STATE OF CALIFORNIA

Report to the California State Legislature

PROPERTY TAX APPORTIONMENTS AND ALLOCATIONS

Calendar Year 2021

BETTY T. YEE
California State Controller

March 2022

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California State Controller

March 30, 2022

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 2021. Prepared pursuant to Government Code section 12468, this report is intended to help mitigate issues associated with the counties' apportionment and allocation of property tax revenues.

The State Controller's team completed audits of 11 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 several issues 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 Kimberly Tarvin, CPA, Chief of my Division of Audits, at (916) 324-1696.

Sincerely,

Original signed by

BETTY T. YEE

Contents

Executive Summary

This report summarizes the results of the State Controller's Office (SCO) audit of county property tax apportionments and allocations during calendar year 2021. 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 these agencies and districts with a property tax base that would grow as assessed property values increase. The method has been further refined in subsequent laws passed by the Legislature.

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

Property tax revenues 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. In general, the amount of revenue an agency or district receives each year is based on the amount received in the prior year, plus a share of the property tax growth within its boundaries.

The SCO property tax audit program began on July 1, 1986, pursuant to Revenue and Taxation Code section 95.6 (now Government Code section 12468). The statute mandates that SCO perform audits of the 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 applies procedures considered necessary and appropriate to provide a basis for reporting on the areas examined.

Government Code section 12468 requires that audits be conducted periodically for each county according to a prescribed schedule based on county population. During 2021, SCO completed audits of 11 counties' apportionment and allocation of property tax revenues. The 11 counties are Alameda, Butte, Del Norte, Glenn, Mariposa, Plumas, San Luis Obispo, Santa Clara, Solano, Stanislaus, and Sutter.

As a part of the 2021 audit work, SCO followed up on prior SCO audits to ensure that counties properly addressed the identified findings.

Except for the findings and recommendations noted in this report, the processes used by the 11 counties audited during 2021 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

There were no unresolved issues from prior audits.

Current Audits

- Del Norte County made errors in the computation and distribution of property tax revenues.

- Plumas County made errors in the supplemental property tax apportionment and allocation process.

- Glenn and Sutter Counties made errors in the unitary and operating nonunitary apportionment and allocation process.

- Glenn County made errors in the unitary regulated railway apportionment and allocation process.

- Glenn and Sutter Counties made errors in the Educational Revenue Augmentation Fund.

- Alameda, Del Norte and Glenn Counties made errors in the vehicle license fee adjustment process.

Overview

Introduction

This report presents the results of 11 audits of county property tax apportionments and allocations completed by the State Controller's Office (SCO) in calendar year 2021. The following counties were audited: Alameda, Butte, Del Norte, Glenn, Mariposa, Plumas, San Luis Obispo, Santa Clara, Solano, Stanislaus, and Sutter. Government Code (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 issues associated with the property tax apportionment and allocation processes.

Except for the findings and recommendations noted in this report, the 11 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 California State Legislature (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 these agencies and 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 Assembly Bill 8 (Chapter 282, Statutes of 1979) which established the method of allocating property taxes for fiscal year (FY) 1979-80 and subsequent fiscal years. The methodology commonly is referred to as the "AB 8 process."

Property tax revenues 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. In general, the amount of revenue that an agency or district receives each fiscal year is based on the amount received in the prior year, plus a share of the property tax growth within its boundaries.

The AB 8 process involves several steps including the transfer of revenues from school and community college districts to local government agencies and the development of the tax rate area (TRA) annual tax increment (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 qualified electric (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 California State Board of Equalization (BOE).

- *Supplemental Roll*—Property that has been reassessed due to a change in ownership or the completion of new construction, where the resulting change in assessed value is not reflected in other tax rolls.

Audit Program

The property tax audit program began on July 1, 1986, under Revenue and Taxation Code (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 applied procedures to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. 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 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 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 sections 97.68 and 97.70.

Conclusion

The property tax apportionment and allocation system is generally operating as intended. SCO submits the Summary of Findings and Recommendations in this report to assist the counties and the State in initiating changes that will continue to improve the system.

Summary of Findings and Recommendations

Introduction

Except for the findings and recommendations cited in this report, the audit reports issued in 2021 indicated that the 11 audited counties generally complied with the legal requirements for the apportionment and allocation of property tax revenues. The audit results summarized below include several issues which require corrective actions by the affected counties. Recommendations to resolve the identified issues are included in the individual county findings.

