

# SHASTA COUNTY

Audit Report

## PROPERTY TAX APPORTIONMENT AND ALLOCATION SYSTEM

*July 1, 2005, through June 30, 2010*



**JOHN CHIANG**  
California State Controller

May 2011



**JOHN CHIANG**  
**California State Controller**

May 31, 2011

The Honorable Connie Regnell  
Auditor-Controller  
Shasta County  
1450 Court Street, Suite 238  
Redding, CA 96001-1671

Dear Ms. Regnell:

The State Controller's Office audited the methods employed by Shasta County to apportion and allocate property tax revenues for the period of July 1, 2005, through June 30, 2010. The audit was conducted pursuant to the requirements of Government Code section 12468.

Our audit disclosed that the county complied with California statutes, except that:

- The AB 8 base revenue was computed in error.
- The Educational Revenue Augmentation Fund (ERAF) was included in the unitary and operating nonunitary property tax apportionment process.
- The regulated railway allocation was computed incorrectly.
- The regulated railway adjustment to the redevelopment agency was incorrect.
- The base revenues for two special districts were incorrectly carried forward in the ERAF shift computation.
- The redevelopment agency (RDA) tax increment adjustment was incorrect.
- The ERAF received pass-through payments from the RDA.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/vb

cc: The Honorable Les Baugh, Chairman  
Board of Supervisors, Shasta County  
Jody Martin, Principal Consultant  
Joint Legislative Budget Committee  
Peter Detwiler, Staff Director  
Senate Local Government Committee  
Elvia Dias, Committee Assistant  
Senate Local Government Committee  
Dixie Martineau-Petty, Secretary  
Assembly Local Government Committee  
Gayle Miller, Staff Director  
Senate Revenue and Taxation Committee  
Oksana Jaffe, Chief Consultant  
Assembly Revenue and Taxation Committee  
Neil McCormick, Executive Director  
California Special Districts Association

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the methods employed by Shasta County to apportion and allocate property tax revenues for the period of July 1, 2005, through June 30, 2010.

Our audit disclosed that the county complied with California statutes for the allocation and apportionment of property tax revenues, except that:

- The AB 8 base revenue was computed in error.
- The Educational Revenue Augmentation Fund (ERAF) was included in the unitary and operating nonunitary property tax apportionment process.
- The regulated railway allocation was computed incorrectly.
- The regulated railway adjustment to the redevelopment agency was incorrect.
- The base revenues for two special districts were incorrectly carried forward in the ERAF shift computation.
- The redevelopment agency (RDA) tax increment adjustment was incorrect.
- The ERAF received pass-through payments from the RDA.

Additionally, we made the following observation.

Prior to fiscal year (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 the services performed by the county under Revenue and Taxation Code sections 97.68 and 97.70. Pursuant to Revenue and Taxation Code section 97.75, beginning with FY 2006-07, and thereafter, 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.

A dispute has arisen between the counties and the cities regarding the application of Revenue and Taxation Code section 95.3 relating to the computation of Property Tax Administration Fees (PTAF). The counties generally contend that distribution factors for purposes of distributing PTAF to taxing agencies should be computed including amounts received by cities under Revenue and Taxation Code section 97.68, commonly known as the "Triple Flip," and section 97.70, commonly known as the "VLF Swap." The cities generally believe that the Triple Flip and the VLF Swap should be excluded from the computation.

We are aware of two legal actions that have been filed on this issue.

- In the first action, 47 cities in Los Angeles County filed suit against the county. On June 2, 2009, the court referee determined that the method used by Los Angeles County was correct.
- In the second action, filed in Fresno County, seven cities filed suit against the county. In this action, the court ruled that the method used by Fresno County was not in accordance with statute. This is the same method approved by the referee in Los Angeles County.

The SCO will make a determination on the computation of the PTAF at such time as appeals (if any) are resolved.

## **Background**

After the passage of Proposition 13 in 1978, the California State Legislature enacted new methods for allocating and apportioning property tax revenues to local government agencies and public schools. The main objective was to provide local government agencies with a property tax base that would grow as assessed property values increased. These methods have been further refined in subsequent laws passed by the Legislature.

