

STATE OF CALIFORNIA

Report to the California State Legislature

PROPERTY TAX APPORTIONMENTS AND ALLOCATIONS

Calendar Year 2019



BETTY T. YEE
California State Controller

March 2020



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California State Controller

March 30, 2020

Members of the California State Legislature and the People of California:

I am pleased to present the Property Tax Apportionments and Allocations Report for Calendar Year 2019. Prepared pursuant to Government Code section 12468, this report is intended to help mitigate problems associated with the counties' apportionment and allocation of property tax revenues.

The State Controller's team completed audits of 13 of the 58 counties in the State of California, and found the audited counties generally to be in compliance with the legal requirements for apportioning and allocating property tax revenues. However, this report notes specific problem areas related to individual counties.

I hope you find this information useful for future policy decisions. If you have any questions regarding this report, please contact Jim L. Spano, CPA, Chief of my Division of Audits, at (916) 324-1696.

Sincerely,

Original signed by

BETTY T. YEE

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Executive Summary

This report summarizes the results of the State Controller's Office (SCO) audit of county property tax apportionments and allocations during the 2019 calendar year. After the passage of Proposition 13 in 1978, the California State Legislature (Legislature) enacted new methods for apportioning and allocating property tax revenues to local government agencies, school districts, and community college districts. The main objective was to provide local agencies with a property tax base that would grow as assessed property values increase.

Property tax revenues that local governments receive each year are based on the amount received in the prior year, plus a share of the property tax growth within their boundaries. Property tax revenues then are apportioned and allocated to local government agencies, school districts, and community college districts using prescribed formulas and methods defined in the Revenue and Taxation Code (RTC). This methodology commonly is referred to as the Assembly Bill 8 process or the AB 8 system. The method has been further refined in subsequent laws.

The SCO property tax audit program began on July 1, 1986, pursuant to RTC section 95.6 (now Government Code [GC] section 12468). The statute mandates that SCO perform audits of the apportionment and allocation of property tax revenues by counties and make specific recommendations to counties concerning their property tax administration. The statute also specifies that SCO must prepare an annual report for the Legislature summarizing the results of findings under this audit program.

SCO developed and implemented a comprehensive audit program that includes, but is not limited to, a detailed analysis of past and current requirements of property tax laws and an examination of property tax systems, processes, and records at the county level. Each audit encompasses an evaluation of a county's property tax apportionment methodology, allocation procedures, and compliance with applicable laws and regulations. SCO applied procedures considered necessary and appropriate to provide a basis for reporting on the areas examined.

GC section 12468 requires that audits be conducted periodically for each county according to a prescribed schedule based on county population. During 2019, SCO completed audits of 13 counties' apportionment and allocation of property tax revenues. The 13 counties are Contra Costa, El Dorado, Kern, Lassen, Merced, Monterey, San Bernardino, San Diego, Santa Barbara, Sierra, Sonoma, Tulare, and Yolo.

Current statutes do not allow counties to charge school and community college districts, the county superintendents of schools, and/or the Educational Revenue Augmentation Fund (ERAF) for property tax administrative costs. The Legislature may wish to consider legislation to address an apparent conflict between RTC section 95.3 and Health and Safety Code sections 34183 and 34188, which may indirectly charge those costs to school and community college districts, the county superintendents of schools, and/or ERAF.

As a part of the 2019 audit work, SCO followed up on prior SCO audits to ensure counties properly addressed the findings identified.

Except for the findings and recommendations noted in this report, the processes used by the 13 counties audited during 2019 appear to comply with the requirements for the apportionment and allocation of property tax revenues.

The audit report findings are broadly classified as follows:

Prior Audits

The counties of Kern, Lassen, Merced, and Sierra did not fully resolve all findings noted in prior audits.

Current Audits

- Sierra County made an error in its computation and distribution of the annual tax increment (ATI).
- Kern, Merced, San Bernardino, and Sierra Counties made errors in the supplemental property tax apportionment and allocation process.
- Lassen and Merced Counties made errors in identifying actual supplemental property tax administrative costs.
- Lassen, Tulare, and Yolo Counties made errors in the unitary and operating nonunitary apportionment and allocation process.
- Lassen, San Bernardino, and Yolo Counties made errors in the unitary regulated railway apportionment and allocation process.
- Kern, San Bernardino, and San Diego Counties made errors in the qualified electric (QE) property apportionment and allocation process.
- San Bernardino County made errors in reimbursing property tax administrative costs.
- Lassen and Tulare Counties made errors in computing the ERAF shift.
- Kern, Lassen, Monterey, and Sierra Counties made errors in the vehicle license fee (VLF) adjustment process.
- Sierra County made errors in its sales and use tax (SUT) adjustments.
- Lassen County made errors in its negative bailout (Senate Bill 85) process.
- Merced and Yolo Counties made errors in computing the deposits in the Redevelopment Property Tax Trust Fund (RPTTF).

Overview

Introduction

This report presents the results of 13 audits of county property tax apportionments and allocations completed by SCO in Calendar Year 2019. The following counties were audited: Contra Costa, El Dorado, Kern, Lassen, Merced, Monterey, San Bernardino, San Diego, Santa Barbara, Sierra, Sonoma, Tulare, and Yolo. GC section 12468 requires that such audits be conducted periodically for each county according to a prescribed schedule based on county population. The purpose of the audits is to help mitigate problems associated with the property tax apportionment and allocation processes.

Except for the findings and recommendations noted in this report, the 13 counties audited generally complied with the requirements for the apportionment and allocation of property tax revenues.

Background

After the passage of Proposition 13 in 1978, the Legislature created new methods for apportioning and allocating property tax revenues to local government agencies, school districts, and community college districts. The main objective was to provide local government agencies, school districts, and community college districts with a property tax base that would grow as assessed property values increased. The method has been further refined in subsequent laws.

One key law was AB 8, Chapter 282, Statutes of 1979, which established the method of allocating property taxes for Fiscal Year (FY) 1979-80 (base year) and subsequent fiscal years. The methodology commonly is referred to as the AB 8 process or the AB 8 system.

Property tax revenues that local government agencies receive each fiscal year are based on the amount received in the prior year plus a share of the property tax growth within their boundaries. Property tax revenues then are apportioned and allocated to local government agencies, school districts, and community college districts using prescribed formulas and methods defined in the Revenue and Taxation Code (RTC).

The AB 8 process involves several steps including the transfer of revenues from school and community college districts to local government agencies (AB 8 shift) and the development of the tax rate area (TRA) ATI apportionment factors, which determine the amount of property tax revenues to be allocated to each jurisdiction.

The total amount to be allocated to each jurisdiction then is divided by the total amount to be allocated to all entities to determine the AB 8 factor (percentage share) for each entity for the year. The AB 8 factors are computed each year for all entities using the revenue amounts established in the prior year. These amounts are adjusted for growth annually using ATI factors.

Subsequent laws removed from the AB 8 process revenues generated by unitary and nonunitary properties, regulated railway companies, and QE properties. These revenues now are apportioned and allocated under separate processes.

Other laws established an ERAF in each county. Most local government agencies are required to transfer a portion of their property tax revenues to the fund. The fund subsequently is apportioned and allocated to school and community college districts by the county auditor according to instructions received from the county superintendent of schools or the chancellor of the California community colleges.

Revenues generated by the different types of property tax are apportioned and allocated to local government agencies, school districts, and community college districts using prescribed formulas and methods, as defined in the RTC. Taxable property includes land, improvements, and other properties that are accounted for on the property tax rolls, which are primarily maintained by the county assessor. Tax rolls contain an entry for each parcel of land including parcel number, owner's name, and value. The types of property tax rolls are:

- *Secured Roll*—Property that, in the opinion of the assessor, has sufficient value to guarantee payment of the tax levies and that, if the taxes are unpaid, the obligation can be satisfied by the sale of the property by the tax collector.
- *Unsecured Roll*—Property that, in the opinion of the assessor, does not have sufficient permanence or other intrinsic qualities to guarantee payment of taxes levied against it.
- *State-Assessed Roll*—Utility properties composed of unitary and operating nonunitary value assessed by the State Board of Equalization (BOE).
- *Supplemental Roll*—Property that has been reassessed due to a change in ownership or the completion of new construction, where the resulting change in assessed value is not reflected in other tax rolls.

Audit Program

The property tax audit program began on July 1, 1986, under RTC section 95.6 (now GC section 12468). The statute mandates that SCO periodically perform audits of the apportionment and allocation of property tax revenues by counties and make specific recommendations to counties concerning their property tax administration. However, SCO authority to compel resolution of audit findings is limited to those findings involving an overpayment of state funds.

Overpayment of State General Fund money is recoverable by the state under several provisions of law. In addition, SCO has broad authority to recover overpayments made from the State Treasury. If an audit finds overpayment of state funds and the state agency that made or authorized the payment does not seek repayment, then SCO is authorized to pursue recovery through a variety of means (GC sections 12418 through 12419.5). The specific remedy employed by SCO depends on the facts and circumstances of each situation.

