

# STATE OF CALIFORNIA

Report to the California State Legislature

## PROPERTY TAX APPORTIONMENTS

*Calendar Year 2002*



**STEVE WESTLY**  
California State Controller

February 2003



**STEVE WESTLY**  
**California State Controller**

February 5, 2003

**To the Members of the State Legislature  
and the Citizens of California:**

I am pleased to present the *Property Tax Apportionments* report for calendar year 2002. 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 audits completed by the State Controller's Office in 2002 found the audited counties to be generally in compliance with the legal requirements for allocating property tax revenues. However, this report notes specific problem areas relative to individual counties.

I hope you find the report informative and useful for future policy decisions.

Sincerely,

*Original signed by*

STEVE WESTLY  
California State Controller

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# Overview

## Introduction

This report presents the results of 12 audits of county property tax apportionments and allocations completed by the State Controller's Office (SCO) in calendar year 2002. The following counties were audited: Butte, Lake, Marin, Merced, Placer, Riverside, San Luis Obispo, San Joaquin, Santa Cruz, Solano, Yolo, and Yuba. *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.

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

## Background

After the passage of Proposition 13 in 1978, the California State Legislature enacted new methods for allocating and apportioning property tax revenues to local government agencies and public schools. The main objective was to provide local agencies with a property tax base that would grow as assessed property values increase. These methods have been further refined in subsequent laws passed by the Legislature.

One key law was Assembly Bill 8, which established the method of allocating property taxes for fiscal year 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 governments receive each fiscal year are based on the amount received the prior year plus a share of the property tax growth within their boundaries. Property tax revenues are then apportioned and allocated to local agencies and schools using prescribed formulas and methods defined in the *Revenue and Taxation Code*.

The AB 8 process involved several steps, including the transfer of revenues from schools to local agencies and the development of the tax rate area annual tax increment growth factors (ATI factors), which determine the amount of property tax revenues allocated to each entity (local agency and school). The total amount allocated to each entity 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 has removed revenues generated by unitary and operating nonunitary property from the AB 8 system. This revenue is now allocated and apportioned under a separate system.

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 ERAF. The fund is subsequently allocated and apportioned by the county auditor according to instructions received from the local superintendent of schools or chancellor of 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 unpaid, 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 constitute sufficient “permanence” or have other intrinsic qualities to guarantee payment of taxes levied against it.
- *State-Assessed Roll*—Utility properties, composed of unitary and nonunitary value, assessed by the State Board of Equalization.
- *Supplemental Roll*—Property that has been reassessed due to a change in ownership or the completion of new construction, where the resulting change in assessed value is not reflected in other tax rolls.

## Audit Program

The property tax audit program began on July 1, 1986, under *Revenue and Taxation Code* Section 95.6 (now *Government Code* Section 12468). The statute mandates that the State Controller periodically perform audits of the allocation and apportionment of property tax revenues by counties and make specific recommendations to counties concerning their property tax administration. However, the State Controller's authority to compel resolution of its 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 (e.g., *Education Code* Section 42237.7 et seq., and *Government Code* Section 12420 et seq.). In addition, the State Controller 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, the State Controller's Office is authorized to pursue recovery through a variety of means (e.g., *Government Code* Sections 12418 and 12419.5). The specific remedy employed by the State Controller's Office depends on the facts and circumstances of each situation.

In order to carry out the mandated duties of the State Controller, the 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 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 public schools. The underallocation of property taxes by individual counties to their public schools results in a corresponding overpayment of state funds to those schools by the same amount. This, in turn, causes public schools in other counties to receive less state funding since the total funds available are limited. Subsequent legislation forgave some counties for underpayments to schools without requiring repayment or assessment of penalties. However, the legislation 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. The 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 if:

- The apportionment and allocation of annual tax increments was in accordance with *Revenue and Taxation Code* Sections 96-96.5;
- The methodology for redevelopment agencies' base-year calculations and apportionment and allocation of annual tax increments was in accordance with *Revenue and Taxation Code* 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 annual tax increments was in accordance with *Revenue and Taxation Code* Section 99;
- The apportionment and allocation of property tax revenues from supplemental assessments was in accordance with *Revenue and Taxation Code* Sections 75.60 through 75.71;
- The apportionment and allocation of state-assessed unitary and operating nonunitary property taxes was in accordance with *Revenue and Taxation Code* Section 100;
- The computation and apportionment of property tax revenues to low- and no-tax cities was in accordance with *Revenue and Taxation Code* Section 98;
- The computation and collection of local jurisdictions' property tax administrative costs was in accordance with *Revenue and Taxation Code* Sections 95.2 and 95.3;

- The computation and apportionment of property tax revenues to the ERAF was in accordance with *Revenue and Taxation Code* Sections 97 through 97.3; and
- For eligible counties, the computation of the county credit against the county's ERAF shift was in accordance with *Revenue and Taxation Code* Sections 97.3(a)(5) and 97.36.

## **Conclusion**

The property tax allocation and apportionment system is generally operating as intended. In the interest of efficiency and cost control for both the counties and the State, the summary findings and recommendations in this report are submitted 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 2002 indicated that the counties complied with the legal requirements for the apportionment and allocation of property tax revenues. However, problem areas were identified, which are described below. Recommendations to resolve the problems are included with the individual county findings.

## Unresolved Prior Audit Findings

As part of the audit process, auditors review the prior audit report to determine issues that may require follow-up. Procedures are undertaken to determine whether previously noted findings have been resolved. Unresolved prior audit findings are restated in the current audit.

The SCO restated findings for three counties with unresolved prior audit findings.

## Computation of Annual Tax Increment Factors

The *Revenue and Taxation Code* requires that each jurisdiction in a tax rate area (TRA) be allocated property tax revenues in an amount equal to the property tax revenues it was allocated in the prior fiscal year. The difference between this amount and the total amount of property tax assessed in the current year is known as the annual tax increment. The computation of the annual tax increment results in a percentage that is used to allocate growth in assessed valuation to local government jurisdictions and schools in a county from the base-year forward. *Revenue and Taxation Code* Sections 96 through 96.5 prescribe this methodology. (Some exceptions to this allocation are contained in the *Revenue and Taxation Code* for specified TRAs.)

The SCO noted a finding in one county for this area. The county converted from a jurisdictional base system to a TRA base system and made several errors in base revenue amounts in the conversion.

## Jurisdictional Changes

*Revenue and Taxation Code* Section 99 prescribes the procedures required 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 and schools. The statute requires specific documentation that takes into consideration services and responsibilities when changes occur.

The SCO noted findings for two counties for this area.

- One county, for some jurisdictional changes, improperly adjusted the TRA increment factors for jurisdictions not involved in the change.
- One county incorrectly adjusted assessed values and TRA factors for sampled jurisdictional changes.

## **Supplemental Property Tax Apportionments**

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

The SCO noted findings for two counties for this area:

- One county incorrectly computed the school's ADA apportionment transferring revenue, due to rounding errors, to the county general fund.
- The other county used an incorrect ADA computation to apportion supplemental property taxes to schools.

## **Supplemental Property Tax Administrative Fees**

Counties, upon the adoption of a method identifying the actual administrative costs associated with the supplemental roll, are allowed to charge an administrative fee for supplemental property tax collections. This fee is not to exceed 5% of the supplemental taxes collected.

The SCO noted a finding in one county for this area. The county installed a new automated system that failed to compute and collect the allowable 5% fee for the administration costs of the process.

## **Redevelopment Agencies**

The legal requirements for the apportionment and allocation of property tax to redevelopment agencies are found in *Revenue and Taxation Code* Sections 96.4 and 96.6 and *Health and Safety Code* Sections 33670 through 33679. California community redevelopment law entitles a community redevelopment agency to all of the property tax revenue realized from growth in values since the redevelopment project's inception, with specified exceptions.

The SCO noted no findings for this area.

## **Unitary and Operating Nonunitary Property Taxes**

The process for allocating and apportioning property taxes from certain railroad and utility companies functions through the unitary and operating nonunitary tax system employed by the State Board of Equalization. Unitary properties are those properties on which the Board of Equalization "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 and railroads). 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." *Revenue and Taxation Code* Section 100 prescribes the procedures required to allocate unitary and operating nonunitary property taxes beginning in fiscal year (FY) 1988-89.

