

# STATE OF CALIFORNIA

Report to the California State Legislature

## PROPERTY TAX APPORTIONMENTS AND ALLOCATIONS

*Calendar Year 2022*



**MALIA M. COHEN**  
California State Controller

March 2023



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

March 30, 2023

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 2022. Prepared pursuant to Government Code section 12468, this report is intended to help mitigate issues associated with the counties' apportionment and allocation of property tax revenues.

The State Controller's team completed audits of 11 of the 58 counties in California, and found the audited counties generally to be in compliance with the legal requirements for apportioning and allocating property tax revenues. However, this report notes several issues related to individual counties.

If you have any questions regarding this report, please contact my Chief of Staff, Regina Evans, by email at [revans@sco.ca.gov](mailto:revans@sco.ca.gov) or by telephone at 916-445-2636. Thank you.

Sincerely,

*Original signed by*

Malia M. Cohen

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# Executive Summary

This report summarizes the results of the State Controller's Office (SCO) audit of county property tax apportionments and allocations during calendar year (CY) 2022.

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 2022, SCO completed audits of 11 counties' apportionment and allocation of property tax revenues. The 11 counties are Colusa, Humboldt, Los Angeles, Orange, Riverside, San Benito, San Francisco, Santa Cruz, Trinity, Yolo, and Yuba.

As a part of the CY 2022 audit work, SCO followed up on prior SCO audits to ensure that counties properly addressed the identified findings.

Except for the findings and recommendations noted in this report, the processes used by the 11 counties audited during CY 2022 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

Yolo and Yuba Counties did not fully resolve all findings noted in prior audits.

#### Current Audits

- Humboldt County made errors in the computation and distribution of property tax revenues.
- Humboldt and San Benito Counties made errors in the jurisdictional change process.
- Humboldt and Trinity Counties made errors in the unitary and operating nonunitary apportionment and allocation process.
- Santa Cruz County made errors in the unitary regulated railway apportionment and allocation process.
- Colusa and San Francisco Counties made errors in the qualified electric apportionment and allocation process.
- Colusa, Yolo, and Yuba Counties made errors in the reimbursement of property tax administrative costs.
- Humboldt and San Benito Counties made errors in the Educational Revenue Augmentation Fund shift.
- Humboldt, San Benito, Trinity, and Yuba Counties made errors in Vehicle License Fee adjustments.
- Trinity County made errors in the Negative Bailout (Senate Bill 85) process.
- Yolo County made errors in Redevelopment Property Tax Trust Fund deposits.

# Overview

## Introduction

This report presents the results of 11 audits of county property tax apportionments and allocations completed by the State Controller's Office (SCO) in calendar year 2022. The following counties were audited: Colusa, Humboldt, Los Angeles, Orange, Riverside, San Benito, San Francisco, Santa Cruz, Trinity, Yolo, and Yuba. Government Code (GC) section 12468 requires that such audits be conducted periodically for each county according to a prescribed schedule based on county population. The purpose of the audits is to help mitigate issues associated with the property tax apportionment and allocation processes.

Except for the findings and recommendations noted in this report, the 11 counties audited generally complied with the requirements for the apportionment and allocation of property tax revenues.

## Background

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

Revenues generated by the different types of property tax are apportioned and allocated to local government agencies, school districts, and community college districts using prescribed formulas and methods, as defined in the Revenue and Taxation Code. Taxable property includes land, improvements, and other properties that are accounted for on the property tax rolls, which are primarily maintained by the county assessor. Tax rolls contain an entry for each parcel of land including parcel number, owner's name, and value. The types of property tax rolls are:

- *Secured Roll*—Property that, in the opinion of the assessor, has sufficient value to guarantee payment of the tax levies and that, if the taxes are unpaid, the obligation can be satisfied by the sale of the property by the tax collector.
- *Unsecured Roll*—Property that, in the opinion of the assessor, does not have sufficient permanence or other intrinsic qualities to guarantee payment of taxes levied against it.
- *State-Assessed Roll*—Utility properties composed of unitary and operating nonunitary value assessed by the California State Board of Equalization.
- *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 2022 indicated that the 11 audited counties generally complied with the legal requirements for the apportionment and allocation of property tax revenues. The audit results summarized below include several issues which require corrective actions by the affected counties. Recommendations to resolve the identified issues are included in the individual county findings.

