FRESNO COUNTY

Audit Report

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

July 1, 2015, through June 30, 2019

BETTY T. YEE
California State Controller

April 2020

BETTY T. YEE
California State Controller

April 29, 2020

The Honorable Oscar J. Garcia, CPA, Auditor-Controller/Treasurer-Tax Collector
Fresno County
P.O. Box 1247
Fresno, CA 93715

Dear Mr. Garcia:

The State Controller's Office audited the methods employed by Fresno County to apportion and allocate property tax revenues for the period of July 1, 2015, through June 30, 2019. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found instances of noncompliance with California statutes for the apportionment and allocation of property tax revenues for the audit period. Specifically, we determined that Fresno County incorrectly calculated the:

- Computation and distribution of property tax revenue;
- Supplemental property tax apportionment and allocation;
- Unitary and operating nonunitary apportionment and allocation;
- Unitary regulated railway apportionment and allocation;
- Qualified electric property apportionment and allocation; and
- Disaster Relief Adjustment.

In addition, we found that the county does not have procedures for identifying, on an annual basis, the actual costs associated with administration of the supplemental assessment rolls.

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

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: Enedina Garcia, Deputy Auditor-Controller
Fresno County Auditor-Controller/Treasurer-Tax Collector
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Audit Report

Summary

The State Controller's Office (SCO) audited the methods employed by Fresno County to apportion and allocate property tax revenues for the period of July 1, 2015, through June 30, 2019.

Our audit found instances of noncompliance with California statutes for the apportionment and allocation of property tax revenues for the audit period. Specifically, we determined that the county incorrectly calculated the:

- Computation and distribution of property tax revenue;
- Supplemental property tax apportionment and allocation;
- Unitary and operating nonunitary apportionment and allocation;
- Unitary regulated railway apportionment and allocation;
- Qualified electric (QE) property apportionment and allocation; and
- Disaster Relief Adjustment.

In addition, we found that the county does not have procedures for identifying, on an annual basis, the actual costs associated with administration of the supplemental assessment rolls.

Background

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 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 passed by the Legislature.

One key law was Assembly Bill 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) 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 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 legislation removed from the AB 8 process revenues generated by unitary and operating nonunitary properties, pipelines, regulated railway companies, and QE properties. These revenues are now apportioned and allocated under separate processes.

Other legislation 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 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.

To mitigate problems associated with the apportionment and allocation of property tax revenues, Senate Bill 418, which requires the State Controller to audit the counties' apportionment and allocation methods and report the results to the Legislature, was enacted in 1985.

Apportionment and allocation of property tax revenues can result in revenues to an agency or agencies being overstated, understated, or misstated. Misstated revenues occur when at least one taxing agency receives more revenue than it was entitled to, while at least one taxing agency receives less revenue than it was entitled to.

The agency that received less tax revenue than its statutory entitlement would have standing to require that adjustments be made by the county, either on a retroactive or prospective basis. SCO does not have enforcement authority or standing to require the county to take corrective action with respect to misallocation of tax revenues, unless the misallocation resulted in overpaid state funds (funds intended for the ERAF, school districts, or community college districts). SCO has authority to recover misallocations resulting in overpaid state funds pursuant to Government Code (GC) sections 12410, 12418, and 12419.5.

GC section 12410 provides the State Controller with broad authority to "superintend the fiscal concerns of the state." GC section 12418 provides the State Controller with the authority to "direct and superintend the collection of all money due the State, and institute suits in its name" against all debtors of the State. GC section 12419.5 provides the State Controller with the authority to offset any amounts due the State against any amounts owed to the debtor by the State.

Revenue and Taxation Code (RTC) section 96.1(b) allows a reallocation of current audit findings and unresolved prior audit findings.