Unresolved Prior Audit Findings

There were no unresolved issues from prior audits

Computation and Distribution of Property Tax Revenues

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.

Del Norte County incorrectly calculated the ATI by using incorrect assessed values for certain TRAs for FY 2014-15 through FY 2019-20.

Jurisdictional Changes

RTC section 99 provides the legal requirements for jurisdictional changes.

A jurisdictional change involves a change in the organization or boundaries of a local agency or school district. Typically, these are service-area or responsibility changes between the local jurisdictions. As part of the jurisdictional change, the local agencies are required to negotiate any exchange of base-year property tax revenues and ATIs. Consequently, the local agency whose responsibility increased receives additional ATI, and negotiated agreements adjust the base property tax revenues accordingly.

No issues were noted in this area.

Supplemental Property Tax Apportionment 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.

Plumas County incorrectly computed the supplemental apportionment factors because it included the vehicle license fee (VLF) shift for all fiscal years in the audit period.

Supplemental Property Tax Administrative Costs

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.

No issues were noted in this area.

Redevelopment Agencies

RTC sections 96.4 and 96.6 provide the legal requirements for the apportionment and allocation of property tax revenues to RDAs.

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

No issues were noted in this area.

Unitary and Operating Nonunitary Apportionment and Allocation

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, in part:

> 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.

Glenn County incorrectly calculated the unitary excess apportionment factors by using prior-year AB 8 factors, pre-ERAF shift, for FY 2014-15 through FY 2018-19.

Sutter County incorrectly calculated the excess factors by reallocating the ERAF's share to school entities for FY 2015-16, FY 2017-18, and FY 2018-19.

Unitary Regulated Railway Apportionment and Allocation

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.

Glenn County incorrectly calculated the regulated railway excess apportionment factors by using the prior-year AB 8 factors, pre-ERAF shift, for FY 2015-16.

Qualified Electric Property Apportionment and Allocation

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."

No issues were noted in this area.

Reimbursement of Property Tax Administrative Costs

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.

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.

No issues were noted in this area.

Educational Revenue Augmentation Fund

RTC sections 96.1 through 96.5 and 97 through 97.3 provide the legal requirements for calculation of the ERAF shift.

In FY 1992-93 and FY 1993-94, some local agencies were required to shift an amount, subsequently annually adjusted for growth, of property tax revenues to the ERAF using formulas detailed in the Revenue and Taxation Code.

Glenn County incorrectly calculated the ERAF shift for Hamilton City Community Service District (CSD), Northeast Willows CSD, and the Glenn County Mosquito Abatement and Vector Control special district by using incorrect prior-year revenue amounts for FY 2015-16.

Sutter County incorrectly computed the ERAF shift by using incorrect prior-year ERAF amounts for FY 2015-16, FY 2016-17, and FY 2017-18.

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.

Alameda County incorrectly calculated the VLF percentage growth for each fiscal year in the audit period because it did not include non-commercial aircraft assessed values.

Del Norte County incorrectly calculated the VLF adjustment by using incorrect assessed values for FY 2014-15 through FY 2019-20.

Glenn County incorrectly calculated the VLF adjustment for the City of Orland because it did not adjust assessed valuation growth for annexation in FY 2016-17.

Disaster Relief Adjustment

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

No issues were noted in this area.

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, the Legislature passed SB 154 (Chapter 292, Statutes of 1978), which provided for the distribution of state assistance, or bailout, to partially mitigate property tax losses. The relief for counties was $436 million in cash grants plus the State's assumption of $1 billion associated with mandated health and welfare programs.

In the second year following the passage of Proposition 13, the Legislature passed AB 8 (Chapter 282, Statutes of 1979), which provided a long-term solution for the bailout program consisting of a one-time adjustment (shift) that created a new property tax base for each local agency. Counties received all 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 transfer of revenues from school and community college districts to local government agencies resulted in a reduction of the property tax base instead of an increase; this created negative bailout counties.

No issues were noted in this area.

Tax Equity Allocation

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.

No issues were noted in this area.

Redevelopment Property Tax Trust Fund

RTC section 97.401 and Health and Safety Code sections 34182 through 34188 provide the legal requirements for administration of the Redevelopment Property Tax Trust Fund

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.

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 2021. 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.

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

Follow-up on prior audit findings

Our prior audit report, for the period of July 1, 2013, through June 30, 2016, issued on January 19, 2017, included no findings related to the apportionment and allocation of property tax revenues by the county.