## Unresolved Prior Audit Findings

Yolo and Yuba 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 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 added to the tax computed for the prior fiscal year to develop apportionments for the current fiscal year.

Humboldt County's computation and distribution of property tax revenues were incorrect because the tax rate area factors totaled less than 100% for fiscal year (FY) 2019-20 and FY 2020-21.

## 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.

Humboldt County incorrectly implemented jurisdictional changes for the City of Eureka–Brainard Site annexation.

San Benito County incorrectly implemented jurisdictional changes for the City of San Juan Bautista for FY 2016-17, FY 2018-19, and FY 2019-20.

## 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.

We noted no issues in this area.

**Redevelopment  
Agencies**

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."

Humboldt County incorrectly adjusted the redevelopment agency increment for FY 2015-16 through FY 2018-19, and for FY 2020-21.

Trinity County incorrectly calculated the unitary and operating nonunitary apportionment factors for FY 2014-15, FY 2015-16, and FY 2017-18 through FY 2020-21.

## **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 qualified electric (QE) properties) and on which the California State Board of Equalization “may use the principle of unit valuation.”

Santa Cruz County incorrectly calculated the unitary regulated railway growth allocation by including adjustments to the Vehicle License Fee (VLF) for FY 2017-18 through FY 2020-21.

Yuba County used base-year values (FY 2007-08) that did not correspond to the values used in the Assembly Bill 8 process for the unitary regulated railway adjustment. This is an uncorrected prior audit finding; we noted incorrect railway apportionment factors for FY 2009-10 through FY 2013-14 in our prior audit report, dated February 16, 2016.

## **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.”

Colusa County incorrectly excluded school districts and non-enterprise special districts from the QE allocations.

The City and County of San Francisco incorrectly calculated QE property tax revenue by using incorrect prior-year factors for the period of July 1, 2016, through June 30, 2021.

## **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.

Colusa County incorrectly calculated administrative cost factors by including QE and regulated railway revenues for all fiscal years in the audit period.

Yolo County incorrectly calculated administrative cost factors by excluding unsecured and Home Owners Property Tax Relief revenues for FY 2019-20 and FY 2020-21.

Yuba County incorrectly calculated administrative cost factors by including the VLF adjustment for FY 2017-18 through FY 2020-21.

### **Educational Revenue Augmentation Fund Shift**

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.

Humboldt County incorrectly calculated the ERAF shift by including the redevelopment agency increment for FY 2015-16 through FY 2020-21.

San Benito County incorrectly reduced FY 2015-16 ERAF allocations by removing money from a basic-aid school entity, Aromas/San Juan Unified.

### **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.

Humboldt County made the following errors in calculating the VLF adjustment:

- Used the incorrect assessed values for the city of Arcata in FY 2018-19; and
- Did not adjust the assessed values for annexation for FY 2018-19 through FY 2020-21.

San Benito County incorrectly carried forward FY 2018-19 VLF adjustment amounts when performing FY 2019-20 VLF calculations.

Trinity County incorrectly calculated the VLF adjustment because it used the wrong assessed values for FY 2013-14 through FY 2020-21.

Yuba County made the following errors in calculating the VLF adjustment:

- For FY 2015-16, an incorrect assessed value was used for the City of Marysville;
- For FY 2015-16, the City of Wheatland's assessed value was not adjusted for FY 2015-16 annexation; and
- For FY 2018-19 through FY 2020-21, the utility's assessed value was removed; as a result, the assessed value used did not reconcile to the county's Auditor Certified Values by Tax Base (AUD70-2360-100) report.