RTC section 96.1(c)(3) limits a cumulative reallocation or adjustment to one percent of the total amount levied at a one-percent rate of the current year's original secured tax roll. For reallocation to the ERAF, school districts, or community college districts, a reallocation must be completed in equal increments within the following three fiscal years, or as negotiated with the State Controller.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the county complied with Revenue and Taxation Code, Health and Safety Code, and Government Code requirements pertaining to the apportionment and allocation of property tax revenues.

The audit period was July 1, 2015, through June 30, 2019.

To achieve our objective, we:

- Interviewed key personnel to gain an understanding of the county's process for apportioning and allocating property tax revenues;
- Reviewed the county's written procedures for apportioning and allocating property tax revenues;
- Performed analytical reviews to assess the reasonableness of property tax revenues;

- Judgmentally selected a non-statistical sample of five from approximately 178 taxing jurisdictions within the county for all fiscal years in the audit period (the actual number of taxing jurisdictions, which include the ERAF, can vary from year to year based on jurisdictional changes). Errors found were not projected to the intended (total) population. Then, we:
  - Recomputed apportionment and allocation reports to verify computations used to develop property tax apportionment factors;
  - Tested TRA reports to verify that the correct TRA factors were used in the computation of the ATI;
  - Reviewed supplemental property tax administrative costs and fees to determine whether recovery costs associated with administering supplemental taxes were based on actual costs and did not exceed five percent of revenues collected, as prescribed in statute;
  - Verified computations used to develop supplemental property tax apportionment factors;
  - Verified unitary and operating nonunitary, unitary regulated railway, QE property computations used to develop apportionment factors;
  - Reviewed redevelopment agency (RDA) reports and verified computations used to develop the project base amount and the tax increment distributed to the RDA;
  - Reviewed Redevelopment Property Tax Trust Fund deposits;
  - Reviewed property tax administration cost reports and recomputed administrative costs associated with work performed for apportioning and allocating property tax revenues to local government agencies, school districts, and community college districts;
  - Reviewed ERAF reports and verified computations used to determine the shift of property taxes from local government agencies to the ERAF and, subsequently, to school and community college districts;
  - Reviewed the Sales and Use Tax letter and recomputed Vehicle License Fee (VLF) computations used to verify the amount transferred from the ERAF to counties and cities to compensate for the diversion of these revenues; and
  - Reviewed BOE jurisdictional change filing logs and their impact on the tax apportionment and allocation system.

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

We limited our review of the county's internal controls to gaining an understanding of the transaction flow to develop appropriate auditing procedures. We did not evaluate the effectiveness of internal controls relevant to the apportionment and allocation of property tax revenues. We did not audit the county's financial statements.

We conducted this audit under the authority of GC section 12468, which requires the SCO to audit the apportionment and allocation of property tax revenues. A property tax bill contains the property tax levied at a one percent tax rate pursuant to the requirement of Proposition 13. A bill may also contain special taxes, debt service levies on voter-approved debt, fees, and assessments levied by the county or a city. The scope of our audit is concerned with the distribution of the one percent tax levy. Special taxes, debt service levies on voter-approved debt, fees, and assessments levied by the county or a city are beyond the scope of our audit and were not reviewed or audited.

Conclusion

Our audit found that Fresno County did not comply with California statutes for the apportionment and allocation of property tax revenues for the audit period, as it incorrectly calculated the:

- Computation and distribution of property tax revenue;
- Supplemental property tax apportionment and allocation;
- Unitary and operating nonunitary apportionment and allocation;
- Unitary regulated railway apportionment and allocation;
- QE property apportionment and allocation; and
- Disaster Relief Adjustment.

In addition, we found that the county does not have procedures for identifying, on an annual basis, the actual costs associated with administration of the supplemental assessment rolls.

These instances of noncompliance are described in the Findings and Recommendations section of this audit report.

Follow-up on Prior Audit Findings

Findings noted in our prior audit report, for the period of July 1, 2003, through June 30, 2015, issued on November 7, 2016, have not been satisfactorily resolved, with the exception of the allocation of jurisdictional factors for newly created TRAs.

