

STATE OF CALIFORNIA

Report to the California State Legislature

PROPERTY TAX APPORTIONMENTS AND ALLOCATIONS

Calendar Year 2020



BETTY T. YEE
California State Controller

March 2021



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California State Controller

March 30, 2021

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

I am pleased to present the Property Tax Apportionments and Allocations Report for calendar year 2020. Prepared pursuant to Government Code section 12468, this report is intended to help mitigate problems associated with the counties' apportionment and allocation of property tax revenues.

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

I hope you find this information useful for future policy decisions. If you have any questions regarding this report, please contact Michael Reeves, CPA, Acting Chief of my Division of Audits, at (916) 323-5849.

Sincerely,

Original signed by

BETTY T. YEE

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Executive Summary

This report summarizes the results of the State Controller's Office (SCO) audit of county property tax apportionments and allocations during calendar year 2020. After the passage of Proposition 13 in 1978, the California State Legislature (Legislature) enacted new methods for apportioning and allocating property tax revenues to local government agencies, school districts, and community college districts. The main objective was to provide local agencies with a property tax base that would grow as assessed property values increase.

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

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

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

GC section 12468 requires that audits be conducted periodically for each county according to a prescribed schedule based on county population. During 2020, SCO completed audits of nine counties' apportionment and allocation of property tax revenues. The nine counties are Fresno, Lake, Los Angeles, Madera, Placer, Sacramento, San Joaquin, San Mateo, and Ventura.

The inclusion of unsecured aircraft assessed values in the annual tax increment (ATI) computation is under discussion. On April 28, 2020, San Joaquin County requested an informal audit review, disputing the Controller's determination that noncommercial aircraft values should be excluded from AB 8 factors under RTC sections 96.1 and 96.5. On June 24, 2020, SCO staff counsel concluded that the current statutory language is potentially ambiguous; as a result, SCO will propose a legislative amendment to RTC section 96.5 subdivision (a). The

Legislature may wish to consider clarifying RTC section 96.5 to exclude noncommercial aircraft assessed values from the equalized assessment roll.

As a part of the 2020 audit work, SCO followed up on prior SCO audits to ensure counties properly addressed the findings identified.

Except for the findings and recommendations noted in this report, the processes used by the nine counties audited during 2020 appear to comply with the requirements for the apportionment and allocation of property tax revenues.

The audit report findings are broadly classified as follows:

Prior Audits

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

Current Audits

- Fresno, San Joaquin, and San Mateo Counties made errors in the computation and distribution of property tax revenues. (Refer to the Item for Legislative Consideration for additional information about this finding.)
- Fresno and Madera Counties made errors in the supplemental property tax apportionment and allocation process.
- Fresno County made an error in the supplemental property tax administrative costs process.
- Fresno, Lake, Madera, and Sacramento Counties made errors in the unitary and operating nonunitary apportionment and allocation process.
- Fresno, Madera and Sacramento Counties made errors in the unitary regulated railway apportionment and allocation process.
- Fresno and Los Angeles Counties made errors in the qualified electric (QE) property apportionment and allocation process.
- Lake, Madera and San Mateo Counties made errors in the reimbursement of property tax administrative costs.
- Madera and San Mateo Counties made errors in the vehicle license fee (VLF) adjustment process.
- Fresno County made an error in the Disaster Relief Adjustment process.
- Los Angeles and Ventura Counties made errors in the tax equity allocation process.

Overview

Introduction

This report presents the results of nine audits of county property tax apportionments and allocations completed by SCO in calendar year 2020. The following counties were audited: Fresno, Lake, Los Angeles, Madera, Placer, Sacramento, San Joaquin, San Mateo, and Ventura. GC section 12468 requires that such audits be conducted periodically for each county according to a prescribed schedule based on county population. The purpose of the audits is to help mitigate problems associated with the property tax apportionment and allocation processes.

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

Background

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

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

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

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

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

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

Other laws established an 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 apportioned and allocated to school and community college districts by the county auditor according to instructions received from the county superintendent of schools or the chancellor of the California community colleges.

Revenues generated by the different types of property tax are apportioned and allocated to local government agencies, school districts, and community college districts using prescribed formulas and methods, as defined in the 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 other intrinsic qualities to guarantee payment of taxes levied against it.
- *State-Assessed Roll*—Utility properties composed of unitary and operating nonunitary value assessed by the State Board of Equalization (BOE).
- *Supplemental Roll*—Property that has been reassessed due to a change in ownership or the completion of new construction, where the resulting change in assessed value is not reflected in other tax rolls.

Audit Program

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

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

SCO developed and implemented a comprehensive audit program to carry out the mandated duties. The comprehensive audit program includes, but is not limited to, a detailed analysis of past and current requirements of

property tax laws and an examination of property tax records, processes, and systems at the county level.

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

Audit Scope

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

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

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

Conclusion

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

Summary of Findings and Recommendations

Introduction

Except for the findings and recommendations cited in this report, the audit reports issued in 2020 indicated that the nine audited counties generally complied with the legal requirements for the apportionment and allocation of property tax revenues. However, problem areas were identified; these are described below. Recommendations to resolve the problems are included within the individual county findings.

Unresolved Prior Audit Findings

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

Computation and Distribution of Property Tax Revenues

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

We found that Fresno, San Joaquin, and San Mateo counties included unsecured aircraft assessed values in their computation of the ATI. These findings are presented in their original form; however, the inclusion of unsecured aircraft assessed values in the ATI computation is under discussion. See the Item for Legislative Consideration for additional information about this finding.

Jurisdictional Changes

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

No issues were noted in this area.

Supplemental Property Tax Apportionment and Allocation

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

Fresno County staff members indicated that the prior audit finding related to supplemental property tax apportionment and allocation, affecting FY 1992-93 through FY 2013-14, had not been corrected. In addition, a prior audit finding related to the Disaster Relief Adjustment that affects

the AB 8 shift, had not been corrected. Therefore, supplemental apportionments and allocations for FY 2015-16 through FY 2018-19 were erroneous. We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections.

During testing of the supplemental property tax process, we further found that the county incorrectly:

- Included VLF adjustments in FY 2015-16; and
- Excluded former RDAs (current Redevelopment Property Tax Trust Funds [RPTTF]) from receiving supplemental revenues for FY 2015-16 through FY 2018-19.

Madera County incorrectly computed the supplemental apportionment factors. For FY 2014-15 through FY 2018-19, the county incorrectly adjusted the supplemental apportionment factors for ERAF, school districts, community college districts, and the County Office of Education (school programs) for the VLF shift and negative ERAF.

Supplemental Property Tax Administrative Costs

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

Fresno County does not have procedures in place for identifying the actual administrative costs associated with the supplemental assessment roll.

