

SANTA BARBARA COUNTY BOARD AGENDA LETTER



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

Agenda Number:
Prepared on: 11/22/02
Department Name: County Administrator
Department No.: 012
Agenda Date: 12/10/02
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors

FROM: Michael F. Brown, County Administrator

STAFF Ken Masuda
CONTACT: 568-3411

SUBJECT: Proposition 172 (Public Safety Sales Tax) Revenues

Recommendation(s):

That the Board of Supervisors: Receive and File this report.

Alignment with Board Strategic Plan:

The recommendation(s) are primarily aligned with Goal No. 3. A Strong, Professionally Managed County Organization.

Executive Summary:

At the November 12 Board meeting, during the Budget Update agenda item, your Board requested further information on the status of Proposition 172 revenues, including impacts on revenue shortfalls on various departments, and a review of revenue allocations to each department. We currently project that Proposition 172 revenues will be between \$700,000 and \$1.6 million less than budgeted. This shortfall will most heavily impact the Sheriff's Department, which receives approximately 50% of Proposition 172 revenues, and the Probation Department, which receives approximately 25% of these same revenues.

Discussion:

Proposition 172, the "Public Safety Sales Tax"

On November 3, 1993, the voters passed a new statewide ½ cent "Public Safety Sales Tax," popularly known by its proposition number, "Proposition 172."

The proposed tax was placed on the November 1993 ballot by the State Legislature, in part, to make up for local property tax revenues that had been diverted by the State from counties and cities to schools.

The tax was to be used only for "public safety services of local agencies." As defined in further implementing legislation, the term "public safety services" included but was not limited to "sheriffs, police, fire protection, county district attorneys, and county corrections." Courts were specifically excluded from the definition of public safety services. Although public defenders were not specifically named in the legislation, a later legislative counsel opinion indicated the definition was intended to include public defender services.

Allocation of Proposition 172 Revenues by the State to Counties

While Proposition 172 revenues received by the County are related to sales tax receipts collected within the county, there is not a direct, dollar for dollar, relationship.

Statewide Allocation. Each county's annual Proposition 172 allocation is distributed by the State based on two factors: 1) the total amount of sales tax revenue received statewide, and 2) the proportion of each county's sales tax revenues to total statewide sales tax revenues in the preceding year. As a result, tax receipts in Santa Barbara County could be higher than last year but, if statewide receipts are lower, our share could also be lower.

Allocation in Santa Barbara County Between Cities and the County. Within Santa Barbara County, the county receives 97.4% of total Proposition 172 revenues and cities receive the balance, or 2.6%. These ratios vary from county to county based on proportionate property tax losses, but do not change over time. For example, since the new City of Goleta was not in existence when the property tax shift took place, it did not lose any property tax revenues and thus does not share in Proposition 172 revenues.

Allocation of Proposition 172 Revenues Within the County

Initial Allocations to Nondepartmental Revenue. For the first three fiscal years, 1993-94 through 1995-96, Proposition 172 revenues were deposited in the nondepartmental revenue budget. Proposition 172 implementing legislation, known as AB-2788, requires annual reporting to ensure that county budgeted public safety appropriations meet or exceed a "maintenance of effort" amount based on fiscal year 1992-93 appropriations to public safety departments. The legislation does not require that Proposition 172 revenue be deposited directly to public safety departments.

Public Safety Departments Request to Change the Allocation Process. In March 1996, the Public Safety departments asked the Board to adopt a resolution revising its earlier policy regarding how the Proposition 172 revenues were allocated.

Instead of the revenue going into a single non-departmental revenue account, it was requested that, in the future, Proposition 172 revenues be allocated directly to department budgets following a formula "to be developed and agreed upon" by the public safety departments. This change meant that public safety departments would receive "categorical" revenue in exchange for "discretionary" revenue, reducing their exposure to any budget cuts based on shares of "General Fund contribution." In addition, the proposal would allow public

safety departments to carry-over "unanticipated" Proposition 172 revenue, subject to certain conditions, from one year to the next.

In April 1996 the public safety departments submitted a "Letter of Understanding" (attached as Exhibit 1) which included the allocation formula shown in Table 1. This formula was based on General Fund contribution amounts received by the departments for public safety activities in fiscal year 1994-95.

Table 1: Proposition 172 Revenue Allocation Formula

Department	Percent
Sheriff	50.13
Probation	24.33
District Attorney	13.41
Public Defender	9.76
Fire	2.25
Parks (lifeguards)	0.12
Totals	100.00

Fiscal Year 2002-03 Appropriations and Estimated Shortfall

Anticipated Proposition 172 revenues for Fiscal Year 2002-03 were \$25.817 million. Actual revenues are currently estimated to fall between \$700,000 and \$1.6 million short of that figure, depending on the estimating method used.

