STATE OF CALIFORNIA

Report to the California State Legislature

PROPERTY TAX APPORTIONMENTS

Calendar Year 2017

BETTY T. YEE
California State Controller

March 2018

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California State Controller

March 30, 2018

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

SUBJECT: Property Tax Apportionments Report to the Legislature
                for Calendar Year 2017

I am pleased to present the Property Tax Apportionments Report for calendar year 2017. This report, prepared pursuant to Government Code section 12468, is intended to help mitigate problems associated with the counties' allocation and apportionment of property tax revenues.

The State Controller's team completed audits of 25 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 that 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, by telephone at (916) 324-1696.

Sincerely,

Original signed by

BETTY T. YEE

Contents

Executive Summary

This report summarizes the results of the State Controller's Office (SCO) audit of county property tax allocations and apportionments during the 2017 calendar year. After the passage of Proposition 13 in 1978, the California State Legislature (Legislature) enacted new methods for allocating and apportioning property tax revenues to local government agencies, school districts, and community college districts. The main objective was to provide local government 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 allocated and apportioned to local government agencies, school districts, and community college districts using prescribed formulas and methods defined in the 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 Revenue and Taxation Code section 95.6 (now Government Code section 12468). The statute mandates that SCO perform audits of the allocation and apportionment 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 2017, SCO completed audits of 25 counties' property tax allocation and apportionment systems, processes, and records. The 25 counties are Alameda, Alpine, Amador, Butte, Colusa, Imperial, Inyo, Kings, Los Angeles, Marin, Mariposa, Mendocino, Modoc, Mono, Placer, Sacramento, San Francisco (city and county), Santa Clara, Shasta, Siskiyou, Stanislaus, Sutter, Tehama, Tuolumne, and Ventura.

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 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 25 counties audited during 2017 appear to comply with the requirements for the allocation and apportionment of property tax revenues.

The audit report findings broadly are classified as follows:

Prior Audits

The counties of Imperial and Mendocino did not fully resolve all findings noted in prior audits.

Current Audits

- Inyo, Mendocino, Modoc, Mono, and Shasta counties made errors in the annual tax increment (ATI) calculation.

- Mendocino, Modoc, Shasta, and Tuolumne counties made procedural errors in calculating jurisdictional changes.

- Alpine, Amador, Colusa, Imperial, Inyo, Kings, Mono, Sacramento, Siskiyou, and Tuolumne counties' supplemental apportionment factors had errors.

- Amador, Kings, Mendocino, and Tuolumne counties made errors in calculating the Supplemental Administrative Fees.

- Kings County made errors in calculating Redevelopment Agency ATI.

- Alpine, Amador, Colusa, Imperial, Inyo, Kings, Mariposa, Mendocino, Mono, Sacramento, Stanislaus, Tehama, and Tuolumne counties made errors in the unitary and operating nonunitary apportionment process.

- Amador, Colusa, Imperial, Kings, Mendocino, Sacramento, San Francisco (city and county), Stanislaus, Tehama, and Tuolumne counties made errors in the regulated railway apportionment process.

- Inyo, Sacramento, and Stanislaus counties made errors in computing proportionate shares of administrative costs.

- Inyo and Tehama counties made errors in their computations of ERAF growth.

- Inyo, Kings, Mariposa, Mendocino, Modoc, Sacramento, San Francisco (city and county), Stanislaus, Sutter, Tehama, and Tuolumne counties made errors in calculating vehicle license fee (VLF) adjustments.

- Modoc County made errors in calculating sales and use tax (SUT) adjustments.

- Colusa, Imperial, Los Angeles, Marin, and San Francisco (city and county) counties each had an observation regarding qualified electric (QE) property.

- Alameda, Butte, Colusa, Imperial, Kings, Los Angeles, Marin, Mendocino, Placer, Sacramento, San Francisco (city and county), Santa Clara, Shasta, Stanislaus, Sutter, Tuolumne and Ventura counties each had an observation regarding Redevelopment Property Tax Trust Fund (RPTTF).

Overview

Introduction

This report presents the results of 25 audits of county property tax allocations and apportionments completed by SCO in calendar year 2017. The following counties were audited: Alameda, Alpine, Amador, Butte, Colusa, Imperial, Inyo, Kings, Los Angeles, Marin, Mariposa, Mendocino, Modoc, Mono, Placer, Sacramento, San Francisco (city and county), Santa Clara, Shasta, Siskiyou, Stanislaus, Sutter, Tehama, Tuolumne, and Ventura. Government Code section 12468 requires that such audits be conducted periodically for each county according to a prescribed schedule based on county population. The purpose of the audits is to help mitigate problems associated with property tax allocation and apportionment processes.

Except for the findings and recommendations noted in this report, the 25 counties audited generally complied with the requirements for the allocation and apportionment 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, school districts, and community college districts. The main objective was to provide local agencies with a property tax base that would grow as assessed property values increase. 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 allocated and apportioned to local government agencies, school districts, and community college districts using prescribed formulas and methods defined in the 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 government agencies, school districts, and community college districts). 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 is subsequently allocated and apportioned to school and community college districts by the county auditor according to instructions received from the county superintendent of schools or the chancellor of the California Community Colleges.

Revenues generated by the different types of property tax are allocated and apportioned to local government agencies, school districts, and community college districts 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), currently the California Department of Tax and Fee Administration.

- *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 school and community college districts. The underallocation of property taxes by individual counties to their school and community college districts results in a corresponding overpayment of state funds to those districts by the same amount. This, in turn, causes school and community college districts 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, auditors focused on the following areas to determine whether:

- The allocation and apportionment of the ATI was in accordance with Revenue and Taxation Code sections 96 through 96.5.

- The methodology for redevelopment agencies' (RDA) base-year calculations and allocation and apportionment 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 allocation and apportionment of property tax revenues from supplemental assessments was in accordance with Revenue and Taxation Code sections 75.60 through 75.71.

- The allocation and apportionment 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 were in accordance with Revenue and Taxation Code section 98.

- The computation and collection of local jurisdictions' property tax administrative costs were in accordance with Revenue and Taxation Code sections 95.2 and 95.3.

- The computation and apportionment of property tax revenues to ERAF were 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 2017 indicated that the 25 audited counties generally complied with the legal requirements for the allocation and apportionment 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 Imperial and Mendocino did not fully resolve all findings noted in prior audits.

Computation and Distribution of Annual Tax Increment

Requirements for the allocation and apportionment 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.

Inyo and Mendocino counties incorrectly computed the AB 8 apportionment factors by using incorrect prior-year revenues.

Modoc County incorrectly computed the ATI by using assessed values that did not match Assessor's rolls. In addition, Modoc County incorrectly computed AB 8 apportionment factors by making keying, rollover, and shifting errors and an incomplete annexation.

Mono County incorrectly computed the ATI by using incorrect assessed values.

Shasta County incorrectly computed the ATI for four TRAs.

Jurisdictional Changes

Revenue and Taxation Code section 99 prescribes the procedures that a county must perform to make adjustments for the allocation and apportionment 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.

In Mendocino County's prior audit, we noted that the county's jurisdictional change process was incorrect. During the current audit, the county made the following errors in the sampled jurisdictional changes:

- Incorrectly adjusted the assessed value of a TRA that was not specified in the TRA change notice.

- Did not establish a new TRA as required by the TRA change notice.

- Did not make the correct annexation adjustments per the master tax agreement.

- Incorrectly computed the increment growth.

Modoc County did not complete an annexation in accordance with the BOE change notice.

Shasta County made the following errors in its calculation of jurisdictional changes:

- It incorrectly computed the base revenue shift by not including the Homeowner Exemption in the prior-year assessed values.

- It incorrectly computed the base revenue shift to the new TRAs by using incorrect formulas.

Tuolumne County changed TRA factors for taxing entities not involved in an annexation when they should have remained the same.

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 allocation and apportionment of these supplemental taxes.

Alpine, Inyo, Mariposa, Mono, Sacramento, and Tuolumne counties incorrectly computed the supplemental apportionment factors by including the VLF adjustment.

Amador County incorrectly adjusted the supplemental apportionment factors for VLF and negative ERAF.

Colusa County incorrectly computed supplemental tax revenues by:

- Omitting homeowner property tax exemption amounts and unsecured revenues from base revenues.

- Including the VLF adjustment.

Imperial County made the following errors in its computation of the supplemental apportionment factors:

- Included a multicounty school.

- Adjusted the supplemental apportionment factors for VLF and negative ERAF.

King County incorrectly computed supplemental apportionment factors as follows:

- Included VLF.