Views of Responsible Officials

We issued a draft audit report on March 19, 2020. Oscar J. Garcia, Auditor-Controller/Treasurer-Tax Collector, responded by letter dated April 7, 2020 (Attachment), agreeing with the audit results. The county's complete response is included as an attachment to this audit report.

Restricted Use

This audit report is solely for the information and use of Fresno County, the Legislature, the California Department of Finance, and SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

April 29, 2020

Findings and Recommendations

FINDING 1—Computation and Distribution of Property Tax Revenue (Repeat)

During testing of the property tax revenue computation and distribution process, we found that from FY 2015-16 through FY 2018-19, the county incorrectly included unsecured aircraft properties' assessed values.

This error occurred due to a difference in interpretation of the applicable Revenue and Taxation Code sections.

We did not quantify the monetary impact for each affected taxing entity due to the various errors affecting the computation and allocation.

RTC sections 96 through 96.5 provide the legal requirements for the computation of ATI and the apportionment and allocation of 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 will receive an increment based on its share of the incremental growth in assessed valuations. ATI added to the tax computed for the prior fiscal year will develop the apportionments for the current fiscal year.

In addition, as discussed in the Disaster Relief Adjustment finding (Finding 7), the computations and distributions of property tax revenue for FY 2001-02 through FY 2018-19 were erroneous. During the current audit, the county provided corrected calculations, which we reviewed and verified. As a result of the errors, the ERAF was understated by approximately $6.8 million for FY 2001-02 through FY 2018-19.

<u>Recommendation</u>

We recommend that the county:

- Review RTC sections 96 through 96.5 and 97.1 through 97.3;
- Update and implement its procedures for calculating the Disaster Relief Adjustment;
- Update its procedures to exclude unsecured aircraft properties' assessed values from its computation and distribution of property tax revenues;
- Recalculate the ATI computations for FY 2001-02 through FY 2018-19;
- Make monetary adjustments to the ERAF, school districts, and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

<u>County's Response</u>

> The County agrees that an adjustment to the allocation method is required, and will [implement the adjustment] according to RTC

sections 96 through 96.5 and 97.1 through 97.3. The County has updated its procedures to exclude unsecured aircraft properties' assessed values from its computation and distribution of property tax revenues.

The reallocation related to the Computation and Distribution of Property Tax Revenue (Finding 1) and [the] Disaster Relief Adjustment (Finding 7) will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1(c)(3).

FINDING 2— Supplemental Property Tax Apportionment and Allocation (Repeat)

During the audit, county staff members indicated that the prior audit finding had not been corrected (FY 1992-93 through FY 2013-14). In addition, prior audit Finding 5, related to the Disaster Relief Adjustment that affects the AB 8 shift, had not been corrected; therefore, supplemental apportionments and allocations for FY 2015-16 through FY 2018-19 were erroneous. We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections.

During testing of the supplemental property tax process, we further found that the county incorrectly:

- Included VLF adjustments in FY 2015-16; and
- Excluded former RDAs (current Redevelopment Property Tax Trust Funds) from receiving supplemental revenues for FY 2015-16 through FY 2018-19.

We did not quantify the monetary impact for each affected taxing entity due to various errors affecting the computation and allocation.

Lack of effective recordkeeping by former management resulted in this repeat finding. See Finding 1 of our previous report on Fresno County's property tax apportionment and allocation system dated November 7, 2016.

RTC sections 75.60, 75.71, and 100.2 provide the legal requirements for the apportionment and allocation of supplemental property tax revenue.

Supplemental property tax revenues enable counties to tax a property retroactively for the period when a change in ownership or completion of new construction occurs.

