Court of California issued an opinion in favor of the cities. Beginning in FY 2012-13, the recoverable property tax administrative cost calculation has omitted “swap” revenues accordingly.
- The dissolution of the redevelopment agencies (RDAs) in FY 2011-12 impacted the recovery of property tax administrative costs. Per dissolution legislation, property tax administrative costs associated with the revenues (formally known as tax increment) flowing through the dissolution process continue to be recoverable per H&S 34183(a). Per the legislation, recoverable property tax administrative costs are identified for the revenues (former tax increment) flowing to the Redevelopment Property Tax Trust Fund (RPTTF) associated with each former RDA; however, the amounts are paid from the associated RPTTF, rather than withheld from RDA Successor Agency property tax distributions. The amount of recoverable property tax administrative costs associated with these revenues in FY 2023-24 is \$399,790.
- Another component that impacts the property tax administrative costs is the replacement of the computer systems used by the Assessor, Treasurer-Tax Collector, and Auditor-Controller. Phase I of the property tax system became operational in August 2014 with total project costs of approximately \$6,500,000. Phase II of the system became operational in October 2017 and project costs totaled approximately \$3,531,000. Project costs are amortized (spread) over 5 years in accordance with generally accepted accounting principles. There is no more annual amortization related to Phase I as FY 2019-20 was the final year for amortization. Phase II amortization is nearing completion with approximately \$202,000 for Phase II in FY 2022-23 followed by the final amortized allocation of approximately \$31,000 for Phase II in FY 2023-24.

**Performance Measure:**

The recommendation is primarily aligned with actions required by law or by routine business necessity.

**Fiscal and Facilities Impacts:**

Budgeted: Yes

**Fiscal Analysis:**

The costs of property tax administration and the allocation of administrative costs to the various taxing entities, including revenue adjustments, are shown in Exhibits I and II (attached to the Resolution). The calculation is prepared in accordance with the guidelines issued by the California State Association of Auditors Accounting Standards and Procedures Committee, which represents County Auditors.

Exhibit I shows the current and prior year administrative costs. The FY 2022-23 net departmental costs related to the collection of property taxes for use in determining the FY 2023-24 property tax administration costs per SB 2557 are \$12,093,328, a net decrease of \$632,082 compared to the FY 2021-22 net departmental costs related to the collection of property taxes for use in determining the FY 2022-23 property tax administration costs per SB 2557 of \$12,725,410. This decrease is driven by a combination of a decrease in total costs coupled with an increase in offsetting revenues. The decrease in total costs of \$342,294 is primarily related to a decrease in Property Tax System Amortization of \$503,970, offset by an increase in Salaries & Benefits of \$185,450. The increase in offsetting revenues of \$582,834 is primarily due to the increase in administrative fees charged as revenue associated with delinquent roll maintenance and miscellaneous sources. In total, the recoverable portion of costs decreased by \$146,765 compared to the prior year.

Exhibit II is summarized below. For FY 2023-24, the recoverable property tax administrative costs are \$2,319,233. Schools and ERAF are exempt from paying their share of total costs, \$7,220,114, and the County General Fund is not charged its share of the costs, \$2,204,757, to avoid the overstatement of revenues and expenditures in the County’s books and accounts. Operations for all departments that perform administrative functions are funded by the County General Fund.

<u>Entity</u>	<u>Administrative Cost</u>	<u>Non-Recoverable</u>	<u>Direct Credit (1/4 of 1%)</u>	<u>Recoverable (SB 2557)</u>
County of SB	\$ 2,204,757	\$ (2,204,757)	\$ -	\$ -
Cities	704,935	-	-	704,935
Dependent Special Districts	991,112	-	(223,008)	768,104
Independent Special Districts	572,620	-	(126,216)	446,404
School Districts	5,680,253	(5,680,253)	-	-
ERAF	1,539,861	(1,539,861)	-	-
Redevelopment Property Tax Trust Funds	399,790	-	-	399,790
Total FY 2023-24	12,093,328	(9,424,871)	(349,224)	2,319,233
Total FY 2022-23	12,725,410	(9,936,542)	(322,870)	2,465,998
Change	\$ (632,082)	\$ 511,671	\$ (26,354)	\$ (146,765)

**Attachments:**

- A) Resolution, including the following attachments:
  - Exhibit I – Departmental Property Tax Administration Costs for Fiscal Year 2022-23
  - Exhibit II – SB 2557 Property Tax Administrative Recoverable Costs for Fiscal Year 2023-24

**Authored by:**

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