

STATE OF CALIFORNIA
Report to the California State Legislature
PROPERTY TAX APPORTIONMENTS

Calendar Year 2018



BETTY T. YEE
California State Controller

March 2019



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California State Controller

March 29, 2019

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

**SUBJECT: Property Tax Apportionments Report to the Legislature
for Calendar Year 2018**

I am pleased to present the Property Tax Apportionments Report for calendar year 2018. This report, prepared pursuant to Government Code section 12468, is intended to help mitigate problems associated with the counties' apportionment and allocation of property tax revenues.

The State Controller's team completed audits of seven of the 58 counties in the State of 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 specific problem areas related to individual counties.

I hope you find the report informative and useful for future policy decisions. If you have any questions regarding this report, please contact Jim L. Spano, CPA, Chief, Division of Audits, at (916) 324-1696.

Sincerely,

Original signed by

BETTY T. YEE

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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 the 2018 calendar year. After the passage of Proposition 13 in 1978, the California State Legislature (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 local agencies with a property tax base that would grow as assessed property values increase.

Property tax revenues that local governments receive each year are based on the amount received in the prior year, plus a share of the property tax growth within their boundaries. Property tax revenues then 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 (RTC). This methodology is commonly referred to as the Assembly Bill (AB) 8 process or the AB 8 system. The method has been further refined in subsequent laws.

The SCO property tax audit program began on July 1, 1986, pursuant to RTC 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 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 applied 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 2018, SCO completed audits of seven counties' apportionment and allocation of property tax revenues. The seven counties are Calaveras, Nevada, Orange, Riverside, San Luis Obispo, Santa Cruz, and Solano.

Current statutes do not allow counties to charge school and community college districts, the county superintendents of schools, and/or the Educational Revenue Augmentation Fund (ERAF) for property tax administrative costs. The Legislature may wish to consider legislation to address an apparent conflict between RTC section 95.3 and Health and Safety Code sections 34183 and 34188, which may indirectly charge those costs to school and community college districts, the county superintendents of schools, and/or the ERAF.

As a part of the 2018 audit work, SCO followed up on prior audits to ensure the counties properly addressed the findings identified in previous SCO audit reports.

Except for the findings and recommendations noted in this report, the processes used by the seven counties audited during 2018 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

There were no unresolved issues from prior audits.

Current Audits

- Solano County made an error in calculating the annual tax increment (ATI).
- Riverside County made errors in calculating supplemental administrative fees.
- Calaveras County made errors in the unitary and operating nonunitary apportionment and allocation process.
- Riverside County made errors in the qualified electric (QE) property apportionment and allocation process.
- Calaveras County made errors in computing the ERAF shift.

Overview

Introduction

This report presents the results of seven audits of county property tax apportionments and allocations completed by SCO in calendar year 2018. The following counties were audited: Calaveras, Nevada, Orange, Riverside, San Luis Obispo, Santa Cruz, and Solano. Government Code 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 problems associated with property tax apportionment and allocation processes.

Except for the findings and recommendations noted in this report, the seven 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 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 local government agencies, school districts, and community college 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 AB 8, Chapter 282, Statutes of 1979, which established the method of allocating property taxes for fiscal year (FY) 1979-80 (base year) and subsequent fiscal years. The methodology is commonly referred to as the AB 8 process or the AB 8 system.

Property tax revenues that local government agencies receive each fiscal year are based on the amount received in the prior year plus a share of the property tax growth within their boundaries. Property tax revenues are then 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.

The AB 8 process involves several steps, including the transfer of revenues from school and community college districts to local government agencies (AB 8 shift) and the development of the tax rate area (TRA) 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 is then 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 QE properties. These revenues are now apportioned and allocated under separate processes.

Other laws established an 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 RTC. 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 State Board of Equalization (BOE).
- *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 RTC section 95.6 (now Government Code 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's authority to compel resolution of audit findings is limited to those findings involving an overpayment of state funds.

Overpayment of State 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 (Government Code 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. This, in turn, 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 schools without requiring repayment, or assessment of penalties. However, the law required 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 used procedures considered necessary to provide a basis for reporting on the areas examined. 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 agencies' (RDA) 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 properties, commonly known as QE 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 ERAF was in accordance with RTC sections 97 through 97.3.

