

STATE OF CALIFORNIA

Report to the California State Legislature

PROPERTY TAX APPORTIONMENTS AND ALLOCATIONS

Calendar Year 2023



MALIA M. COHEN
California State Controller

March 2024



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

March 29, 2024

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

I am pleased to present the property tax apportionments and allocations report for calendar year 2023. Prepared pursuant to Government Code section 12468, this report is intended to help mitigate issues associated with the counties' apportionment and allocation of property tax revenues.

The State Controller's team completed audits of 14 of the 58 counties in California, and found the audited counties generally to be in compliance with the legal requirements for apportioning and allocating property tax revenues. However, this report notes several issues related to individual counties.

I hope you find this information useful for future policy decisions. If you have any questions regarding this report, please contact my Chief of Staff, Regina Evans by email at revans@sco.ca.gov or by telephone at (916) 445-2636.

Sincerely,

Original signed by

MALIA M. COHEN

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Executive Summary

This report summarizes the results of the State Controller's Office (SCO) audit of county property tax apportionments and allocations during calendar year (CY) 2023.

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

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

Property tax revenues are apportioned and allocated to local government agencies, school districts, and community college districts using prescribed formulas and methods defined in the Revenue and Taxation Code. In general, the amount of revenue 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 results of findings under this audit program.

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

Government Code section 12468 requires that audits be conducted periodically for each county according to a prescribed schedule based on county population. During CY 2023, SCO completed audits of 14 counties' apportionment and allocation of property tax revenues. The 14 counties are Amador, Contra Costa, Kern, Kings, Merced, Monterey, Napa, Placer, Sacramento, San Bernardino, San Joaquin, Santa Barbara, Sonoma, and Tulare.

As a part of the CY 2023 audit work, SCO followed up on prior SCO audits to ensure that counties properly addressed the identified findings.

Except for the findings and recommendations noted in this report, the processes used by the 14 counties audited during CY 2023 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
 - Kings County did not fully resolve all findings noted in prior audits.
- Current audits
 - Kern County made errors in the computation and distribution of property tax revenues.
 - Kings County made errors in the supplemental property tax administrative costs process.
 - Kings County made errors in the unitary regulated railway apportionment and allocation process.
 - Kings and Tulare Counties made errors in the vehicle license fee process.
 - Merced County made errors in Redevelopment Property Tax Trust Fund deposit amounts.
 - Napa County made errors in Educational Revenue Augmentation Fund adjustments.

Overview

Introduction

This report presents the results of 14 audits of county property tax apportionments and allocations completed by the State Controller's Office (SCO) in calendar year 2023. The following counties were audited: Amador, Contra Costa, Kern, Kings, Merced, Monterey, Napa, Placer, Sacramento, San Bernardino, San Joaquin, Santa Barbara, Sonoma, and Tulare. Government Code (GC) section 12468 requires that such audits be conducted periodically for each county according to a prescribed schedule based on county population. The purpose of the audits is to help mitigate issues associated with the property tax apportionment and allocation processes.

Except for the findings and recommendations noted in this report, the 14 counties audited generally complied with the requirements for the apportionment and allocation of property tax revenues.

Background

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

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

Property tax revenues are apportioned and allocated to local government agencies, school districts, and community college districts using prescribed formulas and methods defined in the Revenue and Taxation Code. In general, the amount of revenue that an agency or district receives each fiscal year is based on the amount received in the prior year, plus a share of the property tax growth within its boundaries.

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

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

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

qualified electric 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.

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

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

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

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

Audit Scope

Each audit encompasses an evaluation of a county's property tax apportionment methodology, allocation procedures, and compliance with applicable laws and regulations. SCO auditors applied procedures to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. In conducting the audits, the auditors focused on the following areas to determine whether:

- The apportionment and allocation of the ATI was in accordance with RTC sections 96 through 96.5.
- The methodology for redevelopment agency 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. SCO submits the Summary of Findings and Recommendations in this report to assist the counties and the State in initiating changes that will continue to improve the system.

