

# **CALAVERAS COUNTY**

Audit Report

## **PROPERTY TAX APPORTIONMENT AND ALLOCATION SYSTEM**

*July 1, 2003, through June 30, 2010*



**JOHN CHIANG**  
California State Controller

February 2012



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

February 3, 2012

The Honorable Rebecca Callen  
Auditor-Controller  
County of Calaveras  
891 Mountain Ranch Road  
San Andreas, CA 95249

Dear Ms. Callen:

The State Controller's Office audited the methods employed by Calaveras County to apportion and allocate property tax revenues for the period of July 1, 2003, through June 30, 2010. The audit was conducted pursuant to the requirements of Government Code section 12468.

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

- Miscalculated the annual tax increment (ATI) growth percentages used to compute the Educational Revenue Augmentation Fund (ERAF) shift, causing the AB 8 revenues and apportionment factors to be incorrect;
- Incorrectly computed the supplemental property tax apportionment factors;
- Incorrectly computed the unitary and operating non-unitary property tax apportionment factors and allocations. In addition, it included the ERAF in the tax apportionment process;
- Incorrectly computed the pro rata share of administrative costs attributable to all local agencies, resulting in errors in the charges; and
- Miscalculated the ATI growth factors used to determine the ERAF shift for each year. As a result, the ERAF shift calculations for all fiscal years during the audit period were incorrect.

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

Sincerely,

*Original signed by*

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

JVB/sk

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

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the methods employed by Calaveras County to apportion and allocate property tax revenues for the period of July 1, 2003, through June 30, 2010.

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

- Miscalculated the annual tax increment (ATI) growth percentages used to compute the Educational Revenue Augmentation Fund (ERAF) shift, causing the AB 8 revenues and apportionment factors to be incorrect;
- Incorrectly computed the supplemental property tax apportionment factors;
- Incorrectly computed the unitary and operating non-unitary property tax apportionment factors and allocations. In addition, it included the ERAF in the tax apportionment process;
- Incorrectly computed the pro rata share of administrative costs attributable to all local agencies, resulting in errors in the charges; and
- Miscalculated the ATI growth factors used to determine the ERAF shift for each year. As a result, the ERAF shift calculations for all fiscal years during the audit period were incorrect.

Additionally, we made the following observation.

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

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

- In the first action, 47 cities in Los Angeles County filed suit against the county. On June 2, 2009, the court referee determined that the method used by Los Angeles County was correct.

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

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

## Background

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

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

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

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

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

Subsequent legislation removed revenues generated by unitary and nonunitary properties, regulated railway companies, and qualified electric properties from the AB 8 system. These revenues are now allocated and apportioned under separate systems.

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

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

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

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

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

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

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

We performed the following procedures:

- Conducted tests to determine whether the county correctly apportioned and allocated property tax revenue.
- Interviewed key personnel and reviewed supporting documentation to gain an understanding of the county's property tax apportionment and allocation processes.
- Reviewed apportionment and allocation reports prepared by the county showing the computations used to develop the property tax distribution factors.

- Reviewed tax rate area (TRA) reports to verify that the annual tax increment was computed properly.
- Reviewed county unitary and operating nonunitary reports and Board of Equalization reports and verified the computations used by the county to develop the unitary and operating nonunitary property tax distribution factors.
- Reviewed property tax administration cost reports prepared by the county and verified administrative costs associated with procedures used for apportioning and allocating property tax to local government agencies and school districts.
- Reviewed ERAF reports prepared by the county and verified the computations used to determine the shift of property taxes from local agencies to the ERAF and, subsequently, to public schools.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit covered the period of July 1, 2003, through June 30, 2010. However, we did not audit the county's financial statements. Our audit scope was limited to:

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

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

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

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

## Conclusion

Our audit disclosed that, except for the items discussed in the Findings and Recommendations section of this report, Calaveras County complied with California statutes for the apportionment and allocation of property tax revenues for the period of July 1, 2003, through June 30, 2010. The county should correct the items discussed in the Findings and Recommendations section.

Additionally, we made the following observation.

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

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

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

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

## Follow-up on Prior Audit Findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued October 5, 2005.

## Views of Responsible Official

We issued a draft audit report on June 15, 2011. Rebecca Callen, Auditor-Controller, responded by letter dated July 21, 2011 (Attachment). Except for the issue relating to inclusion of ERAF in the unitary and operating nonunitary system, she agreed with the audit results.

**Restricted Use**

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

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

February 3, 2012

**Schedule 1—  
Summary of Underallocation to the  
Educational Revenue Augmentation Fund  
July 1, 2003, through June 30, 2010**

<u>Fiscal Year</u>	<u>Allocation by County</u>	<u>State Amount per Audit</u>	<u>Audit Adjustment <sup>1</sup></u>
2003-04	\$ 4,901,713	\$ 4,956,720	\$ 55,007
2004-05	5,412,618	5,534,555	121,937
2005-06	6,104,877	6,347,350	242,473
2006-07	7,019,750	7,468,917	449,167
2007-08	7,760,361	8,352,002	591,641
2008-09	7,826,898	8,426,420	599,522
2009-10	<u>7,508,068</u>	<u>8,162,375</u>	<u>654,307</u>
Totals	<u>\$ 46,534,285</u>	<u>\$ 49,248,339</u>	<u>\$ 2,714,054</u>

NOTE: Revenue and Taxation Code section 96.1(c)(3), limits the maximum amount due to ERAF to 1% of the current year's (FY 2010-11) secured levy, or \$594,512.