SCO developed and implemented a comprehensive audit program to carry out the mandated duties. The comprehensive audit program includes, but is not limited to, a detailed analysis of past and current requirements of property tax laws and an examination of property tax records, processes, and systems at the county level.

These property tax apportionment audits have identified and aided in the correction of property tax underpayments to school and community college districts. The underallocation of property taxes by individual counties to their school and community college districts results in a corresponding overpayment of state funds to those schools by the same amount. In turn, this causes school and community college districts in other counties to receive less state funding because the total funds available are limited. A subsequent law forgave some counties for underpayments to schools without requiring repayment or assessment of penalties. However, the law requires that the cause of the underallocations, as identified by the audits, be corrected.

Audit Scope

Each audit encompasses an evaluation of a county's property tax apportionment methodology, allocation procedures, and compliance with applicable laws and regulations. SCO auditors used procedures considered necessary to provide a basis for reporting on the areas examined. In conducting the audits, the auditors focused on the following areas to determine whether:

- The apportionment and allocation of the ATI was in accordance with RTC sections 96 through 96.5.
- The methodology for redevelopment agency (RDA) base-year calculations and apportionment and allocation of the ATI was in accordance with RTC sections 96.4 and 96.6, and Health and Safety Code sections 33670 through 33679.
- The effect of jurisdictional changes on base-year tax revenues and the ATI was in accordance with RTC section 99.
- The apportionment and allocation of property tax revenues from supplemental assessments was in accordance with RTC sections 75.60 through 75.71.
- The apportionment and allocation of state-assessed unitary and operating nonunitary property taxes was in accordance with RTC section 100.
- The apportionment and allocation of state-assessed regulated railway companies' property taxes was in accordance with RTC section 100.11.
- The apportionment and allocation of state-assessed qualified properties, commonly known as QE properties, was in accordance with RTC section 100.95.
- The computation and apportionment of property tax revenues to low- and no-tax cities was in accordance with RTC section 98.
- The computation and collection of local jurisdictions' property tax administrative costs was in accordance with RTC sections 95.2 and 95.3.
- The computation and apportionment of property tax revenues to ERAF was in accordance with RTC sections 97 through 97.3.

- Payments from ERAF were made in compliance with RTC section 97.68, commonly known as the Triple Flip, and section 97.70, commonly known as the VLF Swap.

Conclusion

The property tax apportionment and allocation system generally is operating as intended. In the interest of efficiency and cost control for the counties and the state, SCO submits the Summary of Findings and Recommendations in this report to assist in initiating changes that will help improve the system.

Summary of Findings and Recommendations

Introduction

Except for the findings and recommendations cited in this report, the audit reports issued in 2019 indicated that the 13 audited counties generally complied with the legal requirements for the apportionment and allocation of property tax revenues. However, problem areas were identified; these are described below. Recommendations to resolve the problems are included within the individual county findings.

Unresolved Prior Audit Findings

The counties of Kern, Lassen, Merced, and Sierra did not fully resolve all findings noted in prior audits.

Computation and Distribution of Property Tax Revenues

Requirements for the apportionment and allocation of the ATI are found in RTC sections 96 through 96.5. The annual increment of property tax, which is the change in assessed value from one year to the next, is allocated to TRAs on the basis of each TRA's share of the incremental growth in assessed valuations. The tax increment is then multiplied by the jurisdiction's ATI apportionment factors for each TRA. These factors were developed in the base year and are adjusted for jurisdictional changes. The tax increment is then added to the tax computed for the prior fiscal year to develop the apportionment for the current fiscal year.

Sierra County incorrectly computed the countywide apportionment (AB 8) factors because it used the incorrect prior-year revenue in FY 2010-11, resulting in a misstatement of property tax revenues for all subsequent years.

Yolo County made the following errors:

- Incorrectly included unsecured aircraft assessed values in its computations of the ATI for each fiscal year in the audit period;
- Incorrectly computed current-year AB 8 revenue for FY 2014-15;
- Used incorrect prior-year base revenue when computing the current-year increment for FY 2014-15 and FY 2015-16;
- Did not use the updated unitary revenue amount in the tax distribution factors schedule for FY 2014-15 and FY 2015-16, and did not use the updated tax increment for RDAs in the FY 2014-15 tax distribution factors schedule; and
- Did not apportion homeowner property tax revenue using the computed factors for FY 2014-15 and FY 2015-16.

Jurisdictional Changes

RTC section 99 prescribes the procedures that a county must perform in order to make adjustments for the apportionment and allocation of property taxes resulting from changes in jurisdictional controls or changes in responsibilities of local government agencies, school districts, and community college districts. The statute requires a county to prepare specific documentation that takes into consideration services and responsibilities.

No issues were noted in this area.

Supplemental Property Tax Apportionment and Allocation

When a revaluation of property occurs during the fiscal year due to changes in ownership or completion of new construction, supplemental taxes are usually levied on the property. RTC sections 75.70, 75.71, and 100.2 provide for the apportionment and allocation of these supplemental taxes.

Kern County made the following errors:

- Excluded the multi-county K–12 schools’ (Gorman Elementary and Antelope Valley High) shares from the supplemental factor calculation instead of redistributing their shares to all other non-basic aid K–12 schools;
- Excluded the multi-county community college’s (Antelope Valley Junior College) share from the supplemental factor calculation instead of allocating a proportionate share based on its AB 8; and
- Used incorrect factors in its first apportionment and allocation of actual revenues.

Merced County made the following errors:

- Incorrectly removed RDAs from the supplemental property tax apportionment and allocation process;
- Did not redistribute Turlock Elementary School and Turlock High School’s supplemental revenues to non-basic aid and average daily attendance K–12 schools; and
- Omitted the Los Banos Fire District and the City of Merced Fire District.

San Bernardino County incorrectly included VLF revenues in its FY 2014-15 calculation.

Sierra County incorrectly computed the supplemental apportionment factors because it included VLF revenue in its calculations for FY 2014-15 through FY 2016-17.

Supplemental Property Tax Administrative Costs

In addition to the fee allowed by RTC section 95.3 for the administration of the secured tax roll, RTC section 75.60 allows the charging of a fee for the administration of the supplemental tax roll. Once a county adopts a method of identifying the actual administrative costs associated with the supplemental roll, it is allowed to charge an administrative fee for supplemental property tax collections. This fee is not to exceed five percent of the supplemental taxes collected.

Lassen and Merced Counties do not have a method for identifying the actual administrative costs associated with the supplemental assessment roll.

Redevelopment Agencies

The legal requirements for the apportionment and allocation of property tax to RDAs are found in RTC sections 96.4 and 96.6, and Health and Safety Code sections 33670 through 33679. California community redevelopment law entitled a community RDA to all of the property tax

revenue realized from growth in values since the RDA's project area inception, with specified exceptions.

No issues were noted in this area.

Unitary and Operating Nonunitary Apportionment and Allocation

The process for the apportionment and allocation of property taxes from certain utility companies functions through the unitary and operating nonunitary tax system employed by BOE. Unitary properties are those properties on which BOE "may use the principle of unit valuation in valuing properties of an assessee that are operated as a unit in the primary function of the assessee" (i.e., public utilities, railroads, or QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee." RTC section 100 prescribes the procedures that counties must perform to allocate unitary and operating nonunitary property taxes beginning in FY 1988-89.

Lassen County carried forward an incorrect beginning balance in FY 2004-05, adversely affecting the subsequent years.

In FY 2016-17, Tulare County incorrectly calculated the unitary excess allocation factors because it excluded the Porterville Redevelopment Agency Amended 2010 Project Area (Porterville RDA Amended 2010).

Yolo County did not use the correct prior-year worksheet to compute the unitary revenues for FY 2015-16.

Unitary Regulated Railway Apportionment and Allocation

The process for apportioning and allocating property taxes from certain regulated railway companies functions through the unitary railroad tax system employed by BOE. Unitary railroad properties are defined in RTC section 723. RTC section 100.11 prescribes the procedures that counties must perform to allocate unitary railroad property taxes beginning in FY 2007-08.

Lassen County did not:

- Use the correct grand total revenue for computing the FY 2014-15 apportionment factors; and
- Provide to the ERAF its revenue share (\$23,935) for the December apportionment for FY 2015-16.

San Bernardino County incorrectly:

- Included VLF adjustments when computing the excess factors computation for FY 2014-15; and
- Computed the wrong base revenue from prior audit corrections for FY 2015-16.

Yolo County's apportionment factors for revenues over 102% of prior-year (excess factors) did not reconcile to supporting documentation for FY 2015-16.