<u>Recommendation</u>

We recommend that the county:

- Review prior audit finding recommendations;
- Review RTC sections 75.60, 75.71, and 100.2, and update its procedures;
- Recalculate the supplemental apportionment factors for FY 2015-16 through FY 2018-19;
- Make monetary adjustments to the ERAF, school districts, and community college districts; and

- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

County's Response

> The County has recalculated AB 8 factors to be used for the apportionment and allocation of supplemental tax revenue according to RTC sections 75.60, 75.71, and 100.2. The County will remove the VLF adjustments [from] FY 2015-16 and will include the former RDAs in the calculation to receive their share of supplemental revenues.
>
> The reallocation will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1 (c)(3).

FINDING 3— Supplemental Property Tax Administrative Costs

During testing of the supplemental administrative cost process, we found that the county does not have procedures in place for identifying the actual costs associated with administration of the supplemental assessment rolls; therefore, it cannot substantiate all of the fees that it collected during the audit period.

This error occurred due to a difference in interpretation of the applicable Revenue and Taxation Codes.

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

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

Recommendation

We recommend that the county review RTC section 75.60, and implement procedures to ensure compliance with its requirements.

County's Response

> The County concurs with the recommendation and has implemented procedures to ensure compliance with the requirements under RTC section 75.60.

FINDING 4— Unitary and Operating Nonunitary Apportionment and Allocation (Repeat)

At the beginning of the audit, county staff members indicated that the prior audit finding had not been corrected. Therefore, the FY 2015-16 through FY 2018-19 unitary and operating nonunitary apportionments and allocations were erroneous. We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections.

During audit fieldwork, we reviewed and verified the county's corrected calculations. As a result of various errors associated with Unitary and Operating Nonunitary, Unitary Regulated Railway (Finding 5), and QE Property (Finding 6), we were able to determine only the cumulative understated ERAF amount of approximately $3.8 million for FY 2005-06 through FY 2018-19.

Lack of effective recordkeeping by former management resulted in this repeat finding. See Finding 3 of our previous report on Fresno County's property tax apportionment and allocation system dated November 7, 2016.

RTC section 100 provides the legal requirements for the apportionment and allocation of the unitary and operating nonunitary property tax revenues.

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). RTC section 723.1 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 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.

<u>Recommendation</u>

We recommend that the county:

- Review prior audit finding recommendations and RTC section 100;
- Implement and update its procedures;
- Make monetary adjustments to the ERAF, school districts, and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

<u>County's Response</u>

> The County agrees that an adjustment to the apportionment and allocation method is required, and will [implement the adjustment] according to RTC section 100. The County has updated its procedures for the apportionment and allocation of the unitary and operating nonunitary property tax revenues.
>
> The reallocation related to the Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway (Finding 5), and Qualified Electric Property (Finding 6) [revenues] will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1 (c)(3).

FINDING 5— Unitary Regulated Railway Apportionment and Allocation (Repeat)

At the beginning of the audit, county staff members indicated that the prior audit finding had not been corrected. Therefore, the FY 2015-16 through FY 2018-19 unitary regulated railway apportionments and allocations were erroneous. We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections.

During audit fieldwork, we reviewed and verified the county's corrected calculations. As a result of the various errors associated with Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway and QE Property (Finding 6), we were able to determine only the cumulative understated ERAF amount for FY 2005-06 through FY 2018-19. See Finding 4 for the monetary impact.

Lack of effective recordkeeping by former management resulted in this repeat finding. See Finding 4 of our previous report on Fresno County's property tax apportionment and allocation system dated November 7, 2016.

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 unit valuation of a property that is operated as a unit in a primary function of the assessee.

Recommendation

We recommend that the county:

- Review prior audit finding recommendations and RTC section 100.11;
- Implement and update its procedures;
- Make monetary adjustments to the ERAF, school districts, and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

County's Response

> The County agrees that an adjustment to the apportionment and allocation method is required, and will [implement the adjustment] according to RTC section 100.11. The County has updated its procedures for the apportionment and allocation of the unitary regulated railway property tax revenues.
>
> The reallocation related to the Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway (Finding 5), and Qualified Electric Property (Finding 6) [revenues] will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1 (c)(3).

