

STATE OF CALIFORNIA

Report to the California State Legislature

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

Calendar Year 2024



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

March 2025



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CALIFORNIA STATE CONTROLLER

March 28, 2025

Members of the California State Legislature:

I am pleased to present our property tax apportionment and allocation report for calendar year 2024. Prepared pursuant to Government Code section 12468, the report is intended to help mitigate issues associated with California counties' apportionment and allocation of property tax revenues.

The State Controller's team audited 15 of the 58 counties in California, and found that the audited counties generally complied 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 my Chief of Staff, Regina Evans, by email at revans@sco.ca.gov, or telephone at 916-445-2636. Thank you.

Sincerely,

Original signed by

Malia M. Cohen

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Executive Summary

This report summarizes the results of the State Controller's Office (SCO) audits of California counties' property tax apportionments and allocations during calendar year (CY) 2024.

After the passage of Proposition 13 in 1978, the California State 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.

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 that 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 California State Legislature summarizing the audit findings for each county that was audited during the prior year.

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. We apply 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 CY 2024, we completed audits of 15 counties' apportionment and allocation of property tax revenues. The 15 counties are Alameda, Alpine, Calaveras, Imperial, Inyo, Los Angeles, Marin, Mendocino, Modoc, Nevada, San Diego, Shasta, Siskiyou, Tehama, and Tuolumne.

As a part of the CY 2024 audit work, we followed up on our prior audits to ensure that counties had properly addressed the identified findings.

Except for the findings and recommendations noted in this report, the processes used by the 15 counties audited during CY 2024 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

Mendocino County did not fully resolve all findings noted in prior audits.

Current Audits

- Mendocino, Modoc, and Tehama Counties made errors in the computation and distribution of property tax revenues.
- Modoc County made errors in the jurisdictional change process.
- Inyo County made errors in reimbursing supplemental property tax administrative costs.
- Calaveras, Inyo, Mendocino, Nevada, and Shasta Counties made errors in the unitary and operating nonunitary apportionment and allocation process.
- Mendocino County made errors in the unitary regulated railway apportionment and allocation process.
- Imperial County made errors in the qualified electric apportionment and allocation process.
- Siskiyou County made errors in reimbursing property tax administrative costs.
- Calaveras, Marin, and Shasta Counties made errors in the Educational Revenue Augmentation Fund shift.
- Calaveras, Inyo, Mendocino, Shasta, and Tehama Counties made errors in the vehicle license fee process.

Overview

Introduction

This report presents the results of 15 audits of California counties' property tax apportionments and allocations completed by the State Controller's Office (SCO) in calendar year 2024. The following counties were audited: Alameda, Alpine, Calaveras, Imperial, Inyo, Los Angeles, Marin, Mendocino, Modoc, Nevada, San Diego, Shasta, Siskiyou, Tehama, and Tuolumne. Government Code (GC) section 12468 requires that such audits be conducted periodically for each county according to a prescribed schedule based on county population. This report is intended to help mitigate issues associated with California counties' apportionment and allocation of property tax revenues.

Except for the findings and recommendations noted in this report, the processes used by the 15 counties audited during calendar year 2024 appear to comply 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 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 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 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 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 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 apportionment factors.

Subsequent laws removed from the AB 8 process revenues generated by unitary and nonunitary properties, pipelines, regulated railway companies, and qualified electric 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.

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.
- *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.

The State has the authority to recover General Fund money 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. We applied procedures to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. In conducting the audits, we 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 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 qualified electric 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 the ERAF was in accordance with RTC sections 97 through 97.3.
- Payments from the 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. We submit the Summary of Findings in this report to assist California counties and the State in initiating changes that will continue to improve the system.

Summary of Findings

Introduction

Except for the findings and recommendations cited in this report, the audit reports issued in calendar year 2024 indicated that the 15 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 the affected counties to implement corrective actions. Recommendations to resolve the identified issues are included in the individual county findings.

Unresolved Prior Audit Findings

Mendocino County did not fully resolve all findings noted in prior audits.

Computation and Distribution of Property Tax Revenues

Revenue and Taxation Code (RTC) sections 96 through 96.5 provide the legal requirements for computing the annual tax increment (ATI) and for apportioning and allocating 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 tax rate area receives an increment based on its share of the incremental growth in assessed valuations. ATI is added to the tax computed for the prior fiscal year to develop apportionments for the current fiscal year.

Mendocino County incorrectly calculated ATI by excluding the values of the State-Assessed Roll and the Homeowners' Exemption for three fiscal years.

Modoc County incorrectly calculated ATI by using incorrect assessed values for two fiscal years.

Tehama County's district and tax rate area maps were inconsistent when compared to those of the California State Board of Equalization (BOE) throughout the audit period.

Jurisdictional Changes

RTC section 99 provides the legal requirements for jurisdictional changes.

A jurisdictional change involves a change in the service area or responsibilities of a local agency or school district. 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.

Modoc County incorrectly calculated property tax exchange ratios for the annexation of the Alturas Wastewater Treatment Plant and the Millsite reorganization.

**Supplemental
Property Tax
Apportionment
and Allocation**

RTC sections 75.60, 75.71, and 100.2 provide the legal requirements for apportioning and allocating 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 occurred.

We noted no issues in this area.

**Supplemental
Property Tax
Administrative Costs**

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

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

Inyo County could not provide sufficient supporting documentation for the costs associated with administering supplemental taxes.

**Redevelopment
Agencies**

RTC sections 96.4 and 96.6 provide the legal requirements for apportioning and allocating property tax revenues to redevelopment agencies.

The California Community Redevelopment Law (Statutes of 1963, Chapter 1812; codified in Health and Safety Code sections 33000 through 33080.8) generally entitles a community redevelopment agency to all property tax revenues that are realized from growth in values since the redevelopment project's inception.

We noted no issues in this area.

**Unitary and
Operating
Nonunitary
Apportionment
and Allocation**

RTC section 100 provides the legal requirements for apportioning and allocating unitary and operating nonunitary property tax revenues.

In fiscal year (FY) 1988-89, the California State Legislature (Legislature) established a separate system for apportioning and allocating 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.

RTC section 723 defines unitary properties as properties "that are operated as a unit in the primary function of the assessee" (i.e., public utilities, railroads, or qualified electric [QE] properties) and on which the BOE "may use the principle of unit valuation."