Qualified Electric Property Apportionment and Allocation

Requirements for the apportionment and allocation of QE property taxes are found in RTC section 100.95 beginning in FY 2007-08. QE properties are “all plant and associated equipment, including substation facilities and fee-owned land and easements, placed in service by the public utility on or after January 1, 2007.”

Kern County made several errors in its Tier 1 apportionment and allocation process of QE property tax revenues.

San Bernardino County made the following errors:

- Allocated QE property revenue to enterprise special districts for FY 2015-16; and
- Allocated QE property revenue to special districts based on enterprise and non-enterprise ratios for FY 2016-17.

San Diego County incorrectly included enterprise special districts within the Tier 1 allocation for FY 2015-16 through FY 2017-18.

Reimbursement of Property Tax Administrative Costs

Counties are allowed to collect, from each appropriate jurisdiction, that jurisdiction’s share of the cost of assessing, collecting, and apportioning property taxes. RTC section 95.3 prescribes the requirements for computing and allocating property tax administrative fees. The offices of the county assessor, tax collector, assessment appeals board, and auditor generally incur county property tax administrative costs. The county is generally allowed to be reimbursed for these costs.

Prior to FY 2006-07, counties could not impose a fee, charge, or other levy on a city, nor reduce a city’s allocation of ad valorem property tax revenue, in reimbursement for services performed by the county under RTC sections 97.68 and 97.70. Pursuant to RTC section 97.75, beginning with FY 2006-07, a county may impose a fee, charge, or other levy on a city for these services, but the fee, charge, or other levy shall not exceed the actual cost of providing the services.

San Bernardino County did not offset supplemental administrative fee revenues for FY 2013-14 through FY 2016-17, which resulted in an overstatement of property tax administrative costs.

Educational Revenue Augmentation Fund

The legal requirements for the local agency shift of property tax revenues to the ERAF are contained in RTC sections 96.1 through 96.5 and 97 through 97.3. Beginning in FY 1992-93, each local agency is required to shift an amount of property tax revenues to ERAF using formulas prescribed in the RTC. The property tax revenues in the ERAF are subsequently allocated to schools and community colleges using factors supplied by the county superintendent of schools or chancellor of the California community colleges.

Since the passage of the ERAF shift requirements, numerous new laws have affected the shift requirements for various local government agencies. AB 1589 (Chapter 290, Statutes of 1997) primarily addressed three areas related to the ERAF shift:

- ERAF shift requirements for certain county fire funds for FY 1992-93 (RTC section 97.2[c][4][B]).
- A special provision for counties of the second class (population of at least 1,400,000 and fewer than 4,000,000) when computing the ERAF shift amount for county fire funds in FY 1993-94 (RTC section 97.3[c][4][A][I]).
- ERAF shift requirements for county libraries for FY 1994-95 and subsequent years.

After the enactment of AB 1589, the State Controller requested advice from the California Attorney General regarding the application of Chapter 290, Statutes of 1997. The Attorney General responded in May 1998.

The Attorney General advised that the amendment to RTC section 97.2(c)(4)(B) significantly narrowed the scope of the exemption granted by the code section and was to be given retroactive application. As a result, many counties and special fire protection districts that were able to claim an exemption under the section as it formerly read lost the exemption retroactive to FY 1992-93. Consequently, those counties and special districts were required to shift additional funds to the county ERAF.

In response to the Attorney General's advice, and noting the severe fiscal impact that the loss of the exemption would have on local government agencies, SCO recommended that the Legislature consider restoring the exemption previously granted to fire protection districts, which was eliminated as a result of AB 1589 (Chapter 290, Statutes of 1997). Subsequently, AB 417 (Chapter 464, Statutes of 1999) restored the exemption to fire districts.

Lassen County incorrectly reduced the County School Services' total property tax for FY 2012-13 through FY 2016-17 for negative ERAF.

Tulare County incorrectly computed the ERAF shift amount, as it:

- Used the wrong prior-year revenue amount for FY 2015-16; and
- Included the RDA increment amount for the City of Exeter Fire Department's ERAF shift for FY 2016-17.

Vehicle License Fee and Sales and Use Tax Adjustments

RTC sections 97.68 and 97.70 require allocation of ad valorem property tax revenue by ERAF to SUT and VLF adjustment amounts. If there is not enough ad valorem property tax revenue in the ERAF, the difference should be reduced from all school districts and community college districts that are not excess tax school entities.

Kern County incorrectly excluded aircraft and RDA property assessed values from its VLF calculations.

Lassen County used an incorrect assessed value in computing the City of Susanville's VLF.

Monterey County incorrectly calculated and distributed the VLF adjustment to affected entities from the ERAF because it included the unitary and operating nonunitary, unitary regulated railway, and pipeline assessed values in its VLF computation for FY 2015-16 through FY 2017-18.

Sierra County has yet to comply with the requirements of SB 1096, as the county has not established a VLF Property Tax Compensation Fund in the county treasury. In addition, the county incorrectly distributed SUT revenue for FY 2009-10 and FY 2013-14.

Disaster Relief Adjustment

Requirements for the local agency shift of property tax revenues to ERAF, also known as the ERAF shift, are found in RTC sections 97.1 through 97.3.

In addition to the ERAF shift, RTC section 97.2 requires a Disaster Relief Adjustment, beginning in FY 1992-93. The adjustment was a reduction to the amount of reduced city and county funds that were redirected to the ERAF. This reduction is continued, without growth, through FY 1996-97. In FY 1997-98, the Disaster Relief Adjustment was reversed and replaced with an adjustment known as the Disaster Relief Reversal.

In FY 1998-99, the Disaster Relief Reversal was included as part of the ERAF shift defined by RTC section 97.2(e)(3), which states:

For purposes of allocations made pursuant to Section 96.1 for the 1998-99 fiscal year, the amount allocated from the Educational Revenue Augmentation Fund pursuant to this subdivision shall be deemed property tax revenues allocated to the Educational Revenue Augmentation Fund in the prior fiscal year.

Therefore, in FY 1998-99, the prior-year Disaster Relief Reversal is deemed to be revenues allocated to the ERAF in that year, and is added to the ERAF shift base, prior to the FY 1998-99 adjustment for growth. Consequently, the Disaster Relief Reversal is adjusted for growth every year thereafter, as it is included as part of the ERAF base.

No issues were noted in this area.

Negative Bailout (SB 85)

RTC section 96.11 provides the legal requirements for calculation of the negative bailout amount.

After the passage of Proposition 13, SB 154 (Chapter 292, Statutes of 1978) provided for the distribution of state assistance, or bailout, to make up, in part, for local property tax losses. The relief for counties was \$436 million in cash grants plus the State's assumption of \$1 billion associated with mandated health and welfare programs.

In the second year following the passage of Proposition 13, AB 8 (Chapter 282, Statutes of 1979) provided for a long-term solution consisting of a one-time adjustment (shift) that created a new property tax base for each local agency.

Counties received 100 percent of their SB 154 block grants and a small adjustment for the Aid to Families with Dependent Children, minus the amount of the indigent health block grant. For some counties, the value of the indigent health block grant was so great that it exceeded the value of the SB 154 block grant. In those cases, the AB 8 shift resulted in a reduction of the property tax base instead of an increase. These counties are referred to as negative bailout counties. For all but the negative bailout counties, the increased property tax was deducted from the local schools' property tax. For the negative bailout counties, school property taxes should have been increased by the negative bailout amount.

Subsequently, it was discovered that the negative bailout counties were not transferring the required property taxes to schools. Consequently, AB 2162 (Chapter 899, Statutes of 1983) forgave prior allocation errors but required future payments to be made in accordance with statutes.

The negative bailout amount has grown each year as the assessed value of property in the counties has grown. SB 85 (Chapter 5, Statutes of 2010) did not eliminate the negative bailout amount but capped it according to a specified formula.

Lassen County incorrectly calculated and applied a negative bailout amount of \$57,935 in FY 2011-12. In addition to this prior audit finding, we also found that the county made the following errors during the current audit period:

- Incorrectly adjusted for negative bailout in FY 2012-13 and in FY 2013-14;
- Incorrectly made adjustments to the ERAF instead of to non-basic aid K-14 schools; and
- Did not compute the negative bailout amount from FY 2014-15 through FY 2016-17.

Tax Equity Allocation

RTC section 98 and the Guidelines for County Property Tax Administration Charges and "No-/Low-Property-Tax Cities" Adjustment, developed by the County Accounting Standards and Procedures Committee, provide a formula for increasing the amount of property tax allocated to a city that had either no or low property tax revenues.

No issues were noted in this area.

Redevelopment Property Tax Trust Fund

RTC section 97.401 and Health and Safety Code sections 34182 through 34188 provide the legal requirements for administration of the RPTTF. In 2012, the Legislature passed a law dissolving the previously established RDAs. Provisions of the law included the creation of successor

agencies (SAs) and oversight boards to oversee the winding-down of the defunct agencies' affairs.

