

# **CITY AND COUNTY OF SAN FRANCISCO**

Audit Report

## **APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES**

*July 1, 2016, through June 30, 2021*



**BETTY T. YEE**  
California State Controller

November 2022



**BETTY T. YEE**  
California State Controller

November 22, 2022

Ben Rosenfield, Controller  
City and County of San Francisco  
City Hall, Room 316  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

Dear Mr. Rosenfield:

The State Controller's Office audited the City and County of San Francisco's process for apportioning and allocating property tax revenues for the period of July 1, 2016, through June 30, 2021. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found that the city and county incorrectly calculated the qualified electric property apportionment and allocation.

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

Sincerely,

*Original signed by*

KIMBERLY TARVIN, CPA  
Chief, Division of Audits

KT/ac

Attachment

cc: Shamann Walton, President  
San Francisco City and County Board of Supervisors  
Michelle Allersma, Director of Budget and Analysis  
Office of the Controller  
City and County of San Francisco  
James Whitaker, Property Tax Manager  
Office of the Controller  
City and County of San Francisco  
Chris Hill, Principal Program Budget Analyst  
Local Government Unit  
California Department of Finance

# Contents

## **Audit Report**

<b>Summary</b> .....	1
<b>Background</b> .....	1
<b>Audit Authority</b> .....	3
<b>Objective, Scope, and Methodology</b> .....	3
<b>Conclusion</b> .....	4
<b>Follow-up on Prior Audit Findings</b> .....	5
<b>Views of Responsible Officials</b> .....	5
<b>Restricted Use</b> .....	5
<b>Finding and Recommendation</b> .....	6
<b>Appendix—Summary of Prior Audit Findings</b> .....	A1
<b>Attachment—County’s Response to Draft Audit Report</b>	

# Audit Report

## Summary

The State Controller’s Office (SCO) audited the City and County of San Francisco’s process for apportioning and allocating property tax revenues for the period of July 1, 2016, through June 30, 2021.

Our audit found that the city and county incorrectly calculated the qualified electric (QE) property apportionment and allocation.

## 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 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 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 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 (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 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 apportionment 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.

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.

To mitigate problems associated with the apportionment and allocation of property tax revenues, Senate Bill 418, which requires the SCO 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. The 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 (e.g., funds intended for the ERAF, school districts, or community college districts). The 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 SCO with broad authority to “superintend the fiscal concerns of the state.” GC section 12418 provides the SCO 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 SCO 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 SCO.

## **Audit Authority**

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 on a one-, three-, or five-year cycle, depending on the city and county's population. The audit results are reported annually to the Legislature along with any recommendations for corrective action.

## **Objective, Scope, and Methodology**

Our audit objective was to determine whether the city and 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.

A property tax bill contains the property tax levied at a one percent tax rate pursuant to the requirement of Proposition 13. A tax 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 was 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.

The audit period was July 1, 2016, through June 30, 2021.

To achieve our objective, we performed the following procedures:

- We gained an understanding of the city and county's process for apportioning and allocating property tax revenues by interviewing key personnel.
- We reviewed the city and county's written procedures for apportioning and allocating property tax revenues.
- We reviewed documents supporting the transaction flow for apportioning and allocating property tax revenues.
- We judgmentally selected a non-statistical sample of five from approximately six taxing jurisdictions within the city and county for all fiscal years in the audit period.<sup>1</sup> Then, we:
  - Reviewed 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;

<sup>1</sup> The actual number of taxing jurisdictions, can vary from year to year based on jurisdictional changes. For testing purposes, we included the ERAF in our sample of taxing jurisdictions. We also tested a special district, a school district, a city, and the county. We selected only one of each type of local agency because when the apportionment and allocation for one jurisdiction is incorrect, the error affects every other taxing jurisdiction.

- 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, and QE property computations used to develop apportionment factors (see the Finding);
- Reviewed redevelopment agency reports and verified computations used to develop the project base amount and the tax increment distributed to the redevelopment agency;
- Reviewed Redevelopment Property Tax Trust Fund deposits;
- 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;
- Verified Vehicle License Fee computations used to determine the amount transferred from the ERAF to counties and cities to compensate for the diversion of these revenues; and
- Reviewed California State Board of Equalization jurisdictional change filing logs and their impact on the tax apportionment and allocation system.

Errors found were not projected to the intended (total) population.

We did not audit the city and county's financial statements.

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.

## **Conclusion**

Our audit found that the City and County of San Francisco did not comply with statutory requirements for the apportionment and allocation of property tax revenues for the audit period because it incorrectly calculated the QE property apportionment and allocation.

This instance of noncompliance is described in the Finding and Recommendation section.

**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.

**Views of  
Responsible  
Officials**

We issued a draft audit report on October 20, 2022. The City and County of San Francisco responded by letter dated October 24, 2022, agreeing with the audit results. The response is included as an attachment to this final audit report.

**Restricted Use**

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

*Original signed by*

KIMBERLY TARVIN, CPA  
Chief, Division of Audits

November 22, 2022



# Finding and Recommendation

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

During testing of the QE property apportionment and allocation process, 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. The error occurred because the city and county incorrectly implemented RTC section 100.95.

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 are unable to quantify the effect of the error.

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.”

### 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.

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## Appendix— Summary of Prior Audit Findings

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The following table shows the implementation status of the City and County of San Francisco's corrective actions related to the findings contained in our prior audit report, dated May 23, 2017:

Prior Audit Finding Number	Prior Audit Finding Title	Status
1	Unitary and operating nonunitary apportionment	Fully implemented
2	Regulated railway apportionment	Fully implemented
3	Vehicle Licensing Fee and Sales and Use Tax adjustments	Fully implemented

**Attachment—  
County’s Response to Draft Audit Report**

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**OFFICE OF THE CONTROLLER**  
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield  
Controller  
Todd Rydstrom  
Deputy Controller

October 24, 2022

Ms. Lisa Kurokawa  
Chief, Compliance Audits Bureau  
Division of Audits  
State Controller's Office  
P.O. Box 942850  
Sacramento, CA 94250

Dear Ms. Kurokawa,

We have reviewed the State Controller's Office's (SCO's) draft audit report on the City and County of San Francisco's (County's) process for apportioning and allocating property tax revenues for the period of July 1, 2016 through June 30, 2021 for the purposes of determining the County's compliance with the California Revenue and Taxation (R&T) Code and applicable rules and regulations.

Below are our comments regarding SCO's audit finding:

**Finding:**

- The County incorrectly calculated Qualified Electric (QE) property tax revenue by using incorrect prior year factors.

**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 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.

We appreciate the State Controller's Office's assistance during this audit. Please let us know if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Rosenfield", enclosed within a large, loopy oval scribble.

Ben Rosenfield  
Controller

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

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