One key law was Assembly Bill (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 is commonly referred to as the AB 8 process or the AB 8 system.

The 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 are then apportioned and allocated to local agencies and schools using prescribed formulas and methods defined in the Revenue and Taxation Code.

The AB 8 base process involves numerous steps, including the transfer of revenues from schools to local agencies (AB 8 shift) and the development of the tax rate area annual tax increment apportionment factors (ATI factors), which determine the amount of property tax revenues to be allocated to each jurisdiction.

The total amount to be allocated to each jurisdiction is then divided by the total amount to be allocated to all entities to determine the AB 8 apportionment 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 legislation removed revenues generated by unitary and nonunitary properties, regulated railway companies, and qualified electric properties from the AB 8 system. These revenues are now allocated and apportioned under separate systems.

Other legislation established an Educational Revenue Augmentation Fund (ERAF) in each county. Most local government agencies are required to transfer a portion of their property tax revenues to the fund. The fund is subsequently allocated and apportioned to schools by the county auditor according to instructions received from the county superintendent of schools or the State Chancellor of Community Colleges.

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

- *Secured Roll*—This roll contains property that, in the opinion of the assessor, has sufficient value to guarantee payment of the tax levies and that, if necessary, can be sold by the tax collector to satisfy unpaid tax levies.
- *Unsecured Roll*—This roll contains property that, in the opinion of the assessor, does not have sufficient “permanence” or have other intrinsic qualities to guarantee payment of taxes levied against it.
- *State-Assessed Roll*—This roll contains public utility and railroad properties, assessed as either unitary or nonunitary property by the State Board of Equalization.
- *Supplemental Roll*—This roll contains 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.

To mitigate problems associated with the apportionment and allocation of property taxes, legislation (SB 418) was enacted in 1985 that requires the State Controller to audit the counties' apportionment and allocation methods and report the results to the California State Legislature.

## **Objective, Scope, and Methodology**

Our audit objective was to review the county's apportionment and allocation of property tax revenues to local government agencies and public schools within its jurisdiction to determine whether the county complied with Revenue and Taxation Code requirements.

To meet the objective, we reviewed the systems for apportioning and allocating property tax revenues used by the county auditor and the subsystems used by the tax collector and the assessor.

We performed the following procedures:

- Conducted tests to determine whether the county correctly apportioned and allocated property tax revenue.
- Interviewed key personnel and reviewed supporting documentation to gain an understanding of the county's property tax apportionment and allocation processes.
- Reviewed apportionment and allocation reports prepared by the county showing the computations used to develop the property tax distribution factors.
- Reviewed tax rate area (TRA) reports to verify that the annual tax increment was computed properly.
- Reviewed county unitary and operating nonunitary reports and Board of Equalization reports and verified the computations used by the county to develop the unitary and operating nonunitary property tax distribution factors.
- Reviewed redevelopment agency (RDA) reports prepared by the county and verified the computations used to develop the project base amount and the tax increment distributed to the RDA.
- Reviewed property tax administration cost reports prepared by the county and verified administrative costs associated with procedures used for apportioning and allocating property tax to local government agencies and school districts.
- Reviewed ERAF reports prepared by the county and verified the computations used to determine the shift of property taxes from local agencies to the ERAF and, subsequently, to public schools.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit covered the period of July 1, 2005, through June 30, 2010. However, we did not audit the county's financial statements.

Our audit scope was limited to:

- Reviewing operational procedures and significant applicable controls over the apportionment and allocation process;
- Examining selected property tax apportionment and allocation records; and
- Reviewing related property tax revenue data used to determine the apportionment and allocation computation process.

A property tax bill contains the property tax levied at a 1% tax rate pursuant to the requirement of Proposition 13. A bill may also contain special taxes, debt services levies on voter-approved debt, fees, and assessments levied by the county or a city. The scope of our audit is concerned with the distribution of the 1% tax levy. Special taxes, debt service levies on voter-approved debt, fees, and assessments levied by the county or a city are beyond the scope of our audit and were not reviewed or audited.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow in order to develop appropriate auditing procedures. We did not evaluate the effectiveness of all internal controls.