Under the applicable Health and Safety Code sections, SAs will receive the ATI previously given to RDAs to fund payments of their obligations including, but not limited to, administrative costs, pass-through payments, and debts.

Merced County's property tax increment computations for former RDAs included several errors, which resulted in misstated RPTTF deposits for FY 2014-15 through FY 2106-17.

Yolo County made several errors that resulted in misallocation of the tax increment to the City of Winters' Redevelopment Successor Agency and of pass-through payments to various affected entities in the project area.

Item for Legislative Consideration

RTC section 95.3 allows a county to charge for the cost of administering the property tax program in the county. Although the county computes the shares of these costs for school districts, community college districts, county school superintendents, and ERAF, statute does not allow the county to collect these shares. School entities and the ERAF are thus held harmless from administrative cost charges. The Legislature has stated its intent to reimburse the costs attributable to school entities and ERAF “by a future act of the Legislature that makes an appropriation for purposes of that reimbursement.”

Health and Safety Code section 34183 allows the county auditor-controller to deduct from the RPTTF administrative costs allowed under Health and Safety Code section 34182 and RTC section 95.3, prior to making the prioritized distributions that follow. As a result, any balance to be distributed pursuant to Health and Safety Code section 34188 is reduced, thus reducing shares of residual revenues for all taxing agencies (including schools) and ERAF. Consequently, schools and ERAF are paying a portion of the administrative costs.

Recommendation

As the Health and Safety Code sections do not describe appropriations, the Legislature may wish to consider changing the administrative costs allowed under Health and Safety Code section 34182 and RTC section 95.3 to school entities and ERAF as a result of Health and Safety Code sections 34183 and 34188.

Findings of Individual County Audits

Introduction

The findings and recommendations included below are presented as they were stated in the County Property Tax Apportionment and Allocation reports issued by SCO in Calendar Year 2019. Unless otherwise indicated, the counties agreed with the findings and recommendations.

These findings and recommendations are solely for the information and use of the Legislature, the respective counties, the Department of Finance (DOF), and SCO; they are not intended to be and should not be used by anyone other than those specified parties. This restriction is not intended to limit distribution of this report or the respective audit reports, which are a matter of public record.

Contra Costa County (July 1, 2015, through June 30, 2018)

Follow-up on prior audit findings

Our prior audit report, for the period of July 1, 2008, through June 30, 2015, issued April 18, 2016, included no findings related to the apportionment and allocation of property tax revenues by the county.

Conclusion

Our audit found that the county complied with California statutes for the apportionment and allocation of property tax revenues for the audit period.

El Dorado County (July 1, 2013, through June 30, 2019)

Follow-up on prior audit findings

Our prior audit report, for the period of July 1, 2006, through June 30, 2013, issued on March 26, 2015, included no findings related to the apportionment and allocation of property tax revenues by the county.

Conclusion

Our audit found that the county complied with California statutes for the apportionment and allocation of property tax revenues for the audit period.

Kern County (July 1, 2012, through June 30, 2017)

Follow-up on prior audit findings

Findings noted in our prior audit report, for the period of July 1, 2009, through June 30, 2012, issued April 4, 2014, have been satisfactorily resolved by the county, with the exception of the allocation and apportionment of supplemental property tax.

REPEAT FINDING 1— Supplemental Property Tax Apportionment and Allocation

During testing of the supplemental property tax apportionment and allocation process, we found that the county made the following errors:

- Excluded the multi-county K–12 schools' (Gorman Elementary and Antelope Valley High) shares from the supplemental factor calculation instead of redistributing their shares to all other non-basic aid K–12 schools;

- Excluded the multi-county community college's (Antelope Valley Junior College) share from the supplemental factor calculation instead of allocating a proportionate share based on its AB 8; and
- Used incorrect factors in its first apportionment and allocation of actual revenues.

These errors resulted in the misallocation of supplemental property tax revenues to all entities in the county. We have determined that the error, while procedurally incorrect, is not material. The error occurred due to a differing interpretation of applicable statutes and timing differences regarding the availability of the current-year supplemental factors.

RTC sections 75.70, 75.71, and 100.2 provide the legal requirements for the apportionment and allocation of supplemental property tax revenue.

Supplemental property tax revenues enable counties to tax a property retroactively for the period when a change in ownership or completion of new construction occurs.

Recommendation

We recommend that the county review the aforementioned Revenue and Taxation Code sections and then update its procedures to ensure that supplemental property tax apportionments and allocations are based on proper computations.

In addition, we recommend that the county:

- Redistribute the multi-county K–12 schools' share of the supplemental factor to all other non-basic-aid K–12 schools;
- Allocate shares to multi-county community colleges based on their AB 8 share; and
- Perform a year-end true-up to ensure that entities receive their proportionate share of the revenue.

County's Response

The county concurs with the audit finding and states that it has made the necessary corrections.

FINDING 2— Qualified Electric Property Apportionment and Allocation

During testing of the QE apportionment and allocation process, we found that the county made several errors in its Tier 1 apportionment and allocation process of QE property tax revenues as follows:

- Did not use prior-year unitary factors for FY 2012-13 through FY 2016-17; and
- Excluded certain school entities and all non-enterprise special districts for FY 2012-13 through FY 2014-15, County Fire and certain hospital enterprises for FY 2012-13 through FY 2016-17, and Mountain

Meadows Community Services District (a non-enterprise special district) for FY 2015-16 through FY 2016-17.

Additionally, during the Tier 2 process, the county did not allocate QE revenues equally to water districts for FY 2012-13 through FY 2016-17, when the QE property was served by more than one water district.

These errors resulted in misallocation of QE property tax revenues to all affected entities in the county. However, we cannot quantify the monetary impact due to various errors affecting the calculation. The errors occurred due to differing interpretations of applicable statutes.

RTC section 100.95 provides the legal requirements for the apportionment and allocation of QE property tax revenues.

Qualified property is “all plant and associated equipment, including substation facilities and fee-owned land and easements, placed in service by the public utility on or after January 1, 2007.”

Recommendation

We recommend that the county review the aforementioned Revenue and Taxation Code section and update its procedures to ensure that QE apportionments and allocations are based on proper computations.

In addition we recommend that the county:

- For Tier 1 allocations, use prior-year unitary factors to allocate QE property tax revenues to the county, County Fire, all school entities, hospital enterprises and non-enterprise special districts within the county; and
- For Tier 2 allocations, allocate QE property tax revenues equally among water districts when the QE property is served by more than one water district.

County's Response

The county concurs with the audit finding and states that it has made the necessary corrections.

FINDING 3— Vehicle License Fee Adjustments

During testing of the VLF process, we found that the county incorrectly excluded aircraft and RDA property assessed values from its VLF calculations. The exclusion of assessed values resulted in an incorrect VLF growth percentage, which was subsequently used in calculating VLF adjustment amounts.

For the selected sample entities, the estimated monetary effects are as follows:

	Fiscal Year				Total Due to/ (Due from)
	2012-13	2013-14	2014-15	2015-16	
County	\$267,758	\$ 98,183	\$ 16,747	\$(603,486)	\$ (220,798)
City of Delano	(18,792)	(608,682)	(636,073)	(778,293)	(2,041,840)
City of Shafter	22,840	56,966	47,133	31,094	158,033

RTC section 97.70 provides the legal requirements for VLF adjustments. The error occurred due to a differing interpretation of this statute.

The VLF permanently provided additional property tax revenues to cities and counties in lieu of the discretionary VLF revenues that these agencies previously received.

Recommendation

We recommend that the county review the aforementioned Revenue and Taxation Code section and then update its procedures to ensure that the VLF adjustment process is based on proper computations.

In addition, beginning in FY 2012-13, we recommend that the county:

- Recalculate growth percentage and shift amounts; and
- Make monetary adjustments to the affected entities, if the amounts are significant.

County's Response

The county concurs with the audit finding and states that it has made the necessary corrections.

Lassen County (July 1, 2012, through June 30, 2017)

Follow-up on prior audit findings

Findings noted in our prior audit report for the period of July 1, 2004, through June 30, 2012, issued June 9, 2014, have been satisfactorily resolved by the county, with the exception of the unitary and operating nonunitary apportionment and allocation (see Finding 2), and the negative bailout (see Finding 6).

FINDING 1— Supplemental Property Tax Administrative Costs

During testing of the supplemental administrative cost process, we found that the county does not have procedures in place to identify the actual costs associated with administration of the supplemental assessment rolls. As a result, the county cannot substantiate all of the fees that it collected during the audit period, totaling \$35,285. The error occurred because the county misinterpreted the applicable statute.

RTC section 75.60 provides the legal requirements for reimbursement of supplemental property tax administrative costs.

The statute allows a county to charge an administrative fee for supplemental property tax collections. This fee is not to exceed five percent of the supplemental property tax revenues collected.

Recommendation

We recommend that the county review RTC section 75.60, and implement procedures to ensure compliance.