**FINDING—
Vehicle License Fee Adjustments**

During our review of the VLF adjustment process, we found that the county incorrectly calculated the VLF percentage growth for each fiscal year in the audit period because it did not include non-commercial aircraft assessed values. As a result of this error, the county over-allocated a total of $754,284 from the ERAF to the county and cities The error occurred because the county incorrectly implemented RTC section 97.70, which 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 to include non-commercial aircraft assessed values in the VLF growth;

- Recalculate the VLF adjustment for FY 2016-17 through FY 2018-19; and

- Remit $754,284 to the ERAF.

County's Response

> The County has reviewed RTC section 97.70 and is in agreement with this finding. The County has updated its procedures for the VLF adjustment process to ensure that non-commercial aircraft values are included in the calculation. The VLF adjustment has been recalculated for fiscal years 2016-17, 2017-18, and 2018-19. The recalculated VLF adjustments were reviewed by SCO audit staff and processed accordingly.

Butte County (July 1, 2016, through June 30, 2020)

Follow-up on prior audit findings

Our prior audit report, for the period of July 1, 2013, through June 30, 2016, issued on August 29, 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.

Del Norte County (July 1, 2014, through June 30, 2020)

Follow-up on prior audit findings

Our prior audit report, for the period of July 1, 2005, through June 30, 2014, issued on August 29, 2014, included no findings related to the apportionment and allocation of property tax revenues by the county.

FINDING 1— Computation and Distribution of Property Tax Revenues

During testing of the computation and distribution of property tax revenue process, we found that the county incorrectly calculated the ATI by using incorrect assessed values for certain TRAs for FY 2014-15 through FY 2019-20. This error resulted in a misallocation of property tax revenues to all affected entities in the county. We could not quantify the monetary impact for each affected taxing entity due to the cumulative effect of the various errors affecting the computation and allocation. The error occurred because the county incorrectly implemented RTC section 96.5 (specifically section 96.5[d]), which provides the legal requirement for the computation and distribution of property tax revenue.

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 is used to develop the apportionments for the current fiscal year.

Recommendation

We recommend that the county:

- Review RTC section 96.5 and 96.5(d) and update its procedures to include the correct assessed values from the computation and distribution of property tax revenue process;

- Recalculate its property tax revenues for FY 2014-15 through FY 2019-20; and

- Make monetary adjustments to school districts and the ERAF. (Monetary adjustments to all other affected taxing entities will be necessary, if the error is significant).

County's Response

> The County recognizes and agrees with this finding and will implement the recommendations. The County was unaware of this oversight and has put controls in place to prevent this from happening in the future. The County is requesting to have an audit completed on a more regular basis by the State to help prevent these types of issues [from] happening.

FINDING 2—
Vehicle License Fee
Adjustments

During testing of the VLF adjustment process, we found that the county incorrectly calculated the VLF adjustment by using incorrect assessed values for FY 2014-15 through FY 2019-20. This error resulted in a net over-allocation of $2,555,483 to the ERAF (an under-allocation of $2,790,002 to the county and an over-allocation of $234,519 to the City of Crescent City). The error occurred because the county incorrectly implemented RTC sections 97.69 and 97.70, which provide the legal requirements for the VLF adjustment.

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 97.69 and 97.70 and update its procedures to include the correct assessed values from the VLF adjustment process;

- Recalculate its VLF adjustment for FY 2014-15 through FY 2019-20; and

- Make monetary adjustments from the City of Crescent City to the ERAF and from the ERAF to the county[1].

County's Response

> The County recognizes and agrees with this finding and will implement the recommendations. The County was unaware of this oversight and has put controls in place to prevent this from happening in the future. The County is requesting to have an audit completed on a more regular basis by the State to help prevent these types of issues [from] happening.

Glenn County (July 1, 2014, through June 30, 2020)

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, 2007, through June 30, 2014, issued on October 9, 2015.

FINDING 1—
Unitary and Operating
Nonunitary
Apportionment and
Allocation

During testing of the unitary and operating nonunitary apportionment and allocation process, we found that the county incorrectly calculated the unitary excess apportionment factors by using prior-year AB 8 factors, pre-ERAF shift, for FY 2014-15 through FY 2018-19. The error occurred because the county incorrectly implemented RTC section 100; the error

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

RTC section 100 provides the legal requirements for the apportionment and allocation of 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, in part:

> 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 unitary and operating nonunitary property tax revenues. This system created the unitary and operating nonunitary base year, and developed formulas for computing 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 2014-15 through FY 2018-19; and

- Make monetary adjustments to school districts and community college districts. Monetary adjustments to all other affected taxing entities will be necessary, if the errors are significant.