In addition, we tested transactions used to apportion and allocate property taxes and performed other procedures deemed necessary. This report relates solely to the method used by the county to apportion and allocate property taxes.

## Conclusion

Our audit disclosed that, except for the items discussed in the Findings and Recommendations section of this report, Shasta County complied with California statutes for the apportionment and allocation of property tax revenues for the period of July 1, 2005, through June 30, 2010. The county should correct the items discussed in the Findings and Recommendations section.

Additionally, we made the following observation.

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 the services performed by the county under Revenue and Taxation Code sections 97.68 and 97.70. Pursuant to Revenue and Taxation Code section 97.75, beginning with FY 2006-07 and thereafter, 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.

A dispute has arisen between the counties and the cities regarding the application of Revenue and Taxation Code section 95.3 relating to the computation of Property Tax Administration Fees (PTAF). The counties generally contend that distribution factors for purposes of distributing PTAF to taxing agencies should be computed including amounts received by cities under Revenue and Taxation Code section 97.68, commonly known as the “Triple Flip,” and section 97.70, commonly known as the “VLF Swap.” The cities generally believe that the Triple Flip and the VLF Swap should be excluded from the computation.

We are aware of two legal actions that have been filed on this issue.

- In the first action, 47 cities in Los Angeles County filed suit against the county. On June 2, 2009, the court referee determined that the method used by Los Angeles County was correct.
- In the second action, filed in Fresno County, seven cities filed suit against the county. In this action, the court ruled that the method used by Fresno County was not in accordance with statute. This is the same method approved by the referee in Los Angeles County.

The SCO will make a determination on the computation of the PTAF at such time as appeals (if any) are resolved.

### **Follow-up on Prior Audit Findings**

The county has satisfactorily resolved the findings noted in our prior audit report, issued July 14, 2006.

### **Views of Responsible Official**

We issued a draft audit report on March 4, 2011. Connie Regnell, Auditor-Controller, responded by letter dated March 23, 2011 (Attachment). She agreed with the audit results with the exception of Findings 3 and 4. Regarding Finding 3, Ms. Regnell stated that the county will take our recommendation under advisement. She stated, regarding Finding 4, that the county will take all referenced legislation into consideration.

### **Restricted Use**

This report is solely for the information and use of Shasta County, the California Legislature, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

May 31, 2011

# Findings and Recommendations

## **FINDING 1— Calculation and distribution of ATI**

During the current audit period, fiscal year (FY) 2005-06 through FY 2009-10, numerous base revenue adjustments were not computed correctly.

Requirements for the apportionment and allocation of the annual tax increment (ATI) are found in Revenue and Taxation Code 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 tax rate areas (TRA) 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 annual tax increment apportionment factors for each TRA. These factors were developed in the 1979-80 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.

### Recommendation

We recommend that the county correct the base revenue for all entities.

### County's Response

We acknowledge the necessity for accuracy in all property tax calculations. Staff will review calculations and make adjustments as appropriate.

## **FINDING 2— Redevelopment agencies**

The county included the airplane assessed value levy in the redevelopment agency tax increment adjustment process.

The Educational Revenue Augmentation Fund (ERAF) received pass-through payments from the redevelopment agency.

Requirements for the apportionment and allocation of property taxes to RDAs are found in Revenue and Taxation Code sections 96.4 and 96.5. California community redevelopment law generally entitles a community redevelopment agency to all of the property tax revenues that are realized from growth in values since the redevelopment project's inception.

### Recommendation

The county should remove the airplane assessed value levy from the redevelopment agency annual tax increment for purposes of adjusting the various property tax allocation systems.

The ERAF is not a taxing entity; therefore, it is not eligible to receive AB 1290 pass-through payments.

### County's Response

We agree that the airplane assessed value levy should not be included in the redevelopment agency tax increment adjustment process and have removed it as recommended.

For Shasta County, the practice of the Educational Revenue Augmentation Fund (ERAF) receiving pass-through payments did not arise from reasoning that ERAF was a taxing entity, instead that pass-through monies were AB8 revenue and therefore subject to the ERAF shift.