<sup>1</sup> See the Findings and Recommendations section, Finding 5.

# Findings and Recommendations

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

The county miscalculated the annual tax increment (ATI) growth percentages used to compute the Educational Revenue Augmentation Fund (ERAF) shift, causing the AB 8 revenues and apportionment factors to be incorrect.

Requirements for the apportionment and allocation of the ATI are found in Revenue and Taxation Code sections 96 through 96.5. The annual increment of property tax, which is the change in assessed value from one year to the next, is allocated to tax rate areas (TRA) on the basis of each TRA's share of the incremental growth in assessed valuations. The tax increment is then multiplied by the jurisdiction's annual tax increment apportionment factors for each TRA. These factors were developed in the 1979-80 base year and are adjusted for jurisdictional changes. The tax increment is then added to the tax computed for the prior fiscal year to develop the apportionment for the current fiscal year.

### Recommendation

During the audit fieldwork, as recommended by SCO auditors, the county re-computed AB 8 factors and revenue allocations for all fiscal years. These revisions have been verified and documented by the SCO auditors. We will review the tax allocations and correcting adjustments again during the next audit to ensure that the county implemented the corrections for FY 2010-11 and each year thereafter.

### County's Response

This office has reviewed the findings and agrees with the recommendations regarding findings 1, 2, 4, and 5. The appropriate steps have been taken to ensure that the calculations be corrected utilizing the recommendations put forth by your office for 2010, going forward. Additionally, this office is in agreement on the amount owed to ERAF based on the 1% of 1% rule per Revenue and Taxation code section 96.1(c)(3).

## **FINDING 2— Supplemental property tax**

The errors in the AB 8 system, identified in Finding 1, caused the factors and allocations in the supplemental property tax system to be incorrect for all fiscal years.

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

Recommendation

The county should re-compute supplemental factors and revenue re-allocations for all fiscal years. We will review the tax allocations and correcting adjustments during the next audit to ensure that the county implemented the correction for FY 2010-11 and each year thereafter.

County's Response

This office has reviewed the findings and agrees with the recommendations regarding findings 1, 2, 4, and 5. The appropriate steps have been taken to ensure that the calculations be corrected utilizing the recommendations put forth by your office for 2010, going forward. Additionally, this office is in agreement on the amount owed to ERAF based on the 1% of 1% rule per Revenue and Taxation code section 96.1(c)(3).

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

The county incorrectly computed the unitary and operating nonunitary property tax apportionment factors and allocations. In addition, the county included the ERAF in the unitary and operating nonunitary tax apportionment computation during this audit period.

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

Unitary properties are those properties on which the Board of Equalization “may use the principle of unit valuation in valuing properties of an assessee that are operated as a unit in the primary function of the assessee” (i.e., public utilities and railroads). The Revenue and Taxation Code further states, “Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee.”

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

Recommendation

The county should re-compute unitary factors and revenue re-allocations for all fiscal years. We will review the tax allocations and correcting adjustments during the next audit to ensure that the county implemented the corrections for FY 2010-11 and each year thereafter.

The county should not include the ERAF in the future unitary and operating nonunitary tax apportionment computations, as the ERAF does not qualify as a “taxing jurisdiction” under Revenue and Taxation Code section 100. Thus, the ERAF is not eligible to share and its amount should be distributed proportionately among all taxing jurisdictions that contributed to the fund.

#### County’s Response

With regards to finding 3, whether or not ERAF should be included in the unitary apportionment is an ongoing issue across the state caused by inconsistency in Revenue and Taxation law. Calaveras County has included ERAF in the allocation of unitary revenue since being written up by the State Controller’s Office for NOT including ERAF in a prior audit. Since that time, the SCO appears to have supported this methodology without a finding until now. While we understand that the position of the SCO has changed on this matter since the prior audit, we are concerned with changing methodology based solely on that fact. Tax law has not changed nor have the guidelines in the California Property Tax Managers’ Reference Manual. Therefore until clear, consistent direction is given through the Tax Law and the California Property Tax Managers’ Reference Manual, we will take this recommendation under advisement.

#### SCO’s Comment

The ERAF is a fund—an accounting entity, not a taxing jurisdiction—and with respect to the allocation and apportionment of unitary and operating nonunitary taxes, the Legislature has not defined the ERAF as a taxing jurisdiction and, therefore, it should be excluded from the allocation process.

#### **FINDING 4— Property tax administrative costs**

The errors in the AB 8 system, identified in Finding 1, caused the factors and allocations in the property tax administrative costs system to be incorrect.

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 public schools for these administrative costs.

