



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: 12/02/2014  
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, CPFO (x2101)  
Contact Info: Betsy Schaffer (x2134)

**SUBJECT: Property Tax Administrative Costs Recovery for 2014-15 (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 fiscal year (FY) 2014-15 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 section 95.3.
3. 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:**

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 2014-15 the recoverable property tax administrative costs are \$1,734,459 which is approximately 21% of the total net costs as the 61% is exempted for schools/ERAF and the County General Fund is not charged for its share of the costs (18%).

**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. Since FY 2012-13, the recoverable property tax administrative cost calculation has omitted the “flip” and “swap” revenues accordingly.
- 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 2014-15 is \$478,503.

Another development that will impact property tax administration costs is the replacement of computer systems within the Assessor, Treasurer, and Auditor-Controller's offices. These project costs are currently being accumulated. Once the new software is operational, the accumulated costs will be amortized (spread) over 5 years in accordance with generally accepted accounting principles. Each year's amortization will be part of that respective year's property tax administration cost. We anticipate the amortization to begin with the calculation of FY 2015-16's property tax administration cost recovery. Project costs as of 06/30/14 total roughly \$5.0 million.

**Fiscal and Facilities Impacts:**

Budgeted: ☒ Yes    ☐ No

Property **Tax Administrative Costs Recovery for 2014-15 (SB2557)**

12/02/2014

Page 3 of 3

**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 State Association of Auditors Accounting Standards and Procedures Committee, which represents county auditors.

Exhibit I (attached) shows the current and prior year administrative costs. The FY 14-15 administrative costs related to the collection of property taxes are \$8,290,324, a net decrease of \$338,271 over the FY 13-14 costs of \$8,628,595. Due to the decrease in administrative costs, the recoverable portion of the costs decreased \$77,602 over the prior year.

Exhibit II (attached) is summarized below. For FY 14-15 the recoverable property tax administrative costs are \$1,734,459. Schools and the ERAF are exempted from paying \$4,830,476 of the costs and the County General Fund is not charged its share of the costs (\$1,514,892) 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.

<b><u>Entity</u></b>	<b><u>Administrative Cost</u></b>	<b><u>Not Recoverable</u></b>	<b><u>Direct Credit (1/4 of 1%)</u></b>	<b><u>Recoverable (SB2557)</u></b>
County of SB	\$ 1,514,892	\$ (1,514,892)	\$ -	\$ -
Cities	418,974	-	-	418,974
Dependent Special Districts	657,560	-	(130,559)	527,001
Independent Special Districts	389,919	-	(79,938)	309,981
School Districts	3,793,160	(3,793,160)	-	-
ERAF	1,037,316	(1,037,316)	-	-
Redevelopment Property Tax Trust Funds	478,503	-	-	478,503
Total 14-15	8,290,324	(6,345,368)	(210,497)	1,734,459
Total 13-14	8,628,595	(6,617,118)	(199,417)	1,812,061
Difference	\$ (338,271)	\$ 271,750	\$ (11,080)	\$ (77,602)

**Staffing Impact(s):**

**Legal Positions:**

**FTEs:**

**Special Instructions:**

None

**Attachments:**

- Exhibit I – Departmental Costs for Fiscal Year 2013-14
- Exhibit II – SB 2557 Property Tax Administrative Recoverable Costs for Fiscal Year 2014-15
- Resolution

**Authored by:** Betsy Schaffer x2134

**cc:** Anne Rierson, County Counsel