Summary of Findings

Introduction

Except for the findings and recommendations cited in this report, the audit reports issued in calendar year 2023 indicated that the 14 audited counties generally complied with the legal requirements for the apportionment and allocation of property tax revenues. The audit results summarized below include several issues which require corrective actions by the affected counties. Recommendations to resolve the identified issues are included in the individual county findings.

Unresolved Prior Audit Findings

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

Computation and Distribution of Property Tax Revenues

Revenue and Taxation Code (RTC) sections 96 through 96.5 provide the legal requirements for computing the annual tax increment (ATI) and apportioning and allocating property tax revenues.

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

Kern County incorrectly calculated the Assembly Bill 8 factor by including an additional adjustment of unsecured aircraft revenue for fiscal year (FY) 2020-21 and FY 2021-22.

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 in which a change in ownership or completion of new construction occurred.

We noted no issues in this area.

**Supplemental
Property Tax
Administrative
Costs**

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

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

Kings County did not properly document actual supplemental property tax administrative costs as required by statute.

**Redevelopment
Agency
Apportionment
and Allocation**

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

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

We noted no issues in this area.

**Unitary and
Operating
Nonunitary
Apportionment and
Allocation**

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

In 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.”

We noted no issues in this area.

**Unitary
Regulated
Railway
Apportionment
and Allocation**

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

Unitary regulated railway properties are facilities that were completely constructed and placed in service after January 1, 2007. RTC section 723 defines 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.”

Kings County incorrectly calculated the excess 102% factors by including the vehicle license fee (VLF) adjustment for FY 2017-18, FY 2018-19, and FY 2020-21.

Qualified Electric Apportionment and Allocation

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

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

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.

We noted no issues in this area.

Educational Revenue Augmentation Fund Adjustments and Excess Educational Revenue Augmentation Fund

RTC sections 96.1 through 96.5 and 97 through 97.3 provide the legal requirements for calculating the Educational Revenue Augmentation Fund (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.

Napa County incorrectly included Redevelopment Property Tax Trust Fund residual revenues in its excess ERAF calculations for FY 2019-20 through FY 2021-22.

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.

Kings County incorrectly calculated the VLF shift by adjusting for annexations in FY 2015-16, FY 2018-19, and FY 2019-20.

Tulare County incorrectly calculated the VLF shift by using incorrect annexation assessed values for FY 2018-19 through FY 2021-22.

Sales and Use Tax Adjustments

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

The California Department of Finance annually, on or before September 1, provides sales and use tax amounts for counties and cities. These amounts are transferred from the ERAF to the county's Sales and Use Tax Compensation Fund, and eventually to each county and cities within each county.

We noted no issues in this area.

Disaster Relief Adjustment

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

Beginning in FY 1992-93, the Disaster Relief Adjustment reduced the amount of city and county funds that was redirected to the ERAF. This reduction was continued, without growth, through FY 1996-97.

In FY 1997-98, the Disaster Relief Adjustment was reversed; this adjustment is now known as the Disaster Relief Reversal. The adjustment shifted revenue from the county and cities to the ERAF.

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

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

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

We noted no issues in this area.

Negative Bailout (Senate Bill 85)

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

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

Two years after Proposition 13 was enacted, the Legislature passed AB 8 (Chapter 282, Statutes of 1979), which provided a long-term solution for the bailout program consisting of a one-time adjustment that created a new

property tax base for each local agency. Counties received all of their SB 154 block grants and a small adjustment for the Aid to Families with Dependent Children, minus the amount of the indigent health block grant. For some counties, the value of the indigent health block grant was so great that it exceeded the value of the SB 154 block grant. In those cases, the transfer of revenues from school and community college districts to local government agencies resulted in a reduction of the property tax base instead of an increase; this created negative bailout counties. Consequently, the negative bailout amount received by the counties has grown each year as the assessed value of property in the counties has grown.

We noted no issues in this area.

