

STATE OF CALIFORNIA

Report to the California State Legislature

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

Calendar Year 2025



MALIA M. COHEN

CALIFORNIA STATE CONTROLLER

March 2026



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MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

March 30, 2026

Members of the California State Legislature:

I am pleased to present our property tax apportionment and allocation report for calendar year 2025. 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 19 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



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

March 30, 2026

The Honorable Monique Limón, Senate President pro Tempore
1021 O Street, Suite 8518
Sacramento, CA 95814

Dear Senator Limón:

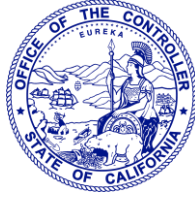
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Sincerely,

Original signed by
Malia M. Cohen



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

March 30, 2026

The Honorable Robert Rivas, Speaker of the Assembly
State Capitol
P.O. Box 942849
Sacramento, CA 94249-0029

Dear Speaker Rivas:

I am pleased to present our property tax apportionment and allocation report for calendar year 2025. 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.

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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) 2025.

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 (Statutes of 1979, Chapter 282), 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 2025, we completed audits of 19 counties' apportionment and allocation of property tax revenues. The 19 counties are Butte, El Dorado, Fresno, Lake, Lassen, Madera, Merced, Mono, Orange, Riverside, San Francisco, San Luis Obispo, San Mateo, Santa Cruz, Sierra, Solano, Stanislaus, Ventura, and Yolo.

As a part of the CY 2025 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 19 counties audited during CY 2025 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

Fresno and Lassen Counties did not fully resolve all findings noted in prior audits.

Current Audits

- Lassen, Mono, and Sierra Counties made errors in the computation and distribution of property tax revenues.
- Sierra County made errors in the supplemental property tax apportionment and allocation process.
- Yolo County made errors in reimbursing supplemental property tax administrative costs.
- Lassen and Sierra Counties made errors in the unitary and operating nonunitary apportionment and allocation process.
- Lassen and Sierra Counties made errors in the unitary regulated railway apportionment and allocation process.

- Mono and Sierra Counties made errors in reimbursing property tax administrative costs.
- Lassen, Mono, San Mateo, and Sierra Counties made errors in calculating Educational Revenue Augmentation Fund adjustments and excess amounts.
- Lake, Lassen, Madera, Sierra, and Stanislaus Counties made errors calculating vehicle license fee adjustments.
- Lassen County made errors in the negative bailout (Senate Bill 85) process.

OVERVIEW

INTRODUCTION

This report presents the results of 19 audits of California counties' property tax apportionments and allocations completed by the State Controller's Office (SCO) in calendar year 2025. The following counties were audited: Butte, El Dorado, Fresno, Lake, Lassen, Madera, Merced, Mono, Orange, Riverside, San Francisco, San Luis Obispo, San Mateo, Santa Cruz, Sierra, Solano, Stanislaus, Ventura, and Yolo. 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 19 counties audited during calendar year 2025 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 (Statutes of 1979, Chapter 282) 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 our findings and conclusions. In conducting the audits, we verified that the following requirements were met:

- 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 2025 indicated that the 19 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

Fresno and Lassen Counties 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.

Lassen County incorrectly calculated the ATI because it:

- Used incorrect prior-year assessed values for three fiscal years; and

- Did not exclude unsecured aircraft assessed values from its calculations for two fiscal years.

Mono County incorrectly included aircraft properties' assessed values in its Assembly Bill 8 increment calculation throughout the audit period.

Sierra County incorrectly calculated the ATI because it:

- Used incorrect assessed values for one fiscal year; and
- Did not use the AB 8 factors calculated in the worksheets for its journal vouchers for six fiscal years.

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.

We noted no issues in this area.

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.

Sierra County incorrectly computed supplemental apportionment factors because it:

- Used incorrect assessed values for one fiscal year; and
- Did not use the supplemental factors calculated in the worksheets for its journal vouchers for six fiscal years.

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.

Yolo County did not have sufficient supplemental administrative costs to justify the amount collected for three fiscal years.

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 California State Board of Equalization “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 California State Board of Equalization considers “not part of the unit in the primary function of the assessee.”

Lassen County incorrectly calculated the unitary and operating nonunitary apportionment factors because it:

- Used prior-year pre-Educational Revenue Augmentation Fund (ERAF) shift AB 8 amounts in its excess factor calculation for two fiscal years;
- Incorrectly computed 102 percent of prior-year unitary and operating nonunitary revenue for two fiscal years; and
- Did not compute excess unitary and operating nonunitary revenue for one fiscal year.

Sierra County incorrectly calculated the unitary and operating nonunitary apportionment factors because it:

- Incorrectly calculated unitary factors for two fiscal years;
- Used incorrect unitary factors from FY 2022-23 as its prior-year factors for one fiscal year;
- Used incorrect prior-year adjusted AB 8 factors to calculate the excess unitary factors for four fiscal years;
- Incorrectly used prior-year unitary factors when allocating unitary pipeline revenues for two fiscal years; and
- Incorrectly used FY 2020-21 unitary factors for one fiscal year.

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 California State Board of Equalization “may use the principle of unit valuation.”

Lassen County incorrectly calculated the regulated railway apportionment factors because it:

- Used incorrect current-year regulated railway assessed values for one fiscal year; and
- Used incorrect prior-year revenues to calculate 102 percent of prior-year unitary revenue and used incorrect factors for the excess revenue calculation for one fiscal year.