The *larger shortfall number* is based on current data from FIN. Through October, actual revenues are \$528,922 below estimates. Assuming the same relative shortfall for the full year, the deficit would be \$1.6 million.

The *smaller shortfall amount* is based on the Legislative Analyst's Office (LAO) recent report on California's Fiscal Outlook. In this report, the LAO forecast that sales tax revenue, statewide, would increase by 5% in FY 02-03 over FY 01-02 levels. In addition, the County's proportion of statewide tax revenues increases by approximately 1% this year over last year, based on last year's receipts. Thus, if the LAO projections are correct, we should receive 6% more revenue this year. Last year's actual receipts were \$23.690 million. Six percent more would mean \$25.122 million this year. This latter figure is approximately \$700,000 less than budgeted.

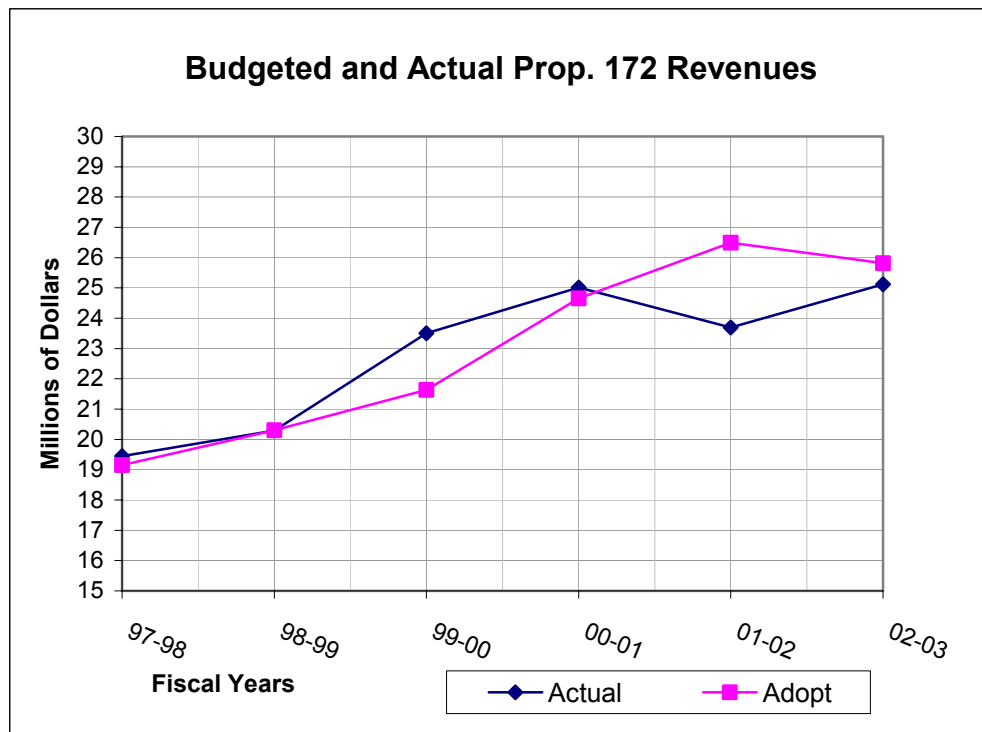
Estimated losses for each department, using both methods, are shown in Table 2.

Table 2. Proposition 172 Projected Current Year Revenue Shortfall

<u>Department</u>	<u>Prop. 172 Percent</u>	<u>\$700,000 Shortfall</u>	<u>\$1,600,000 Shortfall</u>
Sheriff	50.13%	\$350,910	\$802,080
Probation	24.33%	\$170,310	\$389,280
District Atty.	13.41%	\$93,870	\$214,560
Public Defender	9.76%	\$68,320	\$156,160
Fire	2.25%	\$15,750	\$36,000
Parks (Lifeguards)	0.12%	\$840	\$1,920

As your Board may recall, last fiscal year's Proposition 172 revenue shortfalls were one reason why both the Sheriff's Department and the Probation Department incurred service level reductions. Recommendations regarding how to deal with this year's projected shortfalls will be included in our February, 2003 Budget Update.

Chart 1 shows recent Budgeted and Actual Proposition 172 amounts beginning with Fiscal Year 1997-98. Actual revenues exceeded adopted amounts for the first four years shown. However, last year they were lower than adopted amounts.



Mandates and Service Levels: Receipt of Public Safety Sales Tax revenues obligates the County to a "Maintenance of Effort" requirement for adopted appropriations, as indicated in the Discussion.

Fiscal and Facilities Impacts: As outlined in the Discussion.

Cc: Auditor Controller
Department Heads, Public Safety Departments