**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.

Trinity County incorrectly calculated the negative bailout amount because it made the following errors:

- For FY 2013-14, county staff members incorrectly adjusted the negative bailout amount on the AB 8 Factor Worksheet. The amount did not agree with the Negative Bailout Growth Worksheet.
- For FY 2016-17 through FY 2020-21, county staff members used the negative bailout amount that had been computed for FY 2015-16 instead of increasing it by the percentage growth of total assessed property values in the country.

## **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.

Yolo County miscalculated Redevelopment Property Tax Trust Fund deposit amounts. Specifically, in FY 2016-17 the county did not carry forward the California Consumer Price Index adjusted base amount from the revised FY 2015-16 ATI computations for the City of Winters’ former redevelopment agency. This was a repeat finding; we noted it in our prior audit report, dated March 13, 2019.

# 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 2022. 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.

## Colusa County (July 1, 2015, through June 30, 2021)

### Follow-up on prior audit findings

Colusa County has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2009, through June 30, 2015, issued on May 30, 2017.

### FINDING 1— Qualified electric property apportionment and allocation

During our testing of qualified electric (QE) apportionment and allocation we found that the county incorrectly excluded school districts and non-enterprise special districts from QE allocations.

As a result, the QE revenues of all affected taxing entities were misstated. 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 errors occurred because the county incorrectly implemented the applicable statute.

Revenue and Taxation Code (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. . . .”

#### Recommendation

We recommend that the county:

- Review RTC section 100.95 and update its procedures to ensure that schools and non-enterprise special districts are included in QE apportionments and allocations;
- Recalculate its QE allocations for fiscal year (FY) 2015-16 through FY 2020-21; and



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

#### County's Response

[The County] reviewed Revenue and Taxation Code (RTC) section 100.95 and updated the County's procedures to ensure that Schools and Non-Enterprise Special Districts are now included in the QE apportionments and allocations. [The County] recalculated the QE allocations for Fiscal Year (FY) 2015-16 through FY 2020-21. The County will make the monetary adjustments for the recalculated time period and will make the corrections over three fiscal years[; the adjustments] will not exceed one percent of the total amount levied at a one-percent rate of the current year's original Secured tax roll, as required by RTC section 96.1 (c)(3).

#### **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 the county incorrectly included QE revenues and regulated railway revenues for all fiscal years in the audit period. The county also incorrectly apportioned current-year costs by using property tax administrative cost factors that were calculated using prior-year revenues rather than current-year revenues.

As a result of these errors, the property tax administrative costs for all affected taxing entities were misstated. 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 errors occurred because the county incorrectly implemented the applicable statute.

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 recommend that the county:

- Review RTC section 95.3 and update its procedures to ensure that QE and regulated railway revenues are excluded;
- Use current-year revenues and prior-year actual costs to create property tax administrative cost factors;
- Recalculate its property tax administrative costs for FY 2015-16 through FY 2020-21; and
- Make monetary adjustments to affected taxing entities, if the errors are significant.

County's Response

[The County] reviewed RTC section 95.3 and updated our procedures to ensure [that] we are correctly calculating our Property Tax Administrative costs (PTAC). [The County] recalculated the PTAC costs for FY 2015-16 through FY 2020-21. It will be at the Colusa County Board of Supervisor's discretion if monetary adjustments will be made to the affected taxing entities.

**Humboldt County (July 1, 2015, through June 30, 2021)****Follow-up on prior audit findings**

Humboldt 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 3, 2016.

**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 incorrectly calculated annual tax increment (ATI) revenue. The calculations were incorrect because the tax rate area (TRA) factors totaled less than 100% for FY 2019-20 and FY 2020-21. The miscalculation was due to a clerical error.

We also found that the TRA factors for two local educational agencies were removed from TRA 0003 and TRA 0005. TRA factors for Eureka High School, which is in TRA 003, should have been included in ATI calculations for all TRA numbers beginning with "003"; and the TRA factors for Rohnerville Elementary, which is in TRA 005, should have been included in ATI calculations for all TRA numbers beginning with "005." The error resulted in a misallocation of ATIs 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.