County's Response

The county concurs with the audit finding and states that it is in the process of implementing corrections.

REPEAT FINDING 2— Unitary and Operating Nonunitary Apportionment and Allocation

In our prior audit report, for the period of July 1, 2004, through June 30, 2012, we found that the county's corrections to the unitary and operating nonunitary apportionment factors were incorrect. The county carried forward an incorrect beginning balance in FY 2004-05, adversely affecting the subsequent years.

We could not determine the cause of the error, as the staff responsible for the correction no longer work for the county.

This is a repeat finding. See Finding 1 of our previous report on Lassen County's property tax apportionment and allocation system (S13-PTX-003) dated June 9, 2014.

RTC section 100 provides the legal requirements for the apportionment and allocation of the unitary and operating nonunitary property tax revenues.

Unitary properties are those properties on which BOE "may use the principle of unit valuation in valuing properties of an assessee that are operated as a unit in the primary function of the assessee" (i.e., public utilities, railroads, or QE properties). RTC section 723.1 states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for apportioning and allocating unitary and operating nonunitary property tax revenues. The system created the unitary and operating nonunitary base year, and developed formulas to compute the distribution factors for the fiscal years that followed.

Recommendation

We recommend that the county:

- Review RTC section 100, and implement policies and procedures for properly computing the unitary and operating nonunitary apportionment factors;
- Re-compute the unitary and operating nonunitary apportionment factors for FY 2004-05 through FY 2016-17; and
- Make monetary adjustments to the affected entities, if the amounts are significant.

County's Response

The county concurs with the audit finding and states that it is in the process of implementing corrections.

**FINDING 3—
Unitary Regulated
Railway
Apportionment
and Allocation**

During testing of the unitary regulated railway process, we found that the county:

- Did not use the correct grand total revenue for computing the FY 2014-15 apportionment factors; and
- Did not provide to the ERAF its revenue share (\$23,935) for the December apportionment for FY 2015-16.

We could not determine the cause of these errors, as the staff responsible for the unitary regulated railway process no longer work for the county.

RTC section 100.11 provides the legal requirements for the apportionment and allocation of unitary regulated railway property tax revenues.

Unitary regulated railway properties are facilities that were completely constructed and placed in service after January 1, 2007. Unitary railroad properties are defined in RTC section 723.

Recommendation

We recommend that the county:

- Review RTC section 100.11, and implement policies and procedures to ensure compliance;
- Re-compute the unitary regulated railway factors beginning with FY 2014-15; and
- Make monetary adjustments to the affected entities, if the amounts are significant.

County's Response

The county agrees with the finding and stated that it is in the process of implementing corrections.

**FINDING 4—
Educational Revenue
Augmentation Fund**

During testing of the negative ERAF process, we found that the county incorrectly reduced the County School Services' total property tax for FY 2012-13 through FY 2016-17. Based on documentation provided by the county, the monetary effect of the error is estimated to be \$598,038 for FY 2014-15 through FY 2016-17.

The error occurred because the county misinterpreted the applicable statutes.

RTC sections 96.1 through 96.5 and 97 through 97.3 provide the legal requirements for calculation of the ERAF shift.

In FY 1992-93 and FY 1993-94, some local agencies were required to shift an amount, subsequently annually adjusted for growth, of property tax revenues to the ERAF using formulas detailed in the Revenue and Taxation Code.

Recommendation

We recommend that the county:

- Review RTC sections 96.1 through 96.5 and 97 through 97.3;
- Implement updated policies and procedures to exclude County School Services from the negative ERAF computation; and
- Make monetary adjustments to affected entities beginning with FY 2012-13.

County's Response

The county concurs with the audit finding and states that it is in the process of implementing corrections.

**FINDING 5—
Vehicle License Fee
Adjustments**

During testing of the VLF adjustment process, we found that the county used an incorrect assessed value in computing the City of Susanville's VLF. This error resulted in an understatement of \$79,365 for the city's FY 2016-17 VLF adjustment from the ERAF. The understatement was due to a clerical error.

RTC section 97.70 provides the legal requirements for VLF adjustments.

The VLF permanently provided additional property tax revenues to cities and counties in lieu of the discretionary VLF revenues that these agencies previously received.

Recommendation

We recommend that the county:

- Implement policies and procedures to ensure that correct assessed values are used in the computation of the VLF adjustment;
- Re-compute VLF growth beginning with FY 2016-17; and

- Make monetary adjustments to the affected entities, if the amounts are significant.

County's Response

The county concurs with the audit finding and states that it is in the process of implementing corrections.

REPEAT FINDING 6— Negative Bailout (SB 85)

In our prior audit report for the period of July 1, 2004, through June 30, 2012, we found that the county had incorrectly calculated and applied a negative bailout amount of \$57,935 in FY 2011-12. During our review of this prior audit finding, we concluded that the county had not taken corrective action to address the error. The county stated that it did not implement the prior audit recommendation because it experienced staff turnover, and the new staff were unfamiliar with this complex calculation.

In addition to the uncorrected prior audit finding, we also found that the county made the following errors during the current audit period:

- Incorrectly adjusted for negative bailout in FY 2012-13 (\$57,218) and in FY 2013-14 (\$57,218);
- Incorrectly made adjustments to the ERAF instead of to non-basic aid K-14 schools; and
- Did not compute the negative bailout amount from FY 2014-15 through FY 2016-17 (\$116,635).

As a result of these errors, the ERAF is owed \$114,436 from the county General Fund, and the county General Fund is owed \$116,635 from all non-basic aid K-14 schools. In discussing the errors, we concluded that the county does not have policies and procedures in place because of its misinterpretation of the applicable statute for computing the negative bailout amount.

This is a repeat finding. See Finding 6 of our previous report on Lassen County's property tax apportionment and allocation system (S13-PTX-003) dated June 9, 2014.

RTC section 96.11 provides the legal requirements for calculation of the negative bailout amount.

After the passage of Proposition 13, the Legislature passed SB 154 (Chapter 292, Statutes of 1978), which provided for the distribution of state assistance, or bailout, to partially mitigate property tax losses. The relief for counties was \$436 million in cash grants plus the State's assumption of \$1 billion associated with mandated health and welfare programs.

In the second year following the passage of Proposition 13, the Legislature passed AB 8 (Chapter 282, Statutes of 1979), which provided a long-term solution for the bailout program consisting of a one-time adjustment (shift) that created a new property tax base for each local agency. Counties

received all of their SB 154 block grants and a small adjustment for Aid to Families with Dependent Children, minus the amount of the indigent health block grant. For some counties, the value of the indigent health block grant was so great that it exceeded the value of the SB 154 block grant. In those cases, the AB 8 shift resulted in a reduction of the property tax base instead of an increase; this created negative bailout counties. Consequently, the negative bailout amount received by the counties has grown each year as the assessed value of property in the counties has grown.

Recommendation

We recommend that the county:

- Review RTC section 96.11, and establish and implement policies and procedures to ensure compliance;
- Re-compute the negative bailout amount for FY 2011-12 through FY 2016-17; and
- Make monetary adjustments to the affected entities, if the amounts are significant.

County's Response

The county concurs with the audit finding and states that it is in the process of implementing corrections.

Merced County (July 1, 2014, through June 30, 2017)

Follow-up on prior audit findings

Findings noted in our prior audit, issued March 18, 2016, have been satisfactorily resolved by the county, with the exception of the ERAF growth computation. The county has completed the recalculation of ERAF growth; however, it has not yet made monetary adjustments to the ERAF and affected taxing entities.

FINDING 1— Supplemental Property Tax Apportionment and Allocation

During testing of the supplemental property tax apportionment process, we found that the county misallocated supplemental property tax revenues to all affected taxing entities for each fiscal year in the audit period. Specifically, the county:

- Incorrectly removed RDAs from the supplemental property tax apportionment and allocation process;
- Did not redistribute Turlock Elementary School and Turlock High School's supplemental revenues to non-basic aid and average daily attendance K–12 schools; and
- Omitted the Los Banos Fire District and the City of Merced Fire District.

Due to the various errors affecting the computation and apportionment, we did not quantify the monetary impact for each affected taxing entity. The error occurred because the county misinterpreted the requirements outlined in the Revenue and Taxation Code.

RTC sections 75.70, 75.71, and 100.2 provide the legal requirements for the allocation and apportionment of the supplemental property tax revenue. Supplemental property tax revenues enable counties to tax a property retroactively for the period when a change in ownership or completion of new construction occurs.

Recommendation

We recommend that the county:

- Review the aforementioned Revenue and Taxation Code sections and update and communicate procedures to properly compute supplemental property tax apportionment; and
- Recalculate the supplemental property tax apportionment for FY 2014-15 through FY 2016-17 and make adjustments as necessary.

County's Response

The County concurs with this finding. The supplemental property tax apportionment factors have been recalculated for FY 2014-15 through FY 2016-17. The distributions have been adjusted to reflect the change in factors.