- Did not properly remove RDA adjustments.

- Did not redistribute the multi-county school's portion to K-12 schools via average daily attendance (ADA).

- Used incorrect AB 8 apportionment factors.

- Excluded various taxing entities.

Additionally, the county did not apportion supplemental revenue based on the computed factors in some years.

Siskiyou County made errors in the supplemental property tax apportionment process as follows:

- Did not consolidate all school districts' revenues before readjusting for ADA.

- Incorrectly included multicounty schools.

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 five percent of the supplemental taxes collected.

Amador County has not adopted a methodology to document the actual costs incurred in the administration of supplemental property tax, and calculates the five percent supplemental administrative fee against the total supplemental revenue collected net of refunds.

Kings County does not properly document actual supplemental property tax administrative costs as required by statute.

Mendocino County, as noted in our prior audit, incorrectly identified the costs associated with the supplemental property tax administrative cost reimbursements.

During the current audit period, Mendocino County lacked sufficient documentation to support the actual costs associated with administering the supplemental roll for all years within the audit period. The county incorrectly charged more than the maximum reimbursement allowed (five percent of the supplemental revenues collected).

Tuolumne County currently calculates supplemental administrative fees, based on five percent of total charged bills. However, the county should be calculating the fees based on five percent of total supplemental revenues collected.

Redevelopment Agencies

The legal requirements for the allocation and apportionment 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.

Kings County incorrectly computed RDAs' ATIs as follows:

- Removed unitary assessed values from the computation.

- Altered RDAs' frozen base-year values and TRA factors.

- Used inconsistent methodology in addressing decrement assessed values.

- Used computation worksheets that contained formula errors.

- Transferred erroneous increment amounts to AB 8 worksheets.

Unitary and Operating Nonunitary Apportionment

The process for allocating and apportioning 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.

Alpine County did not use the prior-year unitary factors for up to 102 percent of revenues for all years audited, and used the VLF-adjusted AB 8 factors for excess 102 percent revenues.

Amador County used supplemental apportionment factors (AB 8 revenues adjusted for VLF and negative ERAF) to apportion the excess over 102 percent of the current year's unitary revenue.

Colusa County made the following errors in its calculations of unitary and operating nonunitary (unitary) apportionment factors and resulting revenue apportionments:

- Excess 102 percent revenues were omitted from the calculation of year-end unitary factors.

- New QE properties' revenue was combined with unitary revenue.

- Miscalculated apportionment factors were applied in apportioning QE revenues.

Imperial County incorrectly computed unitary excess apportionment factors by using incorrect prior-year AB 8 factors.

Inyo County made the following errors in its computation of unitary and operating nonunitary apportionment factors:

- Used incorrect apportionment factors for the computation of excess unitary and operating nonunitary for school entities.

- Included ERAF.

Kings County made the following errors in its computation of unitary and operating nonunitary factors as follows:

- Used incorrect prior-year unitary revenues to carry forward.

- Calculated excess unitary revenues incorrectly.

- Used current-year AB 8 revenues instead of prior-year.

- Used VLF-adjusted AB 8 apportionment factors.

- Included erroneous VLF adjustments.

- Computed new unitary factors for years in which there was no excess unitary revenue.

- Used an incorrect tax rate to calculate unitary revenue.

Mendocino County made errors in its computation of unitary and operating nonunitary apportionment factors in the current audit and previous audits.

Mono County made the following errors in the computation of unitary and operating nonunitary apportionment factors:

- Used incorrect prior-year AB 8 revenues to apportion in-excess revenue.

- Used incorrect prior-year factors to apportion current year up to 102 percent revenue.

Sacramento County incorrectly apportioned unitary and operating nonunitary revenues to the ERAF.

City and County of San Francisco made the following errors in its computation of unitary and operating nonunitary apportionment factors:

- Did not use the calculated factors for revenue apportionment.

- Used incorrect excess allocation factors.

- Used incorrect unitary and pipeline assessed values and excess revenues.

Stanislaus County incorrectly computed the unitary and operating nonunitary apportionment factors by using incorrect prior-year AB 8 apportionment factors in the excess revenue computation.

Tehama County made the following errors in its computation of unitary and operating nonunitary apportionment factors:

- Used incorrect current-year assessed value by including regulated railway.

- Used incorrect prior-year revenue.

- Used incorrect prior-year AB 8 factors for the excess growth calculation.

- Did not use the calculated factors for the December apportionment.

Tuolumne County included VLF adjustments in its computation of unitary and operating nonunitary apportionment factors.

Regulated Railway Apportionment

The process for allocating and apportioning 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.

Amador County used supplemental apportionment factors to apportion the excess 102 percent of the current year's regulated railway revenue.

Colusa County did not carry over the unitary regulated railway factors to the subsequent apportionment factor calculations.

Imperial County incorrectly computed the regulated railway excess 102 percent apportionment factors by including VLF adjustments.

Kings County made the following errors in its computation of unitary regulated railway factors as follows:

- Used incorrect prior-year unitary revenues to carry forward.

- Calculated excess unitary revenues incorrectly.

- Used current-year AB 8 revenues instead of prior-year.

- Used VLF-adjusted AB 8 apportionment factors.

- Included VLF adjustments.

- Computed new unitary factors for years in which there was no excess unitary revenue.

- Used an incorrect tax rate to calculate unitary revenue.

Mendocino County made the following errors in its computation of regulated railway factors:

- Used the same base revenue to compute up to 102 percent of prior-year revenue for all years, instead of using the immediate prior-year revenue.

- Removed ERAF.

Sacramento County made the following errors in its computation of the regulated railway apportionment factors:

- Used incorrect prior-year railway revenues to compute for current-year factors.

- Used incorrect prior-year AB 8 revenues to compute for in-excess factors.

- Apportioned in-excess revenues separately.

- Incorrectly adjusted for VLF.

City and County of San Francisco made the following errors in its computation of regulated railway apportionment factors:

- Used incorrect excess allocation factors.

- Used incorrect computed revenue.

Stanislaus County made the following errors in its computation of regulated railway apportionment factors:

- Used incorrect prior-year factors.

- Used incorrect prior year AB 8 apportionment factors in the excess computation by including redevelopment pass-through revenue.

Tehama County made the following errors in its computation of regulated railway apportionment factors:

- Used incorrect prior-year AB 8 factors for the excess growth calculation.

- Did not use the calculated factors for the December apportionment.

Tuolumne County included VLF adjustments in its computation of 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 is generally allowed to be reimbursed for these costs.

Prior to FY 2006-07, counties could not impose a fee, charge, or other levy on a city, nor reduce a city's allocation of ad valorem property tax revenue, in reimbursement for services performed by the county under 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.

Inyo County incorrectly computed proportionate shares of administrative costs.

Sacramento County incorrectly used prior-year unitary and operating nonunitary, and regulated railway revenues for the computation of the property tax administrative fee factors.

Stanislaus County incorrectly computed proportionate shares of administrative costs by including redevelopment pass-through payments.

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 school and community college districts using factors supplied by the county superintendent of schools or the 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 had been 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 had been 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.

Inyo County incorrectly computed the ERAF shift revenues by using the incorrect prior-year ERAF shift revenue.

Tehama County incorrectly computed the FY 1993-94 ERAF per capita shift growth by using incorrect prior-year value.

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 SUT and VLF adjustment 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.

Inyo County incorrectly computed the VLF growth by using incorrect assessed values.

Kings County incorrectly computed VLF adjustments as follows:

- Excluded unsecured assessed values during the growth computation process.

- Incorrectly carried forward prior year assessed values.

Mariposa County incorrectly computed the VLF growth by using unitary assessed values instead of utility assessed values.

Mendocino County made the following errors in the VLF adjustment calculation:

- Did not adjust for annexation (in year of annexation).

- Used the incorrect assessed values.

Modoc County made the following errors in its VLF/SUT process:

- Used incorrect assessed values and carried forward incorrect years when calculating the VLF growth.

- Did not distribute a one-time SUT adjustment.

Mono County made the following errors in the computation of VLF:

- Excluded utilities assessed values.

- Excluded unsecured homeowner exemption values.

Sacramento County incorrectly computed the VLF growth and shift amount for the City of Folsom by including current-year annexation assessed values.

City and County of San Francisco incorrectly calculated and distributed the VLF revenue adjustment to the General Fund from ERAF.

Stanislaus County incorrectly computed the VLF growth by not including the local utility assessed values.

Sutter County incorrectly calculated the VLF growth by including current-year assessed values of newly annexed properties in its yearly computation.

Tehama County made the following errors in its computation of VLF growth:

- Did not include aircraft assessed values.