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 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 96.5(d) and update its procedures;
- Review all TRA factors and correct any TRA factors under 100% for FY 2019-20 and forward; and

- Make monetary adjustments for all affected taxing entities.

#### County's Response

The county stated that it intends to implement all of the recommendations.

### **FINDING 2— Jurisdictional changes**

During our testing of jurisdictional changes, we found that the county incorrectly implemented the City of Eureka–Brainard Site annexation.

The error resulted in misallocations of revenue 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. The mistake occurred due to clerical error.

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, local agencies are required to negotiate any exchange of base-year property tax revenues and ATIs. Consequently, a local agency whose responsibility increased receives additional ATI, and negotiated agreements adjust the base property tax revenues accordingly.

#### Recommendation

We recommend that the county:

- Review RTC section 95(e) and 99, and update its procedures for jurisdictional changes;
- Review all jurisdictional changes for the audit period to correct any errors; and
- Make monetary adjustments to affected entities, if the error is significant.

#### County's Response

The county stated that it intends to implement all of the recommendations.

### **FINDING 3— Unitary and operating nonunitary apportionment and allocation**

During our testing of unitary and operating nonunitary apportionment and allocation, we found that the county incorrectly calculated unitary excess factors by incorrectly adjusting the redevelopment agency increment for FY 2015-16 through FY 2018-19 and for FY 2020-21.

The error resulted in misallocations to all taxing entities that received unitary and operating nonunitary revenue. 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. The error occurred because the county incorrectly implemented the applicable statute.

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

In FY 1988-89, the Legislature established a separate system for apportioning and allocating 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 (BOE) “may use the principle of unit valuation”

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

#### Recommendation

We recommend that the county:

- Review RTC section 100 and update its procedures;
- Recalculate the unitary excess factors to correct the redevelopment agency increment adjustment for FY 2015-16 through FY 2020-21; and
- Make monetary adjustments to affected taxing entities.

#### County’s Response

The county stated that it intends to implement all of the recommendations.

#### **FINDING 4— Educational Revenue Augmentation Fund shift**

During our testing of the Educational Revenue Augmentation Fund (ERAF) shift, we found that the county incorrectly calculated the ERAF shift by including the redevelopment agency increment for FY 2015-16 through FY 2020-21.

The error resulted in misallocations to all affected taxing entities for FY 2015-16 through FY 2020-21. 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. The error occurred because the county incorrectly implemented the applicable statutes.

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

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 RTC sections 97.2 and 97.3, and update its procedures;
- Recalculate the ERAF shift amount for FY 2015-16 through FY 2020-21 to exclude the redevelopment agency increment; and
- Make monetary adjustments to affected taxing entities.

County's Response

The county stated that it intends to implement all of the recommendations.

**FINDING 5—  
Vehicle License Fee  
adjustments**

During our testing of Vehicle License Fee (VLF) adjustments, we found that the county made the following errors in calculating the VLF adjustment:

- The county used incorrect assessed values for the city of Arcata in FY 2018-19.
- The county did not adjust the assessed values for annexation for FY 2018-19 through FY 2020-21.

The errors resulted in misallocations to all affected cities for FY 2018-19 through FY 2020-21. 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. The errors occurred because the county incorrectly implemented the applicable statute.

RTC section 97.70 provides the legal requirements for VLF adjustments.

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

Recommendation

We recommend that the county:

- Review RTC section 97.70 and update its procedures;
- Recalculate its VLF adjustments for FY 2018-19 through FY 2020-21; and
- Make monetary adjustments to the ERAF.

County's Response

The county stated that it intends to implement all of the recommendations.

## Los Angeles County (July 1, 2018, through June 30, 2021)

**Follow-up on prior audit findings** Los Angeles County has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2016, through June 30, 2018, issued on August 24, 2020.