County's Response

> We have reviewed the finding and we agree with your comment. We will be recalculating the Unitary Factors for the years indicated and we'll make the necessary adjustments to the prior year's allocations. We have added mitigating controls to avoid the same issue from happening again in the future.

**FINDING 2—
Unitary Regulated
Railway
Apportionment and
Allocation**

During testing of the unitary regulated railway apportionment and allocation process, we found that the county incorrectly calculated the regulated railway excess apportionment factors by using prior-year AB 8 factors, pre-ERAF shift, for FY 2015-16. The error occurred due to an oversight in implementing procedures for RTC section 100.11, and resulted in misallocations to all affected taxing entities. We did not quantify the monetary impact for each affected taxing entity due to various errors affecting the computation and allocation.

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 section 100.11 and update its procedures; and

- Recalculate the regulated railway excess apportionment factors for FY 2015-16 through FY 2019-20.

County's Response

> We have reviewed the finding and we agree with your comment. We will be recalculating the Unitary Railroad Factors for the years indicated and we will make the necessary adjustments to the prior year's allocations. We have added mitigating controls to avoid the same issue from happening again in the future.

**FINDING 3—
Educational Revenue
Augmentation Fund**

During testing of the ERAF shift process, we found that the county incorrectly calculated the ERAF shift for Hamilton City CSD, Northeast Willows CSD, and the Glenn County Mosquito Abatement and Vector Control special district. As a result of clerical error, the county used incorrect prior-year revenue amounts for FY 2015-16. The mistake resulted in misallocations to the three taxing entities. We did not quantify the monetary impact for the three taxing entities due to various errors affecting the computation and allocation.

RTC sections 96.1 through 96.5 and 97 through 97.3 provide the legal requirements for calculation of the ERAF shift.

In FY 1992-93 and FY 1993-94, some local agencies were required to shift an amount, later annually adjusted for growth, of property tax revenues to the ERAF using formulas detailed in the Revenue and Taxation Code.

Recommendation

We recommend that the county:

- Review RTC sections 96.1 through 96.5 and 97 through 97.3, and update its procedures;

- Recalculate the ERAF shift for FY 2015-16 through FY 2019-20; and

- Make monetary adjustments to the ERAF from the Hamilton City CSD, Northeast Willows CSD, and Glenn County Mosquito Abatement and Vector Control special district.

<u>County's Response</u>

> We have reviewed the finding and we agree with your comment. A correction has been made by recalculating the ERAF Shift for the FY 2015-16 through FY 2019-20, and we will make corrections to the allocations made for those years. We will add mitigating controls to avoid the same issue from happening again in the future.

FINDING 4—
Vehicle License Fee
Adjustments

During testing of the VLF adjustment process, we found that the county incorrectly calculated the VLF adjustment for the City of Orland. As a result of clerical error, the county did not adjust assessed valuation growth for annexation in FY 2016-17. The mistake resulted in an over-allocation of funds to the City of Orland. We did not quantify the monetary impact due to various errors affecting the computation and allocation.

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.

<u>Recommendation</u>

We recommend that the county:

- Review RTC sections 97.69 and 97.70, and update its procedures;

- Recalculate the VLF adjustments for FY 2016-17 through FY 2019-20; and

- Make monetary adjustments to the ERAF and the City of Orland.

<u>County's Response</u>

> We have reviewed the finding and we agree with your comment. A correction has been made as indicated for the FY 2016-17 Assessed Valuation Growth and we have re-calculated the VLF adjustments for all years. We have added mitigating controls to avoid the same issue from happening again in the future.

Mariposa County (July 1, 2015, through June 30, 2020)

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, 2008, through June 30, 2015, issued on January 4, 2017.

Conclusion

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

Plumas County (July 1, 2014, through June 30, 2020)

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, 2005, through June 30, 2014, issued on September 10, 2015.

FINDING— Supplemental Property Tax Apportionment and Allocation

During testing of the supplemental apportionment allocation process, we found that the county incorrectly computed the supplemental apportionment factors because it included the VLF shift for all fiscal years in the audit period. As a result of this error, the county over-allocated a total of $207,049 from the ERAF to the county and the City of Portola.