Tax Equity Allocation

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

We noted no issues in this area.

Redevelopment Property Tax Trust Fund Deposit Amounts

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

In 2012, the Legislature passed a law dissolving redevelopment agencies. The law also provided for the creation of successor agencies and oversight boards to oversee the winding-down of the defunct agencies’ affairs.

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

Merced County incorrectly altered the TRA factors of several former redevelopment agency TRAs beginning in FY 2020-21.

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 2023. Unless otherwise indicated, the counties agreed with the findings and recommendations.

These findings and recommendations are solely for the information and use of the California State Legislature (Legislature), the respective counties, the Department of Finance, and SCO; they are not intended to be and should not be used by anyone other than those specified parties. This restriction is not intended to limit distribution of this report or the respective audit reports, which are a matter of public record.

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

Follow-up on prior audit findings

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

Conclusion

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

Contra Costa County (July 1, 2018 through June 30, 2022)

Follow-up on prior audit findings

Our prior audit report, for the period of July 1, 2015, through June 30, 2018, issued on March 27, 2019, disclosed no findings.

Conclusion

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

Kern County (July 1, 2017, through June 30, 2022)

Follow-up on prior audit findings

Kern 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 March 13, 2019.

FINDING— Computation and distribution of property tax revenue

During our testing of the county's computation and distribution of property tax revenue, we found that the county incorrectly calculated the Assembly Bill 8 factor by including an additional adjustment of unsecured aircraft revenue for fiscal year (FY) 2020-21 and FY 2021-22. The error resulted in the misallocation of annual tax increments (ATI) to all affected taxing entities. We did not quantify the monetary impact for each affected taxing entity due to the cumulative effect of the various errors affecting the computation and allocation.

On October 14, 2022, the county provided corrections, which we have reviewed.

Revenue and Taxation Code (RTC) sections 96 through 96.5 provide the legal requirements for computing ATI, and apportioning and allocating property tax revenues.

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

Recommendation

We recommend that the county implement the corrections and make monetary adjustments to all affected jurisdictions.

County's Response

We concur and have made the necessary corrections for [FY 2022-23]. We will be correcting [FY 2020-21 and FY 2021-22]. While aircraft was incorrectly included in the AB8 calculation, the impact to most of the districts was immaterial. Of the 140 taxing agencies in the calculation, there are three agencies that will have an adjustment between 3% and 6.2%.

Kings County (July 1, 2015, through June 30, 2021)

Follow-up on prior audit findings

Kings County has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2008, through June 30, 2015, issued on May 8, 2017, with the exception of supplemental property tax administrative costs.

FINDING 1— Supplemental property tax administrative costs (Repeat Finding)

During our testing of the county's process for reimbursing supplemental property tax administrative costs, we found that the county did not properly document actual supplemental property tax administrative costs as required by statute.

As a result of this error, the county inappropriately charged the affected jurisdictions for administering the supplemental roll. We did not quantify the monetary impact for each affected taxing entity due to the cumulative effect of the errors affecting the computation and allocation. The error occurred because the county incorrectly implemented the applicable statute.

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

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

Recommendation

We recommend that the county review RTC section 75.60 and update its procedures to ensure documentation of actual costs incurred for administrating the supplemental roll.

County's Response

The county agreed with the finding and recommendation.

FINDING 2— Unitary regulated railway apportionment and allocation

During our testing of unitary regulated railway apportionment and allocation, we found that the county incorrectly calculated the excess 102% factors by including the vehicle license fee (VLF) adjustment for FY 2017-18, FY 2018-19, and FY 2020-21.

This error resulted in misallocation of revenue to the county's general fund, cities, and the Educational Revenue Augmentation Fund (ERAF). We did not quantify the monetary impact for each affected taxing entity due to the cumulative effect of the errors affecting the computation and allocation. The error occurred because the county incorrectly implemented the applicable statute.