- Incorrectly adjusted for annexations.

- Used incorrect prior-year VLF shift amount.

- Used incorrect prior-year assessed values.

Tuolumne County did not include utility assessed values in its VLF growth computation and excluded an annexation reduction.

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.

No errors were noted in this area.

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.

No errors were 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 allocation and apportionment 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 that 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, then 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:

> "'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.

Colusa, Imperial, Los Angeles, Marin, and San Francisco (city and county) 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 RDAs. 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 RDA, 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 adequate 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 No. 34-2014-80001723-CU-WM-GDS 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."

On September 17, 2015, the respondent appealed the ruling to the Court of Appeal of the State of California, Third Appellate District. As the appellate court has not decided on the case, we will follow up on this issue in a subsequent audit.

Alameda, Butte, Colusa, Imperial, Kings, Los Angeles, Marin, Mendocino, Placer, Sacramento, San Francisco (city and county), Santa Clara, Shasta, Stanislaus, Tuolumne, and Ventura 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 county's property tax program. 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.

<u>Recommendation</u>

As the Health and Safety Code sections referred to on 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 Allocation and Apportionment reports issued by SCO in calendar year 2017. 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.

Alameda County (July 1, 2013, through June 30, 2016)

Follow-up on prior audit findings

Our prior audit report, issued April 4, 2014, included no findings related to the allocation and apportionment of property tax revenues by the county.

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

Alpine County (July 1, 2010, through June 30, 2016)

Follow-up on prior audit findings

Our prior audit report, issued April 15, 2011, included no findings related to the allocation and apportionment of property tax revenues by the county.

FINDING 1— Supplemental property tax apportionment

The county incorrectly used VLF-adjusted AB 8 factors for supplemental property tax calculation in FY 2014-15 and FY 2015-16.

The legal requirements for supplemental roll property tax allocation and apportionment 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 exclude the VLF adjustment from its supplemental property tax calculation.

<u>County's Response</u>

The county concurred with this recommendation and going forward will exclude the VLF adjustment in the supplemental property tax calculation.

<u>SCO Comment</u>

We will review the corrections during our next audit.

FINDING 2—
Unitary and operating
nonunitary
apportionment

The county did not use the prior-year unitary factors for up to 102 percent of revenues for all years. Also, in FY 2015-16, the county incorrectly used VLF-adjusted AB 8 factors for excess 102 percent revenues.

Requirements for the allocation and apportionment 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 QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for allocating and apportioning 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.

<u>Recommendation</u>

We recommend that the county:

- Recompute its unitary and nonunitary apportionment factors and corresponding apportionments beginning with FY 2010-11, and then use the corrected factors.

- Make adjusting journal entries as necessary.

<u>County's Response</u>

The county concurred with this recommendation and will re-compute the unitary and non-unitary apportionment factors and corresponding apportionments beginning with FY 2010-11 and use the corrected factors along with any adjusting journal entries as necessary.

<u>SCO Comment</u>

We will review the corrections during our next audit.

Amador County (July 1, 2009, through June 30, 2016)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued December 11, 2009.

FINDING 1—Supplemental property tax apportionment

For FY 2014-15 and FY 2015-16, the county adjusted the supplemental apportionment factors for VLF and negative ERAF. As a result, these adjustments decreased the ERAF and Amador County Unified School District's proportionate share of supplemental property taxes.

The legal requirements for supplemental roll property tax allocation and apportionment 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 its supplemental apportionment factors to exclude VLF and negative ERAF for FY 2014-15, FY 2015-16, and forward. Should the recalculation result in a significant monetary impact, the county should reapportion and reallocate accordingly.

County's Response

The county concurred with the recommendation and subsequently recalculated the supplemental apportionment factors.

SCO Comment

We will review the corrections during our next audit.

FINDING 2—Supplemental property tax administrative fee

For FY 2009-10 through FY 2015-16, we noted that the county:

- Has not adopted a methodology to document the actual costs incurred in the administration of Supplemental property tax.

- Calculated the five percent supplemental administrative fee against the total supplemental revenue collected net of refunds.

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 five percent of the supplemental property taxes collected.

Recommendation

We recommend that the county implement a system to assist in documenting actual costs for administration of the supplemental property tax allocation and apportionment. We also recommend that the county calculate its five percent supplemental administrative fee on the total supplemental revenues collected.

County's Response

The county concurred with the recommendation and subsequently implemented a system to help document actual supplemental administrative cost and calculate the 5 percent supplemental fee.

SCO Comment

We will review the corrections during our next audit.

FINDING 3—
Unitary and operating
nonunitary
apportionment

For FY 2009-10 through FY 2015-16, the county used supplemental apportionment factors (AB 8 revenues adjusted for VLF and negative ERAF), to apportion the excess over 102 percent of the current year's unitary revenue. This error affected the current year's allocation factors.

Requirements for the allocation and apportionment 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 QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for allocating and apportioning 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 recalculate unitary and operating nonunitary apportionment factors, and carry the corrected values forward. Should the recalculation result in a significant monetary impact, the county should reapportion and reallocate accordingly.

County's Response

The county concurred with the recommendation and subsequently recalculated the unitary and operating nonunitary apportionment factors.

SCO Comment

We will review the corrections during our next audit.

**FINDING 4—
Regulated railway
apportionment**

For FY 2009-10 through FY 2015-16, the county used supplemental apportionment factors (AB 8 revenues adjusted for VLF and negative ERAF) to apportion the excess over 102 percent of the current year's regulated railway revenue. This error affected the current year's allocation 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 that counties must perform to allocate unitary railway property taxes beginning in FY 2007-08.

Recommendation

We recommend that the county recalculate its unitary regulated railway apportionment factors, and carry the corrected values forward. Should the recalculation result in a significant monetary impact, the county should reapportion and reallocate accordingly.

County's Response

The county concurred with the recommendation and subsequently recalculated the unitary regulated railway apportionment factors.

SCO Comment

We will review the corrections during our next audit.

Butte County (July 1, 2013, through June 30, 2016)

**Follow-up on prior
audit findings**

Our prior audit report, issued July 29, 2014, included no findings related to the allocation and apportionment of property tax revenues by the county.

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

Colusa 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 May 18, 2011.

FINDING 1—Supplemental property tax apportionment

We noted the following errors in the county's apportionment calculations of supplemental tax revenues:

- Base revenues used for calculating supplemental apportionment factors omitted homeowner property tax exemption amounts and unsecured revenues. The county's calculations show that only secured and utility-assessed value-based revenues were included. Supplemental-factor calculations should be based on AB 8 revenues, adjusted for the ERAF shifts and to exclude RDAs.

- The VLF swap adjustment was improperly included in calculating supplemental apportionment factors in FY 2014-15. The adjustment is disallowed for calculations in all years after FY 2013-14.

The legal requirements for supplemental roll property tax allocation and apportionment 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 use its AB 8 revenue factors to calculate supplemental tax revenue apportionments for all years subsequent to FY 2014-15, and to distribute any collections of prior-year supplemental tax revenues.

County's Response

The county concurred with the finding.

FINDING 2—Unitary and operating nonunitary apportionment

We noted the following errors in the county's calculations of unitary and operating non-unitary (unitary) apportionment factors and resulting revenue apportionments:

- Excess revenue (greater than 102 percent of prior-year revenue) for unitary in FY 2009-10 were omitted from the calculation of year-end unitary factors.

- Revenue from new QE properties was incorrectly combined with unitary revenue in FY 2011-12 through FY 2014-15, leading to miscalculated excess revenue, year-end unitary apportionment factors, and unitary revenue distributions.

- The miscalculated unitary factors were applied in apportioning QE revenues from FY 2011-12 through FY 2014-15.

Requirements for the allocation and apportionment 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 QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for allocating and apportioning 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 recalculate unitary factors for all fiscal years beginning with FY 2009-10 to correct the unitary and QE revenue distributions to affected jurisdictions.

County's Response

The county concurred with the finding.

**FINDING 3—
Regulated railway
apportionment**

The year-end unitary regulated railway (railway) factors for FY 2010-11 were not carried over correctly to the subsequent FY 2011-12 apportionments and factor calculations. New factors are calculated in a year during which excess revenue (greater than 102 percent of prior-year revenue) is produced and must be carried over for the subsequent year calculations. When new factors are not computed in years having excess revenue, all subsequent-year factors and resulting apportionments are miscalculated.

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 that counties must perform to allocate unitary railway property taxes beginning in FY 2007-08.

