



**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: 12/13/2011
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Director(s) Robert W. Geis, CPA (x2101)
Contact Info: Jennifer Christensen (x2134)

SUBJECT: Property Tax Administrative Costs for 2011-12 (SB2557)

County Counsel Concurrence:

As to form: Yes No N/A

Auditor-Controller Concurrence:

As to form: Yes No N/A

Other Concurrence: N/A

As to form: Yes No N/A

Recommended Action(s):

1. Receive and file report prepared by the Santa Barbara County Auditor-Controller determining recoverable 2011-12 Property Tax Administrative Costs (Exhibits I and II).
2. Adopt the Resolution to recover property tax administrative costs pursuant to California Revenue and Taxation Code sections 95.3 and 97.75.
3. Determine that approval of the Resolution to recover property tax administrative costs pursuant to California Revenue and Taxation Code sections 95.3 and 97.75 is not a project under the California Environmental Quality Act (CEQA) pursuant to sections 15060(c)(3), 15378(b)(4), and 15378(b)(5) of the CEQA Guidelines, because it will not result in a direct or reasonably foreseeable indirect physical change in the environment.

Summary:

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; school districts and the Education Revenue Augmentation Fund (ERAF) are exempt from paying the costs. For 2011-12 the County's recoverable costs are \$2,554,339, which is approximately 26% of the total net costs.

Background:

Revenue and Taxation Code (RTC) 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 same from each entity’s property tax distribution. Senate Bill 2557 established the methodology in 1990; several modifications to the methodology have been approved by the legislature in the years since.

In 2004-05 the Sales Tax “flip” and the Vehicle License Fee (VLF) “swap” were initiated by the State of California. The “flip” and “swap” reapportioned property tax revenues away from ERAF and to counties and cities; by following the guidelines of the State Controller’s Office and the County Auditors’ Association of including the “flip” and “swap” in the property tax administrative fee calculation, the cities proportionate share of the administrative fee increased.

In August 2008, forty-seven cities in Los Angeles County brought a lawsuit against the County of Los

Angeles regarding the calculation of Property Tax Administration Fees (PTAF). The legal issue in dispute is whether counties can include “flip” and “swap” revenues in the calculation of administrative costs that counties recover from cities. The Court of Appeal of the State of California issued a decision in favor of the cities; however, the County of Los Angeles appealed to and was granted review by the California Supreme Court. The outcome is pending and will be significant for the County of Santa Barbara because there are similar claims against this County. The potential financial impact to the County related to the outcome of

this case averages approximately \$513 thousand per year of tax administration fees from FY 2006-07 to FY

2010-11. If the County is required to repay the retroactive portion of the PTAF in FY 2012-13, it would

cost an estimated \$3.765 million plus possible interest. PTAF at issue for FY 2011-12 and beyond is

estimated to be \$600 thousand per year. This remains a statewide issue.

Fiscal and Facilities Impacts:

Budgeted: Yes No

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. The calculation is prepared in accordance with the guidelines issued by the California Accounting Standards and Procedures Committee, which represents county auditors.

Property **Tax Administrative Costs for 2011-12 (SB2557)**

12/13/2011

Page 3 of 4

Exhibit I shows the current and prior year administrative costs. The FY 11-12 administrative costs related to the collection of property taxes are \$9,982,312, a net decrease of \$2,570,121 over the FY 10-11 costs; the recoverable portion of the costs decreased \$714,062 over the prior year.

The Assessor experienced a reduction in countywide indirect costs, mainly in facilities services and County Counsel costs, creating a significant reduction in their indirect cost rate to 83.35% versus the rate of 124.53% in the previous year. Additionally, the direct salary and benefit costs for the Assessor decreased by \$336,000, as early retirement program costs which occurred in the prior year did not reoccur in FY 10-11. The lower indirect cost rate applied to the lower direct salary base of \$4.7 million created a \$2.4 million reduction in Assessor overhead costs, contributing to a \$2.7 million decrease in total net costs.

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12/13/2011

Page 4 of 4

Exhibit II is summarized below. For FY 11-12 the County’s recoverable costs are \$2,554,339. With respect to the County’s apportionment of costs, the County’s General Fund does not directly reimburse departments for property tax administrative costs calculated pursuant to SB 2557. 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 (SB2557)</u>
County of SB	\$ 2,672,628	\$ (2,672,628)	\$ -	\$ -
Cities	1,023,357	-	-	1,023,357
Dependent Special Districts	653,110	-	(104,122)	548,988
Independent Special Districts	470,043	-	(74,259)	395,784
School Districts	4,558,382	(4,558,382)	-	-
ERAF	18,582	(18,582)	-	-
RDA	586,210	-	-	586,210
Total 11-12	9,982,312	(7,249,592)	(178,381)	2,554,339
Total 10-11	12,552,433	(9,104,992)	(179,040)	3,268,401
Difference	\$ (2,570,121)	\$ 1,855,400	\$ 659	\$ (714,062)

Staffing Impact(s):

Legal Positions:

FTEs:

Special Instructions:

None

Attachments:

Exhibits I and II
Resolution

Authored by:

LeAnne Hagerty, CPA (x2180)

cc:

Anne Rierson, County Counsel