

STATE OF CALIFORNIA

Report to the California State Legislature

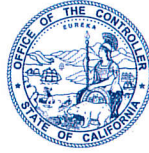
PROPERTY TAX APPORTIONMENTS

Calendar Year 2016



BETTY T. YEE
California State Controller

June 2017



BETTY T. YEE
California State Controller

June 26, 2017

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

**SUBJECT: Property Tax Apportionments Report to the Legislature
for Calendar Year 2016**

I am pleased to present the Property Tax Apportionments Report for calendar year 2016. This report, prepared pursuant to Government Code section 12468, 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 14 of the 58 counties in the State of California, and found the audited counties generally to be in compliance with the legal requirements for allocating property tax revenues. However, this report notes specific problem areas related to individual counties.

I hope you find the report informative and useful for future policy decisions. If you have any questions regarding this report, please contact Jeffrey V. Brownfield, CPA, Chief, 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 2016 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 and public schools. 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 agencies and schools using prescribed formulas and methods defined in the California Revenue and Taxation Code. This methodology is commonly referred to as the AB 8 process or the AB 8 system. The method has been further refined in subsequent laws passed by the Legislature.

SCO's property tax audit program began on July 1, 1986, pursuant to California Revenue and Taxation Code section 95.6 (now Government Code 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 is to prepare an annual report to the Legislature summarizing the results of its 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.

Government Code section 12468 requires that audits be conducted periodically for each county according to a prescribed schedule based on county population. During 2016, SCO completed audits of 14 counties' property tax apportionment and allocation systems, processes, and records. The 14 counties are Contra Costa, Fresno, Humboldt, Merced, Monterey, Napa, Orange, San Benito, San Joaquin, Santa Barbara, Solano, Sonoma, Tulare, and Yuba.

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 Revenue and Taxation Code 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 the ERAF.

As a part of the audits, SCO followed up on prior audit findings to ensure that the counties properly addressed the findings identified in previous SCO audit reports.

Except for the findings and recommendations noted in this report, the processes used by the 14 counties audited during 2016 appear to comply with the requirements for the apportionment and allocation of property tax revenues.

The audit report findings broadly are classified as follows:

Prior Audits

The counties of Fresno and Yuba did not fully resolve all findings noted in prior audits.

Current Audits

- Humboldt County made errors in the annual tax increment (ATI) calculation and Merced County made errors in the ERAF base when computing the AB 8 factors.
- Yuba County correctly calculated its ATI, however an error in the establishment of the unitary railway base year affected the gross levy amounts, which are vital to calculation of the AB 8 factors that are used in revenue apportionment.
- Fresno, Merced, Monterey, Orange, San Joaquin, and Yuba counties had procedural issues regarding jurisdictional changes.
- Fresno County supplemental apportionment factors had errors for the prior revenue.
- Monterey and Yuba counties' supplemental apportionment factors had errors.
- Humboldt and Yuba counties did not document actual supplemental administrative costs as required by statute.
- Orange County included supplemental refunds within the computation of administrative costs.
- Fresno, Humboldt, Merced, Monterey, San Benito, and Yuba counties had procedural issues regarding unitary and operating nonunitary apportionments.

- Fresno and Yuba counties' base-year assessed values for unitary regulated railway were not established correctly, causing tax apportionment factor and distribution errors.
- Merced, Monterey, and San Benito counties had errors in its unitary regulated railway apportionment factors.
- Merced County had errors in its computation of ERAF growth.
- Fresno County had errors in its correction of the reversal of the disaster relief adjustments.
- Monterey County had ATI computations for redevelopment agencies (RDAs).
- Yuba County could not provide reasonable documentation to support whether Redevelopment Property Tax Trust Funds (RPTTF) were appropriately apportioned and/or distributed pursuant to Health and Safety Code sections 34183 and 34188.
- Humboldt, Merced, Monterey, San Benito, San Joaquin, and Solano counties had procedural issues regarding vehicle license fee (VLF) growth calculations.
- Contra Costa, Fresno, Orange, Solano, and Tulare counties each had an observation regarding qualified electric (QE) property.
- Contra Costa, Fresno, Humboldt, Monterey, Napa, Orange, San Benito, San Joaquin, Santa Barbara, Solano, Sonoma, and Tulare counties each had an observation regarding RPTTF.

Overview

Introduction

This report presents the results of 14 audits of county property tax apportionments and allocations completed by SCO in calendar year 2016. The following counties were audited: Contra Costa, Fresno, Humboldt, Merced, Monterey, Napa, Orange, San Benito, San Joaquin, Santa Barbara, Solano, Sonoma, Tulare, and Yuba. Government Code section 1268 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 property tax apportionment and allocation processes.

Except for the findings and recommendations noted in this report, the seven 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 enacted new methods for allocating and apportioning property tax revenues to local government agencies and public schools. The main objective was to provide local agencies with a property tax base that would grow as assessed property values increase. These methods have been further refined in subsequent laws passed by the Legislature.

One key law was Assembly Bill 8, 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.

Property tax revenues that local governments receive each fiscal year are based on the amount received the prior year plus a share of the property tax growth within their boundaries. Property tax revenues then are apportioned and allocated to local agencies and schools using prescribed formulas and methods defined in the California Revenue and Taxation Code.

The AB 8 process involves several steps, including the transfer of revenues from schools to local agencies and the development of the tax rate area (TRA) ATI growth factors, which determine the amount of property tax revenues allocated to each entity (local agencies and schools). The total amount allocated to each entity is then 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 legislation removed revenue generated by unitary and operating nonunitary property and pipelines from the AB 8 system. This revenue now is allocated and apportioned under a separate system.

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

Revenues generated by the different types of property tax are allocated and apportioned 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, 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 have 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 Revenue and Taxation Code section 95.6 (now Government Code section 12468). The statute mandates that SCO periodically perform audits of the allocation and apportionment of property tax revenues by counties and make specific recommendations to counties concerning their property tax administration. However, SCO's 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 (Government Code 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 public schools. The underallocation of property taxes by individual counties to their public schools results in a corresponding overpayment of state funds to those schools by the same amount. This, in turn, causes public schools in other counties to receive less state funding because the total funds available are limited. Subsequent legislation forgave some counties for underpayments to schools without requiring repayment, or assessment of penalties. However, the legislation required 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 Revenue and Taxation Code sections 96 through 96.5.
- The methodology for redevelopment agencies' base-year calculations and apportionment and allocation of the ATI was in accordance with Revenue and Taxation Code 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 Revenue and Taxation Code section 99.
- The apportionment and allocation of property tax revenues from supplemental assessments was in accordance with Revenue and Taxation Code sections 75.60 through 75.71.
- The apportionment and allocation of state-assessed unitary and operating nonunitary property taxes was in accordance with Revenue and Taxation Code section 100.
- The computation and apportionment of property tax revenues to low- and no-tax cities was in accordance with Revenue and Taxation Code section 98.
- The computation and collection of local jurisdictions' property tax administrative costs was in accordance with Revenue and Taxation Code sections 95.2 and 95.3.

- The computation and apportionment of property tax revenues to ERAF was in accordance with Revenue and Taxation Code sections 97 through 97.3.
- Payments from ERAF were made in compliance with Revenue and Taxation Code section 97.68, commonly known as the Triple Flip, and section 97.70, commonly known as the VLF Swap.