Recommendation

We recommend that the county recalculate railway apportionment factors for all fiscal years beginning with FY 2010-11 to correct the unitary regulated railway apportionment factors and revenue distributions to affected jurisdictions.

<u>County's Response</u>

The county concurred with the finding.

Imperial County (July 1, 2007, through June 30, 2016)

Follow-up on prior audit findings

The county corrected the ERAF allocation for the library share of the ERAF shift identified in the prior audit report, issued July 21, 2009. However, the county has not repaid the $959,203 owed to the ERAF. The county concurs with this finding and the amount owed, and is working on legislation to forgive the amount owed. We will follow up on this finding during our next audit.

**FINDING 1—
Supplemental property tax apportionment**

The county made the following errors in its computation of the supplemental apportionment factors:

- From FY 2007-08 through FY 2015-16, the county included a multicounty school.

- In FY 2014-15 and FY 2015-16, the county adjusted the supplemental apportionment factors for VLF and negative ERAF.

As a result, the county misallocated revenues to taxing entities. During the audit, the county recomputed the supplemental apportionment factors.

The legal requirements for supplemental roll property tax allocation and apportionment 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.

<u>Recommendation</u>

We recommend that the county ensure that FY 2015-16 and subsequent years' supplemental apportionment factors are correctly computed. We will review the recomputation during our next audit.

<u>County's Response</u>

The county concurred with the finding and has made the recommended changes.

**FINDING 2—
Unitary and operating nonunitary apportionment**

In FY 2015-16, the county incorrectly computed unitary excess apportionment factors by using incorrect prior-year AB 8 factors. As a result, the county misallocated revenues to taxing entities. During the audit, the county recomputed the unitary excess apportionment factors.

Requirements for the allocation and apportionment 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 QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for allocating and apportioning 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 ensure that FY 2015-16 and subsequent years' unitary excess apportionment factors are correctly computed. We will review the recomputation during our next audit.

County's Response

The county concurred with the finding and has made the recommended changes.

**FINDING 3—
Regulated railway
apportionment**

In FY 2014-15 and FY 2015-16, the county incorrectly computed the regulated railway excess (102 percent) apportionment factors by including VLF adjustments. As a result, the county misallocated revenues to taxing entities. During the audit, the county recomputed the regulated railway 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 that counties must perform to allocate unitary railway property taxes beginning in FY 2007-08.

Recommendation

We recommend that the county ensure that FY 2014-15 and subsequent years' regulated railway excess (102 percent) apportionment factors are correctly computed. We will review the recomputations during our next audit.

County's Response

The county concurred with the finding and has made the recommended changes.

Inyo 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 February 9, 2011.

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

In FY 2014-15, the county incorrectly computed the AB 8 apportionment factors by using the incorrect prior-year revenue.

Requirements for the allocation and apportionment 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 FY 1979-80 base year and are adjusted for jurisdictional changes. The tax increment is then added to the tax computed for the prior fiscal year to develop the apportionment for the current fiscal year.

Recommendation

We recommend that the county correct its AB 8 apportionment factors computation for FY 2014-15, and use the corrected amounts going forward. The county corrected the error during the audit. We will review the corrections during our next audit.

**FINDING 2—
Supplemental property tax apportionment**

In FY 2014-15, the county incorrectly computed the supplemental apportionment factors by including the VLF adjustment.

The legal requirements for supplemental roll property allocation and apportionment 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 exclude the VLF adjustment from the supplemental allocation factor computation. The county removed the VLF adjustment from the supplemental allocation factor in FY 2015-16.

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

In computing the unitary and operating nonunitary apportionment factors, the county made the following errors:

- In FY 2011-12, incorrect factors were used in the computation of excess unitary and operating nonunitary apportionment for school entities.

- In FY 2014-15, ERAF was included in the computation of unitary and operating nonunitary apportionment.

Requirements for the allocation and apportionment 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 QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for allocating and apportioning 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 re-compute its unitary and operating nonunitary apportionment factors, and use the corrected factors going forward.

**FINDING 4—
Property tax
administrative costs**

The county incorrectly computed proportionate shares of administrative costs for the sampled FY 2011-12 and FY 2014-15.

Requirements for the reimbursement of county property tax administrative costs are found in Revenue and Taxation Code section 95.3. County property tax administrative costs are incurred by the assessor, the tax collector, the assessment appeals board, and the auditor. The county is allowed, depending on the fiscal year and any corresponding exclusions, to be reimbursed by local agencies and schools for these administrative costs.

Recommendation

We recommend that the county review and use the proper methodology for computing proportionate shares of administrative costs going forward.

**FINDING 5—
Educational Revenue
Augmentation Fund**

In FY 2014-15, the county incorrectly computed the ERAF shift revenue by using the incorrect prior-year ERAF shift revenue.

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

allocated to schools using factors supplied by the county superintendent of schools.

For FY 1992-93, the ERAF shift amount for cities was determined by adding a per capita amount to a percentage of property tax revenues received by each city. The amount for counties was determined by adding a flat amount, adjusted for growth, to a per capita amount. The amount for special districts was generally determined by shifting the lesser of 10 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 was generally determined by:

- Reducing the FY 1992-93 ERAF shift by the FY 1992-93 per capita shift.

- Adjusting the result for growth.

- Adding the result to a flat amount and a per capita amount determined by the DOF, adjusted for growth.

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

- Multiplying the property tax allocation for FY 1992-93, pre-ERAF, by the Special District Augmentation Fund (SDAF) factor for the district effective on June 15, 1993.

- Adjusting this amount by subtracting the FY 1992-93 shift from the ERAF.

- If the above amount is greater than zero, adjusting this amount for FY 1993-94 growth (zero is used for negative amounts).

- Adding this amount to the FY 1992-93 ERAF shift, adjusting for growth.

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

- Deducting the FY 1992-93 ERAF shift for the district from the FY 1992-93 property tax allocation.

- Multiplying the result by the SDAF factor for the district effective on June 13, 1993 (net current-year bailout equivalent).

- For a district governed by a board of supervisors, deducting the amount received from the SDAF in FY 1992-93 from the net current-year 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.

- Adding this amount to the FY 1992-93 ERAF shift, adjusted for growth.

The ERAF shift amounts for fiscal years subsequent to FY 1993-94 are determined by the amount of FY 1992-93 and FY 1993-94 ERAF shifts adjusted for growth annually.

Recommendation

We recommend that the county correct the ERAF shift revenue computation for FY 2014-15, and use the corrected amounts going forward. The county corrected the error during the audit. We will review the corrections during our next audit.

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

From FY 2010-11 to FY 2014-15, the county incorrectly computed the VLF growth by using incorrect assessed values. As a result, the county over-apportioned ERAF by \$63,807.

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 the 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 each county are provided by the 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

We recommend that the county correct its VLF growth computation, and use the corrected VLF amounts going forward.

Kings County (July1, 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 14, 2009.

FINDING 1— Supplemental property tax apportionment

The county incorrectly computed supplemental apportionment factors as follows:

- Included VLF adjustments in FY 2014-15.

- Did not properly remove RDA adjustments.

- Did not redistribute the multi-county school's portion to K-12 schools via ADA.

- Used incorrect AB 8 apportionment factors.

- Excluded various taxing entities.

Additionally, the county did not apportion supplemental revenue based on the computed factors in some years.

The legal requirements for supplemental roll property tax allocation and apportionment 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 correct the above errors and change its computation method for the FY 2016-17 supplemental apportionment process.

County's Response

The county agreed with the finding and has corrected the finding with the December 2016 apportionment.

SCO Comment

We will review the correction during our next audit.

FINDING 2— Supplemental property tax administrative fee

The county does not properly document actual supplemental property tax 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

We recommend that the county review and document actual costs incurred for administrating the supplemental roll.

County's Response

The county agreed with the finding and has reinstated documentation of hours and cost associated with the supplemental roll.

SCO Comment

We will review the documentation of actual supplemental costs during our next audit.

**FINDING 3—
Redevelopment
agencies**

The county incorrectly computed RDAs' ATI as follows:

- Removed unitary assessed values from the computation.

- Altered RDAs' frozen base-year values and TRA factors.

- Did not use consistent methodology in addressing decrement assessed values.
- Used computation worksheets that contained formula errors.

- Transferred erroneous increment amounts to AB 8 worksheets.

Requirements for the allocation and apportionment 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 correct the above errors and change its computation method for the FY 2016-17 successor agencies' apportionment process.

County's Response

The county agreed with the finding and has corrected the finding with the FY 2016-17 AB 8 process.

SCO Comment

We will review the correction during our next audit.