RTC section 723.1 defines operating nonunitary properties as properties "that the assessee and its regulatory agency consider to be operating as a unit," but the BOE considers "not part of the unit in the primary function of the assessee."

Calaveras County used an incorrect Assembly Bill 8 worksheet to calculate the excess factor for one fiscal year.

Inyo County had incorrectly calculated unitary factors by using incorrect assessed values for two fiscal years.

Mendocino County incorrectly calculated the unitary excess factor for one fiscal year.

Nevada County included total unitary debt service revenue when it calculated the estimate of 1 percent unitary revenue for three fiscal years and used incorrect unitary factors when it calculated 102 percent of prior-year revenue for one fiscal year.

Shasta County used prior-year gross revenues with the redevelopment agency adjustment instead of using the prior-year AB 8 factors modified to exclude Educational Revenue Augmentation Fund (ERAF) for the excess of 102 percent calculation for four fiscal years and used current-year gross revenues with the redevelopment agency adjustment instead of using the prior-year AB 8 factors modified to exclude ERAF for the excess of 102 percent calculation for two fiscal years.

Unitary Regulated Railway Apportionment and Allocation

RTC section 100.11 provides the legal requirements for apportioning and allocating unitary regulated railway property tax revenues.

As defined in RTC section 100.11, unitary regulated railway properties are railway facilities that meet the following criteria:

- The original cost of the completed facility (including land, but not including track and track materials) was at least \$100,000,000; and
- The facility was completely constructed and placed in service after January 1, 2007.

RTC section 723 defines unitary properties as those properties “that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or QE properties) and on which the BOE “may use the principle of unit valuation.”

Mendocino County reallocated ERAF revenue when the ERAF should have received unitary regulated railway revenue for one fiscal year, and used incorrect excess factors for two fiscal years.

Qualified Electric Apportionment and Allocation

RTC section 100.95 provides the legal requirements for apportioning and allocating QE property tax revenues.

The statute defines qualified property as “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.”

**Reimbursement
of Property Tax
Administrative
Costs**

Imperial County did not make a distinction between enterprise and non-enterprise special districts when apportioning QE revenues for all fiscal years in the audit period.

RTC section 95.3 provides the legal requirements for reimbursing 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.

Siskiyou County incorrectly calculated its administrative costs by including prior-year reimbursed revenue as a reduction for all fiscal years in the audit period.

**Educational Revenue
Augmentation Fund
Adjustments and
Excess Educational
Revenue
Augmentation Fund**

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

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

Calaveras County did not correctly carry forward the prior-year ERAF base resident tax shift amounts for the City of Angels Camp in two fiscal years, and did not correctly carry forward all prior-year ERAF base shift amounts for one fiscal year.

Marin County included residual revenues from former redevelopment agencies in its excess ERAF calculations for all fiscal years in the audit period.

Shasta County did not adjust a special district's ERAF shift amount for growth for five fiscal years, used incorrect current-year gross revenues for two fiscal years, and used an incorrect redevelopment agency increment amount for one fiscal year.

**Sales and Use Tax
Adjustments**

RTC sections 97.68 and 97.69 provide the legal requirements for sales and use tax adjustments.

We noted no issues in this area.

**Vehicle License Fee
Adjustments**

RTC section 97.70 provides the legal requirements for vehicle license fee (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.

Calaveras County incorrectly calculated the VLF adjustment amount for four fiscal years because it used incorrect current-year assessed values for its general fund.

Inyo County incorrectly calculated the VLF adjustment amount by using incorrect prior-year VLF amounts for three fiscal years.

Mendocino County incorrectly calculated the VLF adjustment amount by using an incorrect assessed value for five fiscal years.

Shasta County used incorrect assessed values for its general fund and the City of Redding for one fiscal year, did not adjust the assessed values for the City of Anderson or the City of Redding for two fiscal years, and did not include utility assessed values when it calculated the assessed values for its general fund and the City of Redding for three fiscal years.

Tehama County incorrectly distributed VLF revenues for two fiscal years. County staff members correctly calculated VLF revenues, but the VLF revenues distributed by the county did not agree with the calculated amounts.

Disaster Relief Adjustment

RTC section 97.2 provides the legal requirements for calculating the Disaster Relief Adjustment.

Beginning in FY 1992-93, the Disaster Relief Adjustment reduced the amount of city and county funds that was 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. The 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 has been adjusted for growth every year since FY 1998-99, as it is included as part of the ERAF base.

We noted no issues in this area.

Negative Bailout (Senate Bill 85)

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

After Proposition 13 was enacted, the Legislature passed Senate Bill 154 (Chapter 292, Statutes of 1978), which provided bailout block grants to counties to make up, in part, for 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.

Two years after Proposition 13 was enacted, the Legislature passed AB 8 (Chapter 282, Statutes of 1979) as a long-term solution for the property tax shortfall. AB 8 created a one-time adjustment that established a new property tax base for each local agency, and it provided block grants for indigent health programs. Counties received the amount of their SB 154 block grant funding, plus 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 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.

Over time, it became apparent that the "negative bailout" counties had not been transferring the required property taxes to their schools. The Legislature consequently passed AB 2162 (Chapter 899, Statutes of 1983), forgiving prior allocation errors but requiring future payments to be made in accordance with statute.

The amount received by the "negative bailout" counties has grown each year as the assessed value of property in the counties has grown. For many years, the "negative bailout" counties tried unsuccessfully to have the negative bailout amount eliminated. In 2010, the Legislature passed SB 85 (Chapter 5, Section 1), which did not eliminate the negative bailout amount, but capped it according to a specified formula. In 2015, the Legislature passed SB 107 (Chapter 325, Section 24) which amended SB 85 to remove the cap for FY 2015-16 and subsequent fiscal years.

We noted no issues 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.

We noted no issues in this area.

**Redevelopment
Property Tax
Trust Fund
Deposit Amounts**

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

In 2012, the Legislature passed a law dissolving redevelopment agencies. The law also provided for 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 receive the ATI previously given to redevelopment agencies to fund payments of their obligations, including but not limited to administrative costs, pass-through payments, and debts.

We noted no issues 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 the State Controller's Office (SCO) in calendar year 2024. Unless otherwise indicated, the counties agreed with the findings and recommendations.