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

## Orange County (July 1, 2017, through June 30, 2021)

**Follow-up on prior audit findings** Our prior audit report, for the period of July 1, 2014, through June 30, 2017, issued on July 6, 2018, included no findings related to the apportionment and allocation of property tax revenues by Orange County.

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

## Riverside County (July 1, 2016, through June 30, 2021)

**Follow-up on prior audit findings** Riverside County has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2013, through June 30, 2016, issued on July 3, 2018.

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

## San Benito County (July 1, 2015, through June 30, 2020)

**Follow-up on prior audit findings** San Benito 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 3, 2016.

**FINDING 1— Jurisdictional changes** During our testing of jurisdictional changes, we found that the county incorrectly implemented jurisdictional changes for the City of San Juan Bautista for FY 2016-17, FY 2018-19, and FY 2019-20.

As a result of these errors, affected taxing entities did not receive the correct share of property tax revenues. 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. The error occurred because the county incorrectly implemented the applicable statute.

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.

#### Recommendation

We recommend that the county

- Review RTC section 99 and update its procedures to ensure that changes to TRA numbers and factors are made pursuant to BOE change notices;
- Recalculate its ATI for FY 2016-17, FY 2018-19, and FY 2019-20; and
- Make monetary adjustments to affected taxing entities.

#### County's Response

The County agrees with this finding. The County will recalculate the annual tax increment for the three impacted fiscal years and will make monetary adjustments to the affected taxing entities.

### **FINDING 2— Educational Revenue Augmentation Fund shift**

During our testing of the ERAF shift, we found that in FY 2015-16 the county incorrectly reduced ERAF allocations by removing money from a basic-aid school entity, Aromas/San Juan Unified.

This mistake resulted in a misallocation of \$22,652 of ERAF revenues. The error occurred because the county incorrectly implemented the applicable statutes.

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

RTC section 97.70(a)(1) provides the legal requirements for the allocation reduction required by subparagraph (A). Beginning in FY 2004-05, the auditor is required to reduce the total amount of ad valorem property tax revenue that is otherwise required to be allocated to a county's ERAF by the countywide VLF amount. If, for a fiscal year, after complying with RTC section 97.68, there is not enough ad valorem property tax revenue that is otherwise required to be allocated to a county ERAF for the auditor to complete the allocation reduction, the auditor must additionally reduce the total amount of the ad valorem property tax revenue that is otherwise required to be allocated to all school districts and community college districts in the county.

Recommendation

We recommend that the county:

- Review RTC section 97.70(a)(1)(B) and update its procedures to ensure that basic aid schools are properly identified and excluded when performing ERAF allocation reductions;
- Recalculate its ERAF allocation reductions for FY 2015-16 to ensure that Aromas/San Juan Unified is excluded; and
- Make monetary adjustments to schools and the ERAF.

County's Response

The County agrees with this finding. The County will make the corrections recommended by the SCO.

**FINDING 3—  
Vehicle License Fee  
adjustments**

During our testing of VLF adjustments, we found that the county incorrectly carried forward FY 2018-19 VLF adjustment amounts when performing FY 2019-20 VLF calculations.

As a result, \$63,061 was over-allocated from the ERAF. The FY 2019-20 VLF adjustment amounts for the county (\$40,326), the City of Hollister (\$6,536), and the City of San Juan Bautista (\$16,199) were overstated. The mistake was due to clerical error.

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 to include the correct past-year adjustment amounts to carry forward during the calendar year VLF adjustment process;
- Recalculate its VLF adjustment for FY 2019-20 and carry forward corrected amounts to subsequent VLF computations; and
- Make monetary adjustments to the county, the City of Hollister, the City of San Juan Bautista, and the ERAF.

County's Response

The County agrees with this finding. The County will recalculate its VLF adjustment for FY2019/2020 and carry forward corrected amounts to subsequent VLF computations and making any monetary adjustment to impacted taking entities.