Sierra County incorrectly calculated the regulated railway apportionment factors because it:

- Incorrectly calculated unitary railway factors for one fiscal year;
- Used incorrect unitary railway factors from FY 2019-20 as its prior-year factors for one fiscal year; and
- Used incorrect excess unitary railway factors for three 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.”

We noted no issues in this area.

REIMBURSEMENT OF PROPERTY TAX ADMINISTRATIVE COSTS

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.

Mono County incorrectly excluded unitary and operating nonunitary property tax revenues from its calculation of administrative cost apportionment factors throughout the audit period.

Sierra County incorrectly calculated the reimbursement of property tax administrative costs because it:

- Incorrectly used the prior-year actual revenues to calculate the property tax administrative cost factors, resulting in incorrect property tax administrative cost factors for all fiscal years;

- Inconsistently chose which revenue totals it used to calculate the property tax administrative cost factors from year to year, resulting in different methodologies being used in different fiscal years; and
- Included Vehicle License Fund (VLF) adjustments in its calculation of the property tax administrative cost factors for two fiscal years.

EDUCATIONAL REVENUE AUGMENTATION FUND ADJUSTMENTS AND EXCESS AMOUNTS

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.

Lassen County incorrectly calculated the ERAF shift because it:

- Incorrectly added the total negative bailout amount to its ERAF shift amount for seven fiscal years; and
- Used an incorrect prior-year ERAF shift amount for one fiscal year.

Mono County incorrectly calculated the ERAF shift throughout the audit period.

San Mateo County incorrectly calculated excess ERAF amounts by including residual revenues from former redevelopment agencies (RDA) in its calculations beginning with FY 2019-20. This error contributed to an increase in excess ERAF, totaling \$49,830,201, over four fiscal years.

Sierra County incorrectly calculated the ERAF shift because it:

- Used incorrect ERAF base revenues for one fiscal year.
- Incorrectly calculated ERAF growth by using incorrect assessed values for one fiscal year.
- Incorrectly distributed ERAF revenues for six fiscal years.

VEHICLE LICENSE FEE ADJUSTMENTS

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.

Lake County used an incorrect FY 2020-21 current-year assessed value for the City of Clearlake. This data entry error resulted in an incorrect growth percentage and the calculation of an incorrect VLF adjustment amount. The error caused an overpayment of \$9,977 from the ERAF to the City of Clearlake for one fiscal year.

Lassen County incorrectly calculated the VLF adjustment for the City of Susanville by using only the secured assessed values, instead of using the sum of secured values, unsecured values, homeowner exemption values, and unsecured aircraft assessed values for five fiscal years. We also found that the county has not reallocated \$79,365 to the City of Susanville for the prior audit correction on Finding 5.

Madera County incorrectly calculated the VLF shift because it did not adjust for annexation for two fiscal years. As a result, the county over-allocated a total of \$70,409 to the City of Madera.

Sierra County used incorrect current-year secured assessed values in its VLF adjustment calculations for one fiscal year. We also found that the county had incorrectly distributed the VLF revenue for three fiscal years.

Stanislaus County excluded annexation values in both the year of the annexation and the year following the annexation. These annexation values are only to be excluded in the year of annexation. This error caused an overpayment of ERAF to cities where annexations occurred for three fiscal years. The cumulative result of this error was an overpayment of \$112,418 from the ERAF to cities where annexations occurred.

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 (Statutes of 1978, Chapter 292), 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 (Statutes of 1979, Chapter 282) 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 (Statutes of 1983, Chapter 899), 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.

Lassen County incorrectly calculated the negative bailout amount because it:

- Used the prior-year total negative bailout amount to calculate the adjustments for the county’s general fund and schools for one fiscal year; and
- Used a positive total bailout amount to calculate the adjustments for the county’s general fund and schools for one fiscal year.

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 RDAs. 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 RDAs 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 2025. 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 the 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.

BUTTE COUNTY (JULY 1, 2020, THROUGH JUNE 30, 2024)

Follow-up on Prior Audit Findings

Our prior audit report, for the period of July 1, 2016, through June 30, 2020, issued on May 25, 2021, disclosed no findings.

Conclusion

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

EL DORADO COUNTY (JULY 1, 2019, THROUGH JUNE 30, 2024)

Follow-up on Prior Audit Findings

Our prior audit report on the county, for the period of July 1, 2013, through June 30, 2019, issued on December 23, 2019, disclosed no findings.

Conclusion

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

FRESNO COUNTY (JULY 1, 2019, THROUGH JUNE 30, 2024)

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, 2015, through June 30, 2019, issued on April 29, 2020, with the exception of making monetary adjustments to all affected entities as recommended for Findings 1 through 7, excluding Finding 3.

Uncorrected Prior Audit Finding—Monetary Adjustments Not Made

During our review of our prior audit findings, we found that the county had implemented corrective actions to ensure compliance with the requirements; however, it did not make monetary adjustments to the affected entities as recommended for Findings 1, 2, and 4 through 7. The county did not make the monetary adjustments due to disagreements with the affected taxing entities over the recalculation corrections.

Recommendation

We recommend that the county make monetary adjustments to all affected entities.

LAKE COUNTY (JULY 1, 2018, THROUGH JUNE 30, 2024)

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, 2018, issued on February 7, 2020.

Finding—Vehicle License Fee Adjustments

During our testing of the county's Vehicle License Fee (VLF) adjustment process, we found that the county had used an incorrect fiscal year (FY) 2020-21 current-year assessed value for the City of Clearlake. This data entry error resulted in an incorrect growth percentage and the calculation of an incorrect VLF adjustment amount. The error caused an overpayment of \$9,977 from the Education Revenue Augmentation Fund (ERAF) to the City of Clearlake in FY 2020-21.