FINDING 2— Supplemental Property Tax Administrative Costs

During testing of the supplemental property tax administrative fee process, we found that the county does not have a method for identifying the actual administrative costs associated with the supplemental assessment roll; therefore, it cannot substantiate 100% of the fees that it collected during the audit period.

As the county did not document or determine its actual administrative costs, we are unable to retroactively quantify the monetary impact that this error had on the affected taxing entities. The error occurred because the county did not update its departmental cost analysis with the actual administrative costs for the supplemental rolls.

RTC section 75.60 provides the legal requirements for reimbursement of supplemental property tax administrative costs. The statute allows a county to charge an administrative fee for supplemental property tax revenues collections. This fee is not to exceed five percent of the supplemental property tax revenues collected.

Recommendation

We recommend that the county review the aforementioned Revenue and Taxation Code section and establish and implement procedures to ensure that supplemental administrative costs:

- Include actual costs that are supported by source documentation;
- Include direct costs for administration, data processing, collection, and appeal;
- Are incurred by the county auditor, assessor, and tax collector; and

- Are determined annually in all subsequent years.

County's Response

The County concurs with this finding. While the County does have a method to calculate Supplemental Property Tax Administrative Fees the method used was out of date. In 2017 the County [adopted] a newer and more efficient method to support the supplemental property tax administrative fee.

FINDING 3— Redevelopment Property Tax Trust Fund and Recognized Obligation Payment Schedules

During testing of the RPTTF process, we found that the county's property tax increment computations for former RDAs included several errors, which resulted in misstated RPTTF deposits for all fiscal years. The county is researching the base-assessed values for some RDAs to determine their validity; therefore, we are not able to quantify the misallocations at this time. The error occurred because the county misinterpreted the requirements outlined in the Revenue and Taxation Code.

RTC section 97.401 and Health and Safety Code sections 34182 through 34188 provide the legal requirements for administration of the RPTTF. In 2012, the Legislature passed a law dissolving the previously established RDAs. Provisions of the law included the creation of SAs and oversight boards to oversee the winding-down of the defunct agencies' affairs.

Under the applicable Health and Safety Code sections, SAs will receive ATI previously given to RDAs to fund payments of their obligations including, but not limited to, administrative costs, pass-through payments, and debts.

Recommendation

We recommend that the county review the aforementioned Revenue and Taxation Code and Health and Safety Code sections and update its property tax computation worksheets for former RDAs to ensure that:

- Base-year frozen values do not change;
- Increments are computed for all former RDA project areas;
- Unitary assessed values are excluded; and
- Formulas are formatted properly.

County's Response

The County concurs with this finding. The Redevelopment property tax computation worksheet used was very confusing and [was] simplified in 2017. The County has verified [that] all the frozen base years are correct. One adjustment had to be made to Gustine RDA as it was discovered that HOPTR [Home Owner Property Tax Relief] was not included in the base year. All other frozen values have been verified. It has been verified that there are no Unitary assessed values and that all formulas are correct.

Monterey County (July 1, 2015, through June 30, 2018)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2009, through June 30, 2015, issued on August 26, 2016.

FINDING— Vehicle License Fee adjustments

During our testing of the county's property tax revenue computation and distribution process, we found that the county incorrectly calculated and distributed the VLF adjustment to affected entities from the ERAF because it included the unitary and operating nonunitary, unitary regulated railway, and pipeline assessed values in its VLF computation for each fiscal year in the audit period. This error resulted in an over-allocation of ERAF revenue to all incorporated cities and the county.

The following table summarizes the approximate amount due the ERAF for the five sampled jurisdictions:

Sampled Taxing Jurisdiction ¹	Approximate Amount due the ERAF
City of Salinas	\$ 9,578
City of Seaside	66
City of Soledad	12,639
Monterey County	2,077,181
Sand City	98
Sampled Total	<u>\$ 2,099,562</u>

¹This error also affects the cities of Carmel, Del Rey Oaks, Gonzales, Greenfield, King City, Marina, Monterey, and Pacific Grove; however, we did not measure the fiscal impact.

The error occurred because the county misinterpreted RTC section 97.70, which provides the legal requirement for VLF adjustments.

The VLF permanently provided additional property tax revenues to cities and counties in lieu of the discretionary VLF revenues that these agencies previously received.

Recommendation

We recommend that the county:

- Review RTC section 97.70 and update its procedures to exclude all unitary assessed values from the VLF adjustment process; and
- Recalculate its VLF computation for FY 2015-16 through FY 2017-18 and make monetary adjustments to the ERAF.

County's Response

The Auditor-Controller's Office concurs with the finding. The county indicated that it will recalculate the VLF computation for the FY 2015-16 through FY 2017-18, and make the necessary monetary adjustments. The

county stated that it will update its procedures to exclude all unitary assessed values from the VLF calculation process.

San Bernardino County (July 1, 2013, through June 30, 2017)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2006, through June 30, 2013, issued March 26, 2015.

FINDING 1— Supplemental Property Tax Apportionment and Allocation

During testing of the county's supplemental apportionment and allocation process, we found that it incorrectly included VLF revenues in the FY 2014-15 calculation. This resulted in an understatement of approximately \$3.9 million to the ERAF. The error occurred because the county misinterpreted the requirements outlined in statute.

RTC sections 75.70, 75.71, and 100.2 provide the legal requirements for the apportionment and allocation of supplemental property tax revenue.

Supplemental property tax revenues enable counties to tax a property retroactively for the period in which a change in ownership or completion of new construction occurs.

Recommendation

We recommend that the county:

- Review RTC sections 75.70, 75.71, and 100.2 and update its procedures for proper implementation of supplemental apportionment and allocation computations;
- Recalculate the FY 2014-15 supplemental apportionment and allocation factor;
- Reallocate approximately \$3.9 million in supplemental revenue to the ERAF; and
- Ensure that all subsequent supplemental apportionment and allocation factor computations exclude any VLF revenue adjustments.

County's Response

The County concurs with this finding. The County is in the process of recalculating the supplemental allocation and apportionment factors for FY 2014-15 and reallocating approximately \$3.9 million in supplemental revenue to the ERAF. Procedures were implemented in FY 2015-16 to exclude any VLF revenue adjustments [from] the calculation.

FINDING 2— Unitary Regulated Railway Apportionment and Allocation

During testing of the county's unitary regulated railway apportionment and allocation process, we found that it incorrectly:

- Included VLF adjustments when computing the excess factors for FY 2014-15; and

- Computed the wrong base revenue from prior audit corrections for FY 2015-16.

These errors occurred because the county misinterpreted the requirements outlined in statute, which resulted in the county's misallocation of revenues to the affected taxing entities. However, due to the complexity of the re-computation process, we did not quantify the effect.

RTC section 100.11 provides the legal requirements for the apportionment and allocation of unitary regulated railway property tax revenues.

Unitary regulated railway properties are facilities that were completely constructed and placed in service after January 1, 2007. Unitary railroad properties are defined in RTC section 723.

Recommendation

We recommend that the county:

- Review RTC section 100.11 and update its procedures for properly computing unitary regulated railway apportionment and allocation computations;
- Recalculate the FY 2014-15 through FY 2016-17 unitary regulated railway apportionment and allocation factors;
- Make monetary adjustments to the affected entities, if the amounts are significant; and
- Use the corrected factors in subsequent fiscal years.

County's Response

The County concurs with this finding. The County made the necessary corrections to the computations during the fieldwork phase, will make the necessary adjustments to the affected entities, and will ensure the corrected factors are utilized going forward.

FINDING 3— Qualified Electric Property Apportionment and Allocation

During testing of the county's QE property apportionment and allocation process, we found that it made the following errors:

- Allocated QE property revenue to enterprise special districts for FY 2015-16; and
- Allocated QE property revenue to special districts based on enterprise and non-enterprise ratios for FY 2016-17.

These errors occurred because the county misinterpreted the requirements outlined in statute, which resulted in the county's misallocation of revenues to the affected taxing entities. However, due to the complexity of the re-computation process, we did not quantify the effect.

RTC section 100.95 provides the legal requirements for the apportionment and allocation of QE property tax revenues.

Qualified property is “all plant and associated equipment, including substation facilities and fee-owned land and easements, placed in service by the public utility on or after January 1, 2007.”

Recommendation

We recommend that the county:

- Review RTC section 100.95 and update its procedures for proper implementation of the QE property apportionment and allocation;
- Recalculate the QE apportionment and allocation factors for FY 2015-16 and FY 2016-17; and
- Make monetary adjustments to the affected entities, if the amounts are significant.

County’s Response

The County concurs with this finding. The County made the necessary corrections to the computations during the fieldwork phase and will make the necessary adjustments to the affected entities.