- Payments from ERAF were made in compliance with RTC section 97.68, commonly known as the Triple Flip, and section 97.70, commonly known as the Vehicle License Fee (VLF) Swap.

Conclusion

The property tax apportionment and allocation system is generally operating as intended. In the interest of efficiency and cost control for the counties and the state, SCO submits the Summary of Findings and Recommendations in this report to assist in initiating changes that will help improve the system.

Summary of Findings and Recommendations

Introduction

Except for the findings and recommendations cited in this report, the audit reports issued in 2018 indicated that the seven audited counties generally complied with the legal requirements for the apportionment and allocation of property tax revenues. However, problem areas were identified and are described below. Recommendations to resolve the problems are included within the individual county findings.

Unresolved Prior Audit Findings

There were no unresolved issues from prior audits.

Computation and Distribution of Annual Tax Increment

Requirements for the apportionment and allocation of the ATI are found in RTC sections 96 through 96.5. The annual increment of property tax, which is the change in assessed value from one year to the next, is allocated to TRAs on the basis of each TRA's share of the incremental growth in assessed valuations. The tax increment is then multiplied by the jurisdiction's ATI apportionment factors for each TRA. These factors were developed in the base year and are adjusted for jurisdictional changes. The tax increment is then added to the tax computed for the prior fiscal year to develop the apportionment for the current fiscal year.

Solano County incorrectly included unsecured aircraft assessed values in its computations of the ATI.

Jurisdictional Changes

RTC section 99 prescribes the procedures that a county must perform in order to make adjustments for the apportionment and allocation of property taxes resulting from changes in jurisdictional controls or changes in responsibilities of local government agencies, school districts, and community college districts. The statute requires a county to prepare specific documentation that takes into consideration services and responsibilities.

No issues were noted in this area.

Supplemental Property Tax Apportionment and Allocation

When a revaluation of property occurs during the fiscal year due to changes in ownership or completion of new construction, supplemental taxes usually are levied on the property. RTC sections 75.70, 75.71, and 100.2 provide for the apportionment and allocation of these supplemental taxes.

No issues were noted in this area.

Supplemental Property Tax Administrative Costs

In addition to the fee allowed by RTC section 95.3 for the administration of the secured tax roll, RTC section 75.60 allows the charging of a fee for the administration of the supplemental tax roll. Once a county adopts a method of identifying the actual administrative costs associated with the supplemental roll, it is allowed to charge an administrative fee for supplemental property tax collections. This fee is not to exceed five percent of the supplemental taxes collected.

Riverside County's property tax system incorrectly computes supplemental administrative fees on penalties and interest.

Redevelopment Agencies

The legal requirements for the apportionment and allocation of property tax to RDAs are found in RTC sections 96.4 and 96.6, and Health and Safety Code sections 33670 through 33679. California community redevelopment law entitled a community RDA to all of the property tax revenue realized from growth in values since the RDA's project area inception, with specified exceptions.

No issues were noted in this area.

Unitary and Operating Nonunitary Apportionment and Allocation

The process for the apportionment and allocation of property taxes from certain utility companies functions through the unitary and operating nonunitary tax system employed by BOE. Unitary properties are those properties on which BOE "may apply the principle of unit valuation in valuing properties of an assessee that are operated as a unit in the primary function of the assessee" (i.e., public utilities). The Revenue and Taxation Code further states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee." RTC section 100 prescribes the procedures counties must perform to allocate unitary and operating nonunitary property taxes beginning in FY 1988-89.

Calaveras County incorrectly computed the unitary and operating nonunitary apportionment factors by using incorrect prior-year AB 8 factors for the excess 102 percent growth computation.

Regulated Railway Apportionment and Allocation

The process for apportioning and allocating property taxes from certain regulated railway companies functions through the unitary railroad tax system employed by BOE. Unitary railroad properties are defined in RTC section 723. RTC section 100.11 prescribes the procedures counties must perform to allocate unitary railroad property taxes beginning in FY 2007-08.

No issues were noted in this area.

Qualified Electric Apportionment and Allocation

Requirements for the apportionment and allocation of QE property taxes are found in RTC section 100.95 beginning in FY 2007-08. QE properties are "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."

Riverside County excluded some non-enterprise special districts from the Tier 1 allocation process.