The issue was due to clerical error.

Revenue and Taxation Code (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 97.69 and 97.70, and update its procedures to ensure that correct assessed valuation amounts are used for VLF calculations;

- Recalculate VLF adjustment amounts for the City of Clearlake for FY 2020-21; and
- Make monetary adjustments to the City of Clearlake and the ERAF.

County's Response

The county concurs with this finding and has recalculated the VLF adjustment amounts and made monetary adjustments for the City of Clearlake for fiscal year 2020-21 as recommended. The adjustments applied with two journals, with the first in January of 2025 and the second in May of 2025. Furthermore, the county has reviewed the appropriate code sections and will implement our corrected procedures going forward.

LASSEN COUNTY (JULY 1, 2017, THROUGH JUNE 30, 2024)

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, 2012, through June 30, 2017, issued on September 26, 2019, with the exception of Finding 5 of this audit report.

Finding 1—Computation and Distribution of Property Tax Revenues

During our testing of the county's process for computing and distributing property tax revenues, we found that the county had incorrectly calculated the jurisdiction increment as follows:

- For FY 2017-18, FY 2022-23, and FY 2023-24, the county used incorrect prior-year assessed values.
- For FY 2022-23 and FY 2023-24, the county did not exclude unsecured aircraft assessed values.

The error occurred because the county did not correctly implement the applicable statutes.

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 rolls 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 apportionments for the current fiscal year.

Recommendation

We recommend that the county:

- Review RTC sections 96 through 96.5, and update its procedures;
- Recalculate the jurisdiction increment for FY 2017-18 and all subsequent fiscal years; and
- Make monetary adjustments to the affected taxing entities.

County's Response

The county accepts the finding.

Finding 2—Unitary and Operating Nonunitary Apportionment and Allocation

During our testing of the county's process for unitary and operating nonunitary apportionment and allocation, we found that the county had incorrectly calculated the apportionment factors as follows:

- For FY 2020-21 and FY 2022-23, the county used prior-year pre-ERAF shift Assembly Bill 8 amounts instead of AB 8 amounts adjusted by the sum of the ERAF shift plus the negative bailout amount in its excess factor calculation.

- For FY 2022-23 and FY 2023-24, the county incorrectly computed 102 percent of prior-year unitary and operating nonunitary revenue.
- For FY 2023-24, the county did not compute excess unitary and operating nonunitary revenue.

The error occurred because the county did not correctly implement the applicable statutes.

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 [QE] properties) and on which the California State Board of Equalization “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 California State Board of Equalization considers “not part of the unit in the primary function of the assessee.”

Recommendation

We recommend that the county:

- Review RTC sections 100(c)(1) through 100(c)(3) and 100.01, and update its procedures;
- Recalculate the unitary and operating nonunitary apportionment factors for FY 2020-21 and all subsequent fiscal years; and
- Make monetary adjustments to the affected entities.

County's Response

The county accepts the finding.

Finding 3—Unitary Regulated Railway Apportionment and Allocation

During our testing of the county's process for unitary regulated railway apportionment and allocation, we found that the county had incorrectly calculated the apportionment factors as follows:

- For FY 2022-23, the county used incorrect current-year regulated railway assessed values.
- For FY 2023-24, the county used incorrect prior-year revenues to calculate 102 percent of prior-year unitary revenue and used incorrect factors for the excess revenue calculation.

The error occurred because the county did not correctly implement the applicable statutes.

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 California State Board of Equalization "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;
- Recalculate the regulated railway apportionment factors for FY 2022-23 and all subsequent fiscal years; and
- Make monetary adjustments to the affected entities.

County's Response

The county accepts the finding.

Finding 4—Educational Revenue Augmentation Fund Adjustments

During our testing of the county's ERAF shift process, we found that the county had incorrectly calculated the ERAF shift as follows:

- For FY 2017-18 through FY 2023-24, the county incorrectly added the total negative bailout amount to its ERAF shift amount.
- For FY 2022-23, the county used an incorrect prior-year ERAF shift amount.

The error occurred because the county did not correctly implement the applicable statutes.

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.

Recommendation

We recommend that the county:

- Review RTC sections 97.2 and 97.3, and update its procedures;
- Recalculate the ERAF shift for FY 2017-18 and all subsequent fiscal years; and
- Make monetary adjustments to the affected entities.

County's Response

The county accepts the finding.

Finding 5—Vehicle License Fee Adjustments (Repeat Finding)

During our testing of the county's VLF adjustment process, we found that the county had incorrectly calculated the VLF adjustment for the City of Susanville. Specifically, the county used only the secured assessed values, instead of using the sum of secured values, unsecured values, homeowner exemption values, and unsecured aircraft assessed values for FY 2019-20 through FY 2023-24.

As discussed in Finding 5 of our prior audit report dated September 26, 2019, the county used an incorrect assessed value when it calculated the VLF adjustment for the City of Susanville. This is a repeat finding because the county did not correct the error noted in the prior audit report, and because the county has not reallocated \$79,365 to the City of Susanville as recommended in the prior audit finding.

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 sections 97.69 and 97.70, and update its procedures;
- Recalculate the VLF adjustment for FY 2019-20 and all subsequent fiscal years; and
- Make monetary adjustments to the affected entities.

County's Response

The county accepts the finding.