Conclusion

The property tax allocation and apportionment 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 2016 indicated that the 14 audited counties generally complied with the legal requirements for the apportionment and allocation of property tax revenues. However, problem areas were identified and are described below. Recommendations to resolve the problems are included within the individual county findings.

Unresolved Prior Audit Findings

The counties of Fresno and Yuba did not fully resolve all findings noted in prior audits.

Computation and Distribution of Annual Tax Increment

Requirements for the apportionment and allocation of the 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 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 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.

Humboldt County had errors in the ATI calculation for two fiscal years.

Merced County had errors in the ERAF base when computing the county wide apportionment (AB 8) factors.

Yuba County correctly calculated its ATI; however, an error in the establishment of the unitary railroad base year affected the gross levy amounts, which are vital to calculation of the AB 8 factors that are used in revenue apportionment.

Jurisdictional Changes

Revenue and Taxation Code section 99 prescribes the procedures 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 and schools. The statute requires a county to prepare specific documentation that takes into consideration services and responsibilities.

Fresno County systematically truncates all jurisdictional factors at the sixth decimal position when distributing incremental factors for newly created TRAs.

Merced County had errors in a jurisdictional change calculation because it did not include a city's and a city fire's incremental factor in the new TRA.

Monterey County had errors in a jurisdictional change calculation because it improperly transferred parcels and did not inactivate the TRA.

Orange County had errors in a jurisdictional change calculation because it used incorrect tax revenue exchange percentages.

San Joaquin County had errors in jurisdictional changes because it did not adjust the base-year assessed values.

Yuba County had jurisdictional changes that were not supported by proper enabling documentation, did not adjust the jurisdictional changes for all affected taxing agencies, and failed to adjust the TRA factors.

Supplemental Property Tax Apportionment

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

Fresno County did not use corrected supplemental apportionment factors to apportion collections of prior-year supplemental tax revenue.

Monterey and Yuba counties' supplemental apportionment factors had errors.

Supplemental Property Tax Administrative Fee

In addition to the fee allowed by Revenue and Taxation Code section 95.3 for the administration of the secured tax roll, Revenue and Taxation Code 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 5 percent of the supplemental taxes collected.

Humboldt and Yuba counties did not document actual supplemental administrative costs as required by statute.

Orange County included supplemental refunds within the computation of administrative costs.

Redevelopment Agencies

The legal requirements for the apportionment and allocation of property tax to RDAs are found in Revenue and Taxation Code 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.

Monterey County had ATI computation errors for RDAs.

**Unitary and
Operating
Nonunitary
Apportionment**

The process for apportioning and allocating property taxes from certain utility companies functions through the unitary and operating nonunitary tax system employed by the BOE. Unitary properties are those properties on which the BOE “may apply 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). 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.” Revenue and Taxation Code section 100 prescribes the procedures counties must perform to allocate unitary and operating nonunitary property taxes beginning in FY 1988-89.

Fresno, Merced, Monterey, and San Benito counties had errors in the unitary and operating nonunitary apportionment procedures and factor computations.

Humboldt County RDAs did not receive a portion of the unitary revenue in excess of 102 percent.

Yuba County did not use the correct assessed values for the unitary and operating nonunitary apportionments.

**Regulated
Railway
Apportionment**

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

Fresno and Yuba counties’ base-year assessed values for unitary regulated railway were not established correctly in FY 2007-08, causing tax apportionment factor and distribution errors.

Merced, Monterey, and San Benito counties had errors in the unitary regulated railway apportionment factors.

**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. Revenue and Taxation Code section 95.3 prescribes the requirements for computing and allocating property tax administrative fees (PTAF). The offices of the county assessor, tax collector, assessment appeals board, and auditor generally incur county property tax administrative costs. The county generally is 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 Revenue and Taxation Code sections 97.68 and 97.70. Pursuant to Revenue and Taxation Code 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.

No errors were noted in this area.

Educational Revenue Augmentation Fund

The legal requirements for the local agency shift of property tax revenues to ERAF are contained in Revenue and Taxation Code sections 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 Revenue and Taxation Code. The property tax revenues in 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, the Legislature has enacted numerous bills that affect the shift requirements for various local government agencies. One bill was AB 1589 (Chapter 290, Statutes of 1997). This bill primarily addressed three areas related to the ERAF shift:

- ERAF shift requirements for certain county fire funds for FY 1992-93 (Revenue and Taxation Code 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 (Revenue and Taxation Code section 97.3(c)(4)(A)(I)).
- ERAF shift requirements for county libraries for FY 1994-95 and subsequent years.

After the passage 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 Revenue and Taxation Code 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. The result is that 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 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, the Legislature enacted AB 417 (Chapter 464, Statutes of 1999), restoring the exemption to fire districts.

Merced County had errors in its computation of ERAF growth.

Vehicle License Fee and Sales and Use Tax Adjustments

Sections 97.68 and 97.70 of the Revenue and Taxation Code require allocation of ad valorem property tax revenue by ERAF to Sales and Use Tax (SUT) and VLF adjustments amounts. If there is not enough ad valorem property tax revenue in ERAF, the difference shall be reduced from all school districts and community college districts that are not excess tax school entities.

Humboldt County had errors in one fiscal year's VLF growth calculation.

Merced and Monterey counties did not include utility assessed values when computing VLF growth.

San Benito County did not include the Homeowners Exemption Assessed Values when computing VLF growth for one year.

San Joaquin County had errors in the VLF growth calculation due adjusting prior years base assessed values instead of current year assessed values for the annexations.

Solano County did not include utility assessed values and adjust for all other enrolled exemptions and annexations when computing VLF growth.

Disaster Relief Adjustment

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

In addition to the ERAF Shift, Revenue and Taxation Code 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 ERAF. This reduction is continued, without growth, through FY 1996-97.

In FY 1997-98, the Disaster Relief Adjustment was reversed, now known as the Disaster Relief Reversal, shifting revenue from the county and cities to ERAF. During that year, the Disaster Relief Reversal was multiplied by the FY 1992-93 over FY 1991-92 growth.

In FY 1998-99, the Disaster Relief Reversal is included as part of ERAF Shift defined by Revenue and Taxation Code 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 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.

Fresno County's prior audit reported an error in computing growth for the reversal of disaster relief amounts to ERAF. The county created a three-year payback, from FY 1998-99 to FY 2001-02, to restore lost ERAF funding. The county's Property Tax staff brought to our attention that computations were unchanged and requested our review. We found errors in the correction of the prior audit finding.

Negative Bailout (SB 85)

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 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, the Legislature passed AB 8 (Chapter 282, Statutes of 1979), which 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 the schools. Consequently, the Legislature passed AB 2162 (Chapter 899, Statutes of 1983), forgiving prior allocation errors but requiring 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. In 2010, the Legislature passed SB 85 (Chapter 5, Statutes of 2010), which did not eliminate the negative bailout amount, but capped it according to a specified formula.

There were no errors noted in this area.

Tax Equity Allocation

Revenue and Taxation Code section 98 and the Guidelines for County Property Tax Administration Charges and "No-/Low-Property-Tax Cities" Adjustment, provided 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 errors were noted in this area.