Property Tax Administrative Costs

Counties are allowed to collect, from each appropriate jurisdiction, that jurisdiction's share of the cost of assessing, collecting, and apportioning property taxes. RTC section 95.3 prescribes the requirements for computing and allocating property tax administrative fees. The offices of the county assessor, tax collector, assessment appeals board, and auditor generally incur county property tax administrative costs. The county generally is allowed to be reimbursed for these costs.

Prior to FY 2006-07, counties could not impose a fee, charge, or other levy on a city, nor reduce a city's allocation of ad valorem property tax revenue, in reimbursement for services performed by the county under RTC sections 97.68 and 97.70. Pursuant to RTC section 97.75, beginning with FY 2006-07, a county may impose a fee, charge, or other levy on a city for these services, but the fee, charge, or other levy shall not exceed the actual cost of providing the services.

No issues were noted in this area.

Educational Revenue Augmentation Fund

The legal requirements for the local agency shift of property tax revenues to the ERAF are contained in RTC sections 97 through 97.3. Beginning in FY 1992-93, each local agency is required to shift an amount of property tax revenues to ERAF using formulas prescribed in the RTC. The property tax revenues in the ERAF are subsequently allocated to schools and community colleges using factors supplied by the county superintendent of schools or chancellor of the California community colleges.

Since the passage of the ERAF shift requirements, numerous new laws have affected the shift requirements for various local government agencies. AB 1589 (Chapter 290, Statutes of 1997) primarily addressed three areas related to the ERAF shift:

- ERAF shift requirements for certain county fire funds for FY 1992-93 (RTC section 97.2[c][4][B]).
- A special provision for counties of the second class (population of at least 1,400,000 and fewer than 4,000,000) when computing the ERAF shift amount for county fire funds in FY 1993-94 (RTC section 97.3[c][4][A][I]).
- ERAF shift requirements for county libraries for FY 1994-95 and subsequent years.

After the enactment of AB 1589, the State Controller requested advice from the California Attorney General regarding the application of Chapter 290, Statutes of 1997. The Attorney General responded in May 1998.

The Attorney General advised that the amendment to RTC section 97.2(c)(4)(B) significantly narrowed the scope of the exemption granted by the code section and was to be given retroactive application. As a result, many counties and special fire protection districts that were able to claim an exemption under the section as it formerly read lost the exemption retroactive to FY 1992-93. Consequently, those counties and special districts were required to shift additional funds to the county ERAF.

In response to the Attorney General's advice, and noting the severe fiscal impact the loss of the exemption would have on local government agencies, SCO recommended that the Legislature consider restoring the exemption previously granted to fire protection districts, which was eliminated as a result of AB 1589 (Chapter 290, Statutes of 1997). Subsequently, AB 417 (Chapter 464, Statutes of 1999) restored the exemption to fire districts.

Calaveras County incorrectly computed the ERAF shift for one year by using incorrect prior-year ERAF shift amounts.

Vehicle License Fee and Sales and Use Tax Adjustments

Sections 97.68 and 97.70 of the RTC require allocation of ad valorem property tax revenue by ERAF to Sales and Use Tax and VLF adjustment amounts. If there is not enough ad valorem property tax revenue in the ERAF, the difference shall be reduced from all school districts and community college districts that are not excess tax school entities.

No issues were noted in this area.

Disaster Relief Adjustment

Requirements for the local agency shift of property tax revenues to ERAF, also known as the ERAF shift, are found in RTC sections 97.1 through 97.3.

In addition to the ERAF shift, RTC section 97.2 requires a Disaster Relief Adjustment, beginning in FY 1992-93. The adjustment was a reduction to the amount of reduced city and county funds that were redirected to the ERAF. This reduction is continued, without growth, through FY 1996-97. In FY 1997-98, the Disaster Relief Adjustment was reversed and replaced with an adjustment known as the Disaster Relief Reversal.

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

No issues were noted in this area.

Negative Bailout (SB 85)

After the passage of Proposition 13, Senate Bill (SB) 154 (Chapter 292, Statutes of 1978) provided for the distribution of state assistance, or bailout, to make up, in part, for local 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.

In the second year following the passage of Proposition 13, AB 8 (Chapter 282, Statutes of 1979) provided for a long-term solution consisting of a one-time adjustment (shift) that created a new property tax base for each local agency.

Counties received 100 percent 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 AB 8 shift resulted in a reduction of the property tax base instead of an increase. These counties are referred to as negative bailout counties. For all but the negative bailout counties, the increased property tax was deducted from the local schools' property tax. For the negative bailout counties, school property taxes should have been increased by the negative bailout amount.