### **FINDING 3— ERAF included in unitary and operating nonunitary apportionment**

The county included the ERAF in the unitary and operating nonunitary tax apportionment computations for all years during this audit period.

The regulated railroad allocation system adjusted the school districts' base year amounts before carrying forward that base into the subsequent fiscal year. In addition, the base revenues for FY 2008-09 did not carry forward in FY 2009-10.

The regulated railroad assessed valuation adjustment for the Midtown Redevelopment Agency was incorrect.

Requirements for the apportionment and allocation of unitary and operating nonunitary property taxes are found in Revenue and Taxation Code section 100.

Unitary properties are those properties on which the Board of Equalization "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 and railroads). 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."

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

### Recommendation

For all future unitary and operating nonunitary tax apportionment computations, the ERAF should not be included since it does not qualify as a "taxing jurisdiction" under Revenue and Taxation Code section 100. Thus, the ERAF is not eligible to share in the unitary and operating nonunitary computation and its amounts should be distributed proportionately among all taxing jurisdictions that contributed to the fund.

The regulated railway base revenues must carry forward to subsequent fiscal years before any adjustments are made.

The regulated railway assessed valuation amount from the State Board of Equalization must be used to adjust the redevelopment agency base value.

#### County's Response

Whether or not ERAF should be included in the unitary apportionment is an ongoing issue across the state caused by inconsistency in Revenue and Taxation law. Shasta County has included ERAF in the allocation of unitary revenue beginning in 1995 and since that time two audits by the State Controller's Office appear to have supported this methodology without a finding. While we understand that the position of the SCO has changed on this matter since those audits, we are concerned with changing methodology based solely on that fact. Tax law has not changed nor have the guidelines in the California Property Tax Managers' Reference Manual. Therefore until clear, consistent direction is given we will take this recommendation under advisement.

We have corrected the regulated railroad calculation as recommended.

#### SCO's Comment

Our finding and recommendation remain unchanged.

The ERAF is a fund—an accounting entity, not a taxing jurisdiction. Revenue and Taxation Code section 100 requires that taxes from unitary and operating nonunitary property be allocated to taxing jurisdictions. The county's assertion that the guidelines in the California Property Tax Managers' Reference Manual have not changed is not relevant. We audit to applicable statutes.

As the ERAF is not a taxing jurisdiction, it is not eligible to receive unitary and operating nonunitary taxes.

#### **FINDING 4— Educational Revenue Augmentation Fund (ERAF)**

The FY 2005-06 base revenue ERAF shift for the Fire Protection Service Area 1 and Anderson Fire District did not carry forward to FY 2006-07.

The Halcumb Cemetery District and Western Shasta RCD property tax levy allocation was less than their ERAF shift. As a result, the two districts allocation factors were negative.

Requirements for the local agency shift of property tax revenues to the ERAF are primarily found in Revenue and Taxation Code sections 97.1 through 97.3. Beginning in FY 1992-93, most local agencies were required to shift an amount of property tax revenues to the ERAF using formulas detailed in the code. The property tax revenues in the ERAF are subsequently allocated to the public schools using factors supplied by the county superintendent of schools.

For FY 1992-93, the ERAF shift amount for cities was determined by adding a per capita amount to a percentage of property tax revenues received by each city. The amount for counties was determined by adding a flat amount, adjusted for growth, to a per capita amount. The amount for special districts was generally determined by shifting the

lesser of 10% of that district's total annual revenues as shown in the FY 1989-90 edition of the State Controller's Report on Financial Transactions Concerning Special Districts, or 40% of the FY 1991-92 property tax revenues received, adjusted for growth. Specified special districts were exempted from the shift.

For FY 1993-94, the ERAF shift for cities and counties was generally determined by:

- Reducing the FY 1992-93 ERAF shift by the FY 1992-93 per capita shift;
- Adjusting the result for growth; and
- Adding the result to a flat amount and a per capita amount determined by the California Department of Finance, adjusted for growth.