FINDING 6— Qualified Electric Property Apportionment and Allocation (Repeat)

At the beginning of the audit, county staff members indicated that prior unitary and operating nonunitary apportionment and allocation findings had not been corrected. Therefore, the FY 2015-16 through FY 2018-19 qualified electric apportionments and allocations were erroneous. We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections.

During audit fieldwork, we reviewed and verified the county's corrected calculations. As a result of the various errors associated with Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway (Finding 5), and QE Property, we were able to determine only the cumulative understated ERAF amount for FY 2005-06 through FY 2018-19. See Finding 4 for the monetary impact.

Lack of effective recordkeeping by former management resulted in the repeat finding.

RTC section 100.95 provides the legal requirements for the apportionment and allocation of 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."

<u>Recommendation</u>

We recommend that the county:

- Review the prior audits' unitary and operating nonunitary apportionment and allocation finding recommendations and RTC section 100.95;
- Implement and update its procedures;
- Make monetary adjustments to the ERAF, school districts, and community college districts; and
- Make monetary adjustments to all other affected taxing entities, if the amounts are significant.

<u>County's Response</u>

> The County agrees that an adjustment to the apportionment and allocation method is required, and will [implement the adjustment] according to RTC section 100.95. The County has updated its procedures for the apportionment and allocation of the qualified electric property tax revenues.
>
> The reallocation related to the Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway (Finding 5), and Qualified Electric Property (Finding 6) [revenues] will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1 (c)(3).

FINDING 7— Disaster Relief Adjustment (Repeat)

During the audit, county staff members indicated that prior audit findings had not been corrected; therefore, the prior disaster relief adjustment was not corrected. As stated in the prior audit report, the county erred in computing growth for the reversal of disaster relief adjustment to the ERAF, which resulted in an incorrect ERAF growth calculation from FY 2001-02 through FY 2014-15. Furthermore, the county did not correct the error, which continued through the current audit period of FY 2015-16 through FY 2018-19. The prior audit errors were:

- Growth on the original credit was incorrectly calculated through FY 2001-02 using the county's incremental growth of its total assessed value, instead of using each taxing entity's incremental revenue growth on a pro-rata basis of the credit amount; and
- The payback amount of $565,878 for FY 2001-02 was rolled forward annually as a beginning ERAF AB 8 base for FY 2002-03 through FY 2014-15, without growth or distribution. Instead, the amount should have been distributed entirely with the FY 2001-02 ERAF shift and omitted from the AB 8 base revenues.

We delayed audit fieldwork to allow the county sufficient time to make the necessary corrections. See Finding 1 for the monetary impact related to ERAF as a result of the Disaster Relief Adjustment on the county's computations and distributions of property tax revenue for FY 2001-02 through FY 2018-19.

Lack of effective recordkeeping by former management resulted in this repeat finding. See Finding 5 of our previous report on Fresno County's property tax apportionment and allocation system dated November 7, 2016.

RTC sections 97.1 through 97.3 provide the legal requirements for the local agency shift of property tax revenues to the ERAF.

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 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. This adjustment shifted revenue from the county and cities to the ERAF. During FY 1997-98, the Disaster Relief Reversal was multiplied by FY 1992-93 over FY 1991-92 growth.

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 amounts 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 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 was adjusted for growth every year thereafter, as it is included as part of the ERAF base.

Recommendation

We recommend that the county:

- Review prior audit finding recommendations and RTC sections 97.1 through 97.3;
- Implement and update its procedures;
- Make monetary adjustments to the ERAF; and
- Make monetary adjustment to all other affected entities, if the amounts are significant.

County's Response

> The County agrees that an adjustment to the apportionment and allocation method is required, and will [implement the adjustment] according to RTC sections 97.1 through 97.3. The County has updated its procedures related to the Disaster Relief Adjustment.
>
> The reallocations related to the Computation and Distribution of Property Tax Revenue (Finding 1) and [the] Disaster Relief Adjustment (Finding 7) will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1 (c)(3).