Subsequently, it was discovered that the negative bailout counties were not transferring the required property taxes to schools. Consequently, AB 2162 (Chapter 899, Statutes of 1983) forgave prior allocation errors but required future payments to be made in accordance with statutes.

The negative bailout amount has grown each year as the assessed value of property in the counties has grown. SB 85 (Chapter 5, Statutes of 2010) did not eliminate the negative bailout amount but capped it according to a specified formula.

No issues were noted in this area.

Tax Equity Allocation

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

No issues were noted in this area.

Supplemental Information

Redevelopment Property Tax Trust Fund

Assembly Bill, First Extraordinary Session 26 (ABX1 26) (Chapter 5, Statutes of 2011) and AB 1484 (Chapter 26, Statutes of 2012) added and amended sections of the Health and Safety Code and mandated the dissolution of RDAs. Under ABX1 26, a county auditor-controller is required to create within the county treasury a Redevelopment Property Tax Trust Fund (RPTTF) for the property tax revenues related to each former RDA, for administration by the county auditor-controller. Distributions from the RPTTF are made in accordance with specified priorities in Health and Safety Code section 34183.

Excess revenues in the RPTTF are distributed according to the requirements of Health and Safety Code section 34188. Proceeds from asset sales are to be transferred to the county auditor-controller for distribution as property tax proceeds. Unencumbered balances of RDA funds, including housing funds, are to be remitted to the county auditor-controller for distribution by the auditor-controller using the same methodology for allocation and distribution of property tax revenues as provided in section 34188.

On May 26, 2015, the Sacramento County Superior Court ruled in Case No. 34-2014-80001723-CU-WM-GDS between the cities of Chula Vista, El Cajon, Escondido, Poway, San Diego, San Marcos, and Vista (petitioners) and the San Diego County Auditor-Controller (respondent) regarding the methodology in apportioning the residual balance from the RPTTF. The Court stated, in part:

(1) that a cap on the residual amount each entity can receive be imposed in an amount proportionate to its share of property tax revenue in the tax area; and (2) the calculation of the residual share an entity is entitled to receive must be done by considering the property tax available in the Redevelopment Property Tax Trust Fund after deducting only the amount of any distributions under paragraphs (2) and (3) of subdivision (a) of Section 34183.

On September 17, 2015, the respondent appealed the ruling to the Court of Appeal of the State of California Third Appellate District. As the appellate court has not decided on the case, we will follow up on this issue in a subsequent audit.

This pending legal issue is relevant to Nevada, Orange, Riverside, San Luis Obispo, Santa Cruz, and Solano counties.

Item for Legislative Consideration

RTC section 95.3 allows a county to charge for the cost of administering the property tax program in the county. While the county computes the schools', community college districts', county schools superintendent's, and ERAF's shares of these costs, statute does not allow the county to collect these shares. School entities and the ERAF thus are held harmless from administrative cost charges. The Legislature has stated its intent to reimburse the costs attributable to school entities and ERAF "by a future act of the Legislature that makes an appropriation for purposes of that reimbursement."

Health and Safety Code section 34183 allows the county auditor-controller to deduct from the RPTTF administrative costs allowed under Health and Safety Code section 34182 and RTC section 95.3, prior to making the prioritized distributions that follow. As a result, any balance to be distributed pursuant to Health and Safety Code section 34188 is reduced, thus reducing shares of residual revenues for all taxing agencies (including schools) and ERAF. Consequently, schools and ERAF are paying a portion of the administrative costs.

Recommendation

As the Health and Safety Code sections referred to on the previous page are not appropriations, the Legislature may wish to consider changing the administrative costs allowed under Health and Safety Code section 34182 and RTC section 95.3 to school entities and ERAF as a result of Health and Safety Code sections 34183 and 34188.

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 SCO in calendar year 2018. Unless otherwise indicated, the counties agreed with the findings and recommendations.

These findings and recommendations are solely for the information and use of the Legislature, the respective counties, the Department of Finance (DOF), 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.

Calaveras County (July 1, 2010, through June 30, 2017)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued February 3, 2012.