Observations

Qualified Electric Property Tax Allocation

The process for apportioning and allocating property taxes from certain QE property, owned by a public utility, functions through the property tax system used by BOE. Revenue and Taxation Code section 100.95 prescribes the procedures counties must perform to allocate QE property taxes beginning in FY 2007-08.

In FY 2007-2008, the Legislature enacted a new type of property tax for QE property. SCO and the California State Association of County Auditors, Property Tax Managers' Sub-Committee (Sub-Committee) is currently discussing the interpretation of Revenue and Taxation Code section 100.95, which governs the tax revenue allocation for QE property.

There is a difference of interpretation as to whether ERAF is entitled to a portion of the QE property tax revenue. The Sub-Committee contends that if QE property tax revenue is allocated to ERAF, the State is essentially in violation of Proposition 1A. However, SCO believes that ERAF should be entitled to QE property tax revenue pursuant to the Revenue and Taxation Code section 100.95 (a)(3)(A)(i).

Revenue and Taxation Code section 100.95 (a)(3)(A)(i) states:

“School entities, as defined in subdivision (f) of Section 95, shall be allocated an amount equivalent to the same percentage the school entities received in the prior fiscal year from the property tax revenues paid by the utility in the county in which the qualified property is located.”

Revenue and Taxation Code section 95 (f) states that “School entities” means school districts, community college districts, ERAF, and county superintendents of schools.

Therefore, SCO cannot make a determination on the counties' methodology at this time. We will follow up on this issue in the subsequent audit.

Contra Costa, Fresno, Orange, Solano, and Tulare counties each had this observation.

Redevelopment Property Tax Trust Fund

ABX1 26 (Chapter 5, Statutes of 2011) and AB 1484 (Chapter 26, Statutes of 2012), added and amended sections of the Health and Safety Code and mandated the dissolution of redevelopment agencies. Under ABX1 26, a county auditor-controller is required to create within the county treasury a RPTTF for the property tax revenues related to each former redevelopment agency, for administration by the county auditor-controller. Distributions from the RPTTF are made in accordance with specified priorities in Health and Safety Code section 34183.

Excess revenues in the RPTTF are distributed according to the requirements of Health and Safety Code section 34188. Proceeds from asset sales are to be transferred to the county auditor-controller for distribution as property tax proceeds. Unencumbered balances of RDA

funds, including housing funds, are to be remitted to the county auditor-controller for distribution by the auditor-controller using the same methodology for allocation and distribution of property tax revenues as provided in section 34188.

Yuba County could not provide reasonable documentation to support whether RPTTF was available, appropriately apportioned, and/or distributed pursuant to Health and Safety Code sections 34183 and 34188.

On May 26, 2015, the Sacramento County Superior Court ruled in the case between the cities of Chula Vista, El Cajon, Escondido, Poway, San Diego, San Marcos, and Vista (petitioners) and the San Diego County Auditor-Controller (respondent) regarding the methodology in apportioning the residual balance from the RPTTF.

The Court stated, in part:

“(1) that a cap on the residual amount each entity can receive be imposed in an amount proportionate to its share of property tax revenue in the tax area; and (2) the calculation of the residual share an entity is entitled to receive must be done by considering the property tax available in the Redevelopment Property Tax Trust Fund after deducting only the amount of any distributions under paragraphs (2) and (3) of subdivision (a) of Section 34183.”

SCO is currently assessing the impact the ruling has on the counties' methodology. On September 17, 2015, the respondent appealed the ruling to the Court of Appeal of the State of California. As the appellate court has not decided on the case, we will follow up on this issue in the subsequent audit.

Contra Costa, Fresno, Humboldt, Monterey, Napa, Orange, San Benito, San Joaquin, Santa Barbara, Solano, Sonoma, and Tulare counties had this observation.

Item for Legislative Consideration

Revenue and Taxation Code section 95.3 allows a county to charge for the cost of administering the property tax program in the county. While the county computes the schools', community college districts', county schools superintendent's, and ERAF's shares of these costs, statute does not allow the county to collect these shares. School entities and the ERAF thus are 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 Revenue and Taxation Code 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 referred to in the previous page are not appropriations, the Legislature may wish to consider legislation regarding the charging of administrative costs allowed under Health and Safety Code section 34182 and Revenue and Taxation Code 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 2016. 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, 2008, through June 30, 2015)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued April 17, 2009.

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

Fresno County (July 1, 2003, through June 30, 2015)

Follow-up on prior audit findings

Findings noted in our prior audit, issued July 2005, have been satisfactorily resolved by the county, with the exception of:

- Unitary and Operating Nonunitary Apportionment, as explained in Finding 3.
- Disaster Relief Adjustment, as explained in Finding 5.

FINDING 1— Jurisdictional changes

The county systematically truncates all jurisdictional factors at the sixth decimal position when distributing incremental factors for newly created TRA, and it adds a cumulative sum of an equal amount to its general fund to establish the allocation of TRA revenue to the required 1.00 percent. This practice increases the county's share of revenue growth and results in a corresponding reduction of revenue and growth to all other affected jurisdictions in the TRA in all following years.

The legal requirements for jurisdictional changes are found in Revenue and Taxation Code section 99. A jurisdictional change involves a change in the organization or boundaries of a local government agency or school district. Normally, these are service area or responsibility changes between the local jurisdictions. As part of the jurisdictional change, the local government agencies are required to negotiate any exchange of base year property tax revenue and annual tax increment. After the jurisdictional

change, the local agency whose responsibility increased receives additional annual tax increment, and the base property tax revenues are adjusted according to the negotiated agreements.

Recommendation

The county should use a rounding function to allocate jurisdictional factors when creating TRA base distributions.

County's Response

"The county concurs with the recommendation to develop a better rounding mechanism to allocate the effect of jurisdictional changes to all affected agencies."

SCO Comment

SCO will review the implementation of the corrections in the next audit.

FINDING 2— Supplemental property tax apportionment

To correct errors reported in the prior audit, the county recalculated its countywide AB 8 apportionment factors for fiscal years 1992-93 through 2013-14. Beginning in FY 2014-15, the county used corrected AB 8 factors to apportion current year (FY 2014-15) supplemental tax revenue; however, we noted that the county did not use corrected factors to apportion collections of prior year supplemental tax revenue.

The legal requirements for supplemental roll property tax apportionment and allocation are found in Revenue and Taxation Code sections 75.60 through 75.71, and 100.2. When there is a change in assessed property value due to changes in ownership or completion of new construction, the property owner is charged a supplemental property tax. This process enables counties to retroactively tax property for the period when changes in ownership or completion of new construction occurred, rather than at the time the secured roll is developed.

Recommendation

For all years subsequent to FY 2014-15, and to distribute any collections of prior year supplemental tax revenues, the county should revise corresponding prior year supplemental factors to incorporate the recalculated AB 8 factors.

County's Response

"The county concurs and has implemented corrective action to use the recalculated AB 8 factors for apportionment of supplemental tax revenue. The county will monitor supplemental roll corrections that are deemed material in amount, to insure (sic) proper adjustments are made to the taxing agencies that received the original revenue."

SCO Comment

SCO will review the implementation of the corrections in the next audit.