**City and County of San Francisco (July 1, 2016, through June 30, 2021)****Follow-up on prior audit findings**

The City and County of San Francisco has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2012, through June 30, 2016, issued on May 23, 2017.

**FINDING—  
Qualified electric apportionment and allocation**

During our testing of QE apportionment and allocation, we found that the city and county incorrectly calculated QE property tax revenue by using incorrect prior-year factors for the period of July 1, 2016, through June 30, 2021.

This error resulted in a misallocation of QE property tax revenue to all affected entities in the city and county. Due to the complexity of the QE property tax allocation, we were unable to quantify the effect of the error. The error occurred because the city and county incorrectly implemented the applicable statute.

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.”

**Recommendation**

We recommend that the city and county:

- Review RTC section 100.95 and update its procedures to ensure that the correct prior-year factors are used in the QE property apportionment and allocation process;
- Recalculate its QE property tax revenue for the period of July 1, 2016, through June 30, 2021; and
- Make monetary adjustments to school districts, including the ERAF. Monetary adjustments to all other affected taxing entities will be necessary, if the error amounts are significant.

**County’s Response**

The County agrees with this finding. The County corrected the QE allocation factor set for FY 2016-17 through FY 2020-21 and reallocated amounts to reflect RTC Section 100.95 [which] excludes the Educational Revenue Augmentation Fund (ERAF) as a recipient of QE property tax revenues. The County will utilize the corrected QE allocation factor set methodology for subsequent years to comply with RTC section 100.95.

**Santa Cruz County (July 1, 2017, through June 30, 2021)****Follow-up on prior audit findings**

Our prior audit report, for the period of July 1, 2013, through June 30, 2017, issued on April 25, 2019, included no findings related to the apportionment and allocation of property tax revenues by Santa Cruz County.

**FINDING—  
Unitary regulated railway apportionment and allocation**

During our testing of unitary regulated railway apportionment and allocation, we found that the county incorrectly calculated the unitary regulated railway growth allocation by including adjustments to the VLF for FY 2017-18 through FY 2020-21.

This error resulted in a misallocation of unitary regulated railway revenue to all affected entities in the county. Due to the complexity of the unitary regulated railway growth allocation, we were unable to quantify the effect of the error. 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 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.”

**Recommendation**

We recommend that the county:

- Review RTC section 100.11 and update its procedures to exclude adjustments to the VLF from the unitary regulated railway apportionment and allocation process;
- Recalculate its unitary regulated railway revenues for FY 2017-18 through FY 2020-21; and
- Make monetary adjustments to school districts, including the ERAF. Monetary adjustments to all other affected taxing entities will be necessary, if the amounts are significant.

**County’s Response**

We agree with this finding and have updated our procedures to exclude adjustments to the VLF from the unitary regulated railway apportionment and allocation process. We have also recalculated unitary regulated railway revenues for FY 2017-18 through FY 2020-21. Lastly, we have made monetary adjustments to all affected taxing entities.

**Trinity County (July 1, 2013, through June 30, 2021)****Follow-up on prior audit findings**

Trinity County has satisfactorily resolved the findings noted in our prior audit report, for the period of July 1, 2005, through June 30, 2013, issued on June 12, 2014.

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

During our testing of unitary and operating nonunitary apportionment and allocation, we found that the county incorrectly calculated the unitary and operating nonunitary apportionment factors for FY 2014-15, FY 2015-16, and FY 2017-18 through FY 2020-21.

The error resulted in misallocations to all taxing entities that received unitary and operating nonunitary revenue. 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. The error occurred because the county incorrectly implemented the applicable statute.

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

In FY 1988-89, the Legislature established a separate system for apportioning and allocating 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 BOE “may use the principle of unit valuation”

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

**Recommendation**

We recommend that the county:

- Review RTC section 100 and update its procedures;
- Recalculate the unitary apportionment factors for FY 2014-15 through FY 2020-21; and
- Make monetary adjustments to school districts and community college districts. Monetary adjustments to all other affected taxing entities will be necessary, if the errors are significant.