FINDING 1— Unitary and Operating Nonunitary Apportionment

For FY 2014-15 through FY 2016-17, the county incorrectly computed the unitary and operating nonunitary apportionment factors by using incorrect prior-year AB 8 factors for the excess growth computation. As a result, the county misallocated revenues to taxing entities. During the audit, the county recomputed the apportionment factors.

Requirements for the apportionment and allocation of unitary and operating nonunitary property taxes are found in RTC section 100.

Unitary properties are those properties on which BOE “may use the principle of unit valuation in valuing properties of an assessee that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or QE properties). The RTC further states, “Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee.”

In FY 1988-89, the Legislature established a separate system for apportioning and allocating the unitary and operating nonunitary property taxes. The Legislature established the unitary and operating nonunitary base year and developed formulas to compute the distribution factors for the fiscal years that followed.

Recommendation

We recommend that the county ensure that FY 2014-15 and subsequent years’ unitary and operating nonunitary apportionment factors are correctly computed. We will review the recomputation in our subsequent audit.

County's Response

The county agreed with the findings included in the draft audit report.

**FINDING 2—
Educational Revenue
Augmentation Fund**

In FY 2016-17, the county incorrectly computed the ERAF shift by using the FY 2014-15 ERAF shift amount instead of the FY 2015-16 ERAF shift amount. As a result, the county understated distributions to ERAF. During the audit, the county recomputed the ERAF shift.

Requirements for the local government agency shift of property tax revenues to ERAF are primarily found in RTC sections 97 through 97.3. Beginning in FY 1992-93, most local government agencies were required to shift an amount of property tax revenues to ERAF using formulas detailed in the code. The property tax revenues in ERAF are subsequently allocated to school and community college districts using factors supplied by the county superintendent of schools.

The FY 1992-93 ERAF shift for cities was determined by adding a per capita amount to a percentage of property tax revenues received by each city. The ERAF shift for counties was determined by adding a flat amount, adjusted for growth, to a per capita amount. The ERAF shift for special districts was generally determined by shifting the lesser of 10 percent of that district's total annual revenues as shown in the FY 1989-90 edition of the State Controller's Report on Financial Transactions Concerning Special Districts or 40 percent of the FY 1991-92 property tax revenues received, adjusted for growth. Specified special districts were exempted from the shift.

The FY 1993-94 ERAF shift for cities and counties was generally determined by:

- Reducing the FY 1992-93 ERAF shift by the FY 1992-93 per capita shift;
- Adjusting the result for growth; and
- Adding the result to a flat amount and a per capita amount determined by the DOF, adjusted for growth.

The FY 1993-94 ERAF shift for special districts, other than fire districts, was generally determined by:

- Multiplying the property tax allocation for FY 1992-93, pre-ERAF, by the Special District Augmentation Fund (SDAF) factor for the district effective on June 15, 1993;
- Adjusting this amount by subtracting the FY 1992-93 ERAF shift from the ERAF;
- If the above amount is greater than zero, adjusting this amount for FY 1993-94 growth (zero is used for negative amounts); and
- Adding this amount to the FY 1992-93 ERAF shift, adjusting for growth.

For fire districts, the FY 1993-94 ERAF shift was generally determined by:

- Deducting the FY 1992-93 ERAF shift for the district from the FY 1992-93 property tax allocation;
- Multiplying the result by the SDAF factor for the district effective on June 13, 1993 (net current-year bailout equivalent);
- For a district governed by a Board of Supervisors, deducting the amount received from the SDAF in FY 1992-93 from the net current-year bailout equivalent; or, for an independent district, deducting the amount received from the SDAF and the difference between the net current-year bailout equivalent and the amount contributed to the SDAF from the net current-year bailout equivalent;
- Adjusting this amount for growth; and
- Adding this amount to the FY 1992-93 ERAF shift, adjusted for growth.

For fiscal years subsequent to FY 1993-94, the amounts determined are adjusted for growth annually to determine the ERAF shift amount for that year.

Recommendation

We recommend that the county ensure that FY 2016-17 and subsequent years' ERAF shift is correctly computed. We will review the recomputation in our subsequent audit.

County's Response

The county agreed with the findings included in the draft audit report.

Nevada County (July 1, 2010, through June 30, 2017)

Follow-up on prior audit findings The county has satisfactorily resolved all the findings noted in our prior audit report, issued August 17, 2011.

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

Orange County (July 1, 2014, through June 30, 2017)

Follow-up on prior audit findings The county has satisfactorily resolved the findings noted in our prior audit report, issued June 30, 2016.