**FINDING 3—
Unitary and operating
nonunitary
apportionment**

As stated in the prior audit, the county incorrectly excluded redevelopment agencies from the apportionment calculations of excess unitary and operating nonunitary revenue factors when assessed values exceeded 102 percent of the previous fiscal year. During this audit, we noted the same incorrect exclusion through FY 2013-14. The county corrected its methodology in the FY 2014-15 and properly included redevelopment agencies in its apportionment calculations.

We discovered additional errors, however, in the county's unitary apportionment procedures and factor computations. The errors noted are as follows:

- The unitary factors were inflated in FY 2005-06 because the apportionment of unitary excess was duplicated for \$2,172,454.
- Incorrect unitary factors were used in FY 2006-07.
- Railway excess was incorrectly combined with unitary excess in FY 2008-09.
- QE property tax revenue was incorrectly combined with unitary excess in FY 2008-09 and FY 2009-10, then incorrectly combined with unitary in FY 2010-11 through FY 2014-15.

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 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 qualified electric 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."

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

The county should recalculate apportionments of unitary revenue and unitary excess revenue for all fiscal years beginning with, and following, FY 2005-06 to correct the errors noted. Apportionments for unitary, QE, and railway property should be calculated separately.

County's Response

"The county concurs with the recommendation and will work with SCO staff to recalculate the apportionments of unitary revenue and unitary excess revenue."

SCO Comment

The SCO will review the implementation of the corrections in the next audit.

**FINDING 4—
Regulated railway
apportionment**

The county's unitary regulated railway (railway) base-year assessed value was not established correctly in FY 2007-08, causing tax apportionment factor and distribution errors through subsequent years. As described in Finding 3, we discovered errors in computations of unitary and unitary excess apportionment factors.

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

Recommendation

The county should establish corrected railway base amounts for affected jurisdictions in FY 2007-08. The county should recalculate apportionment factors for revenue under the 102 percent threshold and for amounts in excess of 102 percent for all years beginning with, and following, FY 2007-08.

County's Response

"The county concurs with the recommendation and will work with SCO staff to recalculate railway base amounts in accordance with Revenue and Taxation code."

SCO Comment

SCO will review the implementation of the corrections in the next audit.

**FINDING 5—
Disaster relief
adjustment**

The prior audit reported an error in computing growth for the reversal of disaster relief amounts to ERAF. The county created a three-year payback, from FY 1998-99 to FY 2001-02, to restore lost ERAF funding. The county's Property Tax staff brought to our attention that computations were unchanged and requested our review.

We noted the following errors:

- Growth on the original credit was incorrectly calculated through FY 2001-02 using the county's incremental growth of its total assessed value, instead of using each taxing entity's incremental revenue growth on a pro-rata basis of the credit amount.
- The payback amount of \$565,878 for FY 2001-02 was rolled forward annually as a beginning ERAF AB 8 base for FY 2002-03 through FY 2014-15, without growth or distribution; the amount should have been distributed entirely with the FY 2001-02 ERAF shift and omitted from AB 8 base revenues.

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

In addition to the ERAF shift, Revenue and Taxation Code 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, now known as the Disaster Relief Reversal, shifting revenue from the county and cities to the ERAF. During that year, the Disaster Relief Reversal was multiplied by the FY 1992-93 over FY 1991-92 growth.

In FY 1998-99, the Disaster Relief Reversal is included as part of the ERAF Shift defined by Revenue and Taxation Code 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 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.

Recommendation

The county should recalculate payback to ERAF for growth differences for FY 1992-93 and from FY 1997-98 through the current date using each tax entity's revenue growth factor, on a pro-rata basis of the original credit amount, with differences in collections redistributed to affected agencies. The ERAF base revenue, in calculating apportionments, should be zero at the beginning of each year.

County's Response

"The county concurs with the recommendation to recalculate the payback amount to ERAF in compliance with Revenue and Taxation code. "

SCO Comment

SCO will review the county's ERAF payback calculation in the next audit.

Humboldt County (July 1, 2008, through June 30, 2015)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued June 30, 2010.

FINDING 1— Computation and distribution of annual tax increment

In FY 2010-11, FY 2011-12, and FY 2012-13, the county's ATI calculation was incorrect.

Requirements for the apportionment and allocation of the 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 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 ATI 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

The county should manually calculate the ATI and reconcile with the county's property tax system (Megabyte) report to ensure accuracy.

County's Response

The county agrees with the finding.

FINDING 2— Supplemental property tax administrative fee

In reviewing the county's Supplemental Tax Administrative Fee, we noted that the county does not document actual supplemental administrative costs as required by statute.

Revenue and Taxation Code section 75.60 allows a county to charge an administrative fee for supplemental property tax collections. This fee is not to exceed 5 percent of the supplemental property taxes collected.

Recommendation

The county should implement a system to assist in documenting actual costs for administration of supplemental tax allocation and apportionment.

County's Response

The county agrees with the finding, and will take reasonable measures to reliably capture and document supplemental administrative costs beginning in FY 2016-17.

SCO Comment

SCO agrees with the county's corrective action. SCO will review the implementation of the corrections in the next audit.

**FINDING 3—
Unitary and operating
nonunitary
apportionment**

In reviewing the county's unitary apportionment, we noted that the RDAs did not receive a portion of the unitary in-excess of 102 percent revenue.

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 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 qualified electric 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."

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

The county should recalculate its unitary apportionment by creating an AB 8 factor adjusted for RDAs to use in apportioning their unitary excess calculation beginning FY 2015-16. The county should recalculate to arrive at corrected values to be carried forward for future years.

County's Response

The county agreed with the finding and changed its methodology for FY 2015-16 and for future fiscal years until the dissolution process is complete.

SCO Comment

SCO agrees with the county's corrective action. SCO will review the implementation of the corrections in the next audit.

**FINDING 4—
Vehicle licensing fee
and sales and use tax
adjustments**

In reviewing the county's VLF growth calculation for FY 2011-12, we determined that the county used incorrect prior year (FY 2010-11) assessed value for the county's portion. Therefore, the county's portion of VLF was underpaid for FY 2011-2012 and forward.

Requirements for the ERAF adjustment for the VLF and SUT are found in Revenue and Taxation Code sections 97.68-97.70.

In FY 2004-05, the county was given a VLF estimate that was to be transferred from ERAF to the VLF Property Tax Compensation Fund, and eventually to the county and cities. In FY 2005-06, the county was given another estimate, including true-ups. In FY 2006-07 and subsequent years, the county calculated the VLF adjustment based on the prior-year VLF adjusted for growth. The growth for the county's VLF should be based on countywide growth, not only on unincorporated parcels. The growth for each city's VLF should be based on the growth of all incorporated parcels in all TRAs within the city.

The SUT amounts for each county and cities within the county are provided by DOF, on or before September 1 of each fiscal year. These amounts are to be transferred from the ERAF to the SUT Compensation Fund, and eventually to each designated county and cities within each county.

Recommendation

The county should recalculate its VLF growth beginning FY 2011-12. Should the recalculation have a significant impact, the county is to appropriately make necessary monetary adjustments to ERAF and other affected taxing jurisdictions.

County's Response

The county agreed with the finding, recalculated the VLF, and booked a correction for \$22,716. The corrected VLF amount will be used for all future calculations.

SCO Comment

SCO agrees with the county's corrective action. SCO will review the implementation of the corrections in the next audit.