Redevelopment Agencies

The legal requirements for the apportionment and allocation of property tax to RDAs are found in RTC sections 96.4 and 96.6, and HSC sections 33670 through 33679. California community redevelopment law entitled a community RDA to all of the property tax revenue realized from growth in values since the RDA's project area inception, with specified exceptions.

No issues were noted in this area.

Unitary and Operating Nonunitary Apportionment and Allocation

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

Fresno County staff members indicated that the prior audit finding had not been corrected. Therefore, the FY 2015-16 through FY 2018-19 unitary and operating nonunitary apportionments and allocations were erroneous. We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections.

During audit fieldwork, we reviewed and verified the county's corrected calculations. As a result of the various errors associated with Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway (Finding 5), and QE Property (Finding 6), we were able to determine only the cumulative understated ERAF amount for FY 2005-06 through FY 2018-19.

Lake County incorrectly calculated the unitary factors in FY 2013-14. When restating its FY 2013-14 factors to remove the ERAF share, the county inadvertently reapportioned the revenue in excess of the prior-year 102 percent twice.

Madera County had attempted to correct the unitary apportionment factors for the prior audit finding in December 2014. We reviewed the county's corrections and found that the county made the following errors:

- Used incorrect base revenue factors and adjusted total base revenue by railroad revenue for FY 2007-08; and
- Used current-year excess factors instead of prior-year AB 8 factors net of RDA for FY 2007-08 through FY 2011-12.

For the current audit period, we found that Madera County continued to use the incorrect excess factors for FY 2014-15, FY 2016-17, and FY 2017-18.

Sacramento County incorrectly calculated and distributed the unitary and operating nonunitary apportionment and allocation factors because it used the prior-year BOE assessed values instead of the current-year BOE assessed values to calculate the unitary revenues to the taxing entities for each fiscal year in the audit period.

Unitary Regulated Railway Apportionment and Allocation

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

Fresno County staff members indicated that the prior audit finding related to unitary regulated railway apportionments and allocations had not been corrected. Therefore, the FY 2015-16 through FY 2018-19 unitary regulated railway apportionments and allocations were erroneous. We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections.

During audit fieldwork, we reviewed and verified the county's corrected calculations. As a result of the various errors associated with Unitary and

Operating Nonunitary (Finding 4), Unitary Regulated Railway (Finding 5), and QE Property (Finding 6), we were able to determine only the cumulative understated ERAF amount for FY 2005-06 through FY 2018-19.

Madera County had attempted to correct the unitary regulated railway factors for the prior audit finding in December 2014. We reviewed the county's corrections and found that the county made the following errors:

- Used incorrect base revenue factors for FY 2007-08 and FY 2011-12;
- Used current-year excess factors instead of prior-year AB 8 factors net of RDA for FY 2008-09 through FY 2011-12, and FY 2013-14; and
- Used an incorrect tax rate to estimate the total unitary regulated railway revenue instead of using the unitary tax rate for FY 2007-08 through FY 2013-14.

For the current audit period, we found that Madera County made the following errors:

- Used current-year excess factors instead of prior-year AB 8 factors net of RDA for FY 2014-15, FY 2015-16, FY 2017-18, and FY 2018-19; and
- Used an incorrect tax rate to estimate the total unitary regulated railway revenue for FY 2014-15 through FY 2018-19.

Sacramento County incorrectly calculated and distributed the unitary regulated railway apportionment and allocation factors because it used the prior-year BOE assessed values instead of the current-year BOE assessed values to calculate the unitary railway revenues to the taxing entities for each fiscal year in the audit period.

Qualified Electric Property Apportionment and Allocation

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

Fresno County staff members indicated that prior findings related to unitary and operating nonunitary apportionment and allocation had not been corrected. Therefore, the FY 2015-16 through FY 2018-19 QE apportionments and allocations were erroneous. We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections.

During audit fieldwork, we reviewed and verified the county's corrected calculations. As a result of the various errors associated with Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway, and QE Property (Finding 6), we were able to determine only the cumulative understated ERAF amount for FY 2005-06 through FY 2018-19.

Reimbursement of Property Tax Administrative Costs

Los Angeles County incorrectly used current-year unitary property tax revenues instead of prior-year revenues to allocate current year QE revenues for FY 2016-17 and FY 2017-18.

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

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

Lake County incorrectly calculated the Property Tax Administration Fee (PTAF) factors because it used AB 8 revenues that included pre-ERAF adjustments instead of post-ERAF adjustments. The county informed us that it made the same error for FY 2013-14, FY 2014-15, and FY 2015-16.

Madera County made the following errors:

- Incorrectly used FY 2013-14 administrative apportionment factors for FY 2014-15; and
- Incorrectly used current-year AB 8 factors with the RDA adjustment as the administrative apportionment factors for FY 2015-16 through FY 2018-19.

San Mateo County incorrectly included excess ERAF when computing the property tax administrative fee factors for FY 2013-14 through FY 2016-17.

Educational Revenue Augmentation Fund

The legal requirements for the local agency shift of property tax revenues to ERAF are contained in RTC sections 96.1 through 96.5 and 97 through 97.3. Beginning in FY 1992-93, each local agency is required to shift an amount of property tax revenues to ERAF using formulas prescribed in the RTC. The property tax revenues in 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, numerous new laws have affected the shift requirements for various local government

agencies. AB 1589 (Chapter 290, Statutes of 1997) primarily addressed three areas related to the ERAF shift:

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

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

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

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

No issues were noted in this area.

Vehicle License Fee and Sales and Use Tax Adjustments

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

Madera County had attempted to correct the VLF adjustment for the prior audit finding in December 2014. We reviewed the county's corrections and found that the county incorrectly calculated the VLF percentage growth by double-counting the unsecured aircraft assessed values for FY 2006-07 through FY 2013-14.

For the current audit period, we found that Madera County did not adjust VLF growth for annexation in FY 2018-19.

San Mateo County incorrectly included unsecured aircraft assessed values twice in its VLF computation for FY 2013-14 through FY 2016-17. In addition, we found that the county also carried forward the incorrect FY 2015-16 VLF adjustment when computing the FY 2016-17 VLF adjustment.

Disaster Relief Adjustment

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

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

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

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

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

Fresno County staff members indicated that prior audit findings, including the prior Disaster Relief Adjustment, had not been corrected. As stated in the prior audit report, the county miscalculated growth for the Disaster Relief Reversal adjustment to ERAF, which resulted in an incorrect ERAF growth calculation from FY 2001-02 through FY 2014-15. Furthermore, the county did not correct the error, which continued through the current audit period of FY 2015-16 through FY 2018-19. The prior audit errors were:

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

Negative Bailout (SB 85)

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

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

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

Counties received 100 percent of their SB 154 block grants and a small adjustment for the Aid to Families with Dependent Children, minus the amount of the indigent health block grant. For some counties, the value of the indigent health block grant was so great that it exceeded the value of the SB 154 block grant. In those cases, the AB 8 shift resulted in a reduction of the property tax base instead of an increase. These counties are referred to as negative bailout counties. For all but the negative bailout counties, the increased property tax was deducted from the local school and community college districts' property taxes. 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 school and community college districts. Consequently, AB 2162 (Chapter 899, Statutes of 1983) forgave prior allocation errors but required future payments to be made in accordance with statutes.

