

# **CITY OF SANTA CLARITA**

Audit Report

## **MUNICIPAL STORM WATER AND URBAN RUNOFF DISCHARGES PROGRAM**

Los Angeles Regional Water Quality Control Board,  
Order No. 01-182, Permit CAS004001, Part 4F5c3

*July 1, 2002, through June 30, 2009*



**BETTY T. YEE**  
California State Controller

August 2018



**BETTY T. YEE**  
California State Controller

August 28, 2018

The Honorable Laurene Weste, Mayor  
City of Santa Clarita  
23920 Valencia Boulevard  
Santa Clarita, CA 91355

Dear Mayor Weste:

The State Controller's Office (SCO) audited the costs claimed by the City of Santa Clarita for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program for the period of July 1, 2002, through June 30, 2009.

The city claimed \$362,982 for the mandated program. Our audit found that the entire amount is unallowable because the city misstated the annual number of trash collections and did not offset restricted funds that were used to pay for the mandated activities. The State made no payments to the city. Following issuance of this audit report, the SCO's Local Government Programs and Services Division will notify the city of the adjustment to its claims via a system-generated letter for each fiscal year in the audit period.

This final audit report contains an adjustment to costs claimed by the city. If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (Commission). Pursuant to the Commission's regulations outlined in Title 2, *California Code of Regulations*, Section 1185.1, subdivision (c), an IRC challenging this adjustment must be filed with the Commission no later than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended. You may obtain IRC information on the Commission's website at [www.csm.ca.gov/forms/IRCFORM.pdf](http://www.csm.ca.gov/forms/IRCFORM.pdf).

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/lis

cc: Carmen Magaña, Director of Administrative Services  
City of Santa Clarita  
Brittany Houston, Interim Finance Manager  
City of Santa Clarita  
Chris Hill, Principal Program Budget Analyst  
Local Government Unit  
California Department of Finance  
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Anita Dagan, Manager  
Local Government Programs and Services Division  
State Controller's Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Santa Clarita for the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program for the period of July 1, 2002, through June 30, 2009.

The city claimed \$362,982 for the mandated program. Our audit found that the entire amount is unallowable because the city misstated the annual number of trash collections and did not offset restricted funds that were used to pay for the mandated activities. The State made no payments to the city.

## Background

The California Regional Water Quality Control Board, Los Angeles Region (Board), adopted a 2001 storm water permit (Permit CAS004001) that requires local jurisdictions to:

Place trash receptacles at all transit stops within its jurisdiction that have shelters no later than August 1, 2002, and at all other transit stops within its jurisdiction no later than February 3, 2003. All trash receptacles shall be maintained as necessary.

On July 31, 2009, the Commission on State Mandates (Commission) determined that Part 4F5c3 of the permit imposes a state mandate reimbursable under Government Code (GC) section 17561 and adopted the Statement of Decision. The Commission further clarified that each local agency subject to the permit and not subject to a trash total maximum daily load (TMDL) is entitled to reimbursement.

The Commission also determined that the period of reimbursement for the mandated activities begins July 1, 2002, and continues until a new National Pollutant Discharge Elimination System (NPDES) permit issued by the Board is adopted. On November 8, 2012, the Board adopted a new NPDES permit, Order No. R4-2012-0175, which became effective on December 28, 2012. Therefore, the reimbursement period for this mandated program ended on December 27, 2012.

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. The Commission adopted the parameters and guidelines on March 24, 2011. In compliance with GC section 17558, the SCO issues claiming instructions to assist local agencies in claiming mandated program reimbursable costs.

## Objective, Scope, and Methodology

The objective of our audit was to determine whether costs claimed represent increased costs resulting from the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program. Specifically, we conducted this audit to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

The audit period was from July 1, 2002, through June 30, 2009.

