



Agenda Date: 8/1/2006  
Agenda Placement: 10A

## NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

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**TO:** Board of Supervisors  
**FROM:** Britt Ferguson for Nancy Watt - County Executive Officer  
County Executive Office  
**REPORT BY:** Andrew Carey, Management Analyst, 253-4477  
**SUBJECT:** Letter of support for Assembly Bill 1717, property tax administration

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### **RECOMMENDATION**

Approval of and authorization for the Chair to sign a letter supporting Assembly Bill (AB) 1717, property tax administration program. (Supervisor Dillon) (Unanimous vote of the Board members present required)

### **EXECUTIVE SUMMARY**

Under the California Constitution and state revenue and taxation laws, county governments are responsible for administering the property tax system. In Napa County, this includes the functions of the Assessor (100%), the Treasurer-Tax Collector (40%), the Auditor-Controller (7.33%), County Counsel (0.22%), Clerk of the Board (0.33%), and the Board of Supervisors sitting as the Local Board of Equalization (0.075%). The percentages cited reflect the percent of each department's budget expenditures related to property tax administration.

As provided by law, Napa County may collect property tax administrative fees from the municipalities and certain special districts within the county, but not from schools, which receive the largest share of property tax revenues in Napa County and throughout the state. (Approximately fifty six percent of the property tax revenue collected statewide is distributed to schools, which are exempt from paying property tax administration fees.) This revenue to schools offsets General Fund monies that the State of California would otherwise have to provide to schools.

While Napa County is responsible for property tax administration, it receives only about 20% of property tax revenues collected in the unincorporated areas of the county and only about 33% percent of the administrative costs for collection of property taxes for the municipalities and special districts in the county. Consequently, there is little financial incentive to invest in property tax system enhancements. AB 1717 is intended to partially improve this situation by creating the State-County Property Assessment and Revenue for Education Program (PARE) to assist counties in funding their property tax administration systems. AB 1717 is sponsored by the California Assessors' Association.

AB 1717 is currently in the Senate Appropriations Committee and will most likely be considered by that committee in early August. Because the Napa County Legislative Subcommittee has recessed until August 7, 2006, Supervisor Dillon has requested that this bill be brought before the Board of Supervisors for discussion and possible action at the earliest opportunity. Support for renewed state funding for property tax administration is a component of the county's 2006 Legislative Platform.

### **FISCAL IMPACT**

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	No
What is the revenue source?	Technically speaking, there is no fiscal impact related to the recommended action for approval of and authorization for the chair to sign a letter in support of AB 1717 -- other than staff time to analyze the bill and prepare the Board Agenda staff report and letter of support. However, should the bill pass, the county would be eligible to participate in the PARE program and would likely receive approximately \$380,000 in Fiscal Year 2007-2008 from the State of California's General Fund as its portion of the \$60 million identified in the bill for distribution to counties.
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	The Board of Supervisors may choose to support any bill in the state legislature or the Congress, subject to the Board's policies concerning consideration of legislative issues. Support for renewed state funding for property tax administration is a component of the county's 2006 Legislative Platform.
Is the general fund affected?	Yes
Future fiscal impact:	<p>Participation in the PARE program and receipt of allocated funds from the state is expected to provide approximately \$380,000 for property tax administration purposes in Fiscal Year 2007-2008. If AB 1717 passes and the county participates in the program, PARE funds will be deposited in a separate interest bearing account which may be used only for specified property tax administration purposes.</p> <p>In future fiscal years, Napa County's share of PARE funds would be approximately the same as for FY 2007-2008, adjusted for inflation and subject to changes in the amount of ad valorem property tax revenues distributed to schools within the county and the total statewide ad valorem property tax revenues distributed to schools throughout the state, which revenue numbers (expressed as a ratio and multiplied by the total annual PARE funding) are used to determine each county's annual PARE allocation.</p> <p>In order to participate in the PARE program, counties must maintain a base staffing and total funding level in the county assessor's office equal to the level in Fiscal Year 2004-2005. This requirement to maintain staffing and budget levels equivalent to Fiscal Year 2004-2005 would have to be weighed against the revenue and the benefits of the PARE program should it become necessary to consider budget cuts in the Assessor's office in response to the</p>

emergence of significant adverse fiscal conditions in future years.

Consequences if not approved: Napa County would not go on record as supporting AB 1717.

Additional Information: The Assessor's budget unit has in the past received State-County Property Tax Administration Program (PTAP) funds in the amount of approximately \$366,000 annually, with the last payment received in May 2005. (PTAP was not funded by the Legislature in Fiscal year 2005-2006 or 2006-2007, and sunsets this year.)