**FINDING 4—
Unitary and
operating
nonunitary
apportionment**

The county incorrectly computed unitary and operating nonunitary factors as follows:

- Used incorrect prior-year unitary revenues to carry forward.

- Calculated excess unitary revenues incorrectly.

- Used current-year AB 8 revenues instead of prior-year.

- Used AB 8 apportionment factors that were adjusted for VLF incorrectly.

- Included erroneous VLF adjustments.

- Computed new unitary factors for years in which there was no excess unitary revenue.

- Used incorrect tax rate to calculate unitary revenue.

Requirements for the allocation and apportionment 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 QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for allocating and apportioning 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 recalculate its unitary and operating nonunitary factors to arrive at correct values to be used going forward.

County's Response

The county agreed with the finding, has recalculated these factors for the period under audit, and has incorporated the adjustment into the current FY 2016-17 factors.

SCO Comment

We will review the correction during our next audit.

**FINDING 5—
Regulated railway
apportionment**

The county incorrectly computed unitary regulated railway factors as follows:

- Used incorrect prior-year unitary revenues to carry forward.

- Calculated excess unitary revenues incorrectly.

- Used current-year AB 8 revenues instead of prior-year.

- Used AB 8 apportionment factors that were adjusted for VLF incorrectly.

- Included erroneous VLF adjustments.

- Computed new unitary factors for years in which there was no excess unitary revenue.

- Used incorrect tax rate to calculate unitary revenue.

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 that counties must perform to allocate unitary railway property taxes beginning in FY 2007-08.

Recommendation

We recommend that the county recalculate its unitary regulated railway factors to arrive at correct values to be used going forward.

County's Response

The county agreed with the finding, has recalculated the factor for the period under audit, and has incorporated the adjustment into the current FY 2016-17 factor.

SCO Comment

We will review the correction during our next audit.

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

The county incorrectly computed VLF adjustments as follows:

- Excluded unsecured assessed values during the growth computation process.

- Incorrectly carried forward prior-year assessed values.

Requirements for the ERAF adjustment for the 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 the 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 the 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

We recommend that the county recalculate its VLF adjustments for the audit period, and make necessary monetary adjustments to the ERAF and other affected taxing jurisdictions.

County's Response

The county agreed with the finding and has recalculated the VLF adjustments for the audit period and incorporated the total adjustment into the December 2016 apportionment.

SCO Comment

We will review the correction during our next audit.

Los Angeles County (July 1, 2013, through June 30, 2016)

Follow-up on prior audit findings

Our prior audit report, issued May 8, 2014, included no findings related to the allocation and apportionment of property tax revenues by the county.

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

Marin County (July 1, 2011, through June 30, 2016)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued April 29, 2014.

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

Mariposa 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 January 13, 2010.

FINDING 1— Supplemental property tax apportionment

In FY 2014-15, the county incorrectly computed the supplemental allocation factors by including the VLF adjustment.

The legal requirements for supplemental roll property tax allocation and apportionment 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 exclude the VLF adjustment from its supplemental allocation factor computation going forward. The county subsequently corrected the error; therefore, no further action is necessary.

County's Response

The county corrected the error by recalculating FY 2014-15 supplemental allocation factors to exclude the VLF adjustment.

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

In FY 2014-15, the county incorrectly computed the VLF growth by using unitary assessed values instead of utility assessed values.

Requirements for the ERAF adjustment for the 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 the ERAF to the VLF Property Tax Compensation Fund, and eventually to the county and cities within each county. 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 the 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

We recommend that the county correct its VLF growth computation, and use the corrected VLF amounts going forward. The county subsequently corrected the error; therefore, no further action is necessary.

County's Response

The county corrected the error by recalculating FY 2014-15 VLF growth using utility assessed values as opposed to unitary assessed values. The county then completed adjusting journal entries in FY 2015-16 to correct both FY 2014-15 and FY 2015-16 VLF shift from ERAF amounts.

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

Follow-up on prior audit findings

Findings noted in our prior audit, issued November 25, 2009, have been satisfactorily resolved by the county, with the exception of:

- Jurisdictional changes, as explained in Finding 2.

- Supplemental administrative costs, as explained in Finding 4.

- Unitary and operating nonunitary apportionment, as explained in Finding 5.

FINDING 1— Computation and distribution of annual tax increment

The county incorrectly calculated the AB 8 factors for FY 2009-10, FY 2012-13, and FY 2014-15 by carrying forward the wrong base-year revenues (prior to adjustments) to the next year.

Requirements for the allocation and apportionment 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 a 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 FY 1979-80 base year and are adjusted for jurisdictional changes. The tax increment is then added to the tax computed for the prior fiscal year to develop the apportionment for the current fiscal year.

Recommendation

We recommend that the county carry forward the correct prior-year revenues beginning in FY 2009-10.

County's Response

The county concurred with the finding, made the recommended correction beginning in FY 2009-10, and carried forward to properly calculate the factors for FY 2016-17.

SCO Comment

We will review the corrections during our next audit.

FINDING 2—
Jurisdictional changes

In the prior audit, we noted that the county's jurisdictional change process was incorrect because it did not include the TRA factor exchange negotiations in the jurisdictional exchange process.

During the current audit period the county made the following errors in the sampled jurisdictional changes:

- BOE File No. 2008-002 – Incorrectly adjusted the assessed value of a TRA that is not specified in the TRA change notice

- BOE File No. 2009-001 – Did not establish a new TRA as required by the TRA change notice

- BOE File No. 2009-002 – Did not make the correct annexation adjustments per the master tax agreement

- BOE File No. 2009-004 – Incorrectly computed the increment growth

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 an additional ATI, and the base property tax revenues are adjusted according to the negotiated agreements.

Recommendation

We recommend that the county review the jurisdictional changes within the audit period and make any necessary adjustments in the FY 2016-17 AB 8 worksheet.

County's Response

BOE File No. 2008-002: The county recomputed the increment growth eliminating the adjustment in FY2007-08 and FY 2008-09 for TRAs 103-002 and 103-008, and carried forward the increment to FY 2016-17. It then made a base transfer in FY 2016-17 for this annexation, as recommended.

BOE File No. 2009-001: The county added the TRA in FY 2009-10 and carried forward the TRA to the FY 2016-17 AB8 worksheet. It then made a base transfer in FY 2016-17 for this annexation, as recommended.

BOE File No. 2009-002: The county agreed that the correct annexation adjustments were not made, but stated that this was a reversal of a prior transfer that was originally done in 1977. The county further stated that it

was unable to determine how the transfer was performed in that year because it no longer has the records, but it believes the original transfer was determined in the same manner. Therefore, the county determined that an adjustment is not necessary.

BOE File No. 2009-04: The county recomputed the increment growth eliminating the adjustment in FY 2009-10 for TRAs 104-004 and 104-001, and carried forward the increment to FY 2016-17. It then made a base transfer in FY 2016-17 for this annexation, as recommended.

SCO Comment

We will review the corrections during our next audit.

FINDING 3—
Supplemental
property tax
administrative fee

In the prior audit, we noted that the county incorrectly identified the costs associated with the supplemental property tax administrative cost reimbursements.

During the current audit period, the county lacked sufficient documentation to support the actual costs associated with administering the supplemental roll for all years within the audit period. Also, the county incorrectly charged more than the maximum reimbursement allowed (five percent of the supplemental revenues collected).

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 five percent of the supplemental property taxes collected.

Recommendation

We recommend that the county document the actual costs associated with administering the supplemental roll, and compare it against the cap (maximum of five percent of the supplemental property tax revenue before refunds) to determine the supplemental property tax administrative fee to be recovered going forward.

County's Response

The county stated that it was unable to determine how the supplemental costs were documented in the past. The county has created a new cost worksheet to identify the costs associated with administering the supplemental tax roll and will use that worksheet as recommended to properly charge or adjust such costs in the future.

SCO Comment

We will review the corrections during our next audit.

FINDING 4—
Unitary and operating
nonunitary
apportionment

Prior to and during the previous audit, we determined that the unitary and operating nonunitary apportionment factors were incorrectly established in FY 1987-88. In FY 1998-99, the county attempted to correct the problem by establishing the correct base revenue for the unitary apportionment system. The county computed the base revenue using the correct unitary assessed values; however, the county did not complete and apply the correction. In FY 2002-03, the county process to compute the excess of 102 percent of the prior-year unitary revenues excluded the RDAs.

During the current audit period, the county did not compute up to 102 percent of prior-year unitary revenues for FY 2009-10, FY 2010-11, and FY 2012-13 through FY 2014-15 in the unitary factors computation and apportionment process.

Requirements for the allocation and apportionment 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 QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for allocating and apportioning 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 follow.

