



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:** 1/8/2019  
**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 Schaffer, CPA (805) 568-2100  
Director(s)  
Contact Info: Kyle Slattery, CPA (805) 568-2134

**SUBJECT: Property Tax Administration Cost Recovery for 2018-19 (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 report prepared by the Santa Barbara County Auditor-Controller determining recoverable fiscal year (FY) 2018-19 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:**

The County is allowed 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. For FY 2018-19 the recoverable property tax administrative costs are \$3,196,905 which is approximately 23% of the total net costs as 58% is exempted for schools/ERAF, the County General Fund is not charged for its share of the costs (17%), and special districts are afforded a direct offset for other property tax fees charged (2%).

**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 the educational revenue augmentation funds (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 also 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 2018-19 is \$894,992.
- Another development that impacts the property tax administration costs is the replacement of computer systems used by the Assessor, Treasurer, and Auditor-Controller's offices. Phase I of the property tax system became operational in August 2014 with total project costs of \$6.5 million. Phase II of the system became operational in October 2017 and project costs totaled \$3.4 Million. Annual amortization is approximately \$1.26 million for Phase I and \$672 thousand for Phase II. Project costs are amortized (spread) over 5 years in accordance with generally accepted accounting principles.

**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 (attached to the Resolution) shows the current and prior year administrative costs. The FY 18-19 administrative costs related to the collection of property taxes are \$14,006,260 a net increase of \$1,619,199 over the FY 17-18 costs of \$12,387,061. Approximately \$500,000 of this increase is made up of additional amortization costs resulting from the capitalization of the Phase II Property Tax System. Salaries and benefits (and related indirect costs) increased by approximately \$1.1 Million over the prior year. Salaries and benefits increased in the CEO’s office and County Counsel for the Property Tax Assessment Appeals project which was initiated to resolve backlogged property tax assessment appeals and reduce the exposure to loss of property tax revenue to all entities countywide. Additionally, salaries and benefits increased in the Auditor-Controller’s Office which represents the ongoing costs of maintenance of the new Property Tax System. In total, the recoverable portion of costs increased by \$431,225 over the prior year.

Exhibit II (attached to the Resolution) is summarized below. For FY 18-19, the recoverable property tax administration costs are \$3,196,905. Schools and the ERAF are exempted from paying \$8,106,414 of the costs and the County General Fund is not charged its share of the costs (\$2,436,128) to avoid the overstatement of revenues and expenditures in the County’s books and accounts. Rather, operations for all departments that perform administrative functions are funded from the County’s General Fund.

<u>Entity</u>	<u>Administrative Cost</u>	<u>Not Recoverable</u>	<u>Direct Credit (1/4 of 1%)</u>	<u>Recoverable (SB 2557)</u>
County of SB	\$ 2,436,128	\$ (2,436,128)	\$ -	\$ -
Cities	751,576	-	-	751,576
Dependent Special Districts	1,162,448	-	(168,792)	993,656
Independent Special Districts	654,702	-	(98,022)	556,680
School Districts	6,364,653	(6,364,653)	-	-
ERAF	1,741,761	(1,741,761)	-	-
Redevelopment Property Tax Trust Funds	894,992	-	-	894,992
Total 18-19	14,006,260	(10,542,542)	(266,813)	3,196,905
Total 17-18	12,387,061	(9,364,421)	(256,960)	2,765,680
Change	\$ 1,619,199	\$ (1,178,121)	\$ (9,853)	\$ 431,225

**Attachments:**

- 1) Resolution, including the following attachments:
  - Exhibit I – Departmental Costs for Fiscal Year 2017-18
  - Exhibit II – SB 2557 Property Tax Administrative Recoverable Costs for Fiscal Year 2018-19

**Authored by:**

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**cc:** Anne Rierson, County Counsel