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

No issues were noted in this area.

Tax Equity Allocation

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

Los Angeles County incorrectly included:

- HSC section 33607.5 and 33607.7 pass-through revenues in its seven percent floor computation; and
- RPTTF residual revenues in its revenue allocation computation.

Ventura County did not reduce the cities' AB 8 revenues by the cities' RDA contribution for FY 2016-17 through FY 2018-19.

**Redevelopment
Property Tax
Trust Fund**

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

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

No issues were noted in this area.

Item for Legislative Consideration

Recently a question has arisen on whether unsecured noncommercial aircraft (aircraft) assessed values should be included in the calculation of the property tax apportionment factors (commonly known as AB 8 factors) under RTC sections 96.1, 96.2, and 96.5.

AB 8, passed by the Legislature in 1979, established the basic property tax apportionment system after the approval of Proposition 13. Under the AB 8 system, a local government jurisdiction receives property tax revenue equal to what it received the prior fiscal year (the “base”) plus a share of growth in the tax revenue that is due to growth in assessed values within its boundaries (the “tax increment”). Each year, the increment attributable to growth in assessed values is added to the previous year’s base. This total then becomes the next fiscal year’s base amount. These general property tax allocation and apportionment formulas are currently found in RTC sections 96.1, 96.2, and 96.5.

Since 1961, the assessment and apportionment of the aircraft property tax has been controlled by its own set of rules, found in RTC section 5301 et seq. The Legislature’s intent in enacting these rules, as stated in RTC section 5301, was to “provide for a uniform countywide system of ad valorem taxation of all aircraft in this State, regardless of where the aircraft is based in the State.” With regard to the distribution of the aircraft property tax, RTC section 5451 provides that the “revenue derived from any tax levied pursuant to this part shall be distributed as prescribed in this chapter.” Under the plain language of the statute, the aircraft property tax revenue must be distributed pursuant to RTC sections 5451 through 5456.

Although the statutes regarding the distribution of aircraft tax revenue have remained unchanged in the nearly 60 years since they were first added, some counties believe that RTC sections 96.1, 96.2, and 96.5 do not explicitly state that aircraft values must be excluded from the AB 8 system.

In fact, these counties claim that RTC section 96.5 provides how auditor-controllers must calculate the ATI: as a general matter, the auditor-controller must determine the total property tax revenue in the current year based on the equalized assessment roll (i.e., the “last equalized roll” for the current year pursuant to RTC section 2050), then subtract the total property tax revenue allocated in the prior year under RTC section 96.1. Thus, calculating the ATI—and by extension, the AB 8 allocation factors—require use of the equalized assessment roll.

Although these counties argue that aircraft assessed values are in the equalized roll that is used to calculate the ATI or growth in property tax revenues, we cannot find any references that support using aircraft revenues in the base revenue calculations or allocations.

When the counties include aircraft assessed values in the RTC section 96.5 calculation, they receive an inflated estimate of tax revenue to be apportioned under RTC section 96.2. However, because

aircraft tax revenue is separately assessed and distributed under its own set of rules, the inclusion of aircraft assessed values under RTC section 96.5 leads to a false result. Namely, the estimated tax revenue calculated under RTC section 96.5 is higher than 100 percent of the estimated property tax revenue that can be apportioned under RTC section 96.2. Stated another way, the inclusion of aircraft assessed values results in a tax revenue estimate that is knowingly inaccurate.

Recommendation

The Legislature may wish to consider clarifying RTC section 96.5 to exclude noncommercial aircraft assessed values from the equalized assessment roll.

Findings of Individual County Audits

Introduction

The findings and recommendations included below are presented as they were stated in the County Property Tax Apportionment and Allocation reports issued by SCO in calendar year 2020. 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, 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.

Fresno County (July 1, 2015, through June 30, 2019)

Follow-up on prior audit findings

Findings noted in our prior audit report, for the period of July 1, 2003, through June 30, 2015, issued on November 7, 2016, have not been satisfactorily resolved, with the exception of the allocation of jurisdictional factors for newly created TRAs.

FINDING 1— Computation and Distribution of Property Tax Revenues (Repeat Finding)

This finding is presented in its original form; however, the inclusion of unsecured aircraft assessed values in the ATI computation is under discussion. On April 28, 2020, San Joaquin County requested an informal audit review, disputing the Controller's determination that noncommercial aircraft values should be excluded from AB 8 factors under RTC sections 96.1 and 96.5. On June 24, 2020, SCO staff counsel concluded that the current statutory language is potentially ambiguous; as a result, SCO will propose a legislative amendment to RTC section 96.5 subdivision (a).

Refer to the Item for Legislative Consideration for further information.

During testing of the county's property tax revenue computation and distribution process, we found that the county incorrectly included unsecured aircraft assessed values in its computation of the ATI from FY 2015-16 through FY 2018-19. This error resulted in the misallocation of AB 8 revenues to all affected entities in the county, including ERAF. We did not quantify the monetary impact for each affected taxing entity due to the various errors affecting the computation and allocation.

The inclusion of unsecured aircraft assessed values in the ATI computation was due to a difference in interpretation of the statutes.

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

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

In addition, as discussed in the Disaster Relief Adjustment finding (Finding 7), the computations and distributions of property tax revenue for FY 2001-02 through FY 2018-19 were erroneous. During the current audit, the county provided corrected calculations, which we reviewed and verified. As a result of the errors, ERAF was understated by approximately \$6.8 million for FY 2001-02 through FY 2018-19.

Recommendation

We recommend that the county:

- Review RTC sections 96 through 96.5 and 97.1 through 97.3;
- Update and implement its procedures for calculating the Disaster Relief Adjustment;
- Update its procedures to exclude unsecured aircraft assessed values from its computation of the ATI;
- Recalculate the ATI computations for FY 2001-02 through FY 2018-19;
- Make monetary adjustments to ERAF, school districts, and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

County's Response

The County agrees that an adjustment to the allocation method is required, and will [implement the adjustment] according to RTC sections 96 through 96.5 and 97.1 through 97.3. The County has updated its procedures to exclude unsecured aircraft properties' assessed values from its computation and distribution of property tax revenues.

