



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: 1/23/2018
Placement: Administrative
Estimated Time:
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors
FROM: Department Theodore Fallati, CPA (805) 568-2100
Director(s)
Contact Info: Kyle Slattery, CPA (805) 568-2134

SUBJECT: Property Tax Administration Cost Recovery for 2017-18 (SB2557)

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) 2017-18 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 2017-18 the recoverable property tax administrative costs are \$2,765,680 which is approximately 22% 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 (18%), 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 Sales Tax “flip” and the Vehicle License Fee “swap” were initiated by the State of California. The “flip” and “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 “flip” and “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 the “flip” and “swap” revenues accordingly. The Sales and Use Tax “flip” was a temporary mechanism that ended effective 12/31/2015, therefore, as of FY 2016-17 these revenues ceased to exist. The Vehicle License Fee “swap” does not have a sunset provision.
- The dissolution of the redevelopment agencies (RDAs), in Fiscal Year 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 2017-18 is \$766,696.
- 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. The new property tax system became operational in August 2014. The Phase I project costs totaled \$6.5 million and are being amortized (spread) over 5 years in accordance with generally accepted accounting principles. Each year's amortization is approximately \$1.3 million and is included as part of that respective year's property tax administration cost. Phase II of the new system was in process during fiscal year 2016-17 with total costs of \$3.2 million at June 30, 2017. Phase II was recently completed during fiscal year 2017-18; therefore amortization of the total Phase II project costs will begin in fiscal year 2017-18 and be included in fiscal year 2018-19 and future property tax administration fees.

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 17-18 administrative costs related to the collection of property taxes are \$12,387,061, a net decrease of \$601,049 over the FY 16-17 costs of \$12,988,110. Offsetting revenues increased by \$405,698 in the current year, contributing to the decrease in total net costs. Due to the decrease in administrative costs and increased offsetting revenues, the recoverable portion of the costs decreased \$127,720 over the prior year.

Exhibit II (attached to the Resolution) is summarized below. For FY 17-18, the recoverable property tax administrative costs are \$2,765,680. Schools and the ERAF are exempted from paying \$7,181,684 of the costs and the County General Fund is not charged its share of the costs (\$2,182,737) to avoid the pyramiding 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	\$ 2,182,737	\$ (2,182,737)	\$ -	\$ -
Cities	654,501	-	-	654,501
Dependent Special Districts	1,012,502	-	(161,793)	850,709
Independent Special Districts	588,941	-	(95,167)	493,774
School Districts	5,636,693	(5,636,693)	-	-
ERAF	1,544,991	(1,544,991)	-	-
Redevelopment Property Tax Trust Funds	766,696	-	-	766,696
Total 17-18	12,387,061	(9,364,421)	(256,960)	2,765,680
Total 16-17	12,988,110	(9,855,492)	(239,218)	2,893,400
Change	\$ (601,049)	\$ 491,071	\$ (17,742)	\$ (127,720)

Attachments:

- 1) Resolution, including the following attachments:
 - Exhibit I – Departmental Costs for Fiscal Year 2016-17
 - Exhibit II – SB 2557 Property Tax Administrative Recoverable Costs for Fiscal Year 2017-18

Authored by:

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cc: Anne Rierson, County Counsel