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

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

Recommendation

We recommend that the county:

- Review RTC section 100.11 and update its procedures to ensure that the VLF adjustment is removed from the railway;
- Recalculate the railway excess factor allocations for FY 2017-18 through FY 2020-21; and
- Make monetary adjustments to its general fund, cities, and ERAF.

County's Response

The county agreed with the finding and recommendation.

FINDING 3— Vehicle License Fee adjustments

During our testing of VLF adjustments, we found that the county incorrectly calculated the VLF shift by adjusting for annexations in FY 2015-16, FY 2018-19, and FY 2019-20.

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

RTC section 97.70 provides the legal requirements for VLF adjustments.

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

Recommendation

We recommend that the county:

- Review RTC sections 97.69 and 97.70 and update its procedures;
- Recalculate the VLF adjustments for FY 2015-16 through FY 2020-21; and
- Make monetary adjustments to its general fund, cities, and ERAF.

County's Response

The county agreed with the finding and recommendation.

Merced County (July 1, 2017, through June 30, 2021)

Follow-up on prior audit findings

Merced County has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2014, to June 30, 2017, issued on January 16, 2019.

FINDING— Redevelopment Property Tax Trust Fund and Recognized Obligation Payment Schedules

During testing of the county's Redevelopment Property Tax Trust Fund (RPTTF) calculations, we found that the county incorrectly altered the TRA factors of several former redevelopment agency (RDA) TRAs beginning in FY 2020-21. We could not quantify the monetary effect on each taxing jurisdiction due to the cumulative effect of the errors affecting the computation.

The error occurred because the county changed RDA TRAs in an effort to comply with a January 11, 2013 letter from the California Department of Finance. The letter states that the ERAF is statutorily entitled to receive residual property tax revenues from the RPTTF process. The county included the ERAF's TRA factors when calculating RPTTF distributions. As a result, school TRA factors increased, while city and special district TRA factors decreased.

The incorrect TRA factors caused school entities to overpay to the RPTTF, and cities and special districts to underpay to the RPTTF. This occurred for several former RDA TRAs.

RTC section 97.401 and Health and Safety Code (HSC) sections 34182 through 34188 provide the legal requirements for administration of the RPTTF.

In 2012, the Legislature passed a law dissolving the previously established RDAs. Provisions of the law included the creation of successor agencies and oversight boards to oversee the winding-down of the defunct agencies' affairs.

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

Recommendation

We recommend that the county:

- Review RTC section 97.401 and update its procedures to ensure that no former RDA TRA factors are changed;
- Correct all former RDA TRA factors that were incorrectly adjusted;
- Recalculate former RDA ATIs beginning with FY 2020-21; and
- Make monetary adjustments to the affected taxing entities.

County's Response

The County of Merced agrees with this audit finding. The calculations for the TRA factors and ATIs have been completed. Monetary adjustments will be made going forward.

Monterey County (July 1, 2018, through June 30, 2022)

Follow-up on prior audit findings

Monterey County has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2015, through June 30, 2018, issued on December 2, 2019.

Conclusion

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

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

Follow-up on prior audit findings

Our prior audit report on Napa County, for the period of July 1, 2009, through June 30, 2015, issued on September 7, 2016, disclosed no findings.

**FINDING—
Excess Educational
Revenue
Augmentation Fund
amount**

After dissolution of Napa County's RDAs, the county created a reserve account for the former RDAs' RPTTF residual revenues. During our testing of the ERAF shift, we found that the county had incorrectly included the residual amounts in its excess ERAF calculations for FY 2019-20 through FY 2021-22. The residual revenues should have been excluded from the excess ERAF calculations beginning in FY 2019-20. The error resulted in an \$8,167,780 misallocation from the ERAF.

HSC section 34188(d) and RTC sections 97.2(d)(4)(B) and 97.3(d)(4)(B) provide the legal requirements for calculating excess ERAF.

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

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

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;
- Dissolve the reserve account that was established for the RPTTF residual revenues;
- Recalculate its excess ERAF for FY 2019-20 through FY 2021-22; and
- Make monetary adjustments to the ERAF.