These findings and recommendations are solely for the information and use of the California State Legislature (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, 2019, through June 30, 2023)

Follow-up on prior audit findings

Alameda County has satisfactorily resolved the finding noted in our prior audit report, for the period of July 1, 2016, through June 30, 2019, issued on July 30, 2021.

Conclusion

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

Alpine County (July 1, 2016, through June 30, 2023)

Follow-up on prior audit findings

Alpine 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 June 17, 2019.

Conclusion

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

Calaveras County (July 1, 2017, through June 30, 2023)

Follow-up on prior audit findings

Calaveras County (the county) has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2010, through June 30, 2017, issued on June 28, 2019.

FINDING 1— Unitary and operating nonunitary apportionment and allocation

During our testing of unitary and operating nonunitary apportionment and allocation, we found that the county had used an incorrect fiscal year (FY) 2016-17 Assembly Bill 8 worksheet to calculate the excess factor for FY 2017-18.

The error resulted in a misallocation of property tax revenues to the county's general fund, the City of Angels Camp, and special districts. We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The error occurred because the county incorrectly implemented the applicable statute.

Revenue and Taxation Code (RTC) section 100 provides the legal requirements for apportioning and allocating the unitary and operating nonunitary property tax revenues.

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.

RTC section 723 defines unitary properties as those properties "that are operated as a unit in the primary function of the assessee" (i.e., public utilities, railroads, or qualified electric [QE] properties) and on which the California State Board of Equalization (BOE) "may use the principle of unit valuation."

RTC section 723.1 defines operating nonunitary properties as properties "that the assessee and its regulatory agency consider to be operating as a unit," but the BOE considers "not part of the unit in the primary function of the assessee."

Recommendation

We recommend that the county:

- Review RTC sections 100(c) and 100.01, and update its procedures;
- Recalculate the unitary and operating nonunitary allocation factors for FY 2017-18 and carry forward the corrected factors and allocations to subsequent years; and
- Make monetary adjustments to all affected taxing entities if the amounts are material.

County's Response

The County agrees with this finding. The county performed the recommended re-calculations and had them reviewed by the State Controller auditors before the December 2023 apportionments. The county re-calculated the apportionments for the impacted fiscal years and will make the monetary adjustments to the taxing entities.

FINDING 2— Educational Revenue Augmentation Fund adjustments

During our testing of Educational Revenue Augmentation Fund (ERAF) adjustments, we found that the county had incorrectly calculated the ERAF shift amount. Specifically, the county did not correctly carry forward the prior-year ERAF base resident tax shift amounts for the City of Angels Camp in FY 2019-20 and FY 2022-23. The county also did not correctly carry forward all prior-year ERAF base shift amounts for FY 2020-21.

The error resulted in a misallocation of property tax revenues to the county's general fund, the City of Angels Camp, special districts, and the ERAF. We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The error occurred because the county incorrectly implemented the applicable statutes.

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

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

Recommendation

We recommend that the county:

- Review RTC sections 97.2 and 97.3, and update its procedures;
- Recalculate the ERAF adjustments for FY 2019-20 through FY 2022-23, correctly carrying forward the prior-year tax shifts; and
- Make monetary adjustments to the affected taxing entities and the ERAF.

County's Response

The County agrees with this finding. The county performed the recommended re-calculations and had them reviewed by State Controller auditors for the impacted fiscal years and will make monetary adjustments to the taxing entities.

FINDING 3— Vehicle license fee adjustments

During our testing of vehicle license fee (VLF) adjustments, we found that the county had incorrectly calculated the VLF adjustment amount for FY 2017-18, FY 2020-21, FY 2021-22, and FY 2022-23 because it used incorrect current-year assessed values for its general fund.

The error resulted in a misallocation of property tax revenues to the county's general fund and the ERAF. We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The error occurred because the county incorrectly implemented the applicable statute.

RTC section 97.70 provides the legal requirements for VLF adjustments.

The VLF permanently provided additional property tax revenues to counties and cities 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;

- Recalculate the VLF adjustment amounts for FY 2017-18 and for FY 2020-21 through FY 2022-23; and
- Make monetary adjustments to its general fund and the ERAF.

County's Response

The County agrees with this finding. The county has re-calculated prior year VLF and will carry forward the corrected amounts. The county will make monetary adjustments to the impacted taxing entities.

Imperial County (July 1, 2016, through June 30, 2023)

Follow-up on prior audit findings

Imperial County (the county) has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2007, through June 30, 2016, issued on March 29, 2019.

FINDING— Qualified electric property apportionment and allocation

During testing of QE apportionment and allocation, we found that the county had not made a distinction between enterprise and non-enterprise special districts when apportioning QE revenues.

An enterprise district provides specific benefits to its customers, for which the customer pays a fee for the service (e.g., a water district charging water rates to its customers). A non-enterprise district delivers services that provide general benefits to entire communities and are primarily funded through property taxes (e.g., fire protection services).

The county assumed that all special districts were non-enterprise and did not consult the SCO FY 2001-02 Special District Annual Report to make a determination between enterprise and non-enterprise status. This error resulted in misallocation of QE revenues for all years in the audit period. Due to the complexity of the QE property tax allocation, we are unable to quantify the effect of the error.

RTC section 100.95 provides the legal requirements for apportioning and allocating QE property tax revenues. The statute defines qualified property as “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,” and related to electrical substation, generation, and transmission facilities that meet specific criteria.

Recommendation

We recommend that the county:

- Review RTC section 100.95 and update its procedures to ensure that enterprise special districts are excluded from QE apportionments and allocations;
- Recalculate its QE allocation for FY 2016-17 through FY 2022-23; and
- Make monetary adjustments to the affected special districts and the county general fund.

County's Response

The county agreed with the finding. The county stated that it would recalculate the QE apportionment amounts for FY 2016-17 through FY 2022-23 and make monetary adjustments to the affected taxing entities.

Inyo County (July 1, 2015, through June 30, 2023)**Follow-up on prior audit findings**

Inyo County (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 on February 24, 2017.

**FINDING 1—
Supplemental
property tax
administrative costs**

During our testing of the county's process for reimbursing supplemental property tax administrative costs, we found that the county could not provide sufficient supporting documentation for the costs associated with administering supplemental taxes. As a result, the county could not support all of the fees that it collected during the audit period.