These PTAP funds are held in a separate interest bearing account and disbursed to the Assessor's budget as needed for specified property tax administration expenses. Funds from this account are used primarily to offset salaries and benefits for three limited term positions in the Assessor's office with a cost for Fiscal Year 2006-2007 of approximately \$220,000. It is estimated that there are sufficient funds in this account to fund these positions through the end of Fiscal Year 2006-2007 only.

## **ENVIRONMENTAL IMPACT**

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

## **BACKGROUND AND DISCUSSION**

The California Constitution and state laws control the property tax system, which county governments administer by assessing real property values, collecting taxes, and distributing the revenues. Counties can recover some of their administrative costs from cities, special districts, and redevelopment agencies, but not from schools. The state is indirectly the largest single beneficiary of property tax revenues because much of the property tax revenues that go to schools (approximately fifty six percent of total property tax revenues collected) offset funding that would otherwise come from the State of California's General Fund. Because they receive less than a fifth of total property tax revenues collected, counties have few incentives to invest in enhancements to their property tax administration systems.

To provide counties with an incentive to improve their property tax administration systems, the California Legislature had set up the State-County Property Tax Administration Program (PTAP) and authorized loans to counties, with \$60 million a year in total PTAP funding available to counties. However, the Legislature did not fund PTAP in Fiscal Year 2005-2006 and will not fund it in Fiscal year 2006-2007, after which it sunsets. AB 1717 is intended to provide similar benefits to PTAP by creating the State-County Property Assessment and Revenue for Education Program (PARE) to assist counties in funding property tax administration systems. ( AB 1717 is sponsored by the California Assessors' Association.)

If passed, AB 1717 would authorize counties to participate in the PARE program beginning in Fiscal Year 2007-2008, upon recommendation of the County Assessor and adoption of a resolution by the Board of Supervisors. AB 1717 requires that, "Prior to the assessor's recommendation for participation in the PARE program, the assessor shall consult with the county tax collector, the county auditor, the county assessment appeals board, and any other county agency directly involved in property tax administration, to develop an identifiable plan and performance measures for the use of these funds during the period specified in the resolution by the board of supervisors."

AB 1717 would cap statewide PARE funding at \$60 million in Fiscal Year 2007-2008. In future fiscal years, \$60 million would be the base amount of available PARE funding, although this amount would be adjusted annually for inflation. The bill would require counties to deposit PARE funds in a separate interest bearing fund in the county treasury and require the PARE funds to be used only for specified property tax administration purposes. Under AB 1717, "a county auditor shall have administrative control of PARE funds, but the county assessor shall direct the expenditure of those funds." AB 1717 further requires that PARE funding be used to supplement the property tax administration system, not supplant it. It also requires that, in order to participate in the PARE program, counties maintain a base staffing and total funding level in the county assessor's office equal to the level in Fiscal Year 2004-2005 or Fiscal year 2005-2006.

According to staff in the State Legislature, "The PARE program imposes lower costs and fewer administrative burdens on both the Department of Finance and counties than did previous property tax administration loan and grant programs. Those programs involved unwieldy annual agreements negotiated between the state and each participating county. The PARE program eliminates the need for individualized agreements by establishing a statewide system of performance benchmarks to determine the amount of funding that counties receive." These performance measures essentially require county assessors to continue to perform mandatory audits and to actively seek to keep the tax rolls updated for properties that have changed ownership, undergone new construction, or experienced a change in assessed value.

The June 22, 2006 version of AB 1717 is attached to this staff report for reference. However, the bill was amended on June 28, 2006 in the Senate Local Government Committee upon the chair's request. The amendments require an annual appropriation by the legislature, add community colleges into the formula for determining the allocation of the \$60 million to counties, and identify Fiscal Year 2004-2005 as the base year for funding and staff support. AB 1717 as amended in committee on June 28, 2006 was not available from the Legislature by the time this report was prepared and submitted.

AB 1717 is currently in the Senate Appropriations Committee and will most likely be considered by that committee soon after the Senate returns from its summer recess on August 7, 2006. Because the Napa County Legislative Subcommittee has recessed until August 7, 2006, Supervisor Dillon has requested that AB 1717 be brought before the Board of Supervisors for discussion and possible action at the earliest opportunity. Support for renewed state funding for property tax administration is a component of the county's 2006 Legislative Platform.

### **SUPPORTING DOCUMENTS**

A . Letter of support for AB 1717

B . June 22, 2006 version of AB 1717

CEO Recommendation: Approve

Reviewed By: Andrew Carey