County's Response

I respectfully disagree with the results of the audit report. The calculation of the [excess ERAF] amount was not calculated incorrectly. The question at hand is the inclusion, or not, of RDA RPTTF being part of the schools ERAF entitlement. Currently, there is a pending argument throughout the state of which way is correct. Due to the uncertainty of the legal interpretations, Napa County worked with [its] Cities/Town[s] and Schools to impound the amount in question until a definitive decision was made so as to not harm any of the parties entitled to this revenue. The funds are held in an interest-bearing account awaiting this decision.

Napa County's single RDA dissolved in fiscal year ended June 30, 2021. Therefore, this issue does not carry forward. We impounded all years required based on the State Controller's Guidelines. We fully disclosed our approach with the State Controller's staff throughout the development of the Guidelines and provided all the information to the auditors during their field review.

Based on the conclusion presented in the audit, in advance of any final resolution to this issue, we will release the funds from the impound account and include them in the FY 2023-24 ERAF fund for distribution.

SCO Comment

Our finding and recommendation remain unchanged.

Napa County incorrectly calculated the excess ERAF amounts by including the former RDA RPTTF residual revenues in the excess ERAF calculation. We issued excess ERAF guidelines on February 16, 2021, requiring counties to exclude the RPTTF residual revenues from the excess ERAF calculation, pursuant to HSC section 34188(d).

We are aware that a few counties disagree with the exclusion of the RPTTF residual revenues from the excess ERAF calculation. However, the California School Board Association's litigation regarding the SCO excess ERAF guidelines resulted in affirming the legality of the SCO ERAF guidelines.

Based on our understanding of Napa County's response, the county intends to distribute the impounded funds to the ERAF. We will follow up on the impounded funds in the next audit.

Placer County (July 1, 2019, through June 30, 2022)

Follow-up on prior audit findings Our prior audit report, for the period of July 1, 2016, through June 30, 2019, issued on April 7, 2020, disclosed no findings.

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

Sacramento County (July 1, 2019, through June 30, 2022)

Follow-up on prior audit findings Sacramento County has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2016, through June 30, 2019, issued on April 24, 2020.

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

San Bernardino County (July 1, 2017, through June 30, 2022)

Follow-up on prior audit findings San Bernardino 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 June 28, 2019.

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

San Joaquin County (July 1, 2018, through June 30, 2022)

Follow-up on prior audit findings San Joaquin County has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2015, through June 30, 2018, issued on February 28, 2020.

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

Santa Barbara County (July 1, 2018, through June 30, 2022)

Follow-up on prior audit findings Our prior audit report, for the period of July 1, 2015, through June 30, 2018, issued on June 28, 2019, disclosed no findings.

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

Sonoma County (July 1, 2018, through June 30, 2022)

Follow-up on prior audit findings Our prior audit report, for the period of July 1, 2015, through June 30, 2018, issued on June 7, 2019, disclosed no findings.

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

Tulare County (July 1, 2018, through June 30, 2022)

Follow-up on prior audit findings Tulare County has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2015, through June 30, 2018, issued on July 1, 2019.

**FINDING—
Vehicle License Fee
adjustments** During our testing of Tulare County’s VLF adjustments, we found that the county had incorrectly calculated the VLF shift by using incorrect annexation assessed values for FY 2018-19 through FY 2021-22. This error resulted in a misallocation of property tax revenues to cities and the ERAF.

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

occurred because county staff members incorrectly implemented the applicable statute.

RTC section 97.70 provides the legal requirements for VLF adjustments. The VLF permanently provided additional property tax revenues to cities and counties in lieu of the discretionary VLF revenues that these agencies previously received.

Recommendation

We recommend that the county:

- Review RTC section 97.70 and update its procedures;
- Recalculate the VLF adjustments for FY 2018-19 through FY 2021-22; and
- Make monetary adjustments to cities and the ERAF.

County's Response

The recommended changes have been completed.

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