Merced County (July 1, 2009, through June 30, 2014)

**Follow-up on prior
audit findings**

The county has satisfactorily resolved the findings noted in our prior audit report, issued June 30, 2010.

**FINDING 1—
Computation and
distribution of annual
tax increment**

In FY 2010-11 through FY 2013-14, the county understated ERAF base when computing the countywide apportionment (AB 8) factors. This error caused a misallocation to the ERAF base revenue.

Requirements for the apportionment and allocation of the 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 the 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 ATI 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

The county should correct the error in the ERAF base revenue.

County's Response

"The county concurs with the finding. The understated Educational Revenue Augmentation Fund base revenue in the amount of \$3,117 was reallocated for the fiscal year 2010-11 and subsequent years."

SCO Comment

SCO agrees with the county's corrective action. SCO will review the implementation of the corrections during the next audit.

FINDING 2— Jurisdictional changes

In FY 2011-12, the county made an error in its jurisdictional changes calculation by not including Atwater City and Atwater City Fire in the new TRA 001-031 under BOE Tax Rate Area Change Notice No. 2011-010. As a result, some jurisdictions received an incorrect apportionment of revenue.

The legal requirements for jurisdictional changes are found in Revenue and Taxation Code section 99. A jurisdictional change involves a change in the organization or boundaries of a local government agency or school district. Normally, these are service area or responsibility changes between the local jurisdictions. As part of the jurisdictional change, the local government agencies are required to negotiate any exchange of base year property tax revenue and ATI. After the jurisdictional change, the local agency whose responsibility increased receives additional ATI, and the base property tax revenues are adjusted according to the negotiated agreements.

Recommendation

The county should review and correct the error in its jurisdictional changes calculation.

County's Response

"The county concurs with this finding. The tax rate area 001-031 was adjusted to include the Atwater City and Atwater Fire incremental factors for distribution."

SCO Comment

SCO agrees with the county's corrective action. SCO will review the implementation of the corrections during the next audit.

**FINDING 3—
Unitary and operating
nonunitary
apportionments**

The county made the following errors in its calculation of unitary and operating nonunitary apportionment factors:

- In FY 2009-10 and FY 2011-12, there was an incorrect calculation of the unitary excess factors.
- In FY 2010-11 and FY 2013-14, incorrect prior year unitary factors were carried forward.

This resulted in misallocated property tax revenues to all jurisdictions that receive unitary property tax.

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 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 qualified electric 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.”

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

The county should re-compute the unitary factors for all fiscal years noted above.

County's Response

“The county concurs with this finding. The county is in the process of recalculating excess factors and the carry forward for the fiscal year 2009-10 and subsequent years. The distributions will be adjusted to reflect the change in factors.”

SCO Comment

SCO agrees with the county's corrective action. SCO will review the implementation of the corrections during the next audit.

**FINDING 4—
Regulated railway
apportionment**

The county made the following errors in its calculation of unitary railroad apportionment:

- In FY 2009-10, incorrect railroad factors were used in the allocation of property tax revenues, equal to 102 percent of prior year.
- In FY 2009-10 through FY 2011-12, and FY 2013-14:
 - Incorrect computations of the unitary railroad excess factors were used.
 - Some jurisdictions didn't receive unitary railroad excess allocation amounts.

This resulted in misallocated property tax revenues to all jurisdictions that receive unitary railroad property tax.

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 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 qualified electric 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.”

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

The county should review and correct the railroad computations for all fiscal years noted.

County's Response

“The county concurs with this finding. The county is in the process of recalculating excess factors and the carry forward for the fiscal year 2009-10 and subsequent years. The distributions will be adjusted to reflect the change in factors.”

SCO Comment

SCO agrees with the county's corrective action. SCO will review the implementation of the corrections during the next audit.

**FINDING 5—
Educational Revenue
Augmentation Fund**

The county made the following errors when computing ERAF growth:

- From FY 2009-10 through FY 2013-14, incorrect RDA increment values were used in computing ERAF growth percentages.
- In FY 2011-12, the ERAF Base Tax wasn't carried forward correctly from the prior year Gross Tax.

This resulted in incorrect ERAF growth percentages for all contributing agencies for all fiscal years noted (Schedule 1).

Requirements for the local agency shift of property tax revenues to ERAF primarily are 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 ERAF using formulas detailed in the code. The property tax revenues in 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 generally was determined by shifting the lesser of 10 percent 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 percent 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 generally was 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 DOF, adjusted for growth.

The FY 1993-94 ERAF shift for special districts, other than fire districts, generally was 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 generally was 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 bailout equivalent; or, for an independent district, deducting the amount received from the SDAF and the difference between the net current-year bailout equivalent and the amount contributed to the SDAF from the net current-year bailout 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 county should correct the above error by re-computing ERAF growth percentages.

County's Response

"The county concurs with this finding. The ERAF growth percentages have been recomputed."

SCO Comment

SCO agrees with the county's corrective action. The SCO will review the implementation of the corrections during the next audit.

FINDING 6— Vehicle licensing fee and sales and use tax adjustments

The county did not include the utility assessed values when computing the VLF Swap growth for FY 2009-10 through FY 2013-14.

This resulted in a misstatement of VLF Swap amounts for all contributing agencies for all fiscal years of the audit (Schedule 1.)

Requirements for ERAF adjustment for the VLF and SUT are found in Revenue and Taxation Code sections 97.68-97.70.

In FY 2004-05 the county was given a VLF estimate that was to be transferred from ERAF to the VLF Property Tax Compensation Fund, and eventually to the county and cities. In FY 2005-06, the county was given another estimate, including true-ups. In FY 2006-07 and subsequent years, the county calculated the VLF adjustment based on the prior year VLF

adjusted for growth. The growth for the county's VLF should be based on countywide growth, not only on unincorporated parcels. The growth for each city's VLF should be based on the growth of all incorporated parcels in all TRAs within the city.

SUT amounts for each county and cities within the county are provided by the DOF, on or before September 1 of each fiscal year. These amounts are to be transferred from ERAF to the SUT Compensation Fund, and eventually to each designated county and cities within each county.

Recommendation

The county should correct the VLF growth calculation by including the utility assessed value.

In May 2015, the county corrected the above error and implemented the change to its FY 2014-15 VLF allocations.

County's Response

"The county concurs with this finding. The county corrected the 2014-15 VLF growth calculation by including the utility assessed value and implementing the change to the 2014-15 VLF allocations."

SCO Comment

SCO agrees with the county's response.

Monterey County (July 1, 2009, through June 30, 2015)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued September 10, 2010.

FINDING 1— Jurisdictional changes

The county did not complete jurisdictional changes pursuant to BOE change notice No. 2012-009 because parcels were not properly transferred by the Assessor's Office and the TRA was not dissolved/inactivated by the Auditor-Controller's Office.

The legal requirements for jurisdictional changes are found in Revenue and Taxation Code section 99. A jurisdictional change involves a change in the organization or boundaries of a local government agency or school district. Normally, these are service area or responsibility changes between the local jurisdictions. As part of the jurisdictional change, the local government agencies are required to negotiate any exchange of base-year property tax revenue and ATI. After the jurisdictional change, the local agency whose responsibility increased receives additional ATI, and the base property tax revenues are adjusted according to the negotiated agreements.