We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The error occurred because the county did not correctly implement the applicable statute.

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

The statute allows a county to charge an administrative fee for collecting supplemental property tax revenues. 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 update its procedures to ensure that it maintains sufficient supporting documentation for the costs associated with administering supplemental taxes.

County's Response

The County will review RTC section 75.60 and request the Assessor, Tax Collector & Auditor-Controller to track time spent processing supplemental tax administration.

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

During our testing of unitary and operating nonunitary apportionment and allocation, we found that the county had incorrectly calculated unitary factors by using incorrect assessed values for FY 2016-17 and FY 2017-18. This error resulted in a misallocation of unitary and operating nonunitary revenue to all affected taxing jurisdictions.

We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The error occurred because the county did not correctly implement the applicable statute.

RTC section 100 provides the legal requirements for apportioning and allocating unitary and operating nonunitary property tax revenues.

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

RTC section 723 defines unitary properties as properties “that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or qualified electric properties) and on which the BOE “may use the principle of unit valuation.

RTC section 723.1 defines operating nonunitary properties as properties “that the assessee and its regulatory agency consider to be operating as a unit,” but the BOE considers “not part of the unit in the primary function of the assessee.”

Recommendation

We recommend that the county:

- Review RTC section 100 and update its procedures to include the correct assessed values;
- Recalculate the unitary and operating nonunitary apportionment and allocation for FY 2016-17 through FY 2022-23; and
- Make monetary adjustments to all affected jurisdictions if amounts are material.

County’s Response

The County will correct the values for FY 16-17 and FY 17-18 that were converted in error during the implementation of our property tax system and correct the allocation factor.

FINDING 3— Vehicle license fee adjustments

During our testing of VLF adjustments, we found that the county had incorrectly calculated the VLF adjustment amount by using incorrect prior-year VLF amounts for FY 2020-21 through FY 2022-23. This error resulted in a misallocation of property tax revenues to the City of Bishop and the ERAF.

We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The error occurred because the county did not correctly implement the applicable statute.

RTC section 97.70 provides the legal requirements for VLF adjustments.

The VLF permanently provided additional property tax revenues to counties and cities 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 the correct prior-year VLF amounts;
- Recalculate the VLF adjustments for FY 2020-21 through FY 2022-23; and
- Make monetary adjustments to the City of Bishop and the ERAF.

County's Response

The County will correct the values for FY 20-21 that were converted in error during the implementation of our property tax system and correct the allocation of tax revenue to the City of Bishop and ERAF fund.

Los Angeles County (July 1, 2021, through June 30, 2023)

Follow-up on prior audit findings

Our prior audit report, for the period of July 1, 2018, through June 30, 2021, issued on November 3, 2022, included no findings related to the apportionment and allocation of property tax revenues by Los Angeles County.

Conclusion

Our audit found that Los Angeles County complied with California statutes for the apportionment and allocation of property tax revenues during the audit period.

Marin County (July 1, 2016, through June 30, 2021)

Follow-up on prior audit findings

Our prior audit report, for the period of July 1, 2011, through June 30, 2016, issued on June 7, 2017, included no findings related to the apportionment and allocation of property tax revenues by Marin County (the county).

REVISED FINDING— Excess Educational Revenue Augmentation Fund amount

During our testing of the ERAF shift, we found that the county had included residual revenues from former redevelopment agencies in its excess ERAF calculations for all fiscal years in the audit period. The county should have excluded those residual revenues from its excess ERAF calculation beginning with FY 2019-20.

The error contributed to an increase in excess ERAF, totaling \$2,762,140, for FY 2019-20 and FY 2020-21. The error occurred because the county incorrectly implemented Health and Safety Code (HSC) section 34188(d), RTC section 97.2(d)(4)(B), and RTC section 97.3(d)(4)(B), which provide the legal requirements for excess ERAF.

HSC section 34188(d) prohibits increasing allocations of excess, additional, or remaining funds to cities, counties, cities and counties, or special districts that would otherwise have received allocations pursuant to RTC sections 97.2(d)(4)(B)(i), 97.3(d)(4)(B)(i), or 98 et seq.

Recommendation

We recommend that the county:

- Review HSC section 34188(d), RTC section 97.2(d)(4)(B), and RTC section 97.3(d)(4)(B);
- Exclude residual revenue from former redevelopment agencies from its excess ERAF calculations;
- Recalculate its excess ERAF for FY 2019-20 and FY 2020-21; and
- Make monetary adjustments to the ERAF.

County's Response

We respectfully disagree with the SCO's proposed audit finding and object to its recommendations that the County recalculate its excess ERAF from FY 2019-20 through FY 2020-21; and make monetary adjustments to the ERAF in the amount of \$4,535,424. The County has carefully reviewed HSC section 34188(d), RTC section 97.2(d)(4)(B), and RTC section 97.3(d)(4)(B). The County believes it is in full compliance with each of these authorities.

. . . In February 2021, the SCO issued a formal notice to county officials concerning the calculation and allocation of excess ERAF revenues ("SCO Excess ERAF Guidance"). In July 2021, the SCO's Chief Counsel provided confirmation to the County's clarifying questions regarding the calculation and allocation of excess ERAF, whereby the SCO confirmed that the County was "in harmony" with the SCO Excess ERAF Guidance and its application of HSC [section] 34188. Accordingly, the County believes that not only is it in full compliance with each of the authorities listed above, but that it is also in full compliance with the additional supplementary guidance promulgated by the SCO. . . .

It is the County's strong position that residual property tax revenues do not (and cannot) contribute to an increase in excess ERAF. This is due to the fact that residual property tax revenues are not deposited into the ERAF to begin with, as RTC section 97.2(d)(2)(B) and the SCO Excess ERAF Guidance specifically directs Counties to exclude residual property tax revenues when calculating overall revenues deposited into ERAF.

If Counties were to exclude all residual revenues allocated to non-basic aid school districts for the purpose of calculating excess ERAF, the result

would ultimately conflict with Article XIII, section 25.5 [of the California Constitution] by altering the pro-rata shares of the affected taxing entities. . . .