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

Riverside County (July 1, 2013, through June 30, 2016)

Follow-up on prior audit findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued March 21, 2014.

FINDING 1— Supplemental Property Tax Administrative Fee

During our audit of the supplemental property tax administrative fee process, we found that the county's property tax system currently computes supplemental administrative fees on penalties and interest, when these fees should be computed based only on actual supplemental property taxes collected. This error resulted in the county's over-collection of supplemental administrative fees for FY 2013-14 through FY 2015-16. We did not quantify each affected taxing entities' monetary impact, due to the complexity of the collection process for supplemental administrative fees.

RTC section 75.60 allows a county to charge an administrative fee for supplemental property tax collections. This fee is not to exceed five percent of the supplemental property taxes collected.

Recommendation

We recommend that the county reprogram the property tax system for this section to exclude penalties and interest from the five percent fee computation.

County's Response

The county responded, "As of August 24, 2017, the County has reprogrammed the property tax system for this section, to exclude penalties and interest from the five percent fee computation."

SCO Comment

We will review the correction in our next audit.

FINDING 2— Qualified Electric Allocation

During our audit of the county's QE allocation process, we found that the county excluded some non-enterprise special districts from the Tier 1 allocation process. This error resulted in misallocation of the QE revenue to the affected taxing entities. Due to the various errors affecting the computations and apportionments, we did not quantify the monetary impact for each affected taxing entity.

Requirements for the apportionment and allocation of QE property taxes are found in RTC section 100.95 beginning in FY 2007-08. QE properties are "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 include Supervisorial Road District 4 and all other non-enterprise special districts in the county's annual QE Tier 1 allocation.

County's Response

The county responded, "The County has changed the apportionment process and procedures to include Supervisorial Road District 4 into the Qualified Electric (QE) Tier 1 allocation. We have also reviewed all the non-enterprise special districts to ensure we have included appropriate districts in the Qualified Electric (QE) Tier 1 allocation."

SCO Comment

We will review the correction in our next audit.

San Luis Obispo County (July 1, 2014, through June 30, 2017)**Follow-up on prior audit findings**

Our prior audit report, issued April 28, 2015, included no findings related to the apportionment and allocation of property tax revenues by the county.

Conclusion

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

Santa Cruz County (July 1, 2013, through June 30, 2017)**Follow-up on prior audit findings**

Our prior audit report, issued August 29, 2004, included no findings related to the apportionment and allocation of property tax revenues by the county.

Conclusion

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

Solano County (July 1, 2014, through June 30, 2017)**Follow-up on prior audit findings**

The county has satisfactorily resolved the findings noted in our prior audit report, issued June 23, 2016.

**FINDING 1—
Computation and
Distribution of
Annual Tax
Increment**

During our audit of the county's ATI computation process, we found that for FY 2014-15 through FY 2016-17, the county incorrectly included unsecured aircraft assessed values in its computations of the ATI, resulting in overstated AB 8 revenues.

Specifically, this error affected all entities' ATI computations in the county. Our discussion with the county regarding the error revealed that the county was not aware of the separate RTC sections 5451 through 5456 governing the apportionment and allocation of aircraft property tax revenues.

RTC sections 96 through 96.5 identify the requirements for the apportionment and allocation of the ATI, which does not address the requirements for unsecured aircraft values. These code sections require the county to:

- Allocate the annual increment of property tax (change in assessed value from one year to the next) to TRAs on the basis of each TRA's share of the incremental growth in assessed valuations;
- Multiply the tax increment by the jurisdiction's ATI apportionment factors for each TRA; and
- Add the tax increment to the tax computed for the prior fiscal year to develop the apportionment for the current fiscal year.

Recommendation

We recommend that the county:

- Establish and implement policies and procedures to exclude unsecured aircraft assessed values from its computation of the ATI calculation, and allocate and apportion aircraft property tax revenues in the manner prescribed by RTC sections 5451 through 5456; and
- Recalculate the ATI computation to exclude unsecured aircraft values for FY 2014-15 through FY 2016-17 and make adjustments as necessary.

County's Response

The county responded, "The County concurs with the audit finding. The annual tax increment for FYs 2014-15 through 2016-17 has been corrected to exclude the unsecured aircraft assessed values."

SCO Comment

We will review the correction in our next audit.

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