To achieve our audit objective, we:

- Reviewed the annual mandated cost claims filed by the city for the audit period and identified the material cost components of each claim as the unit cost rate and the annual number of trash collections. Determined whether there were any errors or any unusual or unexpected variances from year to year. Reviewed the activities claimed to determine whether they adhered to the SCO's claiming instructions and the program's parameters and guidelines;
- Completed an internal control questionnaire by interviewing key city staff, and discussed the claim preparation process with city staff to determine what information was obtained, who obtained it, and how it was used;
- Researched the city's location within the Los Angeles River Watershed to gain an understanding of the trash TMDL effective date to determine the city's eligibility;
- Traced the unit cost rate claimed for each fiscal year in the audit period to the SCO's claiming instructions to ensure proper application of the rate;
- Requested source documentation to support the calculation of the annual number of trash collections claimed for each fiscal year in the audit period. Re-calculated the annual number of trash collections for each fiscal year in the audit period based on documentation provided (see Finding 1); and
- Traced the mandated costs claimed to the Comprehensive Annual Financial Report for all fiscal years in the audit period to determine whether the costs claimed were funded by revenues raised outside of the city's appropriation limit (see Finding 2).

GC sections 12410, 17558.5, and 17561 provide the legal authority to conduct this audit. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We limited our review of the city's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures. Our audit scope did not assess the efficiency or effectiveness of program operations. We did not audit the city's financial statements.

## **Conclusion**

Our audit found that the city misstated the annual number of trash collections and did not offset the restricted funds that were used to pay for the mandated activities. These areas of noncompliance with the requirements are quantified in the accompanying Schedule (Summary of Program Costs) and described in the Findings and Recommendations section of this report.

For the audit period, the City of Santa Clarita claimed \$362,982 for costs of the legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program. Our audit found that the entire amount is unallowable. The State made no payments to the city.

Following issuance of this audit report, the SCO's Local Government Programs and Services Division will notify the city of the adjustment to its claims via a system-generated letter for each fiscal year in the audit period.

**Follow-up on  
Prior Audit  
Findings**

We have not previously conducted an audit of the city's legislatively mandated Municipal Storm Water and Urban Runoff Discharges Program.

**Views of  
Responsible  
Officials**

We issued a draft audit report on July 6, 2018. Carmen Magaña, Director of Administrative Services, responded the same day (Attachment), accepting Finding 1 and disagreeing with Finding 2. This final audit report includes the city's response.

**Restricted Use**

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

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

August 28, 2018

**Schedule—**  
**Summary of Program Costs**  
**July 1, 2002, through June 30, 2009**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2002, through June 30, 2003</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74	\$ 6.74	
Annual number of trash collections <sup>2</sup>	× 860	× 2,860	× 2,000	
Total ongoing costs	5,796	19,276	13,480	Finding 1
Less offsetting revenues and reimbursements	-	(19,276)	(19,276)	Finding 2
Total program costs	<u>\$ 5,796</u>	-	<u>\$ (5,796)</u>	
Less amount paid by the State <sup>3</sup>		-		
Allowable costs claimed in excess of amount paid		<u>\$ -</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74	\$ 6.74	
Annual number of trash collections <sup>2</sup>	× 7,592	× 3,380	× (4,212)	
Total ongoing costs	51,170	22,781	(28,389)	Finding 1
Less offsetting revenues and reimbursements	-	(22,781)	(22,781)	Finding 2
Total program costs	<u>\$ 51,170</u>	-	<u>\$ (51,170)</u>	
Less amount paid by the State <sup>3</sup>		-		
Allowable costs claimed in excess of amount paid		<u>\$ -</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74	\$ 6.74	
Annual number of trash collections <sup>2</sup>	× 7,592	× 3,380	× (4,212)	
Total ongoing costs	51,170	22,781	(28,389)	Finding 1
Less offsetting revenues and reimbursements	-	(22,781)	(22,781)	Finding 2
Total program costs	<u>\$ 51,170</u>	-	<u>\$ (51,170)</u>	
Less amount paid by the State <sup>3</sup>		-		
Allowable costs claimed in excess of amount paid		<u>\$ -</u>		



## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2005, through June 30, 2006</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74	\$ 6.74	
Annual number of trash collections <sup>2</sup>	× 7,592	× 3,380	× (4,212)	
Total ongoing costs	51,170	22,781	(28,389)	Finding 1
Less offsetting revenues and reimbursements	-	(22,781)	(22,781)	Finding 2
Total program costs	<u>\$ 51,170</u>	-	<u>\$ (51,170)</u>	
Less amount paid by the State <sup>3</sup>		-		
Allowable costs claimed in excess of amount paid		<u>\$ -</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74	\$ 6.74	
Annual number of trash collections <sup>2</sup>	× 7,592	× 3,380	× (4,212)	
Total ongoing costs	51,170	22,781	(28,389)	Finding 1
Less offsetting revenues and reimbursements	-	(22,781)	(22,781)	Finding 2
Total program costs	<u>\$ 51,170</u>	-	<u>\$ (51,170)</u>	
Less amount paid by the State <sup>3</sup>		-		
Allowable costs claimed in excess of amount paid		<u>\$ -</u>		
<u>July 1, 2007, through June 30, 2008</u>				
One-time activities:				
Materials and supplies	\$ 24,372	\$ 24,372	\$ -	
Total one-time costs	24,372	24,372	-	
Ongoing activities:				
Unit cost rate	6.74	6.74	6.74	
Annual number of trash collections <sup>2</sup>	× 18,252	× 3,380	× (14,872)	
Total ongoing costs	123,018	22,781	(100,237)	Finding 1
Total one-time and ongoing costs	147,390	47,153	(100,237)	
Less offsetting revenues and reimbursements	-	(47,153)	(47,153)	Finding 2
Total program costs	<u>\$ 147,390</u>	-	<u>\$ (147,390)</u>	
Less amount paid by the State <sup>3</sup>		-		
Allowable costs claimed in excess of amount paid		<u>\$ -</u>		

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2008, through June 30, 2009</u>				
Ongoing activities:				
Unit cost rate	\$ 6.74	\$ 6.74	\$ 6.74	
Annual number of trash collections <sup>2</sup>	× 759	× 2,988	× 2,229	
Total ongoing costs	5,116	20,139	15,023	Finding 1
Less offsetting revenues and reimbursements	-	(20,139)	(20,139)	Finding 2
Total program costs	<u>\$ 5,116</u>	-	<u>\$ (5,116)</u>	
Less amount paid by the State <sup>3</sup>		-		
Allowable costs claimed in excess of amount paid		<u>\$ -</u>		
<u>Summary: July 1, 2002, through June 30, 2009</u>				
One-time activities	\$ 24,372	\$ 24,372	\$ -	
Ongoing activities	338,610	153,320	(185,290)	Finding 1
Total one-time and ongoing costs	362,982	177,692	(185,290)	
Less offsetting revenues and reimbursements	-	(177,692)	(177,692)	Finding 2
Total program costs	<u>\$ 362,982</u>	-	<u>\$ (362,982)</u>	
Less amount paid by the State <sup>3</sup>		-		
Allowable costs claimed in excess of amount paid		<u>\$ -</u>		

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

<sup>2</sup> The annual number of trash collections is the number of city-wide transit-stop trash receptacles multiplied by the number of annual trash collections for each receptacle.

<sup>3</sup> Payment amount current as of February 20, 2018.

# Findings and Recommendations

## FINDING 1— Overstated ongoing maintenance costs

The city claimed \$338,610 for ongoing maintenance of transit-stop trash receptacles for the audit period. We found that \$153,320 is allowable and \$185,290 is unallowable. The costs are unallowable because the city misstated the annual number of trash collections during the audit period.

The city claimed reimbursement for ongoing maintenance costs using the Commission-adopted reasonable reimbursement methodology (RRM). Under the RRM, the unit cost rate (which was \$6.74 during the period of July 1, 2002, through June 30, 2009) is multiplied by the annual number of trash collections (which is the number of city-wide transit-stop trash receptacles multiplied by the number of annual trash collections for each receptacle).