The SCO Excess ERAF Guidance directs counties to account for excess ERAF as follows:

- Determine the taxing entities that contributed to ERAF (e.g. cities, county, and special districts)
- Allocate Excess ERAF revenues among the affected taxing entities in proportion to the amounts of ad valorem property tax revenue otherwise required to be shifted from those local agencies to the county's ERAF for the relevant fiscal year. (i.e. pro-rata shares)

SCO Comment

The SCO originally issued its final report on August 14, 2023.

On September 14, 2023, the county provided additional documentation supporting that the original finding amount of \$4,535,424 included residual payments from former redevelopment agencies to basic-aid schools; and that the non-basic aid residual payments, totaling \$2,762,140 (\$1,278,490 for FY 2019-20 and \$1,483,650 for FY 2020-21), had not been excluded from the excess ERAF calculation.

On October 13, 2023, the county requested an informal review of the audit finding; a meeting was held on December 7, 2023.

On December 20, 2023, the SCO Chief Legal Advisor to the Controller informed the County that the finding would remain, but be reduced to \$2,762,140.

Mendocino County (July 1, 2015, through June 30, 2022)

Follow-up on prior audit findings

Mendocino County (the county) satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2008, through June 30, 2015, issued on May 11, 2017, with the exception of current Findings 1 and 2.

FINDING 1— Unitary and operating nonunitary apportionment and allocation (repeat finding)

During the audit, county staff members indicated that prior audit findings had not been corrected. During our testing of unitary and operating nonunitary apportionment and allocation, we confirmed that recommendations made in the prior three audit reports had not been implemented. As a result, the errors first noted in FY 1987-88 continued through FY 2018-19. We also noted that the county had made additional calculation errors during the current audit period.

In our previous audits, we found the following errors:

- In FY 1987-88, the apportionment factors were incorrectly established.

- In FY 1988-89, the county correctly computed the base revenues; however, it did not apply the correction.
- In FY 2002-03, the county incorrectly excluded redevelopment agencies when computing the excess of 102 percent of the prior-year unitary revenues.
- In FY 2009-10, FY 2010-11, FY 2012-13, and FY 2013-14, the county did not compute up to 102 percent of the prior-year unitary revenues.

In the current audit, we further found that for FY 2021-22, the unitary excess factor had been incorrectly calculated. The error occurred because the county used incorrect prior-year AB 8 factors adjusted for the redevelopment agency and did not reallocate the Unification Failure share to Arena Union Elementary and Manchester Union Elementary. The error resulted in a misallocation of property tax revenues to all affected taxing entities.

We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The errors occurred because the county incorrectly implemented the applicable statute.

RTC section 100 provides the legal requirements for apportioning and allocating unitary and operating nonunitary property tax revenues.

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.

RTC section 723 defines unitary properties as those properties “that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or QE properties) and on which the BOE “may use the principle of unit valuation.”

RTC section 723.1 defines operating nonunitary properties as properties “that the assessee and its regulatory agency consider to be operating as a unit,” but the BOE considers “not part of the unit in the primary function of the assessee.”

Recommendation

We recommend that the county:

- Review RTC sections 100(c) and 100.01, and update its procedures;
- Review the recommendation for the prior audit finding;
- Correct the prior audit finding and the current finding by recalculating the unitary apportionment factors for FY 1987-88 through FY 2021-22, and use the corrected factors going forward; and
- Make monetary adjustments to all affected jurisdictions, if the amounts are material.

County's Response

- The County agrees with the auditor's recommendations.
- The County proceeded with the following steps to ensure recommendations were addressed:
 - Reviewed the prior year audits to understand the finding due to this being a repeat finding
 - Recalculated the unitary the unitary apportionment factors for FY 1987-88 through FY 2021-22
 - Communicated with the State Controller's Office to ensure [that] recalculations were accurate
- The County is in the process of updating the Property Tax system with the correct values to ensure [that] future years are accurate.
- The County is evaluating the materiality and will make monetary adjustment[s] to jurisdictions if the amounts are material for FY [2016-17] through FY [2021-22]

**FINDING 2—
Unitary regulated
railway apportionment
and allocation (repeat
finding)**

During the audit, county staff members indicated that prior audit findings had not been corrected. During our testing of unitary regulated railway apportionment and allocation, we confirmed that the recommendations made in the prior audit report had not been implemented. We also noted that the county had made additional calculation errors during the current audit period.

In our previous audit, we found that the county:

- Used FY 2006-07 base revenues to compute up to 102 percent of prior-year revenue for all years, instead of using the revenue from the immediate prior year; and
- Removed the ERAF in FY 2014-15.

In the current audit, we further found that the unitary regulated railway factor had been incorrectly calculated because the county:

- Reallocated ERAF revenue for FY 2016-17 when ERAF should have received unitary regulated railway revenue; and
- Used incorrect excess factors for FY 2017-18 and FY 2018-19.

The error resulted in a misallocation of property tax revenues to all affected taxing entities.

We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The errors occurred because the county incorrectly implemented the applicable statute.

RTC section 100.11 provides the legal requirements apportioning and allocating unitary regulated railway property tax revenues.

As defined in RTC section 100.11, unitary regulated railway properties are railway facilities that meet the following criteria:

- The original cost of the completed facility (including land, but not including track and track materials) was at least \$100,000,000; and
- The facility was completely constructed and placed in service after January 1, 2007.

RTC section 723 defines unitary properties as those properties “that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or QE properties) and on which the BOE “may use the principle of unit valuation.”

Recommendation

We recommend that the county:

- Review RTC sections 100.11(a)(1)(B) and 100.11(a)(2)(C) and update its procedures;
- Review the prior recommendation for the prior audit finding;
- Correct the prior audit finding and the current finding by recalculating the unitary regulated railway apportionment factors, beginning with FY 2008-09; and
- Make monetary adjustments to all affected jurisdictions, if the amounts are material.

County’s Response

- The County agrees with the auditor’s recommendations.
- The County proceeded with the following steps to ensure [that] recommendations were addressed:
 - Reviewed the prior year audits to understand the finding due to this being a repeat finding
 - Recalculated the unitary regulated railway apportionment factors beginning with FY 2008-09
 - Communicated with the State Controller’s Office to ensure [that] recalculations were accurate
- The County is in the process of updating the Property Tax system with the correct values to ensure [that] future years are accurate.
- The County is evaluating the materiality and will make monetary adjustment[s] to jurisdictions if the amounts are material.