County's Response

We concur with the finding and the recommendation for the Unitary and Operating Nonunitary Apportionment and Allocation.

**FINDING 2—  
Vehicle License Fee  
adjustments**

During our testing of VLF adjustments, we found that the county incorrectly calculated the VLF adjustment because it used the wrong assessed values for FY 2013-14 through FY 2020-21.

This error resulted in a misallocation of property tax revenues to all taxing entities that had VLF adjustments, including the county's ERAF and general fund. We did not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The errors occurred because the county incorrectly implemented the applicable statute.

RTC section 97.70 provides the legal requirements for VLF adjustments.

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

Recommendation

We recommend that the county:

- Review RTC sections 97.70, and update its procedures;
- Recalculate the VLF adjustments for FY 2013-14 through FY 2020-21; and
- Make monetary adjustments to the county's ERAF and general fund.

County's Response

We concur with the finding and the recommendation for the Vehicle License Fee adjustments.

**FINDING 3—  
Negative Bailout  
(Senate Bill 85)**

During our testing of the negative bailout adjustment, we found that the county incorrectly calculated the negative bailout amount because it made the following errors:

- For FY 2013-14, county staff members incorrectly adjusted the negative bailout amount on the Assembly Bill 8 Factor Worksheet. The amount did not agree with the Negative Bailout Growth Worksheet.
- For FY 2016-17 through FY 2020-21, county staff members used the negative bailout amount that had been computed for FY 2015-16 instead of increasing it by the percentage growth of total assessed property values in the country.

This error resulted in misallocations to all taxing entities that were affected by the negative bailout. 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. The errors occurred because the county incorrectly implemented the applicable statute.

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 in costs 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 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.

#### Recommendation

We recommend that the county:

- Review RTC section 96.11 and update its procedures; and
- Recalculate the negative bailout adjustment for FY 2013-14 through FY 2020-21.

#### County's Response

We concur with the finding and the recommendation for the Negative Bailout (SB 85).

### **Yolo County (July 1, 2017, through June 30, 2021)**

#### **Follow-up on prior audit findings**

Findings noted in our prior audit report, for the period of July 1, 2014, through June 30, 2017, issued on March 13, 2019, have been satisfactorily resolved by Yolo County, with the exception of miscalculated Redevelopment Property Tax Trust Fund (RPTTF) deposit amounts; see current Finding 2.

**FINDING 1—  
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 incorrectly calculated property tax administrative cost factors by excluding unsecured and Home Owners Property Tax Relief revenues for FY 2019-20 and FY 2020-21.

As a result, the affected taxing entities’ property tax administrative costs were misstated. We did not quantify the monetary impact on each taxing jurisdiction due the cumulative effect of the errors affecting the computation. The error occurred because the county incorrectly implemented the applicable statute.

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 recommend that the county:

- Review RTC section 95.3 and update its procedures to ensure that all appropriate revenues are included;
- Recalculate its property tax administrative costs for FY 2019-20 and FY 2020-21; and
- Make monetary adjustments to the affected taxing entities.

County’s Response

The County agrees with this finding. The County has reviewed the applicable [section of] Revenue and Taxation Code. The County will recalculate the property tax administrative costs for fiscal years 2019-20 and 2020-21, and will make monetary adjustments to effected entities, if material.

**FINDING 2—  
Redevelopment  
Property Tax Trust  
Fund deposit amounts  
(repeat finding)**

During our testing of the county’s prior audit corrections and current RPTTF deposit calculations, we found that the county had miscalculated RPTTF deposit amounts. Specifically, in FY 2016-17 the county did not carry forward the California Consumer Price Index adjusted base amount from the revised FY 2015-16 ATI computations for the City of Winters’ former redevelopment agency.

As a result, the ATI computations for FY 2017-18 through FY 2020-21 were miscalculated. We did not quantify the monetary impact on each taxing jurisdiction due the cumulative effect of the errors affecting the computation. The mistake was due to clerical error.