The error occurred because the county incorrectly implemented RTC sections 75.60, 75.71, and 100.2, which 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 to exclude the VLF shift from the supplemental apportionment factor calculation;

- Recalculate the supplemental apportionment factors for FY 2014-15 through FY 2019-20; and

- Remit $207,049 to the ERAF

County's Response

> The County has reviewed RTC sections 75.60, 75.71, and 100.2 and we agree with the finding. The correction has been made to the supplemental apportionment factor calculation, and $207,049 has been remitted to ERAF. Due to turnover in key positions in the Auditor's office in [FY] 2012/13, and [FY] 2013/14, County officials responsible for property tax apportionments were unaware of the change in the law. This issue was not mentioned in the audit that was completed for fiscal years 2006–2014. We have made the required corrections and will continue to follow the guidance in the above code sections in the future.

San Luis Obispo County (July 1, 2017, through June 30, 2020)

Follow-up on prior audit findings

Our prior audit report, for the period of July 1, 2014, through June 30, 2017, issued on July 10, 2018, 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.

Santa Clara County (July 1, 2016, through June 30, 2019)

Follow-up on prior audit findings

Our prior audit report, for the period of July 1, 2013, through June 30, 2016, issued on June 28, 2019, 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.

Solano County (July 1, 2017, through June 30, 2020)

Follow-up on prior audit findings

The county has satisfactorily resolved the finding noted in our prior audit report, for the period of July 1, 2014, through June 30, 2017, issued on September 17, 2018.

Conclusion

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

Stanislaus County (July 1, 2016, through June 30, 2020)

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, 2013, through June 30, 2016, issued on June 12, 2017.

Conclusion

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

Sutter County (July 1, 2015, through June 30, 2020)

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, 2008, through June 30, 2015, issued on May 4, 2017.

FINDING 1— Unitary and Operating Nonunitary Apportionment and Allocation

During testing of the unitary and operating nonunitary apportionment and allocation process, we found that the county incorrectly calculated the excess factors by reallocating the ERAF's share to school entities for FY 2015-16, FY 2017-18, and FY 2018-19. The error occurred because the county incorrectly implemented RTC section 100. The error resulted in a misallocation to all affected taxing entities. We could not quantify the monetary impact for each affected taxing entity due to the cumulative effect of the various errors affecting the computation and allocation.

RTC section 100 provides the legal requirements for the apportionment and allocation of 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, in part,

> 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 unitary and operating nonunitary property tax revenues. This system created the unitary and operating nonunitary base year, and developed formulas for computing distribution factors for the fiscal years that followed.

Recommendation

We recommend that the county:

- Review RTC sections 100 and update its procedures accordingly;

- Recalculate the unitary and operating nonunitary excess apportionment factors starting in FY 2015-16 and forward; and

- Make monetary adjustments to school districts and community college districts. (Monetary adjustments to all other affected taxing entities will be necessary, if the error is significant.)

County's Response

> We have updated our procedures and recalculated the unitary and operating nonunitary excess apportionment factors for the audit period. The ERAF shift calculations have been corrected for the affected fiscal years. The combined adjustments…will be made in three equal increments over a three-year period, as allowed under R & T Code [RTC] section 96.l, beginning with FY 2021-22.

FINDING 2—
Educational Revenue
Augmentation Fund

During our testing of the ERAF shift process, we found that the county incorrectly computed the ERAF shift. As a result of clerical error, the county used incorrect prior-year ERAF amounts for FY 2015-16, FY 2016-17, and FY 2017-18. The mistake resulted in a misallocation to all affected taxing entities. We could not quantify the monetary impact for each affected taxing entity due to the cumulative effect of the various errors affecting the computation and allocation.

RTC sections 96.1 through 96.5 and 97 through 97.3 provide the legal requirements for calculation of the ERAF shift.

In FY 1992-93 and FY 1993-94, some local agencies were required to shift an amount, later annually adjusted for growth, of property tax revenues to the ERAF using formulas detailed in the Revenue and Taxation Code.

Recommendation

We recommend that the county:

- Review RTC sections 96.1 through 96.5 and 97 through 97.3, and update its procedures accordingly;

- Recalculate the ERAF shift starting in FY 2015-16 and forward; and

- Make monetary adjustments to ERAF.

County's Response

> We have updated our procedures and recalculated the unitary and operating nonunitary excess apportionment factors for the audit period. The ERAF shift calculations have been corrected for the affected fiscal years. The combined adjustments, as shown on the attachment, will be made in three equal increments over a three-year period, as allowed under R & T Code section 96.l, beginning with FY 2021-22.

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