Recommendation

We recommend that the county review annual BOE change notices and ensure that the jurisdictional changes are promptly and completely implemented in accordance to Revenue and Taxation Code section 99.

County's Response

"The Auditor-Controller's Office cannot inactivate a tax rate area until it has completely transferred all affected parcels to the new tax rate area. All remaining parcels have subsequently been reassigned and the tax rate area will be inactivated for the coming fiscal year."

SCO Comment

SCO agrees with the county's corrective action. SCO will review the implementation of the corrections in the next audit.

**FINDING 2—
Supplemental
property tax
apportionment**

The county's supplemental apportionment factors are incorrect because the AB 8 factors were adjusted erroneously for RDAs during the computation.

The legal requirements for supplemental roll property tax apportionment and allocation are found in Revenue and Taxation Code sections 75.60 through 75.71, and 100.2. When there is a change in assessed property value due to changes in ownership or completion of new construction, the property owner is charged a supplemental property tax. This process enables the counties to retroactively tax property for the period when changes in ownership or completion of new construction occurred, rather than at the time the secured roll is developed.

Recommendation

We recommend that the county recalculate the supplemental apportionment factors with the correct AB 8 factors.

County's Response

"The county is in agreement and has recalculated the current year factors and will apply the change in the future."

SCO Comment

SCO agrees with the county's corrective action. SCO will review the implementation of the corrections in the next audit.

**FINDING 3—
Redevelopment
agencies**

The county's ATI computation is incorrect because it erroneously included or excluded certain frozen base-year values.

Requirements for the apportionment and allocation of property tax to RDAs are found in Revenue and Taxation Code sections 96.4 and 96.5.

California Community Redevelopment Law generally entitles a community RDA to all of the property tax revenues that are realized from growth in values since the redevelopment project's inception.

Recommendation

We recommend that the county ensure that there are no changes in frozen base-year assessed values from year to year.

County's Response

"The county discovered and corrected the errors prior to the audit."

SCO Comment

SCO will continue to review frozen base-year assessed values in future audits.

FINDING 4— Unitary and operating nonunitary apportionment

There were errors in the county's unitary and operating nonunitary section due to the following:

- Annual debt service rates' calculations were not in accordance with Revenue and Taxation Code section 100(2)(A) and (B).
- Transposition of total revenue amount used in calculating the in-excess of 102 percent revenue in FY 2009-2010, which caused the error in apportionment factors.

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 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 qualified electric 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."

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

We recommend that the county follow Revenue and Taxation Code section 100(2)(A) and (B), which includes immediate prior and second prior fiscal years' debt service levies' percentage differences within the debt service calculation.

We further recommend that the county recalculate the apportionment factor from FY 2009-10 with the correct total revenue amount and carry that correct factor forward for FY 2015-16.

County's Response

"The county concurs with the finding on the debt services rate calculation and will correct its methodology. The county has fixed the transposition error and recalculated each affected year and reapportioned collections for FY 2015-16."

SCO Comment

SCO agrees with the county's corrective action. SCO will review the implementation of the corrections in the next audit.

**FINDING 5—
Regulated railway
apportionment**

The county's railway apportionment factors are incorrect because it transposed total revenue amount used in the in-excess of 102 percent revenue in FY 2009-10.

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

Recommendation

We recommend that the county recalculate the railway apportionment factor from FY 2009-10 with the correct total revenue amount and carry that correct factor forward for FY 2015-16.

County's Response

"The county fixed the transposition error and recalculated each affected year and reapportioned collections for FY 2015-16."

SCO Comment

SCO agrees with the county's corrective action. SCO will review the implementation of the corrections in the next audit.

**FINDING 6—
Vehicle licensing fee
and sales and use tax
adjustments**

The county did not calculate the VLF adjustments correctly, due to the exclusion of utilities' assessed values during the growth computation.

Requirements for the ERAF adjustment for the VLF and SUT are found in Revenue and Taxation Code sections 97.68-97.70.

In FY 2004-05 the county was given a VLF estimate that was to be transferred from ERAF to the VLF Property Tax Compensation Fund, and eventually to the county and cities. In FY 2005-06, the county was given

another estimate, including true-ups. In FY 2006-07 and subsequent years, the county calculates the VLF adjustment based on the prior year VLF adjusted for growth. The growth for the county's VLF should be based on countywide growth, not only on unincorporated parcels. The growth for each city's VLF should be based on the growth of all incorporated parcels in all tax rate areas within the city.

The SUT amounts for each county and cities within the county are provided by the DOF on or before September 1 of each fiscal year. These amounts are to be transferred from ERAF to the SUT Compensation Fund, and eventually to each designated county and cities within each county.

Recommendation

We recommend that the county include utilities' assessed values within the computation of VLF growth for all future VLF adjustments.

County's Response

"The county concurs and will adjust its calculation worksheet to include utility values beginning with FY 2016-17."

SCO Comment

SCO agrees with the county's corrective action. SCO will review the implementation of the corrections in the next audit.

Napa County (July 1, 2009, through June 30, 2015)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued December 10, 2010.

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

Orange County (July 1, 2008, through June 30, 2014)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued December 30, 2009.

FINDING 1— Supplemental property tax administrative fee

The county overcharged supplemental property tax administrative costs by approximately \$4.4 million, due to the inclusion of supplemental refunds within the computation.

Revenue and Taxation Code section 75.60 allows a county to charge an administrative fee for supplemental property tax collections. This fee is not to exceed 5 percent of the supplemental property taxes collected.

Recommendation

The county should recalculate the supplemental administrative fees for the audit period by removing the refund amounts and returning the overcharges to the appropriate taxing agencies.

County's Response

"We agree with the finding and the recommendation to return the supplemental administrative fee revenue over-recovered to the appropriate taxing agencies.

An adjustment to the recovery of supplemental administrative fee revenue was implemented at the start of fiscal year 2015-16. The adjustment will be carried out over a three year period. However, the adjustment was significantly reduced to \$2.8 million.

The Property Tax Administrative Fee (PTAF) outlined in Revenue and Taxation Code section 97, allows the recovery of costs that a county incurs for the administration of property tax. Gross costs are reduced by other property tax administration related revenue, such as the supplemental administrative fee revenue, to determine the net costs that can be recovered. If the supplemental administrative fee revenue is reduced, the amount of PTAF recovery can be increased. Rather than adjusting PTAF, we will reduce the supplemental administrative fee revenue to return to taxing agencies to the \$2.8 million."

SCO Comment

SCO agrees with the county's methodology of recovering the disallowable supplemental administrative fees of \$4.4 million through the PTAF process. As the county explained, Revenue and Taxation Code section 97 allows counties to recover uncollected administrative costs through the PTAF process. However, because the PTAF process does not collect from all taxing jurisdictions, the amount collected will be reduced by approximately \$1.6 million. SCO will review the accuracy of the reduction, and verify that the remaining overcharges were refunded to the affected taxing agencies in the next audit.

FINDING 2— Jurisdictional changes

The county used incorrect tax revenue exchange percentages when enabling jurisdictional changes related to the City of Huntington Beach.