Recommendation

We recommend that the county recalculate the unitary and nonunitary apportionment factors and the corresponding apportionments beginning with FY 1987-88, and use the corrected factors going forward.

County's Response

The county concurred with the finding; using a worksheet that we prepared, the county made the corrections and carried them forward to FY 2016-17.

SCO Comment

We will review the corrections during our next audit.

**FINDING 5—
Regulated railway
apportionment**

The county made the following errors in its regulated railway factors computation:

- Used the 2006-07 base revenue to compute up to 102 percent of prior year revenue for all years within the scope period instead of using the immediate prior year revenue.

- Removed ERAF in FY 2014-15.

As a result, more than half of the jurisdictions within the county received little or no regulated railway revenue.

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 that counties must perform to allocate unitary railway property taxes beginning in FY 2007-08.

Recommendation

We recommend that the county recalculate its regulated railway factors and correct any misallocations of property tax revenues from FY 2008-09 through FY 2014-15.

County's Response

The county concurred with the finding, and has corrected the error on its worksheet beginning in FY 2007-08 and carried forward to FY 2016-17. The county stated that adjustments of misallocated property tax revenues for FY 2008-09 through FY 2014-15 will be completed in FY 2016-17.

SCO Comment

We will review the corrections during our next audit.

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

The county made the following errors in the VLF adjustment calculation:

- Did not adjust for annexation (in year of annexation).

- Used the incorrect assessed value in FY 2014-15.

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 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 correct its FY 2014-15 VLF computation and adjust for annexations (in the year of annexation) going forward.

County's Response

The county concurred with the finding and stated that the VLF computation will be corrected in FY 2016-17.

SCO Comment

We will review the corrections during our next audit.

Modoc County (July 1, 2012, through June 30, 2016)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued April 14, 2014.

FINDING 1— Computation and distribution of annual tax increment

The county made the following errors in its ATI/AB 8 process:

- The county documented the assessed values from the Assessor's Office. However, there were discrepancies in the Auditor-Controller's rolls compared to the Assessor's rolls.

- In FY 2013-14 AB 8 computation, the county's total assessed value was off by approximately $5 million. The error was due to keying errors in the FY 2012-13 rollover, shifting errors from the addition of new TRAs, and the incomplete Odgers Annexation (see Finding 2).

Requirements for the allocation and apportionment 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.

Recommendation

We recommend that, beginning with FY 2012-13, the county review and correct the rolls used by the Auditor-Controller. We also recommend that, the county review and note any major misallocations to any jurisdictions that were materially impacted by the AB 8 error.

During the audit, the county corrected the errors noted above. As the corrections were made outside of the audit period, they will be reviewed in the next audit.

<u>County's Response</u>

The county concurred with the recommendation.

FINDING 2—
Jurisdictional changes

The county did not complete the FY 2013-14 Odgers Annexation in accordance with the BOE change notice.

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.

<u>Recommendation</u>

We recommend that the county complete the FY 2013-14 Odgers Annexation in accordance with the BOE change notice.

During the audit, the county contacted the BOE; it is in the process of correcting the annexation, which will be implemented in FY 2017-18.

<u>County's Response</u>

The county concurred with the recommendation.

FINDING 3—
Vehicle license fee and
sales and use tax
adjustments

The county made the following errors in its VLF/SUT process:

- The county used incorrect assessed values and carried forward incorrect years when calculating the VLF growth, causing the VLF to be misallocated in the amount of $65,215 (owed to the ERAF).

- In FY 2014-15, the county did not distribute a one-time SUT adjustment in the amount of $3,651 (owed from the ERAF).

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 DOF gave the county a VLF value that was to be transferred from the 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 each 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 county and cities within each county.

Recommendation

We recommend that the county recalculate its VLF amounts beginning in FY 2012-13 and correct the misallocated amounts, use the corrected calculations going forward, and correct the one-time SUT adjustment.

During the audit, the county corrected the errors noted above with updated FY 2016-17 journals. As the corrections were made outside of the audit period, they will be reviewed in the next audit.

County's Response

The county concurred with the recommendation.

Mono 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 February 25, 2009.

FINDING 1— Computation and distribution of annual tax increment

In FY 2008-09, the county used incorrect assessed values for the current-year increment computation. This resulted in the inflation of increments in subsequent years.

Requirements for the allocation and apportionment 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 FY 1979-80 base year and are adjusted for jurisdictional changes. The tax increment is then added to the tax computed for the prior fiscal year to develop the apportionment for the current fiscal year.

Recommendation

We recommend that the county recompute its FY 2008-09 ATI by using the correct assessed values and make necessary adjustments to affected entities.

County's Response

The county concurred with the finding and will take steps to correct the errors identified in the report.

SCO Comment

We will review the correction during our next audit.

FINDING 2—
Supplemental
property tax
apportionment

In FY 2014-15, the county incorrectly computed its supplemental apportionment factors by including the VLF adjustment. This resulted in an increase in the apportionment for the county and city.

The legal requirements for supplemental roll property tax allocation and apportionment 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

We recommend that the county correct its supplemental apportionment factors beginning with FY 2014-15 and make necessary adjustments to affected entities.

County's Response

The county concurred with the finding and will take steps to correct the errors identified in the report.

SCO Comment

We will review the correction during our next audit.

FINDING 3—
Unitary and operating
nonunitary
apportionment

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

- In FY 2008-09, used incorrect prior year AB 8 revenues to apportion in-excess revenue.

- In FY 2011-12 and FY 2014-15, used incorrect prior-year factors to apportion current year up to 102 percent revenue.

The errors resulted in the use of incorrect apportionment factors for affected entities.

Requirements for the allocation and apportionment 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 QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee

and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for allocating and apportioning 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.

<u>Recommendation</u>

We recommend that the county correct its unitary and operating nonunitary apportionment factors beginning with FY 2008-09, and use the corrected factors going forward.

<u>County's Response</u>

The county concurred with the finding and will take steps to correct the errors identified in the report.

<u>SCO Comment</u>

We will review the correction during our next audit.

FINDING 4—
Vehicle license fee and
sales and use tax
adjustments

The county made the following errors in the computation of VLF:

- In FY 2008-09, excluded utility assessed values.

- From FY 2010-11 through FY 2014-15, excluded unsecured homeowner exemption values.

The errors resulted in overstated reimbursement amounts.

Requirements for the ERAF adjustment for the 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.

The SUT amounts for each county and cities within each 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.

We recommend that the county recompute its VLF beginning with FY 2014-15 and make necessary adjustments to affected entities.

County's Response

The county concurred with the finding and will take steps to correct the errors identified in the report.

SCO Comment

We will review the correction during our next audit.

Placer County (July 1, 2008, through June 30, 2016)

Follow-up on prior audit findings

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

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

Sacramento 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 June 10, 2011.

FINDING 1— Supplemental property tax apportionment

In FY 2014-15 and FY 2015-16, the county incorrectly computed the supplemental allocation factors by including the VLF adjustment. As a result, the county underallocated $7,988,822 to the ERAF.

The legal requirements for supplemental roll property tax allocation and apportionment 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.

The county computed the corrections for FY 2014-15 and FY 2015-16 during the current audit. We will review the corrections during our next audit.

Recommendation

We recommend that the county:

- Reallocate $7,988,822 to the ERAF for FY 2014-15 and FY 2015-16.

- Correctly compute the supplemental factor in subsequent years by excluding the VLF adjustment.

County's Response

The county concurred with the finding and has made the recommended changes. The county also requested that it be allowed to repay the ERAF over a five-year period, as permitted by Revenue and Taxation Code section 96.1(c)(3).

SCO Comment

We will review the correction during our next audit.

Revenue and Taxation Code section 96.1(c)(3) requires that the reallocation be completed in equal increments within the following three fiscal years, or as negotiated with the Controller. The county's request to repay the ERAF in equal installment over a five-year period, commencing in FY 2017-18, is approved.

FINDING 2—
Unitary and operating
nonunitary
apportionment

In FY 2015-16, the county incorrectly apportioned unitary and operating nonunitary revenues to the ERAF. As a result, the county misallocated revenues to taxing entities.

Requirements for the allocation and apportionment 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 QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for allocating and apportioning 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:

- Correct the unitary and operating nonunitary apportionment factors.

- Make necessary adjustments to affected entities.

- Use the corrected factors going forward.

<u>County's Response</u>

The county concurred with the finding and will work to implement recommended changes.

<u>SCO Comment</u>

We will review the correction during our next audit.