The following table summarizes the total misstated annual number of trash collections fiscal year:

Fiscal Year	Amount Claimed			Amount Allowable			Audit Adjustment
	Annual No. of Trash Collections	Unit Cost Rate	Amount Claimed	Annual No. of Trash Collections	Unit Cost Rate	Amount Allowable	
2002-03	860	\$ 6.74	\$ 5,796	2,860	\$ 6.74	\$ 19,276	\$ 13,480
2003-04	7,592	6.74	51,170	3,380	6.74	22,781	(28,389)
2004-05	7,592	6.74	51,170	3,380	6.74	22,781	(28,389)
2005-06	7,592	6.74	51,170	3,380	6.74	22,781	(28,389)
2006-07	7,592	6.74	51,170	3,380	6.74	22,781	(28,389)
2007-08	18,252	6.74	123,018	3,380	6.74	22,781	(100,237)
2008-09	759	6.74	5,116	2,988	6.74	20,139	15,023
Total			<u>\$ 338,610</u>			<u>\$ 153,320</u>	<u>\$ (185,290)</u>

The error occurred because the city misinterpreted the parameters and guidelines requirement that it retain documentation to support its calculation of the annual number of trash collections. Section VII. (Records Retention) of the parameters and guidelines states, in part:

Local agencies must retain documentation which supports the reimbursement of the maintenance costs identified in Section IV.B. of these parameters and guidelines during the period subject to audit, including documentation showing the number of trash receptacles in the jurisdiction and the number of trash collections or pickups.

During audit fieldwork, we reviewed the city's agreements with Blue Barrel Disposal; Sureteck Industrial and Commercial Services, Inc.; and Brigadier Corporation, then re-calculated the annual number of transit-stop trash collections for each fiscal year in the audit period.

**Fiscal Year (FY) 2002-03 through FY 2005-06**

The city entered into a maintenance agreement with Blue Barrel Disposal from February 20, 1991, through June 30, 2006, to service 61 trash receptacles at city bus stops. Weekly trash collections varied from once a week to twice a week in higher-traffic areas. We determined that 2,860 annual collections are allowable for fiscal year (FY) 2002-03 and 3,380 annual collections are allowable for FY 2003-04 through FY 2005-06, as follows:

No. of Trash Receptacles	No. of Weekly Collections	No. of Reimbursement Weeks in the Year	Total
<b>FY 2002-03:</b>			
57	1	44 <sup>1</sup>	2,508
4	2	44 <sup>1</sup>	352
<u>61</u>			<u>2,860</u>
<b>FY 2003-04 through FY 2005-06:</b>			
57	1	52	2,964
4	2	52	416
<u>61</u>			<u>3,380</u>

<sup>1</sup> For FY 2002-03, the reimbursement period is 44 weeks (from August 28, 2002, through June 30, 2003).

**FY 2006-07 and FY 2007-08**

The city entered into a maintenance agreement with Sureteck Industrial and Commercial Services, Inc. from July 1, 2006, through June 30, 2008, to service 63 trash receptacles. Weekly trash collections varied from once a week to twice a week in higher-traffic areas. We found that 3,380 annual collections are allowable for FY 2006-07 and FY 2007-08, as follows:

No. of Trash Receptacles	No. of Weekly Collections	No. of Reimbursement Weeks in the Year	Total
61	1	52	3,172
2	2	52	208
<u>63</u>			<u>3,380</u>

**FY 2008-09**

The city entered into a maintenance agreement with Brigadier Corporation from July 1, 2008, through June 30, 2009, to service 328 bus stops. We found that 229 of the 328 bus stops had a trash receptacle. Weekly trash collections varied from once a week to twice a week in higher-traffic areas.