FINDING 3— Computation and distribution of property tax revenue

During our testing of the county’s process for computing and distributing property tax revenues, we found that the county had incorrectly calculated the annual tax increment (ATI) by excluding the values of the State-Assessed Tax Roll and the Homeowners’ Exemption for FY 2016-17 through FY 2018-19. The error resulted in a misallocation of property tax revenues to all affected taxing entities.

We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The errors occurred because the county incorrectly implemented the applicable statute.

RTC sections 96 through 96.5 provide the legal requirements for computing the ATI and for apportioning and allocating 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 tax rate area (TRA) receives an increment based on its share of the incremental growth in assessed valuations. ATI is added to the tax computed for the prior fiscal year to develop the apportionments for the current fiscal year.

Recommendation

We recommend that the county:

- Review RTC section 96.5 and update its procedures;
- Correct the finding by recalculating the increment for FY 2016-17 through FY 2018-19; and
- Make monetary adjustments to all affected jurisdictions if the amounts are material.

County's Response

- The County agrees with the auditor's recommendations.
- The County proceeded with the following steps to ensure [that] recommendations were addressed:
 - Recalculated the increment for FY 2016-17 through FY 2018-19
 - Communicated with the State Controller's Office to ensure [that] recalculations were accurate
- The County is in the process of updating the Property Tax system with the correct values to ensure [that] future years are accurate.
- The County is evaluating the materiality and will make monetary adjustment[s] to jurisdictions if the amounts are material.

FINDING 4— Vehicle license fee adjustments

During our testing of VLF adjustments, we found that the county had incorrectly calculated the VLF adjustment amount by using an incorrect assessed value for FY 2015-16 through FY 2018-19 and for FY 2021-22. This error resulted in a misallocation of property tax revenues to the county's general fund, cities, and the ERAF.

We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The errors occurred because the county incorrectly implemented the applicable statute.

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;
- Recalculate the VLF adjustments for FY 2015-16 through FY 2018-19 and FY 2021-22; and
- Make monetary adjustments to the ERAF, the county's general fund, and cities.

County's Response

- The County agrees with the auditor's recommendations.
- The County proceeded with the following steps to ensure [that] recommendations were addressed:
 - Recalculated the increment for FY 2015-16 through FY 2018-19 and FY 2021-22
 - Communicated with the State Controller's Office to ensure [that] recalculations were accurate
- The County is in the process of updating the Property Tax system with the correct values to ensure [that] future years are accurate.
- The County is evaluating the materiality and will make monetary adjustment[s] to jurisdictions if the amounts are material.

Modoc County (July 1, 2016, through June 30, 2022)

Follow-up on prior audit findings

Modoc County (the county) has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2012, through June 30, 2016, issued on January 4, 2017.

FINDING 1— Computation and distribution of property tax revenue

During our testing of the county's process for computing and distributing property tax revenues, we found that the county had incorrectly calculated the ATI by using incorrect assessed values for FY 2020-21 and FY 2021-22. This error resulted in a misallocation of property tax revenue to all taxing jurisdictions 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 distribution. The error occurred because the county incorrectly implemented the applicable statutes, especially RTC section 96.5(d).

RTC sections 96 through 96.5 provide the legal requirements for computing the ATI and for apportioning and allocating 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 is 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:

- Review RTC section 96.5, with special attention to subparagraph (d), and update its procedures to ensure that it includes the correct assessed values when computing and distributing property tax revenues;
- Recalculate its property tax revenues for FY 2020-21 and FY 2021-22; and
- Make monetary adjustments to school districts and the ERAF. Monetary adjustments to other affected taxing entities will be necessary if the amounts are material.

County's Response

The county concurred with the recommendation and stated that it had corrected the error.

FINDING 2— Jurisdictional changes

During our testing of jurisdictional changes, we found that the county had incorrectly calculated property tax exchange ratios for the annexation of the Alturas Wastewater Treatment Plant and the Millsite reorganization. This error resulted in a misallocation of property tax exchange ratios to all taxing jurisdictions 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 distribution. The error occurred because the county incorrectly implemented RTC section 99.

RTC section 99 provides the legal requirements for jurisdictional changes.

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

Recommendation

We recommend that the county:

- Review RTC section 99, and update its procedures to include the correct property tax exchange ratios outlined in the jurisdictional change agreement;
- Recalculate the jurisdictional change amount using the correct property tax exchange ratios outlined in the jurisdictional change agreement; and
- Make monetary adjustments to all affected taxing entities.

County's Response

The county concurred with the recommendation and stated that it had corrected the error.

Nevada County (July 1, 2017, through June 30, 2023)**Follow-up on prior audit findings**

Our prior audit report, for the period of July 1, 2010, through June 30, 2017, issued on July 6, 2018, disclosed no findings.

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

During our testing of unitary and operating nonunitary apportionment and allocation, we found that Nevada County (the county) incorrectly calculated the unitary factors as follows:

- For FY 2020-21 through FY 2022-23, the county included total unitary debt service revenue when it calculated the estimate of one percent unitary revenue; and
- For FY 2022-23, the county used FY 2020-21 unitary factors instead of FY 2021-22 unitary factors when it calculated 102 percent of prior-year revenue.

The errors resulted in a misallocation of property tax revenues to all affected taxing entities.

We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The errors occurred because the county incorrectly implemented the applicable statute.

RTC section 100 provides the legal requirements for apportioning and allocating unitary and operating nonunitary property tax revenues.

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.

RTC section 723 defines unitary properties as properties “that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or qualified electric properties) and on which the BOE “may use the principle of unit valuation.” 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.”

RTC section 723.1 defines operating nonunitary properties as properties “that the assessee and its regulatory agency consider to be operating as a unit,” but the BOE considers “not part of the unit in the primary function of the assessee.”

Recommendation

We recommend that the county:

- Review RTC sections 100(c) and 100.01, and update its procedures;
- Recalculate the unitary factors for FY 2020-21 through FY 2022-23; and
- Make monetary adjustments to all affected jurisdictions if the amounts are material.