The reallocation related to the Computation and Distribution of Property Tax Revenue (Finding 1) and [the] Disaster Relief Adjustment (Finding 7) will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1(c)(3).

FINDING 2— Supplemental Property Tax Apportionment and Allocation (Repeat Finding)

During the audit, county staff members indicated that the prior audit finding had not been corrected (FY 1992-93 through FY 2013-14). In addition, prior audit Finding 5, related to the Disaster Relief Adjustment that affects the AB 8 shift, had not been corrected; therefore, supplemental apportionments and allocations for FY 2015-16 through FY 2018-19 were erroneous. We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections.

During testing of the supplemental property tax process, we further found that the county incorrectly:

- Included VLF adjustments in FY 2015-16; and
- Excluded former RDAs (current RPTTFs) from receiving supplemental revenues for FY 2015-16 through FY 2018-19.

We did not quantify the monetary impact for each affected taxing entity due to various errors affecting the computation and allocation.

Lack of effective recordkeeping by former management resulted in this repeat finding. See Finding 1 of our previous report on Fresno County's property tax apportionment and allocation system, dated November 7, 2016.

RTC sections 75.60, 75.71, and 100.2 provide the legal requirements for the apportionment and allocation of supplemental property tax revenue.

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

Recommendation

We recommend that the county:

- Review prior audit finding recommendations;
- Review RTC sections 75.60, 75.71, and 100.2, and update its procedures;
- Recalculate the supplemental apportionment factors for FY 2015-16 through FY 2018-19;
- Make monetary adjustments to ERAF, school districts, and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

County's Response

The County has recalculated AB 8 factors to be used for the apportionment and allocation of supplemental tax revenue according to RTC sections 75.60, 75.71, and 100.2. The County will remove the VLF adjustments [from] FY 2015-16 and will include the former RDAs in the calculation to receive their share of supplemental revenues.

The reallocation will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1 (c)(3).

FINDING 3— Supplemental Property Tax Administrative Costs

During testing of the supplemental administrative cost process, we found that the county does not have procedures in place for identifying the actual costs associated with administration of the supplemental assessment rolls;

therefore, it cannot substantiate all of the fees that it collected during the audit period.

This error occurred due to a difference in interpretation of the applicable section of the Revenue and Taxation Code.

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

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

Recommendation

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

County's Response

The County concurs with the recommendation and has implemented procedures to ensure compliance with the requirements under RTC section 75.60.

FINDING 4— Unitary and Operating Nonunitary Apportionment and Allocation (Repeat Finding)

At the beginning of the audit, county staff members indicated that the prior audit finding had not been corrected. Therefore, the FY 2015-16 through FY 2018-19 unitary and operating nonunitary apportionments and allocations were erroneous. We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections.

During audit fieldwork, we reviewed and verified the county's corrected calculations. As a result of various errors associated with Unitary and Operating Nonunitary, Unitary Regulated Railway (Finding 5), and QE Property (Finding 6), we were able to determine only the cumulative understated ERAF amount of approximately \$3.8 million for FY 2005-06 through FY 2018-19.

Lack of effective recordkeeping by former management resulted in this repeat finding. See Finding 3 of our previous report on Fresno County's property tax apportionment and allocation system, dated November 7, 2016.

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

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

consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee.”

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

Recommendation

We recommend that the county:

- Review prior audit finding recommendations and RTC section 100;
- Implement and update its procedures;
- Make monetary adjustments to ERAF, school districts, and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

County’s Response

The County agrees that an adjustment to the apportionment and allocation method is required, and will [implement the adjustment] according to RTC section 100. The County has updated its procedures for the apportionment and allocation of the unitary and operating nonunitary property tax revenues.

The reallocation related to the Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway (Finding 5), and Qualified Electric Property (Finding 6) [revenues] will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1 (c)(3).

FINDING 5— Unitary Regulated Railway Apportionment and Allocation (Repeat Finding)

At the beginning of the audit, county staff members indicated that the prior audit finding had not been corrected. Therefore, the FY 2015-16 through FY 2018-19 unitary regulated railway apportionments and allocations were erroneous. We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections.

During audit fieldwork, we reviewed and verified the county’s corrected calculations. As a result of the various errors associated with Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway, and QE Property (Finding 6), we were able to determine only the cumulative understated ERAF amount for FY 2005-06 through FY 2018-19. See Finding 4 for the monetary impact.

Lack of effective recordkeeping by former management resulted in this repeat finding. See Finding 4 of our previous report on Fresno County’s property tax apportionment and allocation system dated November 7, 2016.

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

Unitary regulated railway properties are facilities that were completely constructed and placed in service after January 1, 2007. RTC section 723 defines unit valuation of a property that is operated as a unit in a primary function of the assessee.

Recommendation

We recommend that the county:

- Review prior audit finding recommendations and RTC section 100.11;
- Implement and update its procedures;
- Make monetary adjustments to ERAF, school districts, and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

County’s Response

The County agrees that an adjustment to the apportionment and allocation method is required, and will [implement the adjustment] according to RTC section 100.11. The County has updated its procedures for the apportionment and allocation of the unitary regulated railway property tax revenues.

The reallocation related to the Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway (Finding 5), and Qualified Electric Property (Finding 6) [revenues] will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1 (c)(3).

**FINDING 6—
Qualified Electric
Property
Apportionment
and Allocation
(Repeat Finding)**

At the beginning of the audit, county staff members indicated that prior findings related to unitary and operating nonunitary apportionment and allocation had not been corrected. Therefore, the FY 2015-16 through FY 2018-19 QE apportionments and allocations were erroneous. We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections.

During audit fieldwork, we reviewed and verified the county’s corrected calculations. As a result of the various errors associated with Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway (Finding 5), and QE Property, we were able to determine only the cumulative understated ERAF amount for FY 2005-06 through FY 2018-19. See Finding 4 for the monetary impact.

Lack of effective recordkeeping by former management resulted in the repeat finding.

RTC section 100.95 provides the legal requirements for the apportionment and allocation of QE property tax revenues. Qualified property is “all plant

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

Recommendation

We recommend that the county:

- Review the prior audits’ unitary and operating nonunitary apportionment and allocation finding recommendations and RTC section 100.95;
- Implement and update its procedures;
- Make monetary adjustments to ERAF, school districts, and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

County’s Response

The County agrees that an adjustment to the apportionment and allocation method is required, and will [implement the adjustment] according to RTC section 100.95. The County has updated its procedures for the apportionment and allocation of the qualified electric property tax revenues.

The reallocation related to the Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway (Finding 5), and Qualified Electric Property (Finding 6) [revenues] will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1 (c)(3).