Finding 6—Negative Bailout (Senate Bill 85) Amount

During our testing of the county's negative bailout process, we found that the county had incorrectly calculated the negative bailout amount as follows:

- For FY 2022-23, the county used the prior-year total negative bailout amount instead of the current-year total negative bailout amount to calculate the adjustments for the county's general fund and schools.
- For FY 2023-24, the county used a positive total bailout amount instead of a negative total bailout amount in its calculation of adjustments for the county's general fund and schools.

The issues were due to clerical error.

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 (Statutes of 1978, Chapter 292), 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 (Statutes of 1979, Chapter 282) 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 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 (Statutes of 1983, Chapter 899), 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.

Recommendation

We recommend that the county:

- Review RTC section 96.11 and update its procedures;
- Recalculate the negative bailout amount for FY 2022-23 and all subsequent fiscal years;
and
- Make monetary adjustments to the affected entities.

County's Response

The county accepts the finding.

MADERA COUNTY (JULY 1, 2019, THROUGH JUNE 30, 2024)

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, 2014, through June 30, 2019, issued on June 16, 2020.

Finding—Vehicle License Fee Adjustments

During our testing of the county's VLF adjustment process, we found that the county had incorrectly calculated the VLF shift because it did not adjust for annexation for FY 2020-21 and FY 2023-24.

As a result, the county over-allocated to the City of Madera a total of \$70,409. The error occurred because the county did not correctly implement the applicable statutes.

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 the VLF adjustment for FY 2020-21 through FY 2023-24; and
- Make monetary adjustments to the ERAF and the City of Madera.

County's Response

We accept the finding. County Auditor-Controller staff corrected fiscal years 2020-21 through 2023-24. We recalculated the VLF growth taking into account the annexation in [fiscal years] 2020-21 and 2023-24. We have updated our written procedures to verify all annexations

MERCED COUNTY (JULY 1, 2021, THROUGH JUNE 30, 2024)

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, 2017, through June 30, 2021, issued on January 12, 2023.

Conclusion

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

MONO COUNTY (JULY 1, 2015, THROUGH JUNE 30, 2023)

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 June 28, 2019.

Finding 1—Computation and Distribution of Property Tax Revenues

During our testing of the county's process for computing and distributing property tax revenues, we found that the county had incorrectly included aircraft properties' assessed

values in its AB 8 increment calculation throughout the audit period. This 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 error occurred because the county incorrectly implemented RTC sections 96.5 and 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 rolls 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 to develop apportionments for the current fiscal year.

In addition, RTC section 96.5(a)(2)(B) directs counties that did not exclude aircraft assessed values from the equalized assessment roll prior to FY 2022-23 to begin doing so in FY 2022-23.

Recommendation

We recommend that the county:

- Review RTC sections 96.5 and 96.5(d), and update its procedures to exclude aircraft properties' assessed values from its process for computation and distribution of property tax revenues;
- Recalculate its property tax revenues beginning in FY 2022-23; and
- Make monetary adjustments to all affected taxing entities, if the amounts are significant.

County's Response

We agree with the finding that the County incorrectly included the unsecured aircraft assessed values in the AB 8 calculation for Property Tax Year 2022-23. We

acknowledge that this error resulted in a misallocation of property tax revenues to all affected taxing entities.

Planned Corrective Actions

To address this issue, we are taking the following steps:

1. Review and Adjust Calculations: We will conduct a thorough review of property tax increment calculations to ensure the exclusion of aircraft properties' assessed values in compliance with applicable regulations for Property Tax Year 2022-23 and make monetary adjustments to all affected taxing entities if the amounts are material.
2. Mono County will update its procedures to exclude aircraft properties' assessed values from the computation and distribution of property tax revenue.

Finding 2—Reimbursement of Property Tax Administrative Costs

During our testing of the county's process for reimbursing property tax administrative costs, we found that throughout the audit period, the county incorrectly excluded unitary and operating nonunitary property tax revenues from its calculation of administrative cost apportionment factors. This 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 error occurred because county staff members incorrectly implemented RTC section 95.3, which provides the legal requirements for property tax administrative costs.

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

Recommendation

We recommend that the county review RTC section 95.3 and update its procedures to correctly include the unitary and operating nonunitary property tax revenues in the Reimbursement of Property Tax Administrative Costs process, on a going forward basis.

County's Response

Mono County works with a consultant to calculate the Property Tax Administrative costs. It is unknown currently what procedures are used by the consultant to capture unitary and nonunitary property tax revenues for reimbursement.

Planned Corrective Action: Mono County will review RTC section 95.3 and the *[California] Property Tax Mangers' [Reference] Manual* and work with the consultant to determine the procedures to correctly include the unitary and operating nonunitary property tax revenues [in] the reimbursement of Property Tax Administrative Costs on a going forward basis.

Finding 3—Educational Revenue Augmentation Fund

Adjustments

During our testing of the county's ERAF shift process, we found that the county had incorrectly calculated the ERAF shift throughout the audit period. This 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 error occurred because the county incorrectly implemented RTC sections 96.1 through 96.5 and 97 through 97.3, which 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 96.1 through 96.5 and 97 through 97.3, and update its procedures to correctly calculate the ERAF shift;
- Recalculate its ERAF shift for the impacted fiscal years; and
- Make monetary adjustments to all affected taxing entities, if the amounts are significant.

County's Response

Upon further review, an Excel formula error was identified in the 2021-22 fiscal year, which impacted the ERAF growth calculations for the 2021-22 and 2022-23 fiscal years.