County’s Response

The County agrees with this finding and has followed the recommendations outlined by the SCO. The County corrected the unitary factors for FY 2020-21 through FY 2022-23 and adjusted apportionment amounts [for] the affected taxing entities. The County will utilize the corrected factors for subsequent years to comply with RTC sections 100(c) and 100.01 and has updated [its] procedures accordingly.

San Diego County (July 1, 2018, through June 30, 2023)

Follow-up on prior audit findings

San Diego County has satisfactorily resolved the finding noted in our prior audit report, for the period of July 1, 2009, through June 30, 2018, issued on June 24, 2019.

Conclusion

Our audit found that San Diego County complied with California statutes for the apportionment and allocation of property tax revenues during the audit period.

Shasta County (July 1, 2016, through June 30, 2023)

Follow-up on prior audit findings

Shasta County (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 February 15, 2017.

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

During our testing of unitary and operating nonunitary apportionment and allocation, we found that the county had incorrectly calculated the unitary factors for the following reasons:

- For FY 2016-17, and FY 2020-21 through FY 2022-23, the county used prior-year gross revenues with the redevelopment agency adjustment instead of using the prior-year AB 8 factors modified to exclude ERAF for the excess of 102 percent calculation.
- For FY 2017-18 through FY 2018-19, the county used current-year gross revenues with the redevelopment agency adjustment instead of using the prior-year AB 8 factors modified to exclude ERAF for the excess of 102 percent calculation.

The error resulted in a misallocation of property tax revenues to all taxing jurisdictions in the county.

We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The errors occurred because the county incorrectly implemented the applicable statute.

RTC section 100 provides the legal requirements for apportioning and allocating the unitary and operating nonunitary property tax revenues.

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.

RTC section 723 defines unitary properties as those properties “that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or QE properties) and on which BOE “may use the principle of unit valuation.” RTC section 723.1 defines operating nonunitary properties as properties “that the assessee and its regulatory agency consider to be operating as a unit,” but the BOE considers “not part of the unit in the primary function of the assessee.”

Recommendation

We recommended that the county:

- Review RTC sections 100(c) and 100.01, and update its procedures;
- Recalculate the unitary factors for FY 2016-17 through FY 2022-23; and
- Make monetary adjustments to all affected jurisdictions if the amounts are material.

County’s Response

We concur with the audit findings and all corrections were made to unitary and operating nonunitary factors as recommended. The

worksheet and policies and procedures have been updated to ensure that future years are calculated correctly. The difference in the factors was immaterial, so no adjustment will be made to prior apportionments.

**FINDING 2—
Educational Revenue
Augmentation Fund
adjustments**

During our testing of ERAF adjustments, we found that the county had incorrectly calculated the ERAF shift amount for the following reasons:

- For FY 2018-19 through FY 2022-23, the county did not adjust Pine Grove Cemetery District's ERAF shift amount for growth after the consolidation of Fall River Mills Cemetery District into Pine Grove Cemetery District under BOE File Number 2018-004.
- For FY 2019-20 and FY 2021-22, the county used incorrect current-year gross revenues.
- For FY 2022-23, the county used an incorrect redevelopment agency increment amount that included aircraft revenue.

The error resulted in a misallocation of property tax revenues to all taxing jurisdictions in the county.

We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The errors occurred because the county incorrectly implemented the applicable statute.

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

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

Recommendation

We recommended that the county:

- Review RTC section 97.2 and update its procedures;
- Recalculate the ERAF shift for FY 2018-19 through FY 2022-23; and
- Make monetary adjustments to all affected jurisdictions if the amounts are material.

County's Response

We concur with the audit findings and all corrections have been made to ERAF shift as recommended. Factors were recalculated and found to be immaterial so no adjustment to prior apportionments will be made. Amounts for [the FY 2023-24 AB 8 factor] have been updated and will be used going forward for apportionments. Policies and procedures have been updated to ensure exclusion of aircraft revenue going forward based on clarification from the State Controller in 2023.

**FINDING 3—
Vehicle license fee
adjustments**

During our testing of VLF adjustments, we found that the county had incorrectly calculated the VLF adjustment amount for the following reasons:

- For FY 2018-19, the county used incorrect assessed values for its general fund and the City of Redding.
- For FY 2018-19 and FY 2020-21, the county did not adjust the assessed values for the City of Anderson's Deschutes reorganization under BOE File Number 2018-001 or the City of Redding's Westridge, Greenview, McCullough, and Campo Calle annexation under BOE File Number 2020-001.
- For FY 2020-21 through FY 2022-23, the county did not include utility assessed values when it calculated the assessed values for its general fund and the City of Redding.

The errors resulted in a misallocation of property tax revenues to all taxing jurisdictions in the county.

We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The errors occurred because the county incorrectly implemented the applicable statute.

RTC section 97.70 provides the legal requirements for VLF adjustments.

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

Recommendation

We recommend that the county:

- Review RTC sections 97.70 and update its procedures;
- Recalculate VLF adjustments for FY 2018-19 through FY 2022-23; and
- Make monetary adjustments to the ERAF, the county's general fund, and cities.

County's Response

We concur with the audit findings and all corrections were made to VLF as recommended. An adjustment journal entry will be posted in February 2024 to correct ERAF and allocation amounts to the County General Fund and the Cities. Policies and procedures have been updated to ensure that any future annexation adjustments flow through to the VLF swap spreadsheet and to ensure that utility assessed values are included.

Siskiyou County (July 1, 2016, through June 30, 2023)

Follow-up on prior audit findings

Siskiyou County (the county) has satisfactorily resolved the finding noted in our prior audit report, for the period of July 1, 2006, through June 30, 2016, issued on March 16, 2017.

FINDING— Reimbursement of property tax administrative costs

During our testing of the county's process for reimbursing property tax administrative costs, we found that the county had incorrectly calculated its administrative costs by including prior-year reimbursed revenue as a reduction for all fiscal years in the audit period. The error resulted in an under-allocation of \$132,801 in property tax administrative costs to all affected entities, excluding schools. The error occurred because the county incorrectly implemented the applicable statute.

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 recommended that the county:

- Review RTC sections 95.3 and update its procedures for reimbursing property tax administrative costs;
- Recalculate the property tax administrative costs for FY 2016-17 through FY 2022-23 in order to reallocate costs; and
- Make monetary adjustments to all affected jurisdictions if the amounts are material.

County's Response

The county accepted the finding and stated that it will make the correction and adjustment on the current year's property tax administrative costs apportionment.