The FY 1993-94 ERAF shift for special districts, other than fire districts, was generally determined by:

- Multiplying the property tax allocation for FY 1992-93, pre-ERAF, by the Special District Augmentation Fund (SDAF) factor for the district effective on June 15, 1993;
- Adjusting this amount by subtracting the FY 1992-93 shift to the ERAF;
- If the above amount is greater than zero, adjusting this amount for FY 1993-94 growth (zero is used for negative amounts); and
- Adding this amount to the FY 1992-93 ERAF shift, adjusting for growth.

For fire districts, the FY 1993-94 ERAF shift was generally determined by:

- Deducting the FY 1992-93 ERAF shift for the district from the FY 1992-93 property tax allocation;
- Multiplying the result by the SDAF factor for the district effective on June 13, 1993 (net current-year bailout equivalent);
- For a district governed by a board of supervisors, deducting the amount received from the SDAF in FY 1992-93 from the net current-year bail-out equivalent; or, for an independent district, deducting the amount received from the SDAF and the difference between the net current-year bail-out equivalent and the amount contributed to the SDAF from the net current-year bail-out equivalent;
- Adjusting this amount for growth; and
- Adding this amount to the FY 1992-93 ERAF shift, adjusted for growth.

For fiscal years subsequent to FY 1993-94, the amounts determined are adjusted for growth annually to determine the ERAF shift amounts for that year.

### Recommendation

The ERAF shift base revenues must carry forward in like amount into the next fiscal year.

The base revenues for all districts must be corrected in the AB 8 system to prevent negative property tax allocation to districts.

### County's Response

We agree that the ERAF shift base revenues must carry forward in like amount into the next fiscal year. We will make the correction to the calculation for 2006-07 and forward for Fire Protection Services Area 1 and Anderson Fire District.

Prior Shasta County property tax audits completed by the State Controller's Office have addressed these negative allocation factors; no finding issued. At the exit conference for the previous audit (for the time period of July 1, 2000 to June 30, 2005) the following observation was included:

"It was noted during the review that there is a school district (Indian Springs) that has no AB8 revenue, though there is Value in the TRA(s) in which the school resides. However, it was also noted that this school has enough revenue from their Unitary property tax allocation to be a basic aid school. It is assumed that this anomaly occurred when the Unitary value was separated from the local Utility roll and though the computations may have appeared correct at the time, it should not have resulted that a jurisdiction should have no revenue in the AB8 process even though there is positive value in their TRA(s). There are also two local special districts (Halcumb Cemetery and Western Shasta RCD) whose AB8 revenue is reduced to zero after ERAF adjustments, possibly also due to inflated Unitary revenue amounts that were included in the original ERAF computations.

This issue is noted here simply to make the county aware that though the two systems (AB8/Unitary) currently seem to offset one another in this matter, if there should ever be a substantial change in the way either system is computed, some consideration may have to be made for districts such as those noted above."

Instead of noting the issue as above, the current audit recommends correcting base revenues for all districts to eliminate negative property tax allocation factors.

Staff will review all referenced legislation. Consideration shall include but not be limited to; current audit interpretation of the appropriateness of negative allocation factors.

**Attachment—  
County’s Response to  
Draft Audit Report**

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# Shasta County

## OFFICE OF THE AUDITOR-CONTROLLER

1450 Court Street, Suite 238  
Redding, California 96001-1671  
Phone (530) 225-5771

**CONNIE REGNELL**  
AUDITOR-CONTROLLER

**CANDACE M. KNOUSE**  
ASST. AUDITOR-CONTROLLER

March 23, 2011

Steven Mar, Chief  
Local Government Audits Bureau  
State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874

Dear Mr. Steven Mar:

Enclosed are our responses to your draft audit report on the methods employed by Shasta County to apportion and allocate property tax revenue for the period of July 1, 2005, through June 30, 2010.

We appreciate the opportunity to respond to your draft audit report and findings. If you have any questions, or if our comments require any clarification, feel free to contact us at (530) 245-6615.