FINDING 7— Disaster Relief Adjustment (Repeat Finding)

During the audit, county staff members indicated that prior audit findings had not been corrected; therefore, the prior Disaster Relief Adjustment was not corrected. As stated in the prior audit report, the county erred in computing growth for the reversal of Disaster Relief Adjustment to ERAF, which resulted in an incorrect ERAF growth calculation from FY 2001-02 through FY 2014-15. Furthermore, the county did not correct the error, which continued through the current audit period of FY 2015-16 through FY 2018-19. The prior audit errors were:

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

We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections. See Finding 1 for the monetary impact related

to ERAF as a result of the Disaster Relief Adjustment on the county's computations and distributions of property tax revenue for FY 2001-02 through FY 2018-19.

Lack of effective recordkeeping by former management resulted in this repeat finding. See Finding 5 of our previous report on Fresno County's property tax apportionment and allocation system dated November 7, 2016.

RTC sections 97.1 through 97.3 provide the legal requirements for the local agency shift of property tax revenues to ERAF.

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

In FY 1997-98, the Disaster Relief Adjustment was reversed; this adjustment is now known as the Disaster Relief Reversal. This adjustment shifted revenue from the county and cities to ERAF. During FY 1997-98, the Disaster Relief Reversal was multiplied by FY 1992-93 over FY 1991-92 growth.

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

For purposes of allocations made pursuant to Section 96.1 for the 1998-99 fiscal year, the amounts 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 was deemed to be revenues allocated to ERAF in that year, and was added to the ERAF shift base prior to the FY 1998-99 adjustment for growth. Consequently, the Disaster Relief Reversal was adjusted for growth every year thereafter, as it is included as part of the ERAF base.

Recommendation

We recommend that the county:

- Review prior audit finding recommendations and RTC sections 97.1 through 97.3;
- Implement and update its procedures;
- Make monetary adjustments to ERAF; and
- Make monetary adjustment to all other affected entities, if the amounts are significant.

County's Response

The County agrees that an adjustment to the apportionment and allocation method is required, and will [implement the adjustment]

according to RTC sections 97.1 through 97.3. The County has updated its procedures related to the Disaster Relief Adjustment.

The reallocations related to the Computation and Distribution of Property Tax Revenue (Finding 1) and [the] Disaster Relief Adjustment (Finding 7) will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1 (c)(3).

Lake County (July 1, 2013, through June 30, 2018)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2006, through June 30, 2013, issued on September 26, 2014.

FINDING 1— Unitary and Operating Nonunitary Apportionment and Allocation

During our testing of the unitary and operating nonunitary process, we found that the county incorrectly calculated the unitary factors in FY 2013-14. When restating its FY 2013-14 factors to remove the ERAF share, the county inadvertently reapportioned the revenue in excess of the prior-year 102 percent twice. This error affected the subsequent years.

We did not quantify the monetary impact due to the various components involved in the calculation.

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

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

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

Recommendation

We recommend that the county:

- Recalculate the unitary factors for FY 2013-14 through FY 2017-18;
- Make monetary adjustments to ERAF, school districts, and community college districts; and
- Make monetary adjustments to other affected taxing jurisdictions, if significant.

County's Response

The county concurs with the finding and indicates that it has recalculated the unitary factors. The county also stated that it will use the corrected calculations in the future, and will make any necessary monetary adjustments.

**FINDING 2—
Reimbursement of
Property Tax
Administrative
Costs**

During our testing of the property tax administrative costs process for FY 2016-17 and FY 2017-18, we found that the county incorrectly calculated the PTAF factors because it used AB 8 revenues that included pre-ERAF adjustments instead of post-ERAF adjustments. The county informed us that it made the same error for FY 2013-14, FY 2014-15, and FY 2015-16.

We did not quantify the monetary effect due to a concurrent finding in the unitary and operating nonunitary process, which directly affects the PTAF factor calculation.

The error occurred because the county misinterpreted the applicable statutes.

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

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

Recommendation

We recommend that the county:

- Update its policies and procedures to ensure that the AB 8 revenues used in the PTAF factor calculation include post-ERAF adjustments;
- Recalculate the PTAF factors for FY 2013-14 through FY 2017-18; and
- Make monetary adjustments to the affected entities, if significant.

County's Response

The county concurs with the finding and indicates that it processed corrections for FY 2013-14 up to the amount allowed by RTC section 96.1. The county also indicated that it will use the corrected calculations in future, and will make necessary adjustments.

Los Angeles County (July 1, 2016, through June 30, 2018)

**Follow-up on prior
audit findings**

Our prior audit report, for the period of July 1, 2013, through June 30, 2016, issued April 2, 2019, included no findings related to the apportionment and allocation of property tax revenues by the county.

**FINDING 1—
Qualified Electric
Property
Apportionment
and Allocation**

During testing of the county’s QE property apportionment and allocation process, we found that the county incorrectly used current-year unitary property tax revenues instead of prior-year revenues to allocate current-year QE revenues for FY 2016-17 and FY 2017-18. This error resulted in misallocated QE revenues to some affected taxing entities. We did not quantify the monetary impact due to the various components involved in the calculation.

The use of current-year unitary property tax revenues for both fiscal years was due to clerical error.

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

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

Recommendation

We recommend that the county:

- Review RTC section 100.95;
- Update and implement its procedures to use prior-year unitary property tax revenues in its QE property apportionment and allocation process;
- Recalculate the QE property apportionments and allocations for FY 2016-17 and FY 2017-18;
- Make monetary adjustments to school districts and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

County’s Response

The Auditor-Controller concurs with this finding. The County made the corrections for Fiscal Year (FY) 2016-17 and [FY] 2017-18 and processed the necessary monetary adjustments to the affected taxing entities. In addition, we implemented procedures to use prior-year unitary property tax revenues when allocating QE revenues moving forward.

**FINDING 2—
Tax Equity
Allocation**

During testing of the county’s tax equity allocation process, we found that the county incorrectly included:

- HSC section 33607.5 and 33607.7 pass-through revenues in its seven percent floor computation; and
- RPTTF residual revenues in its revenue allocation computation.

We did not quantify the monetary impact due to the various components involved in the calculation.

These errors occurred due to differing interpretation of applicable statutes, and resulted in a misallocation of tax equity allocations to the cities.

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

Recommendation

We recommend that the county:

- Review RTC section 98;
- Update and implement its procedures to exclude HSC section 33607.5 and 33607.7 pass-through revenues from the seven percent floor computation;
- Exclude RPTTF residual revenues from the revenue allocation computation;
- Recalculate the tax equity allocation for FY 2016-17 and FY 2017-18; and
- Make monetary adjustments to affected cities, if the amounts are significant.

County’s Response

The Auditor-Controller concurs with this finding. The County made the corrections for FY 2016-17 and [FY] 2017-18 and processed the necessary monetary adjustments to the affected taxing entities. In addition, we implemented procedures to correctly exclude AB 1290 pass-through and residual [revenues] from the TEA [tax equity allocation] calculations moving forward.