The legal requirements for jurisdictional changes are found in Revenue and Taxation Code section 99. A jurisdictional change involves a change in the organization or boundaries of a local government agency or school district. Normally, these are service area or responsibility changes between the local jurisdictions. As part of the jurisdictional change, the local government agencies are required to negotiate any exchange of base-year property tax revenue and annual tax increment. After the jurisdictional change, the local agency whose responsibility increased receives an additional annual tax increment, and the base property tax revenues are adjusted according to the negotiated agreements.

Recommendation

The county should review all former jurisdictional changes related to the City of Huntington Beach and ensure that the correct exchange percentages are used.

County's Response

"We agree with the finding and the recommendation.

Jurisdictional changes related to the City of Huntington Beach during the audit period were reviewed and it was determined that only one, an annexation, was processed. A \$40 error was made in the over \$6 million property tax revenue subject to exchange resulting in an incorrect exchange percentage."

SCO Comment

SCO will review the implementation of the corrections in the next audit.

San Benito County (July 1, 2008, through June 30, 2015)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued August 31, 2009.

FINDING 1— Unitary and operating nonunitary apportionment

The county made the following errors:

- In FY 2008-09, FY 2009-10, and FY 2011-12 through FY 2014-15, redevelopment pass-through payments were included as prior year revenues in the calculation of excess unitary factors.
- In FY 2012-13, incorrect factors were used to apportion excess unitary revenues.

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 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 qualified electric 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."

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

The county should use the corrected factors going forward. However, during the audit, the county provided corrected allocation factor worksheets, which we accepted.

County's Response

"The county concurs with this finding. We implemented your recommendation and corrected the factors for the years under audit, as well as our methodology for subsequent periods."

**FINDING 2—
Regulated railway
apportionment**

In FY 2008-09 through FY 2014-15, redevelopment pass-through payments were included as prior year revenues in the calculation of excess unitary railroad factors. Pass-through payments should not be included.

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 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 qualified electric 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."

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

The county should use the corrected factors going forward. However, during the audit, the county provided corrected allocation factor worksheets, which we accepted.

County's Response

"The county concurs with this finding. We implemented your recommendation and corrected the factors for the years under audit as well as our methodology for subsequent periods."

**FINDING 3—
Vehicle licensing fee
and sales and use tax
adjustments**

The county did not include the Homeowners Exemption Assessed Value in the FY 2014-15 VLF growth computation.

Requirements for the ERAF adjustment for the VLF and SUT are found in Revenue and Taxation Code sections 97.68-97.70.

In FY 2004-05 county was given a VLF estimate that was to be transferred from ERAF to the VLF Property Tax Compensation Fund, and eventually to the county and cities. In FY 2005-06, the county was given another estimate, including true-ups. In FY 2006-07 and subsequent years, the county calculates the VLF adjustment based on the prior year VLF adjusted for growth. The growth for the county's VLF should be based on countywide growth, not only on unincorporated parcels. The growth for each city's VLF should be based on the growth of all incorporated parcels in all TRAs within the city.

SUT amounts for each county and cities within the county are provided by DOF, on or before September 1st, of each fiscal year. These amounts are to be transferred from ERAF to the SUT Compensation Fund, and eventually to each designated county and cities within each county.

Recommendation

The county should use the corrected VLF amounts going forward. However, during the audit, the county corrected the VLF error and adjusted the journal entry.

County's Response

"The county concurs with this finding. We corrected our calculation for FY 2014-15, and adjusted the apportionment of VLF fees as required."

San Joaquin County (July 1, 2010 through June 30, 2015)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued July 11, 2011.

FINDING 1— Jurisdictional changes

The county incorrectly computed/implemented jurisdictional changes in FY 2011-12 through FY 2014-15 because it did not adjust the base year assessed value. This resulted in a misstatement of TRA tax increments and gross revenues for the jurisdictional change year.

The legal requirements for jurisdictional changes are found in Revenue and Taxation Code section 99. A jurisdictional change involves a change in the organization or boundaries of a local government agency or school district. Normally, these are service area or responsibility changes between the local jurisdictions. As part of the jurisdictional change, local government agencies are required to negotiate any exchange of base-year property tax revenue and annual tax increment. After the jurisdictional change, the local agency whose responsibility increased receives additional annual tax increment, and the base property tax revenues are adjusted according to the negotiated agreements.

Recommendation

The county should adjust the base-year assessed value for jurisdictional changes going forward. The overall amounts are immaterial. The county corrected all of the identified negative TRA revenue from FY 2011-12 through FY 2014-15 during the audit.

County's Response

The county concurs with the finding. The county stated:

“This error caused tax increments and gross revenues to be misstated by an immaterial amount in the jurisdictional change year. The misstated gross revenues that were negative for tax rate areas were identified and corrected during the audit. San Joaquin County will follow the recommendation of adjusting the base year assessed value for jurisdictional changes that become effective in and after fiscal year 2015-16.”

SCO Comment

SCO agrees with the county's corrective action.

**FINDING 2—
Vehicle license fee and
sales and use tax
adjustments**

The county incorrectly computed the VLF growth in FY 2010-11 through FY 2014-15 by adjusting prior year base assessed value instead of current year assessed value for the annexations.

Requirements for the ERAF adjustment for VLF and SUT are found in Revenue and Taxation Code sections 97.68 through 97.70.

In FY 2004-05 the county was given a VLF estimate that was to be transferred from ERAF to the VLF Property Tax Compensation Fund, and eventually to the county and cities. In FY 2005-06, the county was given another estimate, including true-ups. In FY 2006-07 and subsequent years, the county calculated the VLF adjustment based on the prior year VLF adjusted for growth. The growth for the county's VLF should be based on countywide growth, not only on unincorporated parcels. The growth for each city's VLF should be based on the growth of all incorporated parcels in all TRAs within the city.

SUT amounts for each county and cities within the county are provided by DOF, on or before September 1 of each fiscal year. These amounts are to be transferred from ERAF to the SUT Compensation Fund, and eventually to each designated county and cities within each county.

Recommendation

The county should correct the VLF growth computation and use the corrected VLF amounts going forward. However, the county corrected the VLF error during the audit.

County's Response

The county concurs with the finding. The county stated:

“The calculation and VLF amounts were corrected during the audit. San Joaquin County will follow the recommendation of using the corrected VLF amounts and adjusting current base year assessed value for annexations for VLF growth in and after fiscal year 2015-16. “

SCO Comment

SCO agrees with the county's corrective action.

Santa Barbara County (July 1, 2009, through June 30, 2015)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued August 25, 2010.

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

Solano County (July 1, 2010, through June 30, 2014)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued August 12, 2011.

FINDING— Vehicle license fee and sales and use tax adjustments

The county incorrectly computed VLF growth in FY 2010-11 through FY 2013-14 by not including utility assessed values, and adjusting for all other enrolled exemptions and annexations. This resulted in a misstatement of VLF Swap amounts for all contributing agencies for all fiscal years of the audit by the following estimated amounts¹:

County General	\$ 49,285
Benicia	(2,044)
Dixon	23,067
Fairfield	107,560
Rio Vista	3,435
Suisun	18,595
Vacaville	(153,111)
Vallejo	<u>117,859</u>
For All Years:	\$164,646

¹ These amounts don't account for any adjustments in regards to the inclusion of utility assessed values, and adjustments for all other enrolled exemptions and annexations.

Requirements for the ERAF adjustment for VLF and SUT are found in Revenue and Taxation Code sections 97.68-97.70.