The SCO issued findings for three counties in this area:

- One county failed to include pipeline assessed value and did not use the prior year revenue as the base for FY 1998-99 computations.
- Two counties failed to properly compute the unitary and operating nonunitary base revenue. These counties had been advised to correct this process in prior audit reports.

## **Property Tax Administrative Fees**

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

The SCO noted no findings for this area.

## **Educational Revenue Augmentation Fund**

The legal requirements for the local agency shift of property tax revenues to the ERAF are found in *Revenue and Taxation Code* Sections 97 through 97.3. Beginning in FY 1992-93, each local agency was required to shift an amount of property tax revenues to the ERAF using formulas prescribed by the *Revenue and Taxation Code*. 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 bills have been enacted that affect the shift requirements for various local government agencies. One bill of particular interest was AB 1589 (Chapter 290, Statutes of 1997). This bill primarily addressed three areas related to the ERAF shift: (1) ERAF shift requirements for certain county fire funds for FY 1992-93 (*Revenue and Taxation Code* Section 97.2(c)(4)(B)); (2) a special provision for counties of the second class when computing the ERAF shift amount for county fire funds in FY 1993-94 (*Revenue and Taxation Code* Section 97.3(c)(4)(A)(I)); and (3) ERAF shift requirements for county libraries for FY 1994-95 and subsequent years. After the passage of AB 1589, the State Controller requested advice from the California Attorney General regarding the application of Chapter 290. The Attorney General responded in May 1998.

The Attorney General advised that the amendment to *Revenue and Taxation Code* 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. The result is that 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 advice by the Attorney General, and noting the severe fiscal impact the loss of the exemption would have on local government agencies, the State Controller recommended that legislation be considered to restore the exemption previously granted to fire protection districts and county fire funds that was lost as a result of Chapter 290. Subsequently, the Legislature enacted AB 417 (Chapter 464, Statutes of 1999), restoring the exemption to fire districts that had been lost after the passage of Chapter 290, Statutes of 1997.

The SCO issued findings for five counties in this area.

- Two counties did not reverse the FY 1992-93 ERAF disaster relief credit in FY 1997-98, resulting in an underallocation to the ERAF.
- One county incorrectly carried forward a one-time adjustment for a fire district, resulting in an underallocation to the ERAF.
- One county understated the ERAF computation by excluding the county library district.
- One county did not properly compute the per capita adjustment, failed to carry forward the correct revenue amounts from FY 1995-96, and made errors in the revenue amounts during a system conversion, resulting in several understated ERAF computations.
- One county failed to properly compute growth for several special districts and two cities for FY 1999-2000, resulting in an underallocation to the ERAF for FY 1999-2000 and FY 2000-01.

## **ERAF Shift Credit**

*Revenue and Taxation Code* Sections 97.3(a)(5) and 97.36 allow a credit against the county's required ERAF shift. Counties that first implement the alternative procedure for the distribution of property tax revenues authorized by Chapter 2 (commencing with Section 4701) of Part 8 during FY 1993-94, or a subsequent fiscal year, are allowed a credit against their required ERAF shift. The credit is limited to the amount of any increased revenues allocated to a "qualifying school entity" that would not have been allocated but for the implementation of the alternative procedure.

For purposes of determining the ERAF shift credit, the Legislature defined a qualifying school entity as a "school district, county office of education, or community college district that is not an excess tax school entity as defined in Section 95.1" (*Revenue and Taxation Code* Section 97.3[a][5]). Most counties, when computing the credit, instead used the definition of "school entity" contained in Section 95(f), which included the ERAF. The inclusion of the ERAF in the credit computation, in some instances, dramatically increased the credit. The State Controller's legal counsel opined that counties must use the definition of qualifying school entity when computing the credit. Noting the severe fiscal impact of this situation on many counties, the State Controller delayed proceeding on this matter until legislation could be introduced to revise the definition of qualifying school entity. The Legislature subsequently enacted AB 838 (Chapter 649, Statutes of 1999), which included the ERAF as a qualifying school entity.

Chapter 649 also contained a special provision for counties of the sixteenth class. This provision allowed counties of the sixteenth class to compute the amount of the shift credit based upon their historical method of allocating property taxes.