**FINDING 3—
Regulated railway
apportionment**

In FY 2010-11 through FY 2015-16, the county made the following errors in the computation of the regulated railway apportionment factors:

- Used incorrect prior-year railway revenues to compute current-year factors.

- Used incorrect prior-year AB 8 revenues to compute in-excess factors.

- Apportioned in-excess revenues separately.

In addition, in FY 2014-15 and FY 2015-16, the county incorrectly adjusted for VLF. As a result, the county misallocated revenues to taxing authorities.

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 that counties must perform to allocate unitary railway property taxes beginning in FY 2007-08.

<u>Recommendation</u>

We recommend that the county:

- Correct the regulated railway apportionment factors.

- Use the corrected factors going forward.

- Make necessary adjustments to affected entities.

<u>County's Response</u>

The county concurred with the finding and will work to implement recommended changes.

<u>SCO Comment</u>

We will review the correction during our next audit.

**FINDING 4—
Property tax
administrative costs**

In FY 2012-13 through FY 2014-15, the county incorrectly used prior-year unitary and operating nonunitary, and regulated railway revenues for the computation of the property tax administrative fee factors. As a result, the county did not receive the allowable reimbursable cost from affected entities.

Requirements for the reimbursement of county property tax administrative costs are found in Revenue and Taxation Code section 95.3. County property tax administrative costs are incurred by the assessor, the tax collector, the assessment appeals board, and the auditor. The county is allowed, depending on the fiscal year and any corresponding exclusions, to be reimbursed by local government agencies and school districts for these administrative costs.

Recommendation

We recommend that the county correct its property tax administrative fee factors and make necessary adjustments to affected entities.

County's Response

The county concurred with the finding and will work to implement recommended changes.

SCO Comment

We will review the correction during our next audit.

FINDING 5—
Vehicle license fee and
sales and use tax
adjustments

In FY 2013-14, the county incorrectly computed the VLF growth and shift amount for the City of Folsom by including current-year annexation assessed values. As a result, the county under-allocated $94,485 to the ERAF.

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 the 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 each county are provided by the 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.

The county computed the corrections for FY 2013-14 during our fieldwork. We will review the corrections during our next audit.

Recommendation

We recommend that the county:

- Reallocate $94,485 to the ERAF for FY 2013-14.

- Correctly compute the VLF growth and shift amounts for the City of Folsom in subsequent years by excluding current-year annexation assessed values.

County's Response

The county concurred with the finding and has made the recommended changes.

SCO Comment

We will review the correction during our next audit.

San Francisco City and County (July 1, 2012, through June 30, 2016)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued April 29, 2014.

**FINDING 1—
Unitary and operating nonunitary apportionment**

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

- In FY 2012-13, the county did not use the calculated factors for revenue apportionment.

- In FY 2012-13 through 2015-16, the county used incorrect excess allocation factors.

- In FY 2015-16, the county used the incorrect unitary and pipeline assessed value and excess revenue.

Requirements for the allocation and apportionment 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 QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."
In FY 1988-89, the Legislature established a separate system for allocating and apportioning 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 correct the errors, and use the corrected unitary apportionment factors going forward.

County's Response

The county concurred with the finding. For FY 2016-17, the county corrected the above errors and will use the corrected unitary and operating nonunitary apportionment factors going forward.

SCO Comment

We will review the corrections during our next audit.

FINDING 2—
Regulated railway
apportionment

The county made the following errors in its computation of regulated railway apportionments factors:

- In FY 2012-13, FY 2014-15, and FY 2015-16, the county used incorrect excess allocation factors.

- In FY 2014-15 and FY 2015-16, the county used incorrect computed revenue.

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 that counties must perform to allocate unitary railway property taxes beginning in FY 2007-08.

Recommendation

We recommend that the county correct the errors, and use the corrected regulated railway apportionment factors going forward.

County's Response

The county concurred with the finding. For FY 2016-17, the county corrected the above errors and will use the corrected unitary railroad apportionment factors going forward.

SCO Comment

We will review the corrections during our next audit.

FINDING 3—
Vehicle license fee and
sales and use tax
adjustments

The county incorrectly calculated and distributed the VLF revenue adjustment to the General Fund from ERAF. The error caused a misallocation to the General Fund in the amount of $3,197,686.

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 each 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 computed the corrections during the audit and should implement them going forward. We will review the corrections during our next audit.

County's Response

The county concurred with the finding and stated that the City and County's Property Tax Unit will more carefully review the VLF revenue adjustment calculation to avoid similar errors in the future. During the audit, the county computed the corrected values and provided us with FY 2016-17 accounting journal entries to reflect the $3,197,686 adjustment to the ERAF. The county will use the corrected VLF amounts going forward.

Santa Clara County (July 1, 2013, through June 30, 2016)

Follow-up on prior audit findings

Our prior audit report, issued June 2, 2014, included no findings related to the allocation and apportionment of property tax revenues by the county.

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

Shasta County (July 1, 2010, through June 30, 2016)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued May 31, 2011.

FINDING 1—Computation and distribution of annual tax increment

In FY 2015-16, the county over-computed the increment growth by a total of $2,102 for TRAs 001-192, 077-039, 077-060, and 082-093.

Requirements for the allocation and apportionment 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.

Recommendation

The county computed the corrections during the audit and should implement them going forward. We will review the corrections during our next audit.

County's Response

The county concurred with the finding.

**FINDING 2—
Jurisdictional changes**

The county made the following errors in its calculation of jurisdictional changes:

- BOE File No. 2014-003 Reorganization 11-02 ACID – The county incorrectly computed the base revenue shift by not including the Homeowner Exemption in the prior-year assessed value for TRAs 052-021 and 052-032.

- BOE File No. 2015-001 Reorganization 11-01 ACID – The county incorrectly computed the base revenue shift to new TRAs 123-027, 123-028, and 123-029 by using incorrect formulas.

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 computed the corrections during the audit and should implement them going forward. We will review the corrections during our next audit.

County's Response

The county concurred with the finding.

Siskiyou County (July 1, 2006, through June 30, 2016)

**Follow-up on prior
audit findings**

Our prior audit report, issued September 15, 2006, included no findings related to the allocation and apportionment of property tax revenues by the county.

FINDING— Supplemental property tax apportionment	The county made the following errors in the supplemental property tax apportionment process: • Did not consolidate all school districts—including multicounty—up to K-12 before readjusting for ADA. • Incorrectly included multicounty schools in the distribution of supplemental revenues. The legal requirements for supplemental roll property tax allocation and apportionment 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 The allocation factors of all school districts, including multicounty up to K-12, should be identified and added together for further allocation. Also, the county should exclude multicounty schools in all future distributions of supplemental revenues. County's Response The county stated that its Auditor-Controller is using the ADA information provided by the California Department of Education School Fiscal Services Division to update its supplemental tax allocation spreadsheets to reflect the change. The county further stated that in addition, multi-county schools will be excluded from future supplemental revenue distribution. The supplemental tax allocation spreadsheets have been updated to reflect these changes and in doing so, the county has resolved this finding for future supplemental allocations. SCO Comment We will review the corrections during our next audit.

Stanislaus County (July 1, 2013, through June 30, 2016)

Follow-up on prior audit findings	The county has satisfactorily resolved the findings noted in our prior audit report, issued July 18, 2014.
FINDING 1— Unitary and operating nonunitary apportionment	The county incorrectly computed the unitary and operating nonunitary apportionment factors by using incorrect prior-year AB 8 apportionment factors in the excess revenue computation.

Requirements for the allocation and apportionment 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 QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for allocating and apportioning 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 correct the unitary and operating nonunitary apportionment factors, and use the corrected factors going forward.

County's Response

The county concurred with the finding and will use corrected unitary and operating nonunitary factors moving forward.

SCO Comment

We will review the corrections during our next audit.

FINDING 2—
Regulated railway
apportionment

In computing the regulated railway apportionment factors, the county made the following errors:

- In FY 2013-14, used incorrect prior year factors.

- In FY 2013-14 through FY 2015-16, used incorrect prior year AB 8 apportionment factors in the excess computation by included redevelopment pass-through revenue.

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 that counties must perform to allocate unitary railway property taxes beginning in FY 2007-08.

Recommendation

We recommend that the county correct its regulated railway apportionment factors, and use the corrected factors going forward.

County's Response

The county concurred with the finding and will use corrected regulated railway unitary factors moving forward.

SCO Comment

We will review the corrections during our next audit.

**FINDING 3—
Property tax
administrative costs**

The county incorrectly computed proportionate shares of administrative costs for FY 2013-14 through FY 2015-16 by including redevelopment pass-through payments.