Madera County (July 1, 2014, through June 30, 2019)

Follow-up on prior audit findings

Findings noted in our prior audit report, for the period of July 1, 2005, through June 30, 2014, issued September 9, 2015, have been satisfactorily resolved by the county, with the exception of unitary and operating nonunitary apportionment and allocation, unitary regulated railway apportionment and allocation, and VLF adjustments.

FINDING 1— Supplemental Property Tax Apportionment and Allocation

During testing of the supplemental apportionment and allocation process, we found that the county incorrectly computed the supplemental apportionment factors. For FY 2014-15 through FY 2018-19, the county incorrectly adjusted the supplemental apportionment factors for ERAF, school districts, community college districts and the County Office of Education (school programs) for the VLF shift and negative ERAF. This resulted in a misallocation of tax revenues to all affected taxing entities. This error occurred due to a differing interpretation of the statutes. We did not quantify the monetary impact for the each taxing entity due to various errors affecting the computation and allocation.

RTC sections 75.60, 75.71, and 100.2 provide the legal requirements for the apportionment and allocation of supplemental property tax revenue.

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

Recommendation

We recommend that the county:

- Review RTC sections 75.60, 75.71, and 100.2, and update its procedures;
- Recalculate the supplemental apportionment factors for FY 2014-15 through FY 2018-19;
- Make monetary adjustments to ERAF, school districts, and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

County's Response

We accept the finding. County Auditor Controller staff corrected the calculation for...FY 2014-15 through FY 2018-19.

FINDING 2— Unitary and Operating Nonunitary Apportionment and Allocation (Repeat Finding)

During testing of the unitary and operating nonunitary apportionment and allocation process, we found that the county had attempted to correct the unitary apportionment factors for the prior audit finding in December 2014. We reviewed the county's corrections and found that the County:

- Used incorrect base revenue factors and adjusted total base revenue by railroad revenue for FY 2007-08; and
- Used current-year excess factors instead of prior-year AB 8 factors net of RDA for FY 2007-08 through FY 2011-12.

For the current audit period, we found that the county continued to use the incorrect excess factors for FY 2014-15, FY 2016-17, and FY 2017-18. These errors resulted in misallocations of tax revenues to all affected taxing entities for FY 2007-08 through FY 2018-19. We did not quantify the monetary impact for each affected taxing entity due to various errors affecting the computation and allocation. The errors occurred due to a differing interpretation of the statutes.

This is a repeat finding. See Finding 2 of our previous report on Madera County's property tax apportionment and allocation system (S15-PTX-0003) dated September 9, 2015.

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

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

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

Recommendation

We recommend that the county:

- Review RTC section 100, and update its procedures;
- Recalculate the unitary apportionment factors for FY 2007-08 through FY 2018-19;
- Make monetary adjustments to ERAF, school districts, and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

County’s Response

We accept the finding. County Auditor Controller staff recalculated the base-year revenue factors from 2007-08 and the AB8 factors net of RDA for 2007-08 through 2018-19.

FINDING 3— Unitary Regulated Railway Apportionment and Allocation (Repeat Finding)

During testing of the unitary regulated railway apportionment and allocation process, we found that the county had attempted to correct the unitary regulated railway factors for the prior audit finding in December 2014. We reviewed the county’s corrections and found that the county made the following errors:

- Used incorrect base revenue factors for FY 2007-08 and FY 2011-12;
- Used current-year excess factors instead of prior-year AB 8 factors net of RDA for FY 2008-09 through FY 2011-12, and FY 2013-14; and
- Used an incorrect tax rate to estimate the total unitary regulated railway revenue instead of using the unitary tax rate for FY 2007-08 through FY 2013-14.

For the current audit period, we found that the county made the following errors:

- Used current-year excess factors instead of prior-year AB 8 factors net of RDA for FY 2014-15, FY 2015-16, FY 2017-18, and FY 2018-19; and

- Used an incorrect tax rate to estimate the total unitary regulated railway revenue for FY 2014-15 through FY 2018-19.

These errors resulted in misallocations of tax revenues to all affected taxing entities for FY 2007-08 through FY 2018-19. We did not quantify the monetary impact for each affected taxing entity due to various errors affecting the computation and allocation. These errors occurred due to a differing interpretation of the statutes.

This is a repeat finding. See Finding 3 of our previous report on Madera County's property tax apportionment and allocation system (S15-PTX-0003) dated September 9, 2015.

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

Unitary regulated railway properties are facilities that were completely constructed and placed in service after January 1, 2007. RTC section 723 defines unit valuation of a property that is operated as a unit in a primary function of the assessee.

Recommendation

We recommend that the county:

- Review RTC sections 100.11, and update its procedures;
- Recalculate the unitary apportionment factors for FY 2007-08 through FY 2018-19;
- Make monetary adjustments to ERAF, school districts, and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

County's Response

We accept the finding. County Auditor Controller staff recalculated the base-year revenue factors from 2007-08 and the AB8 factors net of RDA for 2007-08 through 2018-19 excess factors have been corrected for FY 2014-15 through FY 2018-19.

FINDING 4— Reimbursement of Property Tax Administrative Costs

During testing of the reimbursement of property tax administrative costs process, we found that the county made the following errors:

- Incorrectly used FY 2013-14 administrative apportionment factors for FY 2014-15; and
- Incorrectly used current-year AB 8 factors with the RDA adjustment as the administrative apportionment factors for FY 2015-16 through FY 2018-19.

This resulted in misallocation to all affected taxing entities for FY 2014-15 through FY 2018-19. We did not quantify the monetary impact for each

affected taxing entity due to various errors affecting the computation and allocation. These errors occurred because of differing interpretation of the statutes.

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

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

Recommendation

We recommend that the county:

- Review RTC section 95.3, and update its procedures;
- Recalculate the administrative apportionment factors for FY 2014-15 through FY 2018-19; and
- Make monetary adjustments to all affected taxing entities, if the amounts are significant.

County's Response

We accept the finding. County Auditor Controller staff corrected the administrative apportionment factors and the AB8 factors for FY 2013-14 [through FY] 2018-19.

FINDING 5— Vehicle License Fee Adjustments (Repeat Finding)

During our review of the VLF adjustment process, we found that the county had attempted to correct the VLF adjustment for the prior audit finding in December 2014. We reviewed the county's corrections and found that the county incorrectly calculated the VLF percentage growth by double-counting the unsecured aircraft assessed values for FY 2006-07 through FY 2013-14.

For the current audit period, we found that the county did not adjust VLF growth for annexation in FY 2018-19. The calculations show that the county over-allocated to the county and cities a total of \$510,958 for FY 2014-15 through FY 2018-19. This error occurred due to a clerical error.