The SCO issued findings for three counties for this area:

- One county overstated its ERAF credit.
- Two counties understated their ERAF credit.

## **Tax Equity Allocation**

*Revenue and Taxation Code* Section 98 and the *Guidelines for County Property Tax Administration Charges and No/Low Property Tax Cities Adjustment*, provided by the County Accounting Standard and Procedures Committee, provide a formula to increase the amount of property tax received by a city that had either no or low property tax revenues.

The SCO noted no findings for this area.

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# Findings of Individual County Audits

## Introduction

The findings and recommendations included below are presented as they were stated in the County Property Tax Apportionment and Allocation reports issued by the State Controller's Office (SCO) in calendar year 2002. Unless otherwise indicated, the counties agreed with the findings and recommendations.

The findings and recommendations listed below are solely for the information and use of the California Legislature, the respective counties, the Department of Finance, and the SCO, and 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.

## Butte County (July 1, 1997, through June 30, 2001)

### **FINDING— Educational Revenue Augmentation Fund (ERAF)**

The county properly computed an ERAF reduction of \$1,725,647 for the county fire fund for FY 1993-94. While the adjustment was supposed to be for one year only, the county has continued that adjustment, plus growth in each subsequent year (Schedule 1).

Requirements for the local agency shift of property tax revenues to the ERAF are generally found in *Revenue and Taxation Code* Sections 97.1 through 97.3. Beginning in FY 1992-93, each local agency was generally required to shift an amount of property tax revenues to the ERAF using formulas detailed in the code. The property tax revenues in the ERAF are subsequently allocated to the public schools using factors supplied by the county superintendent of schools.

For FY 1992-93, the ERAF shift amount for cities was generally determined by adding a per capita amount to a percentage of property tax revenues received by each city. The amount for counties was generally determined by adding a flat amount, adjusted for growth, to a per capita amount. The amount for special districts was generally determined by shifting the lesser of 10% 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% of the FY 1991-92 property tax revenues received, adjusted for growth. Specified special districts were exempted from the shift.

For FY 1993-94, the 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 Department of Finance, 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 shift to 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 amounts for that year.

For the period of July 1, 1997, through June 30, 2001, the county has underallocated \$8,473,813 to the ERAF. However, *Revenue and Taxation Code* Section 96.1(c) limits the maximum adjustment to the ERAF to 1% of the FY 2001-02 secured property tax levy. Information provided by the county indicates the secured levy was \$105,748,361. Thus, the maximum payment to the ERAF is \$1,057,484.

#### Recommendation

The county should transfer \$1,057,484 to the ERAF. The county should adjust future ERAF shift computations to reflect the loss of the ERAF shift adjustment.

### Auditee's Response

In responding to the observation in the draft report, the county stated:

It is clear the SCO Auditor's interpretation of Revenue and Taxation Code Section 97.31 (AB1519) being only for one year is incorrect for the following reasons:

1. The basis for the two statutes (AB1519 and SB124) was to provide Butte County with the same fire exemption as provided fire special districts. Butte County proved that our funding for fire was the same as the special fire districts and successfully argued that we should have the same exemption. Those exemptions from ERAF provided to the Fire Service Districts were permanent and ongoing.
2. The statute approved in AB1519 to provide Butte County the fire exemption was understood by the legislative members and those who drafted the language to be an ongoing and permanent shift as was provided to the Fire Service Districts. This is supported by legislative members and others we contacted that were involved in putting this statute in place. As even further validation, we have attached legislative analyses for both bills. Everyone contacted indicated they clearly understood that this exemption was permanent. We have requested letters from these individuals stating their understanding of the exemption and they will be sent to the SCO's office.
3. The previous audit, for the period of July 1, 1992 through June 30, 1997 clearly validates the legislative intent to provide permanent relief including growth to Butte County. The audit validated our methodology, and related computations, relating to the on-going shift for fire protection. The indication of your acceptance of those audit findings contradicts your latest observation.
4. The Committee Analyses validates our position that both bills (AB1519 and SB124) clearly indicate the purpose and intent of a permanent exemption for fire protection.
5. AB1519 provided a permanent exemption from ERAF, but for only half the county's fire protection costs. These two bills provided the intended ERAF exemption to our county that was provided the other fire protection districts.
6. We will be providing an extensive legal analysis by our attorney to assist your counsel.