RTC section 97.401 and Health and Safety Code sections 34182 through 34188 provide the legal requirements for administering the RPTTF.

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.

#### Recommendation

We recommend that the county:

- Review RTC section 97.401 and update its procedures to ensure that the tax increment computations are performed correctly, by carrying forward the prior-year California Consumer Price Index adjusted base amounts;
- Recalculate the City of Winters' successor agency's tax increment computations for FY 2016-17 and all subsequent years; and
- Make monetary adjustments to the affected taxing entities.

#### County's Response

The County agrees with this finding. The County has updated its procedures to ensure accuracy on the tax increment computation for the successor agencies. The County will recompute the City of Winters tax increment factors for 2016-17 and all subsequent years, and will make monetary adjustments to affected taxing entities, if material.

### **Yuba County (July 1, 2014, through June 30, 2021)**

#### **Follow-up on prior audit findings**

Findings noted in our prior audit report, for the period of July 1, 2006, through June 30, 2014, issued on February 16, 2016, have been satisfactorily resolved by Yuba County, with the exception of unitary regulated railway apportionment and allocation.

#### **Uncorrected prior audit finding— Unitary regulated railway apportionment and allocation**

As discussed in Finding 6 of our prior audit report dated February 16, 2016, the county used base-year values (FY 2007-08) that did not correspond to the values used in the AB 8 process for the unitary regulated railway adjustment. In addition, the county made the following errors in calculating its unitary regulated railway apportionment and allocation:

- In comparing the greater of the prior-year 102% values versus current-year values, the county included its debt services amount; and
- In apportioning the railway revenue, the county used the prior-year excess growth factors instead of the newly created railway factors.

This prior audit finding remains uncorrected because the county did not correct the railway apportionment factors for FY 2009-10 through FY 2013-14.

RTC section 100.11 provides the legal requirements for the apportionment and allocation of unitary regulated railway property tax revenues.

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

**FINDING 1—  
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 incorrectly calculated the SB 2557 administrative cost factor by including the VLF adjustment for FY 2017-18 through FY 2020-21.

As a result, cities were overcharged for administrative costs. We did not quantify the monetary impact for each affected taxing entity due to the cumulative effect of various errors affecting the computation and allocations. The error occurred because the county did not correctly implement the applicable statute.

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 to exclude the VLF shift from the SB 2557 administrative cost factor calculation;
- Recalculate the administrative cost factors for FY 2017-18 through FY 2020-21; and
- Remit the overpaid administrative costs to the cities.

County’s Response

The County agrees with the finding. Calculations for fiscal impact are in progress. Once [the calculations are] completed, overpaid administrative costs from the Cities will be corrected.



**FINDING 2—  
Vehicle License Fee  
adjustments**

During our testing of VLF adjustments, we found that the county made the following errors in calculating the VLF adjustment:

- For FY 2015-16, an incorrect assessed value was used for the City of Marysville.
- For FY 2015-16, the City of Wheatland's assessed value was not adjusted for FY 2015-16 annexation.
- For FY 2018-19 through FY 2020-21, the utility's assessed value was removed; as a result, the assessed value used did not reconcile to the county's Auditor Certified Values by Tax Base (AUD70-2360-100) report.

These errors resulted in misallocation of funds to cities and the ERAF. We did not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation. The errors occurred because the county incorrectly implemented the applicable statute.

RTC section 97.70 provides the legal requirements for VLF adjustments.

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

**Recommendation**

We recommend that the county:

- Review RTC section 97.70, and update its procedures;
- Recalculate its VLF adjustment starting in FY 2015-16, and carry forward corrected amounts to subsequent VLF computations; and
- Make monetary adjustments to the ERAF.

**County's Response**

The County agrees with the finding. Monetary calculations are in progress. Once [the calculations are] completed, amounts pertaining to ERAF and Cities will be adjusted.

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250**

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