This is a repeat finding. See Finding 4 of our previous report on Madera County's property tax apportionment and allocation system (S15-PTX-0003) dated September 9, 2015.

RTC section 97.70 provides the legal requirements for VLF adjustments.

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

Recommendation

We recommend that the county:

- Review RTC section 97.70, and update its procedures; and
- Recalculate the VLF adjustment for FY 2006-07 through FY 2018-19.

County's Response

We accept the finding. County Auditor Controller staff corrected the double-assessed aircraft values for 2006-07 through 2013-14. We recalculated the VLF growth, taking into account the annexation in 2018-19.

Placer County (July 1, 2016, through June 30, 2019)**Follow-up on prior audit findings**

Our prior audit report, for the period of July 1, 2008, through June 30, 2016, issued on March 30, 2017, included no findings related to the apportionment and allocation of property tax revenues by the county.

Conclusion

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

Sacramento County (July 1, 2016, through June 30, 2019)**Follow-up on prior audit findings**

The county has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2010, through June 30, 2016, issued on December 19, 2018.

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

During testing of the county's property tax revenue computation and distribution process, we found that the county incorrectly calculated and distributed the unitary and operating nonunitary apportionment and allocation factors because it used the prior-year BOE assessed values instead of the current-year BOE assessed values to calculate the unitary revenues to the taxing entities for each fiscal year in the audit period. This error resulted in misallocated unitary revenue to all affected entities in the county. Due to the complexity of the unitary computation, we are unable to quantify the monetary effect of these errors.

The error occurred because the county misinterpreted RTC section 100, which provides the legal requirement for the unitary and operating nonunitary apportionments and allocations.

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

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

Recommendation

We recommend that the county:

- Review RTC section 100 and update its procedures to include the current-year BOE assessed values;
- Recalculate the unitary and nonunitary apportionment factors for FY 2016-17 through FY 2018-19;
- Make monetary adjustments to school districts and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

County's Response

The County concurs with this finding. The County has corrected the unitary and nonunitary apportionment factors and has made the necessary adjustments to the affected entities.

FINDING 2— Unitary Regulated Railway Apportionment and Allocation

During testing of the county's property tax revenue computation and distribution process, we found that the county incorrectly calculated and distributed the unitary regulated railway apportionment and allocation factors because it used the prior-year BOE assessed values instead of the current-year BOE assessed values to calculate the unitary railway revenues to the taxing entities for each fiscal year in the audit period. This error resulted in misallocated unitary railway revenue to all affected entities in the county, including ERAF. Due to the complexity of the unitary railway computation, we are unable to quantify the monetary effect of these errors.

The error occurred because the county misinterpreted RTC section 100.11, which provides the legal requirement for the unitary regulated railway apportionments and allocations.

Unitary regulated railway properties are facilities that were completely constructed and placed in service after January 1, 2007. RTC section 723 defines unit valuation of a property that is operated as a unit in a primary function of the assessee.

Recommendation

We recommend that the county:

- Review RTC section 100.11 and update its procedures to include the current-year BOE assessed values;
- Recalculate the unitary regulated railway apportionment factors for FY 2016-17 through FY 2018-19;

- Make monetary adjustments to ERAF, school districts, and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

County's Response

The County concurs with this finding. The County has corrected the Regulated Railway apportionment factors and has made the necessary adjustments to the affected entities.

San Joaquin County (July 1, 2015, through June 30, 2018)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2010, through June 30, 2015, issued July 8, 2016.

FINDING— Computation and Distribution of Property Tax Revenues

This finding is presented in its original form; however, the inclusion of unsecured aircraft assessed values in the ATI computation is under discussion. On April 28, 2020, San Joaquin County requested an informal audit review, disputing the Controller's determination that noncommercial aircraft values should be excluded from AB 8 factors under RTC sections 96.1 and 96.5. On June 24, 2020, SCO staff counsel concluded that the current statutory language is potentially ambiguous; as a result, SCO will propose a legislative amendment to RTC section 96.5 subdivision (a).

Refer to the Item for Legislative Consideration for further information.

During testing of the county's property tax revenue computation and distribution process, we found that from FY 2015-16 through FY 2017-18, the county:

- Incorrectly included unsecured aircraft assessed values in its computation of the ATI; and
- Incorrectly distributed property tax revenues generated by aircraft properties by using AB 8 factors.

The errors resulted in the misallocation of AB 8 revenues to all affected entities in the county, including ERAF. We did not quantify the monetary impact for each affected taxing entity due to the various errors affecting the computation and allocation.

The inclusion of the unsecured aircraft assessed values in the ATI computation was due to a differing interpretation of statutes.

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

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

Recommendation

We recommend that the county:

- Update and implement policies and procedures to exclude unsecured aircraft assessed values from its computation of the ATI;
- Establish and implement policies and procedures for apportionment and allocation of the property tax revenues generated by aircraft properties in accordance with RTC sections 5451 through 5456; and
- Recalculate the ATI computation for FY 2015-16 through FY 2017-18, and:
 - Make monetary adjustments to ERAF, school districts, and community college districts; and
 - Make monetary adjustments to all other affected taxing jurisdictions, if the amounts are significant.

County's Response

The county partially agrees with the finding:

- We respectfully disagree that San Joaquin County incorrectly included aircraft properties' assessed values in its computation of the annual tax increment. Our position on this issue is discussed in detail on the attached response made by San Joaquin, San Mateo, and Los Angeles Counties dated September 4, 2019. This attachment also includes SCO's November 18, 2019 email to the Counties' joint statement, and the Counties' second joint statement, dated December 4, 2019, responding to the SCO's November 19, 2019 email.
- We agree that San Joaquin County incorrectly distributed property tax revenues generated by aircraft properties by using AB 8 factors. We will make the appropriate adjustments to correct this issue when the matter regarding the aircraft valuation item discussed above is finally resolved. We believe that making the adjustments separately will potentially create excessive adjustments and be unnecessarily disruptive to the districts affected by these changes. We have confirmed this approach with Scott Freesmeier, Audit Manager of the State Controller's Office, and he agreed.

SCO Comment

Our finding and recommendation remain unchanged.

On December 4, 2019, the Counties of San Joaquin, San Mateo, and Los Angeles submitted a joint statement disputing the SCO directive for the three counties to exclude noncommercial aircraft assessed value growth from the calculation of the property tax allocation factors (commonly known as the AB 8 factors) under RTC sections 96.1 and 96.5. The counties requested that the SCO provide a detailed legal analysis for the counties' consideration, or remove the finding.