FINDING 4— Reimbursement of Property Tax Administrative Costs

During testing of the county’s reimbursement of property tax administrative costs, we found that the county did not offset supplemental administrative fee revenues for each fiscal year in the audit period, which resulted in an overstatement of property tax administrative costs totaling approximately \$8.6 million. The error occurred because the county misinterpreted the requirements outlined in statute.

RTC section 95.3 provides the legal requirements for reimbursement of property tax administrative costs.

The County Assessor, the County Tax Collector, the Assessment Appeals Board, and the Auditor-Controller all incur administrative costs associated with the apportionment and allocation of property tax revenues. Applicable statutes enable the county to be reimbursed by local agencies for the aforementioned costs.

Recommendation

We recommend that the county:

- Review RTC section 95.3 and update its procedures for reimbursement of property tax administrative costs; and
- Ensure that all future property tax administrative cost computations include the proper supplemental administrative fee revenue offsets.

County’s Response

The County concurs with this finding. A meeting was held with staff responsible for calculating the property tax administrative [costs] to identify offsetting revenue that should be included and procedures were

implemented accordingly to ensure [that] future computations include the supplemental administrative fee revenue.

San Diego County (July 1, 2009, through June 30, 2018)

Follow-up on prior audit findings

The findings noted in our prior audit report for the period of July 1, 2003, through June 30, 2009, issued September 16, 2010, have been resolved.

FINDING— Qualified Electric Property Apportionment and Allocation

During testing of the QE property apportionment and allocation process, we found that the county incorrectly included enterprise special districts within the Tier 1 allocation for FY 2015-16 through FY 2017-18, resulting in a misallocation of QE revenue to the affected taxing entities, excluding schools and the ERAF. We did not quantify the monetary impact due to various components involved in the calculation. The error occurred because the county misinterpreted applicable statutes.

RTC section 100.95 provides the legal requirements for the apportionment and allocation of QE property tax revenues.

Qualified property is “all plant and associated equipment, including substation facilities and fee-owned land and easements, placed in service by the public utility on or after January 1, 2007.”

Recommendation

We recommend that the county:

- Review RTC section 100.95;
- Update its procedures to exclude all enterprise special districts within the Tier 1 allocation of the QE property apportionment and allocation process; and
- Make monetary adjustments to the affected entities, if the amounts are significant.

County’s Response

We concur with this finding and the necessary adjustments have been made to correct this error starting in FY 2018-19.

Santa Barbara County (July 1, 2015, through June 30, 2018)

Follow-up on prior audit findings

Our prior audit report for the period of July 1, 2009, through June 30, 2015, issued June 30, 2016, included no findings related to the apportionment and allocation of property tax revenues by the county.

Conclusion

Our audit found that the county complied with California statutes for the apportionment and allocation of property tax revenues for the audit period.

Sierra County (July 1, 2009, through June 30, 2017)

Follow-up on prior audit findings

In our prior audit report, for the period of July 1, 2003, through June 30, 2009, issued April 14, 2010, we found that the county did not comply with the implementation requirements of SB 1096, as neither a SUT Compensation Fund nor a VLF Property Tax Compensation Fund were established in the county treasury. The establishment of a SUT Compensation Fund is no longer an issue because the SUT “Triple Flip” tax swap ended on December 31, 2015, when the bonds were completely paid. However, the county has yet to comply with the requirements of SB 1096, as a VLF Property Tax Compensation Fund has not yet been established in the county treasury (see Finding 1).

REPEAT FINDING 1— VLF Property Tax Compensation Fund

In our prior audit report, for the period of July 1, 2003, through June 30, 2009, dated April 14, 2010, we found that the county failed to comply with the implementation requirements of SB 1096, as neither the SUT Compensation Fund nor the VLF Property Tax Compensation Fund were established in the county treasury. The revenue adjustments were made directly to the AB 8 apportionment system.

Our current audit found that the county has not taken corrective action. The establishment of a SUT Compensation Fund is no longer an issue because the SUT “Triple Flip” tax swap ended on December 31, 2015, when the bonds were completely paid; however, the county still has not complied with the requirements of SB 1096, as the VLF Property Tax Compensation Fund has not yet been established in the county treasury.

Recommendation

We recommend that the county establish a VLF Property Tax Compensation Fund as required by SB 1096.

County’s Response

Setting up the additional fund when the county only has one school district is form over substance. This would make more work for no change in outcome.

SCO Comment

Our finding and recommendation remain unchanged.

FINDING 2— Computation and Distribution of Property Tax Revenues

During testing of the ATI process, we found that the county incorrectly computed the countywide apportionment (AB 8) factors because it used the incorrect prior-year revenue in FY 2010-11, resulting in a misstatement of property tax revenues for all subsequent years. The largest affected jurisdiction was the county’s General Fund, which was overstated by \$8,871 in FY 2016-17. The error occurred because the county misinterpreted the criteria outlined in the Revenue and Taxation Code.

RTC sections 96 through 96.5 provide the legal requirements for computing the ATI and the apportionment and allocation of property tax revenues.

ATI is the difference between the total amount of property tax revenues computed each year using the equalized assessment roll and the sum of the amounts allocated pursuant to RTC section 96.1(a). Each TRA will receive an increment based on its share of the incremental growth in assessed valuations. ATI added to the tax computed for the prior fiscal year will develop the apportionments for the current fiscal year.

Recommendation

We recommend that the county:

- Review the aforementioned Revenue and Taxation Code sections and update procedures to properly compute the AB 8 factors;
- Recalculate the property tax revenues for FY 2010-11 and subsequent years; and
- Make appropriate monetary adjustments to the ERAF.

County's Response

The county concurs with the finding.

FINDING 3— Supplemental Property Tax Apportionment and Allocation

During testing of the supplemental property tax administrative costs, we found that the county incorrectly computed the supplemental apportionment factors because it included VLF revenue in its calculations for FY 2014-15 through FY 2016-17. The largest affected jurisdiction was the ERAF, which was understated by \$5,175 in FY 2016-17. The error occurred because the county misinterpreted the criteria outlined in the Revenue and Taxation Code.

RTC section 75.60 provides the legal requirements for reimbursement of supplemental property tax administrative costs.

The statute allows a county to charge an administrative fee for supplemental property tax collections. This fee is not to exceed five percent of the supplemental property tax revenues collected.

Recommendation

We recommend that the county:

- Review the aforementioned Revenue and Taxation Code section and update procedures to exclude VLF revenue from the supplemental factors; and
- Make appropriate monetary adjustments to the ERAF.

County's Response

The county concurs with the finding.

**FINDING 4—
Sales and Use Tax
Adjustments**

During testing of the SUT process, we found that the county incorrectly distributed SUT revenue for FY 2009-10 and FY 2013-14. The SUT revenue distributed by the county did not agree with the revenue reported by the DOF. The largest affected jurisdiction was the City of Loyalton, whose SUT revenue was overstated by approximately \$18,904 in FY 2009-10. The error occurred because the county misinterpreted the criteria outlined in the Revenue and Taxation Code.

RTC sections 97.68 and 97.69 provide the legal requirements for SUT adjustments.

The DOF annually, on or before September 1, provides SUT amounts for counties and cities. These amounts are transferred from the ERAF to the SUT Compensation Fund, and eventually to each county and cities within each county.

Recommendation

As the SUT has ended, we recommend that the county make appropriate monetary adjustments to the ERAF.

County's Response

The county concurs with the finding.

Sonoma County (July 1, 2015, through June 30, 2018)**Follow-up on prior
audit findings**

Our prior audit report for the period of July 1, 2009, through June 30, 2015, issued June 2, 2016, included no findings related to apportionment and allocation of property tax revenues by the county.

Conclusion

Our audit found that the county complied with California Statutes for the apportionment and allocation of property tax revenues for the audit period.

Tulare County (July 1, 2015, through June 30, 2018)**Follow-up on prior
audit findings**

Our prior audit report, for the period of July 1, 2009, through June 30, 2015, issued September 19, 2016, included no findings related to the apportionment and allocation of property tax revenues by the county.

**FINDING 1—
Unitary and
Operating
Nonunitary
Apportionment
and Allocation**

During testing of the unitary and operating nonunitary (unitary) apportionment process, we found that the county incorrectly calculated the unitary excess allocation factors because in FY 2016-17 it excluded the Porterville RDA Amended 2010. This error resulted in a misstatement of unitary revenue allocated to all taxing jurisdictions for all subsequent

years. The largest affected jurisdiction, the Porterville RDA Amended 2010, was understated by approximately \$616 for FY 2016-17. The miscalculation occurred because the county made a clerical error.

RTC section 100 provides the legal requirements for the apportionment and allocation of the unitary and operating nonunitary property tax revenues.

Unitary properties are those properties on which BOE “may use the principle of unit valuation in valuing properties of an assessee that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or QE properties). RTC section 723.1 states, “Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee.”