We found that 2,988 annual collections are allowable for FY 2008-09, as follows:

No. of Trash Receptacles	No. of Weekly Collections	No. of Reimbursable Weeks in the Year <sup>1</sup>	Total
209	1	12	2,508
20	2	12	480
<u>229</u>			<u>2,988</u>

<sup>1</sup> For FY 2008-09, the reimbursement period is 12 weeks (from July 1, 2008, through September 22, 2008).

Recommendation

No recommendation is applicable for this finding, as the period of reimbursement expired on December 27, 2012, with the adoption of a new NPDES permit. However, when claiming reimbursement for other mandated programs, we recommend that the city:

- Follow the mandated program’s claiming instructions and parameters and guidelines when filing its reimbursement claims; and
- Ensure that claimed costs are based on actual costs, include only eligible costs, and are supported by contemporaneous source documentation.

City’s Response

The City filed claims on September 28, 2011, when expenditures for the period from FY 2002-03 through FY 2008-09 became eligible for reimbursement under the program. In May 2017, the Office of the State Controller informed the City that it had initiated an audit, and during this time the City was required to supply documentation going back as far as 15 years, making it difficult to find all related support due to documentation retention policies, a new financial system and employee turnover. While the postponed nature of the audit created an unfortunate burden upon the City to retrace years’ worth of activity, we accept this finding.

**FINDING 2—  
Unreported offsetting  
revenues**

The city did not offset any revenues or reimbursements on its claim forms for the audit period. We found that the city should have offset \$177,692 in restricted funds, including Proposition A and Proposition C Local Return funds, that were used to pay for mandated activities.

**One-time activities**

We found that the city should have offset \$24,372 in Proposition A and Proposition C Local Return funds that was used to purchase and install transit-stop trash receptacles in FY 2007-08.

The Proposition A and Proposition C programs are funded by two one-half cent sales tax measures approved by Los Angeles County voters. Proposition A was approved in November 1980 and Proposition C was approved in November 1990. Twenty-five percent of the Proposition A funds and 20% of the Proposition C funds are designated for the Local Return program and are to be used for developing and/or improving public transit and related transportation infrastructure.

Section II. (Project Eligibility) of the Proposition A and Proposition C Local Return Guidelines identifies reimbursement for ongoing trash receptacle maintenance as follows:

2. BUS STOP IMPROVEMENTS AND MAINTENANCE (Codes 150, 160, & 170)

Examples of eligible Bus Stop Improvement and Maintenance projects include installation/replacement and/or maintenance of:

- Concrete landings – in street for buses and at sidewalk for passengers
- Bus turn-outs
- Benches
- Shelters
- Trash Receptacles
- Curb cuts
- Concrete or electrical work directly associated with the above items

As the city used Proposition A and Proposition C funds authorized to be used on mandated activities, it did not have to rely on discretionary funds to pay for mandated activities.

### **Ongoing Activities**

We found that the city should have offset \$153,320 in revenues from the Transit System Fund (Fund No. 801) that was used to pay for the ongoing maintenance of transit-stop trash receptacles for each fiscal year in the audit period.

The Transit System Fund is an Enterprise Fund Type, and is used to account for activities for which a fee is charged to external users for goods or services. Examples of revenues in the Transit System Fund include:

- Metrolink and EZ pass revenues;
- Fixed Route passenger fares;
- Dial-A-Ride passenger fares;
- Proposition A and Proposition C Local Return Program funds;
- Measure R funds; and
- State Transportation Development Act funds.

We confirmed that there were no General Fund transfers into the Transit System Fund during the audit period. As the city used revenues authorized by the city to pay for mandated activities, it did not have to rely on the use of discretionary funds to pay for the mandated activities.

## Criteria

Section VIII. (Offsetting Revenues and Reimbursements) of the parameters and guidelines states:

Any offsetting revenue the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate received from any federal, State or non-local source shall be identified and deducted from this claim.

## Recommendation

No recommendation is applicable for this finding, as the period of reimbursement expired on December 27, 2012, with the adoption of a new NPDES permit. However, when claiming reimbursement for other mandated programs, we recommend that the city:

- Follow the mandated program's claiming instructions and parameters and guidelines when filing its reimbursement claims; and
- Offset all revenues raised outside its appropriations limit that are used to fund mandated activities.