On January 15, 2020, SCO staff counsel provided its legal analysis to the three counties regarding the SCO's position that noncommercial aircraft assessed values should be excluded from the calculation of the property tax allocation factors. In summary, some reasons cited for the SCO's conclusion are 1) the longstanding BOE interpretation; 2) the views of the California Association of County Auditors, contained in the *Property Tax Managers Manual*; and 3) the fact that including the aircraft assessed values contravenes the legislative purpose of the AB 8 process.

San Mateo County (July 1, 2013, through June 30, 2017)**Follow-up on prior audit findings**

The county has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2006, through June 30, 2013, issued March 21, 2014.

**FINDING 1—
Computation
and Distribution
of Property Tax
Revenues**

This finding is presented in its original form; however, the inclusion of unsecured aircraft assessed values in the ATI computation is under discussion. On April 28, 2020, San Joaquin County requested an informal audit review, disputing the Controller's determination that noncommercial aircraft values should be excluded from AB 8 factors under RTC sections 96.1 and 96.5. On June 24, 2020, SCO staff counsel concluded that the current statutory language is potentially ambiguous; as a result, SCO will propose a legislative amendment to RTC section 96.5 subdivision (a).

Refer to the Item for Legislative Consideration for further information.

During testing of the county's property tax revenue computation and distribution process, we found that the county incorrectly included unsecured aircraft assessed values in its computation of the ATI for FY 2013-14 through FY 2016-17. This error resulted in misallocation of AB 8 revenues to all affected entities in the county, including ERAF. We did not quantify the monetary impact for each affected taxing entity due to the various errors affecting the computation and allocation.

The inclusion of the unsecured aircraft assessed values in the ATI computation was due to a differing interpretation of the statutes.

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

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

Recommendation

We recommend that the county:

- Update and implement policies and procedures to exclude unsecured aircraft assessed values from its computation of the ATI; and
- Recalculate the ATI computation for FY 2013-14 through FY 2016-17 and make monetary adjustments, if the amounts are significant.

County's Response

We respectfully disagree with the above recommendation and have attached for your consideration our analysis which supports our position to continue to include unsecured aircraft assessed values when calculating AB 8 factors (see Attachment A).

SCO Comment

Our finding and recommendation remain unchanged.

On December 4, 2019, the Counties of San Joaquin, San Mateo, and Los Angeles submitted a joint statement disputing the SCO directive for the three counties to exclude noncommercial aircraft assessed value growth from the calculation of the property tax allocation factors (commonly known as the AB 8 factors) under RTC sections 96.1 and 96.5. The counties requested that the SCO provide a detailed legal analysis for the counties' consideration, or remove the finding.

On January 15, 2020, SCO staff counsel provided its legal analysis to the three counties regarding the SCO's position that noncommercial aircraft assessed values should be excluded from the calculation of the property tax allocation factors. In summary, some reasons cited for the SCO's conclusion are 1) the longstanding BOE interpretation; 2) the views of the California Association of County Auditors, contained in the *Property Tax Managers Manual*; and 3) the fact that including the aircraft assessed values contravenes the legislative purpose of the AB 8 process.

FINDING 2— Reimbursement of Property Tax Administrative Costs

During testing of the county's reimbursement of property tax administrative cost process, we found that the county incorrectly included excess ERAF when computing the property tax administrative fee factors

for FY 2013-14 through FY 2016-17, which resulted in the misallocation of property tax administrative costs to all affected entities in the county. We did not quantify the monetary impact due to the various components involved in the calculation.

The inclusion of the excess ERAF amount was due to a differing interpretation of the statutes.

RTC section 95.3 provides the legal requirements for reimbursement of property tax administrative costs. Allowable administrative costs are described in RTC sections 96.1 and 100 and HSC section 33670.

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

Recommendation

We recommend that the county:

- Update and implement policies and procedures to exclude excess ERAF amounts from the computation of property tax administrative factors; and
- Recalculate the property tax administrative costs for FY 2012-13 through FY 2015-16 for the reallocation of the FY 2013-14 through FY 2016-17 administrative costs and make monetary adjustments, if the amounts are significant.

County's Response

We respectfully disagree with the above recommendations and have attached for your consideration our analysis which supports our position to include Excess ERAF in the property tax administrative factors (see Attachment B).

SCO Comment

Our finding and recommendation remain unchanged.

RTC sections 97.2 and 97.3 made a one-time base year modification to RTC section 96.1 for FY 1992-93 and FY 1993-94 only, not every fiscal year thereafter.

FINDING 3— Vehicle License Fee Adjustments

During testing of the VLF adjustment process, we found that the county incorrectly included unsecured aircraft assessed values twice in its VLF computation for FY 2013-14 through FY 2016-17. In addition, we found that the county also carried forward an incorrect FY 2015-16 VLF adjustment when computing the FY 2016-17 VLF adjustment.

These errors resulted in an under-allocation of ERAF revenue to the following sampled jurisdictions:

Sampled Taxing Jurisdiction ¹	Approximate Amount Due From the ERAF
City of Atherton	\$ (73)
City of Belmont	(6)
City of Daly City	(5,262)
City of San Carlos	(11,339)
San Mateo County	(252,249)
	<u>\$ (268,929)</u>

¹ These errors may also affect other incorporated cities in the county; however, we did not measure the fiscal impact.

These errors are due to an oversight on the part of the county when compiling information for the calculation.

RTC section 97.70 provides the legal requirements for VLF adjustments.

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

Recommendation

We recommend that the county:

- Update and implement policies and procedures to properly identify unsecured aircraft assessed values in the computation of the VLF adjustment calculation; and
- Recalculate the VLF adjustment for FY 2013-14 through FY 2016-17 and make monetary adjustments, if the amounts are significant.

County’s Response

[The county agrees.] The recommendations [related] to VLF will be implemented in FY 2019-20.

Ventura County (July 1, 2016, through June 30, 2019)

Follow-up on prior audit findings

Our prior audit report, for the period of July 1, 2009, through June 30, 2016, issued on May 10, 2017, included no findings related to the apportionment and allocation of property tax revenues by the county.

**FINDING—
Tax Equity
Allocation**

During testing of the county’s tax equity allocation process, we found that the county did not reduce the cities’ AB 8 revenues by the cities’ RDA contribution for FY 2016-17 through FY 2018-19.

We did not quantify the monetary impact due to the various components involved in the calculation.

The county made the errors because it misinterpreted the applicable statutes.

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

Recommendation:

We recommend that the county:

- Review RTC section 98.02;
- Update and implement its procedures to reduce the cities’ AB 8 revenues by the cities’ RDA contributions;
- Recalculate the tax equity allocation for FY 2016-17 through FY 2018-19; and
- Make monetary adjustments to affected cities, if the amounts are significant.

County’s Response

The County concurs with this finding. The recommendation was implemented for FY 2019-20 and the monetary adjustments to the affected cities for FY 2016-17 through FY 2018-19 were made in April 2020.

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