Planned Corrective Action: Mono County will address the Excel formula error for the 2021-22 fiscal year and revise the ERAF growth calculations for both the 2021-22 and 2022-23 fiscal years. If the adjustments result in material monetary impacts, the County will ensure that all affected taxing entities receive the appropriate corrections.

Additionally, a comprehensive review of all fiscal years within the audit period will be conducted to identify and resolve any other potential formula errors that may have affected the ERAF growth calculations.

ORANGE COUNTY (JULY 1, 2021, THROUGH JUNE 30, 2024)

Follow-up on Prior Audit Findings

Our prior audit report on the county, for the period of July 1, 2017, through June 30, 2021, issued on October 27, 2022, disclosed no findings.

Conclusion

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

RIVERSIDE COUNTY (JULY 1, 2021, THROUGH JUNE 30, 2024)

Follow-up on Prior Audit Findings

Our prior audit report on the county, for the period of July 1, 2016, through June 30, 2021, issued on August 18, 2022, disclosed no findings.

Conclusion

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

SAN FRANCISCO CITY AND COUNTY (JULY 1, 2021, THROUGH JUNE 30, 2024)

Follow-up on Prior Audit Findings

The city and county has satisfactorily resolved the finding noted in our prior audit report for the period of July 1, 2016, through June 30, 2021, issued on November 22, 2022.

Conclusion

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

SAN LUIS OBISPO COUNTY (JULY 1, 2020, THROUGH JUNE 30, 2024)

Follow-up on Prior Audit Findings

Our prior audit report on the county, for the period of July 1, 2017, through June 30, 2020, issued on July 12, 2021, disclosed no findings.

Conclusion

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

SAN MATEO COUNTY (JULY 1, 2017, THROUGH JUNE 30, 2023)

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, 2017, issued on March 10, 2020.

Finding—Excess Educational Revenue Augmentation Fund Amount

During our testing of the county's excess ERAF calculations, we found that the county had included residual revenues from former redevelopment agencies (RDA) in its excess ERAF calculations beginning with FY 2019-20. Instead, the county should have excluded those residual revenues from its excess ERAF calculations.

This error contributed to an increase in excess ERAF, totaling \$49,830,201, for FY 2019-20 through FY 2022-23. 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).

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.

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.

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 RDAs from its excess ERAF calculations;
- Recalculate its excess ERAF for FY 2019-20 through FY 2022-23; and
- Make monetary adjustments to increase the ERAF by \$49,830,201.

County's Response

We respectfully disagree with the SCO's proposed audit finding and object to its recommendations. The County has lawfully and fully complied with HSC [section] 34188(d), and RTC [sections] 97.2(d)(4)(B), and 97.3(d)(4)(B). SCO's recommendation to "exclude" former RDA residual revenues from the County's excess ERAF calculations, even though those revenues would not result in an increase in excess ERAF as compared to the excess ERAF had HSC [section] 34188(d) "not been enacted," is contrary to the plain language of the statute. Such an interpretation would also be contrary to the pro rata distribution of property tax revenues required by the Health [and] Safety Code and state constitutional provisions.

In view of the above, the County's calculations of excess ERAF are proper and the County objects to the SCO's recommendation to recalculate excess ERAF from FY 2019-20 through FY 2022-23; and to make monetary adjustments to the ERAF in the amount of \$29,880,825. Following the SCO's recommendation would be contrary to the express requirements of HSC [section] 34188(d), RTC [sections] 97.2(d)(4)(B), and 97.3(d)(4)(B), and unconstitutional...

. . . HSC [section] 34188(d) does not state that RDA residual must be "excluded" from excess ERAF calculations or that RDA residual distributions cannot increase excess ERAF. Rather, the statute states that these distributions shall not increase excess ERAF "that otherwise would have been allocated . . . had this section [i.e., HSC (section) 34188] not been enacted."

. . . the SCO's own counsel confirmed by letter, dated July 7, 2021, to the auditors of Marin, Napa, Santa Clara, and San Mateo Counties that the above interpretation is "in harmony with" the directives in the SCO excess ERAF Guidance, released February 16, 2021. The SCO's letter did not state that RDA residual should be "excluded" altogether from excess ERAF calculations or that the auditors' interpretation was incorrect.

. . . While we strongly believe there should be no finding against the County in any amount, the SCO's improper exclusion of RDA residual from the basic aid determination (and thus from basic aid school districts) is further contrary to law and materially inflates its improper finding. The total impact on excess ERAF if RDA residual is excluded only from non-basic aid school districts would be \$30,286,985, not \$49,830,201, for FY 2019-20 through FY 2022-23. If our understanding of the SCO's calculation methodology is incorrect or you have questions, please let us know.

SCO Comment

Our finding and recommendation remain unchanged.

The county's April 2021 letter to the SCO states that the county is in compliance with the SCO's "Excess Educational Revenue Augmentation Fund Revenue Guidance" ("Excess ERAF

Guidance”; see [the Attachment]) without providing excess ERAF calculations. Our Chief Counsel relied on the county’s representation that the county was complying with the “Excess ERAF Guidance” when he stated that the county was “in harmony” with it. Furthermore, the Chief Counsel’s letter should not be used to verify any excess ERAF calculations.

The SCO’s directions for calculating excess ERAF are as follows:

1. Determine the amount of ERAF revenues.
2. Reduce ERAF allocations to required funding levels or “ERAF Entitlement” for school entities/programs.
3. Remaining ERAF revenues are considered “Excess ERAF.”