## City's Response

The City believes there is no clear basis to deny claims which were paid from Proposition A & C funds. The Parameters and Guidelines, Section VIII Offsetting Revenues and Reimbursements, states the following:

*Any offsetting revenue the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted for [sic] the costs claimed. In addition, reimbursement for this mandate received from any federal, State or non-local source shall be identified and deducted from this claim.*

Proposition A & C funds are derived from a local tax. The Los Angeles Metropolitan Transportation Authority Proposition A and C Local Return Program Guidelines specifically state that 25 percent of the Proposition A & C tax is designated for the Local Return (LR) Program. This is a local sales tax and does not constitute an offsetting revenue as defined in the Parameters and Guidelines, Section VIII Offsetting Revenues and Reimbursements.

Additionally, the Statement of Decision for the Municipal Storm Water and Urban Runoff Discharges Program, pages 51 and 52, quotes the following:

*The constitutionality of Government Code section 17556, subdivision (d), was upheld by the California Supreme Court in County of Fresno v. State of California, in which the court held that the term "costs" in article XIII B, section 6, excludes expenses recoverable from sources other than taxes. The court stated:*

*Section 6 was included in article XIII B in recognition that article XIII A of the Constitution severely restricted the taxing powers of local governments. (See County of Los Angeles,*

*supra*, 43 Cal.3d at p. 61.) The provision was intended to preclude the state from shifting financial responsibility for carrying out governmental functions onto local entities that were ill equipped to handle the task (*Ibid.*; see *Lucia Mar Unified School Dist. V. Honig* (1988) 44 Cal.3d 830, 836, fn. 6 [244 Cal.Rptr. 677, 750 P.2d 318].) Specifically, it was designed to protect tax revenues of local governments from state mandates that would require expenditures of such revenues. Thus, although its language broadly declares that the “state shall provide a subvention of funds to reimburse ... local government for the costs [of a state-mandated new] program or higher level of service,” read in its textual and historical context section 6 of article XIII B requires subvention only when the costs in question can be recovered solely from tax revenues.

Because, as stated above, Proposition A & C funds are tax revenues, the City believes that these costs are eligible for reimbursement, consistent to Government Code section 17514, exempt from the provisions under the Parameters and Guidelines, Section VIII Offsetting Revenues and Reimbursements.

#### SCO Comment

Our finding and recommendation remain unchanged.

Both the Commission’s parameters and guidelines and the SCO’s claiming instructions require the identification and reporting of offsetting revenues and reimbursements. We concluded that the Proposition A and Proposition C Local Return Funds that were used to pay for the maintenance of the transit-stop trash receptacles are restricted funds that should be reported and offset against claimed costs.

The city states that Proposition A and Proposition C Local Return funds are a “local sales tax that does not constitute an offsetting revenue.” We disagree. Proposition A and Proposition C Local Return funds are a special supplementary sales tax approved by Los Angeles County voters in 1980 and 1990, respectively. The Proposition A and Proposition C sales tax revenue is restricted solely to the development and/or improvement of public transit services, while unrestricted general sales taxes can be spent for any general governmental purpose.

Furthermore, the city has not provided us with any documentation showing that the Proposition A and Proposition C Local Return funds were included in the city’s appropriation limit.