Requirements for the reimbursement of county property tax administrative costs are found in Revenue and Taxation Code section 95.3. County property tax administrative costs are incurred by the assessor, the tax collector, the assessment appeals board, and the auditor. The county is allowed, depending on the fiscal year and any corresponding exclusions, to be reimbursed by local agencies and schools for these administrative costs.

Recommendation

The county computed the corrections for FY 2016-17 during the audit and should implement the corrected methodology going forward. We will review the corrections during our next audit.

County's Response

The county concurred with the finding. As stated in the report, the corrections were made in FY 2016-17. The methodology was also changed in FY 2016-17. All changes will remain for future periods.

**FINDING 4—
Vehicle license fee and
sales and use tax
adjustment**

The county incorrectly computed VLF growth by not including the local utility assessed values.

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 each 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 computed the corrections for FY 2016-17 during the audit and should implement them going forward. We will review the corrections during our next audit.

County's Response

The county concurred with the finding. As stated in the report, the corrections were made in FY 2016-17. All changes will remain for future periods.

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

Follow-up on prior audit findings

Our prior audit report, issued February 6, 2009, included no findings related to the allocation and apportionment of property tax revenues by the county.

FINDING — Vehicle license fee and sales and use tax adjustments

The county incorrectly calculated VLF growth by including current-year assessed value of the newly annexed properties in the yearly computation, resulting in overpayments to affected taxing jurisdictions from ERAF.

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 each 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 recalculate its VLF growth and make the necessary monetary adjustments. We also recommend that the county recalculate the VLF growth to arrive at corrected values to be carried forward to future years.

The county recalculated the VLF growth amounts, and carried the corrected values forward.

SCO Comment

We will review the corrections during our next audit.

Tehama County (July 1, 2009, through June 30, 2016)

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—Unitary and operating nonunitary apportionment

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

- In FY 2009-10, the county used incorrect current-year assessed values by including regulated railway.

- In FY 2009-10 and FY 2010-11, the county used incorrect prior-year revenue.

- In FY 2012-13, FY 2014-15, and FY 2015-16, the county used incorrect prior-year AB 8 factors for the excess growth calculation.

- In FY 2015-16, the county did not use the calculated factors for the December apportionment.

Requirements for the allocation and apportionment 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 QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for allocating and apportioning 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 computed the corrections during the audit and should implement them going forward. We will review the corrections during our next audit.

County's Response

The county concurred with the finding and intends to implement the corrections going forward.

FINDING 2—
Regulated railway
apportionment

The county made the following errors in its computation of regulated railway apportionment factors:

- In FY 2010-11, FY 2011-12, and FY 2013-14 through FY 2015-16, the county used incorrect prior-year AB 8 factors for the excess growth calculation.

- In FY 2015-16, the county did not use the calculated factors for the December apportionment.

The process for apportioning and allocating 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 that counties must perform to allocate unitary railway property taxes beginning in FY 2007-08.

Recommendation

The county computed the corrections during the audit and should implement them going forward. We will review the corrections during the next audit.

County's Response

The county concurred with the finding and intends to implement the corrections going forward.

FINDING 3—
Educational Revenue
Augmentation Fund

In FY 2010-11, the county incorrectly computed the FY 1993-94 ERAF per capita shift growth by using an incorrect prior-year value.

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

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

The FY 1993-94 ERAF shift for cities and counties was generally determined by:

- Reducing the FY 1992-93 ERAF shift by the FY 1992-93 per capita shift.

- Adjusting the result for growth.

- Adding the result to a flat amount and a per capita amount determined by the DOF, adjusted for growth.

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

- Multiplying the property tax allocation for FY 1992-93, pre-ERAF, by the SDAF factor for the district effective on June 15, 1993.

- Adjusting this amount by subtracting the FY 1992-93 ERAF shift from the ERAF.

- If the above amount is greater than zero, adjusting this amount for FY 1993-94 growth (zero is used for negative amounts).

- Adding this amount to the FY 1992-93 ERAF shift, adjusting for growth.

The FY 1993-94 ERAF shift for fire districts was generally determined by:

- Deducting the FY 1992-93 ERAF shift for the district from the FY 1992-93 property tax allocation.

- Multiplying the result by the SDAF factor for the district effective on June 13, 1993 (net current-year bailout equivalent).

- For a district governed by a board of supervisors, deducting the amount received from the SDAF in FY 1992-93 from the net current-year 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.

- Adding this amount to the FY 1992-93 ERAF shift, adjusted for growth.

The ERAF shift amounts for fiscal years subsequent to FY 1993-94 are determined by the amount of FY 1992-93 and FY 1993-94 ERAF shifts adjusted for growth annually.

Recommendation

The county computed the corrections during the audit and should implement them going forward. We will review the corrections during our next audit.

County's Response

The county concurred with the finding and intends to implement the corrections going forward.

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

The county made the following errors in its computation of VLF growth:

- In FY 2009-10 through FY 2015-16, the county did not include aircraft assessed values.

- In FY 2009-10 through FY 2011-12, the county incorrectly adjusted for annexations.

- In FY 2011-12, the county used incorrect prior-year VLF shift amount.

- In FY 2015-16, the county used incorrect prior-year assessed values.

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 each 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 computed the corrections during the audit and should implement them going forward. We will review the corrections during our next audit.

County's Response

The county concurred with the finding and intends to implement the corrections going forward.

Tuolumne County (July 1, 2009, through June 30, 2016)

**Follow-up on prior
audit findings**

The county has satisfactorily resolved the findings noted in our prior audit report, issued January 29, 2010.

**FINDING 1—
Jurisdictional changes**

The county changed TRA factors for taxing entities not involved in the annexation of Cuesta Heights to the City of Sonora (BOE File No. 2009-005) when they should have remained the same.

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 correct the TRA factors that were erroneously changed.

County's Response

The county concurred with the finding and corrected the TRA factors.

SCO Comment

We will review the corrections during our next audit.

**FINDING 2—
Supplemental property tax apportionment**

The county included VLF adjustments during the computation of supplemental apportionment factors during FY 2014-15 and FY 2015-16.

The legal requirements for supplemental roll property tax allocation and apportionment 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 exclude VLF adjustments from its supplemental apportionment factor computations going forward.

County's Response

The county concurred with the finding, corrected the supplemental appointment factor, and will no longer include the VLF adjustments.

FINDING 3—
Supplemental
property tax
administrative fee

The county currently calculates supplemental administrative fees, based on five percent of total charged bills. However, the county should be calculating the fees based on five percent of total supplemental revenues collected.

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 five percent of the supplemental property taxes collected.

Recommendation

We recommend that the county calculate the supplemental administrative fees based on five percent of total supplemental revenues collected.

County's Response

Starting in FY 2016-17, the administration fee will be based on the total five percent collected.

SCO Comment

We will review the corrections during our next audit.

FINDING 4—
Unitary and operating
nonunitary
apportionment

The county included VLF adjustments during the computation of unitary and operating nonunitary apportionment factors during FY 2014-15 and FY 2015-16.

Requirements for the allocation and apportionment 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 QE properties). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for allocating and apportioning 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 recalculate FY 2014-15 and FY 2015-16 unitary and operating nonunitary apportionment factors to exclude VLF adjustments. Once this recalculation is completed, the corrected factors should be used going forward.

During the audit, the county recalculated the unitary and operating non-unitary appointment factors to exclude the VLF adjustments.

SCO Comment

The county corrected the error; therefore, no further action is necessary.

FINDING 5—
Regulated railway
apportionment

The county included VLF adjustments during the computation of unitary regulated railway apportionment factors during FY 2014-15.

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 that counties must perform to allocate unitary railway property taxes beginning in FY 2007-08.

Recommendation

We recommend that the county recalculate FY 2014-15 unitary regulated railway apportionment factors to exclude VLF adjustments. Once this recalculation is completed, the corrected factors should be used going forward.

County's Response

During the audit, the county recalculated regulated railway apportionment factors to exclude the VLF adjustments.

SCO Comment

The county corrected the error; therefore, no further action is necessary.

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

The county did not include utility assessed values during the VLF growth computation. In addition, the county excluded an annexation reduction in FY 2009-10.

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 each 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 recalculate the VLF adjustments for FY 2009-10 through FY 2015-16 to include both utility assessed values and annexation reductions.

County's Response

The county recalculated the VLF adjustments to include both utility assessed values and annexation reductions.

SCO Comment

The county corrected the error; therefore, no further action is necessary.

Ventura County (July 1, 2009, through June 30, 2016)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued April 3, 2012.

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

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

www.sco.ca.gov

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