In its response to the finding, the county neglected to mention a key part of the “Excess ERAF Guidance,” which is that ERAF allocations are to be reduced to required funding levels for school entities and programs. When calculating excess ERAF revenues, the county did not properly reduce allocations for school entities to the required funding levels. Moreover, the county included residual property tax revenues when it determined its amount of ERAF revenues. As a result, the excess ERAF was overstated.

Per HSC section 34188(d), the residual property tax revenues cannot contribute to an increase in excess ERAF. Accordingly, counties must exclude revenues distributed under HSC section 34188 from their excess ERAF calculations. Furthermore, we have interpreted RTC section 34188(d) as a cap on excess ERAF such that the county must calculate its ERAF allocations prior to making distributions under RTC section 34188. Accordingly, for purposes of calculating excess ERAF, school districts should only be considered basic aid if they were basic aid prior to the receipt of RDA residual distributions.

We express no opinion as to the constitutionality of HSC section 34188. However, counties may not choose to disregard the requirements of HSC section 34188 on the basis of such an argument.

Article 3, section 3.5, subdivision (a) of the California Constitution prohibits administrative agencies from declaring that a statute is unenforceable, or refusing to enforce a statute on the basis of it being unconstitutional unless an appellate court has determined that the statute is in fact unconstitutional. To date, we are unaware of any appellate court decision ruling that HSC section 34188 is unconstitutional or otherwise unenforceable. As a result, counties must continue to adhere to the requirements of HSC section 34188.

In addition, we should clarify that the amount due the ERAF is \$49,830,201, not \$29,880,825. The limitations under RTC section 96.1(c)(3) are not applicable in this instance, as it only applies in instances of “allocations” of property tax monies. In this situation, the county has misapplied the requirements of HSC section 34188.

SANTA CRUZ COUNTY (JULY 1, 2021, THROUGH JUNE 30, 2024)

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, 2017, through June 30, 2021, issued on May 23, 2022.

Conclusion

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

SIERRA COUNTY (JULY 1, 2017, THROUGH JUNE 30, 2024)

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, 2009, through June 30, 2017, issued on April 2, 2019.

Finding 1—Computation and Distribution of Property Tax Revenues

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 2023-24.

We also found that the county had not used the AB 8 factors calculated in the worksheets for its journal vouchers for FY 2017-18, FY 2018-19, and FY 2020-21 through FY 2023-24.

The errors occurred because the county incorrectly implemented the applicable statutes, especially RTC section 96.5(d).

These errors 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.

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 rolls 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 to develop apportionments for the current fiscal year.

Recommendation

We recommend that the county:

- Review RTC section 96.5 and update its procedures to correctly implement the applicable statute;
- Recalculate its ATI for FY 2023-24;

- Redistribute AB 8 revenue using amounts from the corrected worksheets for FY 2017-18, FY 2018-19, and FY 2020-21 through FY 2023-24; and
- Make monetary adjustments to all affected jurisdictions if amounts are material.

Finding 2—Supplemental Property Tax Apportionment and Allocation

During our testing of the county’s process for apportioning and allocating supplemental property taxes, we found that the county had incorrectly computed supplemental apportionment factors for FY 2023-24 because it used incorrect assessed values.

We also found that the county had not used the supplemental factors calculated in the worksheets for its journal vouchers for FY 2017-18, FY 2018-19, and FY 2020-21 through FY 2023-24.

The error occurred because the county misinterpreted the criteria outlined in the Revenue and Taxation Code.

These errors 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.

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.

Recommendation

We recommend that the county:

- Review RTC section 75.60 and update its procedures to correctly implement the applicable statute;

- Recalculate its supplemental apportionment factors for FY 2023-24;
- Redistribute supplemental property tax revenue using amounts from the corrected worksheets for FY 2017-18, FY 2018-19, and FY 2020-21 through FY 2023-24; and
- Make monetary adjustments to all affected jurisdictions if amounts are material.

Finding 3—Unitary and Operating Nonunitary Apportionment and Allocation

During our testing of the county's process for unitary and operating nonunitary apportionment and allocation, we found that the county's calculations were incorrect. The county made the following errors:

- For FY 2019-20 and FY 2022-23, the county incorrectly calculated unitary factors by not using prior-year factors when it did not have excess of 102 percent unitary revenues.
- For FY 2023-24, the county used the incorrect unitary factors from FY 2022-23 as its prior-year factors.
- For FY 2019-20, FY 2020-21, FY 2022-23, and FY 2023-24, the county used incorrect prior-year adjusted AB 8 factors to calculate the excess unitary factors.
- For FY 2018-19 and FY 2021-22, the county incorrectly used prior-year unitary factors instead of using the current-year unitary factors when allocating unitary pipeline revenues.
- For FY 2023-24, the county incorrectly used the FY 2020-21 unitary factors instead of using the current-year unitary factors.

The errors occurred because the county did not correctly implement the applicable statute. This error resulted in a misallocation of unitary and operating nonunitary revenue to all taxing jurisdictions in the county. The errors begin in FY 2018-19 and caused misallocation of unitary and operating nonunitary revenue in all subsequent years. We could not quantify the monetary

impact due to the cumulative effect of the various errors affecting the computation and allocation.

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 QE properties) and on which the California State Board of Equalization “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 California State Board of Equalization 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 correctly implement the applicable statute;
- Recalculate the unitary and operating nonunitary apportionment and allocation factors for FY 2018-19 through FY 2023-24; and
- Make monetary adjustments to all affected jurisdictions if amounts are material.