Attachment—
County's Response to Draft Audit Report

County of Fresno
Oscar J. Garcia, CPA
Auditor-Controller/Treasurer-Tax Collector

April 7, 2020

Jim L Spano, CPA
Chief, Division of Audits
Compliance Audits Bureau
State Controller's Office
Division of Audits
P. O. Box 942850
Sacramento, CA 94250

Subject: Fresno County Audit Report for Apportionment and Allocation of Property Tax Revenues, July 1, 2015, through June 30, 2019.

Dear Mr. Spano,

This is in response to the California State Controller's letter dated March 19, 2020 in reference to the property tax audit report referenced above and copy enclosed.

Finding 1 – Computation and Distribution of Property Tax Revenue (Repeat)

County's Response

The County agrees that an adjustment to the allocation method is required and will be implemented according to RTC sections 96 through 96.5 and 97.1 through 97.3. The County has updated its procedures to exclude unsecured aircraft properties' assessed values from its computation and distribution of property tax revenues.

The reallocation related to the Computation and Distribution of Property Tax Revenue (Finding 1) and Disaster Relief Adjustment (Finding 7) will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1(c)(3).

Finding 2 – Supplemental Property Tax Apportionment and Allocation (Repeat)

County's Response

The County has recalculated AB 8 factors to be used for the apportionment and allocation of supplemental tax revenue according to RTC sections 75.60, 75.71, and 100.2. The County will remove the VLF adjustments in FY 2015-16 and will include the former RDAs in the calculation to receive their share of supplemental revenues.

The reallocation will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1(c)(3).

Finding 3 – Supplemental Property Tax Administrative Costs

County's Response

The County concurs with the recommendation and has implemented procedures to ensure compliance with the requirements under RTC section 75.60.

Finding 4 – Unitary and Operating Nonunitary Apportion and Allocation (Repeat)

County's Response

The County agrees that an adjustment to the apportionment and allocation method is required and will be implemented according to RTC section 100.The County has updated its procedures for the apportionment and allocation of the unitary and operating nonunitary property tax revenues.

The reallocation related to the Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway (Finding 5), and Qualified Electric Property (Finding 6) will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1(c)(3).

Finding 5 – Unitary Regulated Railway apportionment and Allocation (Repeat)

County's Response

The County agrees that an adjustment to the apportionment and allocation method is required and will be implemented according to RTC section 100.11. The County has updated its procedures for the apportionment and allocation of the unitary regulated railway property tax revenues.

The reallocation related to the Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway (Finding 5), and Qualified Electric Property (Finding 6) will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1(c)(3).

Finding 6 – Qualified Electric Property Apportionment and Allocation (Repeat)

County's Response

The County agrees that an adjustment to the apportionment and allocation method is required and will be implemented according to RTC section 100.95. The County has updated its procedures for the apportionment and allocation of the qualified electric property tax revenues.

The reallocation related to the Unitary and Operating Nonunitary (Finding 4), Unitary Regulated Railway (Finding 5), and Qualified Electric Property (Finding 6) will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1(c)(3).

Finding 7 – Disaster Relief Adjustment (Repeat)

County's Response

The County agrees that an adjustment to the apportionment and allocation method is required and will be implemented according to RTC sections 97.1 through 97.3. The County has updated its procedures related to the Disaster Relief Adjustment.

The reallocation related to the Computation and Distribution of Property Tax Revenue (Finding 1) and Disaster Relief Adjustment (Finding 7) will be made to ERAF, school and community college districts, and other affected taxing entities, as allowed under RTC section 96.1(c)(3).

Should you have any questions, you may direct them to Mario Cabrera at (559) 600-1351 or Ganna Monastyrsky at (559) 600-1709 of our Special Accounting Division.

Sincerely,

Oscar J Garcia

Oscar J. Garcia, CPA
Auditor-Controller/Treasurer-Tax Collector

Enclosure

OJG: gm

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