Tehama County (July 1, 2016, through June 30, 2023)

Follow-up on prior audit findings

Tehama County (the county) has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2009, through June 30, 2016, issued on June 7, 2017.

FINDING 1— Computation and distribution of property tax revenue

During our testing of the county's process for computing and distributing property tax revenues, we found that the county's district and TRA maps were inconsistent when compared to those of the BOE throughout the audit

period. Additionally, there were instances of TRA factors changing or being created in between fiscal years without any justification. These errors resulted in jurisdictions not knowing whether they had received their fair shares of property tax revenue.

We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation.

The error occurred because the county incorrectly implemented RTC sections 96.5 and 96.5(d), which provide the legal requirement for the computation and distribution of property tax revenue.

Recommendation

We recommend that the county:

- Review RTC sections 96.5 and 96.5(d), and update its procedures to correct the inconsistencies found in the computation and distribution of property tax revenue process;
- Recalculate its property tax revenues for the impacted fiscal years; 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 material.

County's Response

This finding should be broken into two sections—one is directly related to the Auditor functions and the other is related to the Assessor functions.

Auditor Related Response

During the audit it was identified that TRA 096-001 values changed in [FY] 2018-19 and these were added to the increment. It was further noted that multiple jurisdictions were changed in [FY] 2021-22. We believe this was due to an audit performed by Hinderlighter de Llamas & Associates (HDL), but we are unable to locate backup & relevant correspondence. Because we are unable to locate backup documentation related to this change, we agree with this finding.

The calculations and values from [FY] 2018-2019 through [FY] 2022-23 are noted below:

FY	TRA	[Assessed Value]
16-17	96-001	
17-18	96-001	
18-19	96-001	\$12,461
19-20	96-001	12,535
20-21	96-001	13,883
21-22	96-001	14,700
22-23	96-001	14,573

Auditor Related Corrective Action

- We feel the assessed value difference on the increment is insignificant and immaterial when calculating the AB-8 growth factors for each year. Therefore, no recalculation or adjustments of property tax allocations going back to [FY] 2018-19 will be made.
- The county is updating procedures and correcting the inconsistencies found in the increment in [FY 2021-22].
- The change will be done and applied to the [FY] 2024-25 increment.

Assessor Related Response

It was noted during the audit that some TRA values had changed and were inconsistent with values at the BOE. The Auditor does not audit TRA values provided by the Assessor and accepts their certified valuation to assign values by TRA. The Assessor has an audit every three to six years, and TRA valuations would undoubtedly be part of that audit. Although we don't disagree that there were inconsistencies with values, we do feel that this finding is out of the scope of Auditor duties.

During the audit, our staff reached out to the Assessor and was unable to get an immediate response related to the change in values by TRA. The Assessor is new and the staff member who made the value changes has retired. Unfortunately, records of the changes were not readily available during the audit.

To further clarify the separation of roles/functions performed by Auditor and Assessor we offer the following:

- 1) The Assessor's office categorizes the certification of assessed values each year by [TRAs] and provides this report to the Auditor after roll close. Zero value [TRAs] can be on that list. This can happen for a multitude of reasons such as exempt properties, State Board of Equalization properties, low value properties, etc.
- 2) The Assessor works with the [BOE] to create, assign and map [TRAs]. The Assessor's office maintains an Assessor Parcel Map which contains Assessor Parcel Numbers that help identify the property that is being taxed. The parcel numbers are assigned a [TRA], that once mapped, should reflect the BOE managed TRA maps. The findings/recommendations note inconsistencies between county district and TRA maps (assuming Assessor Maps) and the BOE Maps. A function of the Assessor's office being called out seems inappropriate in an Audit or Property Tax functions related to the Auditor.

Assessor Related Corrective Action

The Assessor has reviewed the annual [report of valid TRAs from BOE] for each of the audit years and found no discrepancies. A review of the maps is a much larger task, as there are around 164 [TRAs] which in turn have individual maps. While the maps may be similar year to year, they would need to review them all to identify any inconsistencies. This would equate to around 1,148 individual maps. Given the magnitude of the task, the Assessor cannot guarantee that all maps are correct at this time. He has done a spot check of some of the maps and has found no inconsistencies.

Going forward the Assessor will coordinate with the BOE to do a deep dive into communications over the past regarding value changes. At this point, they cannot say that maps are correct, or incorrect in total. However, the Assessor has never received complaints or notifications from the BOE regarding errors or inconsistencies.

Annually, the Assessor's office will provide a brief explanation for TRAs that have zero value in their certification report.

The Assessor's office will also communicate with the Auditor when [TRAs] associated with Assessor Parcel Numbers are changed, added, or deleted.

**FINDING 2—
Vehicle license fee
adjustments**

During our testing of VLF adjustments, we found that the county had incorrectly distributed VLF revenues for FY 2016-17 and FY 2017-18. County staff members correctly calculated VLF revenues, but the amounts distributed by the county did not agree with the calculated amounts. This error resulted in a total overallocation of property tax revenues to the ERAF of \$295,311: (\$236,949) from the county, (\$20,326) from the City of Corning, (\$35,861) from the City of Red Bluff, and (\$2,175) from the City of Tehama.

The error occurred because county staff members did not distribute VLF revenues pursuant to 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;
- Adjust the VLF revenues distributed in FY 2016-17 and FY 2017-18 to reflect the calculated amounts; and
- Make monetary adjustments to the ERAF, its general fund, and the Cities of Corning, Red Bluff, and Tehama.

County's Response

During the audit it was noted that VLF calculations for 2016-17 & 2017-18 were incorrect. However, also during the audit, it was discovered that those corrections had, in fact, been made by the Property Tax Accountant. The corrected schedules were provided to the Auditor-Controller. The corrected schedules were filed away with a note attached stating, "Correct in January 2019". Unfortunately, that note must have been overlooked and the journals/distributions were never made.

Corrective Action

Necessary corrections/adjustments have been made and distributions to the County, City of Red Bluff, City of Corning and City of Tehama were made in April 2024.

Tuolumne County (July 1, 2016, through June 30, 2023)

Follow-up on prior audit findings

Tuolumne County has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2009, through June 30, 2016, issued on May 9, 2017.

Conclusion

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

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