Finding 4—Unitary Regulated Railway Apportionment and Allocation

During our testing of the county's process for unitary regulated railway apportionment and allocation, we found that the county's calculations were incorrect. The county made the following errors:

- For FY 2019-20, the county incorrectly calculated unitary railway factors by not using prior-year factors when it did not have excess of 102 percent unitary railway revenues.
- For FY 2020-21, the county used the incorrect unitary railway factors from FY 2019-20 as its prior-year factors.
- For FY 2017-18, FY 2022-23, and FY 2023-24, the county used incorrect excess unitary railway factors.

The errors occurred because the county did not correctly implement the applicable statute.

This error resulted in a misallocation of unitary regulated railway revenue to all affected taxing jurisdictions. The errors begin in FY 2017-18 and caused misallocations of unitary regulated revenue in all subsequent years. We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation 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 California State Board of Equalization “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 to correctly implement the applicable statutes;
- Recalculate the unitary regulated railway apportionment and allocation factors for FY 2017-18 through FY 2023-24; and
- Make monetary adjustments to all affected jurisdictions if amounts are material.

Finding 5—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 used prior-year actual revenues to calculate the property tax administrative cost factors instead of using the current-year revenues, resulting in incorrect property tax administrative cost factors for all fiscal years;
- Inconsistently chosen which revenue totals it used to calculate the property tax administrative cost factors from year to year, resulting in different methodologies being used in different fiscal years; and
- Included VLF adjustments in its calculation of the property tax administrative cost factors for FY 2021-22 and FY 2022-23.

The errors occurred because the county incorrectly implemented the applicable statute.

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

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.

Recommendation

We recommended that the county:

- Review RTC section 95.3 and update its procedures for reimbursing property tax administrative costs;
- Correct the property tax administrative cost factor worksheets from FY 2021-22 onwards to include only the correct current-year revenues; and
- Make monetary adjustments to all affected jurisdictions if the amounts are material.

Finding 6—Educational Revenue Augmentation Fund Shift

During our testing of the county’s ERAF shift process, we found that the county had incorrectly calculated the ERAF shift for the following reasons:

- For FY 2019-20, the county used the FY 2017-18 ERAF base revenues from the “Population ERAF” column of the AB 8 worksheet instead of using the FY 2018-19 ERAF base revenues.
- The county incorrectly calculated ERAF growth by using incorrect assessed values for FY 2023-24.

- The county incorrectly distributed ERAF revenues for FY 2017-18, FY 2018-19, and FY 2020-21 through FY 2023-24. The ERAF revenue distributed by the county did not agree with the county's calculated amounts.

The errors occurred because the county incorrectly implemented the applicable statutes.

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.

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.

Recommendation

We recommend that the county:

- Review RTC sections 96.1 through 96.5 and 97 through 97.3, and update its procedures to correctly implement the applicable statute;
- Recalculate the ERAF shift amount for FY 2019-20 and FY 2023-24;
- Redistribute ERAF revenues using amounts from the corrected worksheets for FY 2017-18, FY 2018-19, and FY 2020-21 through FY 2023-24; and
- Make monetary adjustments to all affected jurisdictions if amounts are material.

Finding 7—Vehicle License Fee Adjustments

During our testing of the county's VLF adjustment process, we found that the county had used incorrect current-year secured assessed values in its VLF adjustment calculations for FY 2023-24.

We also found that the county had incorrectly distributed the VLF revenue for FY 2017-18, FY 2020-21, and FY 2023-24. The VLF revenue distributed by the county did not agree with the county's calculated amounts.

The errors occurred because the county incorrectly implemented the applicable statute.

The errors resulted in a misallocation of property tax revenues to the county's general fund, the City of Loyalton, and the ERAF. We could not quantify the monetary impact due to the cumulative effect of the 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 counties and cities in lieu of the discretionary VLF revenues that these agencies previously received.

Recommendation

We recommend that the county:

- Review RTC sections 96.5 and 97.70, and update its procedures to correctly implement the applicable statutes;
- Recalculate its VLF revenues for FY 2023-24;
- Redistribute VLF revenues using amounts from the corrected worksheets for FY 2017-18, FY 2020-21, and FY 2023-24; and
- Make monetary adjustments to all affected jurisdictions if amounts are material.

SOLANO COUNTY (JULY 1, 2020, THROUGH JUNE 30, 2024)

Follow-up on Prior Audit Findings

Our prior audit report, for the period of July 1, 2017, through June 30, 2020, issued on November 17, 2021, disclosed 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 during the audit period.

STANISLAUS COUNTY (JULY 1, 2020, THROUGH JUNE 30, 2024)

Follow-up on Prior Audit Findings

Our prior audit report, for the period of July 1, 2016, through June 30, 2020, issued on May 26, 2021, disclosed no findings.

Finding—Vehicle License Fee Adjustments

During our testing of the county's VLF adjustment process, we found that the county had excluded annexation values in both the year of the annexation and the year following the annexation. These annexation values are only to be excluded in the year of annexation. This error caused an overpayment of ERAF to cities where annexations occurred from FY 2021-22 through FY 2023-24. The cumulative result of this error was an overpayment of \$112,418 from the ERAF to cities where annexations occurred. The table on the following page summarizes the approximate amount owed to the ERAF.

Sampled Taxing Jurisdiction	Approximate Amount Owed to the ERAF
City of Ceres	\$15,235
City of Modesto	37,053
City of Newman	4,360
City of Riverbank	52,599
City of Turlock	3,171
Total	<u>\$112,418</u>

The error occurred because the county misinterpreted 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 exclude annexation assessed values from calculations only in the year of annexation;
- Recalculate VLF adjustment amounts for FY 2021-22 through FY 2023-24; and
- Make monetary adjustments to the affected cities and the ERAF.