#### Recommendation

The county should re-compute the property tax administrative cost factors, revenue re-allocations, and correcting adjustments for all fiscal years. We will review the property tax administrative cost factors during the next audit to ensure that the county implemented the corrections for FY 2010-11 and each year thereafter.

County's Response

This office has reviewed the findings and agrees with the recommendations regarding findings 1, 2, 4, and 5. The appropriate steps have been taken to ensure that the calculations be corrected utilizing the recommendations put forth by your office for 2010, going forward. Additionally, this office is in agreement on the amount owed to ERAF based on the 1% of 1% rule per Revenue and Taxation code section 96.1(c)(3).

**FINDING 5—  
Educational Revenue  
Augmentation Fund  
(ERAF)**

The error in the computation of the ATI growth percentages, identified in Finding 1, caused the ERAF shift amounts for all fiscal years to be incorrect (Schedule 1).

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

For FY 1992-93, the ERAF shift amount for cities was determined by adding a per capita amount to a percentage of property tax revenues received by each city. The amount for counties was determined by adding a flat amount, adjusted for growth, to a per capita amount. The amount for special districts was generally determined by shifting the lesser of 10% of that district's total annual revenues as shown in the FY 1989-90 edition of the State Controller's Report on Financial Transactions Concerning Special Districts, or 40% of the FY 1991-92 property tax revenues received, adjusted for growth. Specified special districts were exempted from the shift.

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

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

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

- Multiplying the property tax allocation for FY 1992-93, pre-ERAF, by the Special District Augmentation Fund (SDAF) factor for the district effective on June 15, 1993;
- Adjusting this amount by subtracting the FY 1992-93 shift to the ERAF;

- If the above amount is greater than zero, adjusting this amount for FY 1993-94 growth (zero is used for negative amounts); and
- Adding this amount to the FY 1992-93 ERAF shift, adjusting for growth.

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

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

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

#### Recommendation

During the audit fieldwork, as recommended by SCO auditors, the county re-computed the ERAF shift amounts and factors for all fiscal years. These revisions have been verified and documented by the SCO auditors.

Revenue and Taxation Code section 96.1(c)(3) states “. . . the cumulative reallocation or adjustment may not exceed 1 percent of the total amount levied at a 1-percent rate of the current years’ original secured tax roll.” Therefore, the audit error of \$2,714,054 due the ERAF is reduced to the 1% of the current year’s original secured roll equaling \$594,512.

The county should pay \$594,512 into the ERAF for FY 2003-04 through FY 2009-10.

#### County’s Response

Due to the size of the payment and the size of our County budget, I would ask that consideration be made by your office to allow for adjustments over a period of 3 years concerning Finding 5, whereby the County owes \$594,512 to ERAF.

SCO's Comment

Revenue and Taxation Code section 96.1(c)(3) states:

The reallocation shall be completed in equal increments within the following three fiscal years, or as negotiated with the Controller in the case of reallocation to the Educational Revenue Augmentation Fund or school entities.

SCO concurs with the county's request to make three equal payments within the following three fiscal years. A separate, executed quadruplicate agreement will be submitted to the county for its review and signature.

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

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COUNTY OF CALAVERAS

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Office of AUDITOR-CONTROLLER

Rebecca Callen  
Auditor-Controller

July 21, 2011

Steven Mar, Chief  
State Controller's Office  
Local Governments Audit Bureau  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250-5874

Re: Calaveras County's Property Tax Audit for fiscal years 2003 through 2010

Dear Mr. Mar:

The Auditor Controller's office is in receipt of the Draft Final for the Calaveras County Property Tax Apportionment and Allocation System Audit Report prepared by your office.

This office has reviewed the findings and agrees with the recommendations regarding findings 1, 2, 4, and 5. The appropriate steps have been taken to ensure that the calculations be corrected utilizing the recommendations put forth by your office for 2010, going forward. Additionally, this office is in agreement on the amount owed to ERAF based on the 1% of 1% rule per Revenue and Taxation code section 96.1(c)(3).

Due to the size of the payment and the size of our County budget, I would ask that consideration be made by your office to allow for adjustments over a period of 3 years concerning Finding 5, whereby the County owes \$594,512 to ERAF.

With regards to finding 3, whether or not ERAF should be included in the unitary apportionment is an ongoing issue across the state caused by inconsistency in Revenue and Taxation law. Calaveras County has included ERAF in the allocation of unitary revenue since being written up by the State Controller's Office for NOT including ERAF in a prior audit. Since that time, the SCO appears to have supported this methodology without a finding until now. While we understand that the position of the SCO has changed on this matter since the prior audit, we are concerned with changing methodology based solely on that fact. Tax law has not changed nor have the guidelines in the California Property Tax Managers' Reference Manual. Therefore until clear,

consistent direction is given through the Tax Law and the California Property Tax Managers' Reference Manual, we will take this recommendation under advisement.

If you have any questions, please do not hesitate to contact me at (209)754-6343

Sincerely,

A handwritten signature in black ink, appearing to read "Rebecca Callen". The signature is fluid and cursive, with a large initial "R" and a distinct "C" at the end.

Rebecca Callen  
Auditor-Controller

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

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