In FY 2004-05 the county was given a VLF estimate that was to be transferred from ERAF to the VLF Property Tax Compensation Fund, and eventually to the county and cities. In FY 2005-06, the county was given another estimate, including true-ups. In FY 2006-07 and subsequent years, the county calculates the VLF adjustment based on the prior-year VLF adjusted for growth. The growth for the county's VLF should be based on countywide growth, not only on unincorporated parcels. The growth for each city's VLF should be based on the growth of all incorporated parcels in all TRAs within the city.

The SUT amounts for each county and cities within the county are provided by DOF, on or before September 1 of each fiscal year. These amounts are to be transferred from ERAF to the SUT Compensation Fund, and eventually to each designated county and cities within each county.

Recommendation

During the audit, the county corrected the VLF growth calculation. The county should use the correct VLF growth calculation going forward.

County's Response

"The county concurs with the finding. The VLF growth calculation for 2010-11 through 2013-14 was corrected by including the utility assessed value and adjusting for all other enrolled exemptions and annexations. The corrected VLF allocations were carried forward and used in calculating the subsequent years VLF allocations to the county and cities."

SCO Comment

SCO agrees with the county's corrective action. SCO will review the implementation of the corrections in the next audit.

Sonoma County (July 1, 2009, through June 30, 2015)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued September 10, 2010.

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

Tulare County (July 1, 2009, through June 30, 2015)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued July 16, 2010.

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

Yuba County (July 1, 2006, through June 30, 2014)

Follow-up on prior audit findings

Findings noted in our prior audit, issued December 10, 2008, have been satisfactorily resolved by the county, with the exception of inclusion of the redevelopment agency in the apportionment of supplemental tax revenue.

FINDING 1— Computation and distribution of annual tax increment

During the audit, it was noted that the county correctly calculated its ATI. However, an error in the establishment of the unitary railroad base year affected the gross levy amounts which are vital to the calculation of AB 8 factors that are subsequently used in revenue apportionment.

Requirements for the apportionment and allocation of the 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 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 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

The county should perform a re-computation to determine if the errors made a significant impact. The county should re-compute to arrive at corrected values to be carried forward for future computations.

County's Response

The county will conduct further research regarding this finding.

SCO Comment

The finding remains as written.

FINDING 2— Jurisdictional changes

During the audit, it was noted that the county's jurisdictional changes were not supported by proper enabling documentation. For the samples tested, the county did create new TRAs; however, the county did not include all affected taxing agencies pursuant to the change notices. The county also failed to adjust TRA factors as required.

The legal requirements for jurisdictional changes are found in Revenue and Taxation Code section 99. A jurisdictional change involves a change in the organization or boundaries of a local government agency or school district. Normally, these are service area or responsibility changes between the local jurisdictions. As part of the jurisdictional change, the local government agencies are required to negotiate any exchange of base-year property tax revenue and annual tax increment. After the jurisdictional change, the local agency whose responsibility increased receives additional annual tax increment, and the base property tax revenues are adjusted according to the negotiated agreements.

Recommendation

The county should review all of the jurisdictional changes for the audit period including those noted above, and correct any misallocated amounts.

County's Response

The county agrees with the finding and made adjustments for FY 2015-2016.

**FINDING 3—
Supplemental
property tax
apportionment**

During the audit, it was noted that the county:

- Included redevelopment agencies' increments in the supplemental tax revenue apportionment factor calculation. This issue is being restated from the previous audit.
- Apportioned supplemental tax revenue to multi-county and non-ADA K-12 schools.

The legal requirements for supplemental roll property tax apportionments and allocations are found in Revenue and Taxation Code sections 75.60 through 75.71, and 100.2. When there is a change in assessed property value due to changes in ownership or completion of new construction, the property owner is charged a supplemental property tax. This process enables counties to retroactively tax property for the period when changes in ownership or completion of new construction occurred, rather than at the time the secured roll is developed.

Recommendation

The county should address these issues for the FY 2015-16 supplemental apportionment process.

County's Response

The county agrees with the finding and made adjustments beginning with FY 2014-2015.

**FINDING 4—
Supplemental
property tax
administrative fee**

During the audit, it was noted that the county does not document actual supplemental administrative costs, as required by statute.

Revenue and Taxation Code section 75.60 allows a county to charge an administrative fee for supplemental property tax collections. This fee is not to exceed 5 percent of the supplemental property taxes collected.

Recommendation

The county should document actual supplemental administrative costs, so that it may compare them with the 5 percent of actual supplemental tax collections amount to ensure that taxing agencies are charged the correct administrative fees.

County's Response

The county agrees with the finding. Furthermore, the county stated that it would work on developing a method to document time spent on supplemental records.

**FINDING 5—
Unitary and operating
nonunitary
apportionment**

During the audit, it was noted that the county did not use the correct assessed values for the unitary apportionment; the amounts the county has used includes bond revenues (above 1 percent). The county also did not correctly calculate the apportionment factors; they spread negative excess revenue above 102 percent by the prior-year AB 8 factors (FYs 2009-10, 2011-12, 2012-13 and 2013-14). In addition, because the county uses the unitary factor to allocate pipeline revenues, it should include the pipeline revenues with the unitary revenues when computing the factors.

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 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 qualified electric 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.”

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

The county should address these issues for the FY 2015-16 unitary apportionment process.

County's Response

The county agrees with the finding and made adjustments for FY 2015-16. Furthermore, the county currently is working on adjustments for fiscal years prior to 2015-16.

**FINDING 6—
Regulated railway
apportionment**

Base Year

For FY 2007-08, the value used in the railroad apportionment process did not correspond to the value used in the AB 8 system's railroad adjustment. As a result, this error created a miscalculation in the gross levy for affected taxing jurisdictions, including ERAF, which receives railroad tax revenues.

Apportionment

During the audit, the county made the following errors in calculating its railroad apportionment:

- In comparing the greater of the prior-year 102 percent value versus current-year value, the county included its debt services amount.
- In apportioning the railroad revenue, the county used the prior-year excess growth factor instead of the newly created railroad factors.

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

Recommendation

The county should re-compute the railroad apportionment and make necessary adjustments to ERAF and all other affected taxing jurisdictions to be carried forward for future computations.

County's Response

The county agrees with the finding and made adjustments for FY 2015-16. Furthermore, the county currently is working on adjustments for fiscal years prior to FY 2015-16.

FINDING 7— Redevelopment Property Tax Trust Fund

During the audit, it was noted that the county appears to have complied with the ATI calculation of RPTTF pursuant to Health and Safety Code section 34182.

However, the county could not provide reasonable documentation to support whether the funds available were appropriately apportioned and or distributed pursuant to Health and Safety Code sections 34183 and 34188.

Requirements for the apportionment and allocation of property tax in the RPTTF are found in Revenue and Taxation Code sections 97.401 and 98.1, and Health and Safety Code sections 34182 through 34188. The codes require pass-throughs to local entities, agreed upon while the redevelopment agencies were still in effect, and payments to Recognized Obligation Payment Schedules provided by the Redevelopment Successor Agencies and approved by DOF.

Recommendation

The county should maintain sufficient documentation to compute RPTTF available funds and appropriately disburse those funds in accordance with applicable statutes in the future

County's Response

The county agrees with the finding.

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