Sincerely,

Connie Regnell  
Auditor-Controller

CR:sj  
Enclosure

**COUNTY OF SHASTA  
AUDITOR-CONTROLLER  
RESPONSES TO CALIFORNIA STATE CONTROLLER'S  
DRAFT AUDIT REPORT  
PROPERTY TAX APPORTIONMENT AND ALLOCATION SYSTEM  
JULY 1, 2005 THROUGH JUNE 30, 2010**

**RECOMMENDATION:**

1. Audit recommends that the county correct the base revenue for all entities.

**RESPONSE:**

We acknowledge the necessity for accuracy in all property tax calculations. Staff will review calculations and make adjustments as appropriate.

**RECOMMENDATION:**

2. The county should remove the airplane assessed value levy from the redevelopment agency annual tax increment for purposes of adjusting the various property tax allocation systems.

The ERAF is not a taxing entity; therefore, it is not eligible to receive AB 1290 pass-through payments.

**RESPONSE:**

We agree that the airplane assessed value levy should not be included in the redevelopment agency tax increment adjustment process and have removed it as recommended.

For Shasta County, the practice of the Educational Revenue Augmentation Fund (ERAF) receiving pass-through payments did not arise from reasoning that ERAF was a taxing entity, instead that pass-through monies were AB8 revenue and therefore subject to the ERAF shift.

**RECOMMENDATION:**

3. For all future unitary and operating nonunitary tax apportionment computations, the ERAF should not be included since it does not qualify as a "taxing jurisdiction" under Revenue and Taxation Code section 100. Thus, the ERAF is not eligible to share in the unitary and operating nonunitary computation and its amounts should be distributed proportionately among all taxing jurisdictions that contributed to the fund.

The regulated railway base revenues must carry forward to subsequent fiscal years before any adjustments are made.

The regulated railway assessed valuation amount from the State Board of Equalization must be used to adjust the redevelopment agency base value.

**RESPONSE:**

Whether or not ERAF should be included in the unitary apportionment is an ongoing issue across the state caused by inconsistency in Revenue and Taxation law. Shasta County has included ERAF in the

allocation of unitary revenue beginning in 1995 and since that time two audits by the State Controller's Office appear to have supported this methodology without a finding. While we understand that the position of the SCO has changed on this matter since those audits, we are concerned with changing methodology based solely on that fact. Tax law has not changed nor have the guidelines in the California Property Tax Managers' Reference Manual. Therefore until clear, consistent direction is given we will take this recommendation under advisement.

We have corrected the regulated railroad calculation as recommended.

**RECOMMENDATION:**

- 4. The ERAF shift base revenues must carry forward in like amount into the next fiscal year.**

**The base revenues for all districts must be corrected in the AB 8 system to prevent negative property tax allocation to districts.**

**RESPONSE:**

We agree that the ERAF shift base revenues must carry forward in like amount into the next fiscal year. We will make the correction to the calculation for 2006-07 and forward for Fire Protection Service Area 1 and Anderson Fire District.

Prior Shasta County property tax audits completed by the State Controller's Office have addressed these negative allocation factors; no finding issued. At the exit conference for the previous audit (for the time period of July 1, 2000 to June 30, 2005) the following observation was included:

"It was noted during the review that there is a school district (Indian Springs) that has no AB8 revenue, though there is Value in the TRA(s) in which the school resides. However, it was also noted that this school has enough revenue from their Unitary property tax allocation to be a basic aid school. It is assumed that this anomaly occurred when the Unitary value was separated from the local Utility roll and though the computations may have appeared correct at the time, it should not have resulted that a jurisdiction should have no revenue in the AB8 process even though there is positive value in their TRA(s). There are also two local special districts (Halcumb Cemetery and Western Shasta RCD) whose AB8 revenue is reduced to zero after ERAF adjustments, possibly also due to inflated Unitary revenue amounts that were included in the original ERAF computations.

This issue is noted here simply to make the county aware that though the two systems (AB8/Unitary) currently seem to offset one another in this matter, if there should ever be a substantial change in the way either system is computed, some consideration may have to be made for districts such as those noted above."

Instead of noting the issue as above, the current audit recommends correcting base revenues for all districts to eliminate negative property tax allocation factors.

Staff will review all referenced legislation. Consideration shall include but not be limited to; current audit interpretation of the appropriateness of negative allocation factors.

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