County's Response

The county agrees with this finding. The County has recalculated the VLF adjustment amounts for the affected entities and will make monetary adjustments totaling \$112,418 for the fiscal year ending June 30, 2025.

VENTURA COUNTY (JULY 1, 2019, THROUGH JUNE 30, 2023)

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, 2016, through June 30, 2019, issued on May 21, 2020.

Conclusion

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

YOLO COUNTY (JULY 1, 2021, THROUGH JUNE 30, 2024)

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, 2017, through June 30, 2021, issued on April 26, 2022.

Finding—Reimbursement of 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 did not have sufficient supplemental administrative costs to justify the amount collected for FY 2021-22 through FY 2023-24.

The error occurred because the county did not correctly implement the applicable statutes. 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 computations and allocations.

Although the county must return the amount that it overcharged for supplemental administrative costs, it may offset a portion of the overcharged amounts by calculating its administrative costs pursuant to SB 2557 (Statutes of 1990, Chapter 466).

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; and
- Make monetary adjustments to the affected taxing jurisdictions.

County's Response

The County agrees with this finding. The County has reviewed RTC section 75.60 and updated its processes and procedures to ensure that the County recognizes revenues based on actual supplemental administrative costs, not to exceed [five] percent of the revenues collected. The County will review the supplemental administrative cost calculations for [FY] 2021-22 through [FY] 2023-24 and if necessary, make monetary adjustments to affected taxing agencies.

ATTACHMENT—EXCESS EDUCATIONAL REVENUE AUGMENTATION FUND GUIDANCE



BETTY T. YEE
California State Controller

February 16, 2021

SUBJECT: Excess Educational Revenue Augmentation Fund Revenue Guidance

Dear County Official:

The State Controller’s Office is sending this notice to provide guidance to counties regarding the calculation and allocation of excess Educational Revenue Augmentation Fund (ERAF) revenues, in accordance with Revenue and Taxation Code (RTC) section 97.2(d)(2)(B). This guidance is effective beginning in fiscal year 2019-20.

BACKGROUND

The State Constitution requires that the proceeds of property taxes be allocated among the local government agencies in the county where the revenue is collected. Recipients of property tax revenue include cities, counties, special districts, K–12 school districts, and community college districts. Proposition 98 (approved by California voters in 1988) established a minimum funding requirement for school and community college districts, commonly known as the “minimum guarantee.” The guaranteed funding level is met through a combination of revenues from the state General Fund and local property taxes. A set of formulas in the State Constitution determines the “minimum guarantee” calculation each year.

In 1992, the California State Legislature (Legislature) permanently redirected a portion of property tax revenue from cities, counties, and special districts into a county-held account known as ERAF. Revenue from ERAF is allocated to school and community college districts to offset the funding that these entities would otherwise receive from the state General Fund. In the mid-1990s, the Legislature enacted a law returning the portion of ERAF not needed for school and community colleges districts to cities, counties, and special districts in proportion to the amount of property taxes that the non-educational local government agencies contributed to ERAF. The returned ERAF funds are known as Excess ERAF.

In accordance with the state laws noted in the guidance below, beginning in fiscal year 2019-20, counties should complete the following steps when calculating and allocating Excess ERAF.

Local Government Programs and Services Division
MAILING ADDRESS: P.O. Box 942850, Sacramento, CA 94250
3301 C Street, Suite 700, Sacramento, CA 95816

February 16, 2021

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GUIDANCE

To calculate Excess ERAF pursuant to RTC sections 97.2(d) and 97.3(d):

1. Determine the amount of ERAF revenues^{1, 2}
2. Reduce ERAF allocations to required funding levels or “ERAF Entitlement” for the following school entities/programs:
 - K-12 school districts³ and the County Office of Education (non-excess tax school entities only); see RTC sections 97.2(d)(2) and 97.3(d)(2)
 - Community college districts (non-excess tax school entities only); see RTC sections 97.2(d)(3) and 97.3(d)(3)
 - Special Education; see RTC sections 97.2(d)(4)(B)(i)(II) and 97.3(d)(4)(B)(i)(II)
3. Remaining ERAF revenues are considered “Excess ERAF.” If Excess ERAF exists, distribute it as follows pursuant to RTC sections 97.2(d)(4)(B)(i)(III) and 97.3(d)(4)(B)(i)(III):
 - Determine the taxing entities that contributed to ERAF (e.g. cities, county, and special districts)
 - Allocate the 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.

If you have any questions regarding this letter, please contact the Local Government Policy Unit at LocalGovPolicy@sco.ca.gov.

¹ Redevelopment Agencies’ (RDA) residual revenues from the Redevelopment Property Tax Trust Fund and revenues from other RDA functions, such as asset sale proceeds, may not contribute to an increase in Excess ERAF pursuant to Health and Safety Code (HSC) section 34188(d). However, the distribution of pass-through payments is not subject to the limitations of HSC section 34188(d) and should not be excluded from the calculation of Excess ERAF.

² Former RDA revenues distributed to basic aid school districts pursuant to HSC section 34188(d) should not be included in the Excess ERAF calculation.

³ Charter schools are not included in the definition of school districts for the calculation of Excess ERAF because they do not directly receive property tax revenue pursuant to RTC sections 97.2 and 97.3, but from the sponsoring district in accordance with Education Code section 47635.