In FY 1988-89, the Legislature established a separate system for apportioning and allocating unitary and operating nonunitary property tax revenues. The system created the unitary and operating nonunitary base year, and developed formulas to compute the distribution factors for the fiscal years that followed.

Recommendation

We recommend that the county:

- Update its procedures to properly compute the unitary and operating nonunitary excess allocation factors;
- Recalculate the unitary and operating nonunitary allocation factors for FY 2016-17 forward; and
- Make appropriate monetary adjustments to the affected entities, if the amounts are significant.

County’s Response

The recommended changes have been completed.

FINDING 2— Educational Revenue Augmentation Fund

During testing of the ERAF shift process, we found that the county incorrectly computed the ERAF shift amount, as it:

- Used the wrong prior-year revenue amount for FY 2015-16; and
- Included the RDA increment amount for the City of Exeter Fire Department’s ERAF shift for FY 2016-17.

The miscalculation occurred because the county made a clerical error. We did not quantify the monetary impact for each affected taxing entity due to various errors affecting the computation and allocation.

RTC sections 96.1 through 96.5 and 97 through 97.3 provide the legal requirements for calculation of the ERAF shift.

In FY 1992-93 and FY 1993-94, some local agencies were required to shift an amount, subsequently annually adjusted for growth, of property tax

revenues to the ERAF using formulas detailed in the Revenue and Taxation Code.

Recommendation

We recommend that the county:

- Update its procedures to properly compute the ERAF shift;
- Recalculate the ERAF shift for FY 2015-16 forward; and
- Make appropriate monetary adjustments to the affected entities, if the amounts are significant.

County's Response

The recommended changes have been completed.

Yolo County (July 1, 2014, through June 30, 2017)

Follow-up on prior audit findings

Our prior audit report, issued March 24, 2015, for the period of July 1, 2007, through June 30, 2014, included no findings related to the apportionment and allocation of property tax revenues by the county.

FINDING 1— Computation and Distribution of Property Tax Revenues

During testing of the county's property tax revenue computation and distribution process, we found that the county made several errors that resulted in the misallocation of property tax revenues to affected entities in the county. Specifically, we found that the county:

- Incorrectly included unsecured aircraft assessed values in its computations of the ATI for each fiscal year in the audit period;
- Incorrectly computed current-year AB 8 revenue for FY 2014-15;
- Used incorrect prior-year base revenue when computing the current-year increment for FY 2014-15 and FY 2015-16;
- Did not use the updated unitary revenue amount in the tax distribution factors schedule for FY 2014-15 and FY 2015-16, and did not use the updated tax increment for RDAs in the FY 2014-15 tax distribution factors schedule; and
- Did not apportion homeowner property tax revenue using the computed factors for FY 2014-15 and FY 2015-16.

The error occurred because the county has in the past included unsecured aircraft in the ATI, and was unaware that unsecured aircraft should be excluded. In addition, other errors related to incorrect formulas and factors occurred because the county does not have established policies and procedures to ensure that computation worksheets are accurate.

We are unable to quantify the monetary impact due to various errors affecting the calculation.

RTC sections 96 through 96.5 provide the legal requirements for the computation of ATI and the apportionment and allocation of property tax revenues.

ATI is the difference between the total amount of property tax revenues computed each year using the equalized assessment roll and the sum of the amounts allocated pursuant to RTC section 96.1(a). Each TRA will receive an increment based on its share of the incremental growth in assessed valuations. ATI added to the tax computed for the prior fiscal year will develop the apportionments for the current fiscal year.

Recommendation

We recommend that the county:

- Review the aforementioned Revenue and Taxation Code sections and update its procedures to exclude unsecured aircraft assessed values from its ATI calculations;
- Establish and implement policies and procedures to ensure that computation worksheets are properly supported and reviewed in detail for accuracy;
- Recalculate the ATI computation for each fiscal year in the audit period; and
- Make monetary adjustments to the affected entities, if the amounts are significant.

County's Response

The county concurs with the audit finding and will make adjustments, if necessary.

FINDING 2— Unitary and Operating Nonunitary Apportionment and Allocation

During testing of the county's unitary and operating nonunitary apportionment and allocation process, we found the county did not use the correct prior-year worksheet to compute the unitary revenues for FY 2015-16, which resulted in the misallocation of unitary revenues to all entities in the county.

We have determined that the error, while procedurally incorrect, is not material. The error occurred because the county was engaged in system implementation and undergoing high staff turnover, which constrained resources dedicated to tax administration. Only one staff member performed the computation with limited review; as a result, the county did not detect the errors.

RTC section 100 provides the legal requirements for the apportionment and allocation of unitary and operating nonunitary property tax revenues.

Unitary properties are those properties on which BOE "may use the principle of unit valuation in valuing properties of an assessee that are operated as a unit in the primary function of the assessee" (i.e., public utilities, railroads, or QE properties). RTC section 723.1 states, "Operating

nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee.”

In FY 1988-89, the Legislature established a separate system for apportioning and allocating unitary and operating nonunitary property tax revenues. The system created the unitary and operating nonunitary base year, and developed formulas to compute the distribution factors for the fiscal years that followed.

Recommendation

We recommend that the county:

- Establish and implement policies and procedures to ensure that computation worksheets are properly supported and reviewed in detail for accuracy;
- Recalculate the unitary and operating nonunitary allocation factors beginning with FY 2015-16; and
- Make monetary adjustments to the affected entities, if the amounts are significant.

County’s Response

The county concurs with the audit finding and will make adjustments, if necessary.

FINDING 3— Unitary Regulated Railway Apportionment and Allocation

During testing of the county’s unitary regulated railway apportionment and allocation process, we found that, for FY 2015-16, the county’s apportionment factors for revenues over 102% of prior year (excess factors) did not reconcile to supporting documentation. This resulted in the misallocation of unitary regulated railway revenues to entities in the county.

We have determined that the error, while procedurally incorrect, is not material. The error occurred because the county was engaged in system implementation and undergoing high staff turnover, which constrained resources dedicated to tax administration. Only one staff member performed the computation with limited review; as a result, the county did not detect the errors.

RTC section 100.11 provides the legal requirements for the apportionment and allocation of unitary regulated railway property tax revenues.

Unitary regulated railway properties are facilities that were completely constructed and placed in service after January 1, 2007. Unitary railroad properties are defined in RTC section 723.

Recommendation

We recommend that the county:

- Establish and implement policies and procedures to ensure that computation worksheets are properly supported and reviewed in detail for accuracy;
- Recalculate the unitary regulated railway allocation factors beginning with FY 2015-16; and
- Make monetary adjustments to the affected entities, if the amounts are significant.

County's Response

The county concurs with the audit finding and will make adjustments, if necessary.

**FINDING 4—
Redevelopment
Property Tax
Trust Fund
Administration**

During testing of the RPTTF administration process, we found that the county made several errors that resulted in misallocation of the tax increment to the City of Winters' Redevelopment Successor Agency and of pass-through payments to various affected entities in the project area. Specifically, we found that the county:

- Distributed an incorrect amount for Recognized Obligation Payment Schedule 14-15B to the City of Winters' Redevelopment Successor Agency for FY 2014-15;
- Incorrectly computed the tax increment for the City of Winters' Redevelopment Successor Agency for FY 2015-16 and FY 2016-17; and
- Incorrectly computed the contractual pass-through payments to the county's funds (the General Fund, the ACO Fund, and the Library Fund), the Winters Cemetery District, and the Solano County Community College District for each fiscal year in the audit period.

The error occurred because the county was engaged in system implementation and undergoing high staff turnover, which constrained resources dedicated to tax administration. Only one staff member performed the calculation and distribution of the RPTTF, with limited review; as a result, the county did not detect the error.

We are unable to quantify the monetary impact due to various errors affecting the calculation.

RTC section 97.401 and Health and Safety Code sections 34182 through 34188 provide the legal requirements for administration of the RPTTF.

In 2012, the Legislature passed a law dissolving the previously established RDAs. Provision of the law included the creation of SAs and oversight boards to oversee the winding-down of the defunct agencies' affairs.

Under the applicable Health and Safety Code sections, SAs will receive the ATI previously given to RDAs to fund payments of their obligations, including, but not limited to, administrative costs, pass-through payments, and debts.

Recommendation

We recommended that the county establish and implement policies and procedures to:

- Ensure that it correctly administers RPTTF deposits and fund activities (allocations and disbursements) in accordance with applicable statutes and pass-through agreements; and
- Ensure that computation worksheets are properly supported and reviewed for accuracy.

In addition, we recommend that the county:

- Recalculate the tax increment for the City of Winters' Redevelopment Successor Agency for FY 2015-16 and FY 2016-17;
- Recalculate the contractual pass-through payments for the City of Winters' Redevelopment Successor Agency for FY 2014-15 through FY 2016-17; and
- Make monetary adjustments to the affected entities, if the amounts are significant.

County's Response

The county concurs with the audit finding and will make adjustments, if necessary.

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