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

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City of  
**SANTA CLARITA**

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July 6, 2018

Mr. Jeffrey V. Brownfield, CPA  
Chief, Division of Audits  
California State Controller  
P.O. Box 942850  
Sacramento, California 94250

Dear Mr. Brownfield,

Subject: Municipal Storm Water and Urban Runoff Discharges Program Audit Report

This letter is in response to your draft audit report for the claims filed by the City of Santa Clarita for the Mandated Municipal Storm Water and Urban Runoff Discharges Program. Two audit findings were noted in your report:

1. *Overstated ongoing maintenance costs:*

*The city claimed \$338,610 for ongoing maintenance of transit stops trash receptacles for the audit period. We found that \$153,320 is allowable and \$185,290 is unallowable. The costs are unallowable because the city misstated the annual number of trash collections during the audit period.*

Management Response: The City filed claims on September 28, 2011, when expenditures for the period from FY 2002-03 through FY 2008-09 became eligible for reimbursement under the program. In May 2017, the Office of the State Controller informed the City that it had initiated an audit, and during this time the City was required to supply documentation going back as far as 15 years, making it difficult to find all related support due to document retention policies, a new financial system and employee turnover. While the postponed nature of the audit creates an unfortunate burden upon the City to retrace years' worth of activity, we accept this finding.



Mr. Jeffrey Brownfield  
July 6, 2018  
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2. *Unreported offsetting revenues and reimbursements:*

*The city did not offset any revenues or reimbursements on its claim forms for the audit period. We found that the city should have offset \$177,692 for the audit period in revenues used from Proposition A & C Local Return Fund, and Transit Enterprise Fund. Specifically, the city used \$24,372 to pay for one-time costs and \$153,320 to pay for the ongoing maintenance of trash receptacles at city bus stops.*

Management Response: The City believes there is no clear basis to deny claims which were paid from Proposition A & C funds. The Parameters and Guidelines, Section VIII Offsetting Revenues and Reimbursements, states the following:

*Any offsetting revenue the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted for the costs claimed. In addition, reimbursement for this mandate received from any federal, State or non-local source shall be identified and deducted from this claim.*

Proposition A & C funds are derived from a local tax. The Los Angeles Metropolitan Transportation Authority Proposition A and C Local Return Program Guidelines specifically state that 25 percent of the Proposition A & C tax is designated for the Local Return (LR) Program. This is a local sales tax and does not constitute an offsetting revenue as defined in the Parameters and Guidelines, Section VIII Offsetting Revenues and Reimbursements.

Additionally, the Statement of Decision for the Municipal Storm Water and Urban Runoff Discharges Program, pages 51 and 52, quotes the following:

*The constitutionality of Government Code section 17556, subdivision (d), was upheld by the California Supreme Court in County of Fresno v. State of California, in which the court held that the term "costs" in article XIII B, section 6, excludes expenses recoverable from sources other than taxes. The court stated:*

*Section 6 was included in article XIII B in recognition that article XIII A of the Constitution severely restricted the taxing powers of local governments. (See County of Los Angeles, supra, 43 Cal.3d at p. 61.) The provision was intended to preclude the state from shifting financial responsibility for carrying out governmental functions onto local entities that were ill equipped to handle the task. (Ibid.; see Lucia Mar Unified School Dist. v. Honig (1988) 44 Cal.3d 830, 836, fn. 6 [244 Cal.Rptr. 677, 750 P.2d 318].) Specifically, it was designed to protect the tax revenues of local governments from state mandates that would require expenditure of such revenues. Thus, although its language broadly declares that the "state shall provide a subvention of funds to reimburse ... local government for the costs [of a state-mandated new] program or higher level of service," read in its textual and historical context section 6 of article XIII B requires subvention only when the costs in question can be recovered solely from*

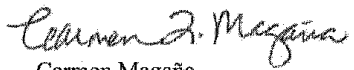
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*tax revenues.*

Because, as stated above, Proposition A & C funds are tax revenues, the City believes that these costs are eligible for reimbursement, consistent to Government Code section 17514, exempt from the provisions under the Parameters and Guidelines, Section VIII Offsetting Revenues and Reimbursements.

Should you have any questions related to our response, please contact Brittany Houston, Interim Finance Manager, [bhouston@santa-clarita.com](mailto:bhouston@santa-clarita.com)

Respectfully,



Carmen Magaña  
Director of Administrative Services

CM:BH:ejp

SAFINSB90 Mandated Costs SB90 Audit Management Response 7.6.18

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