### Auditor's Comment

The SCO legal counsel has opined:

The language of Section 97.31 clearly states that for each eligible county, the county auditor may submit the necessary information by November 1, 1993 and that the Director of Finance shall, by January 15, 1994 notify each county of its reduction in its amount to be transferred to the Education Revenue Augmentation Fund. There are no provisions for submission of the information after those particular dates nor further calculations to be done by the Director of Finance. The director of Finance shall notify each county of its reduction by

January 15, 1994, which is a one-time notification and therefore it appears that the language within this Section does not support shift reductions in other years. By selecting specific dates, the language of the statute clearly emphasizes this as a one-year reduction.

Further, the language of 97.31(a)(1) clearly states that “the total amount of the reductions for all counties shall not exceed two million dollars.” This \$2,000,000.00 statewide cap is applicable for fiscal year 1993-1994.

As the shift reduction is a one-year reduction, it stands to reason that counties cannot compute a growth amount on the shift reduction in subsequent years.

The finding remains as written.

## **Lake County (July 1, 1994, through June 30, 2001)**

### **FINDING 1— Supplemental property tax**

The supplemental property tax apportionment system, in place for FY 1996-97 through FY 1999-2000 contained a program error that diverted a portion of the current secured ADA (K-12 school) apportionment to a “Lost Mills” fund that was distributed to the county general fund. The total amount of misallocation for the years in question was \$124,684.

The legal requirements for supplemental roll property tax apportionment and allocation are found in *Revenue and Taxation Code* Sections 75.60 through 75.71 and 100.2. When there is a change in assessed property value due to changes in ownership or completion of new construction, the property owner is charged a supplemental property tax. This process enables the counties to retroactively tax property for the period when changes in ownership or completion of new construction occurred, rather than at the time the secured roll is developed.

#### Recommendation

The county general fund must repay the schools for this under allocation.

#### Auditee’s Response

The County concurs with the SB813 apportionment finding (aka: lost mills) with two exceptions. Upon reexamination of the original apportionment detail we found that lost mills for the periods June through December 1998 (GEN) and June 1997 through January 1998 (RDA) were \$7,354.78 and (\$2,130.01), respectively. Please refer to pages 1-3 and 4-5 of the enclosed SB813 apportionment reports showing lost mills of (\$9,368.38) and (2,130.01) instead of \$9,368.38 and \$2,130.01 as previously computed. This discovery supports a net correction to the lost mills computation of (\$22,996.78). We respectfully submit that the revised total of SB813 revenue to be distributed to the schools as a result of this finding is \$101,687.07.

#### SCO’s Comment

The SCO acknowledges the error in the information provided and concurs with the revised amount due to the schools.

**FINDING 2—  
Supplemental property  
tax—administrative costs**

When the county converted its supplemental tax process to the Megabyte system, the new system did not automatically compute the 5% administrative costs. As a result of this error, the county failed to collect \$63,912 of supplemental administrative costs for FY 2000-01.

*Revenue and Taxation Code* Section 75.60 allows a county to charge an administrative fee for supplemental property tax collections. This fee is not to exceed 5% of the supplemental property taxes collected.

Recommendation

The county may make correcting adjustments to collect the administrative costs that were missed.

Auditee's Response

The County concurs with this finding and has recovered the SB813 administrative costs for fiscal 2000-01 during fiscal 2001-02.

**FINDING 3—  
Educational Revenue  
Augmentation Fund  
(ERAF)**

The county failed to properly carry forward the ERAF amounts with growth, for several special districts and both cities, for FY 1999-2000. This error resulted in the understatement of the ERAF for FY 1999-2000 and FY 2000-01. The combined understatement for both years was \$26,401 (Schedule 1).

Requirements for the local agency shift of property tax revenues to the ERAF are generally found in *Revenue and Taxation Code* Sections 97.1 through 97.3. Beginning in FY 1992-93, each local agency was generally required to shift an amount of property tax revenues to the ERAF using formulas detailed in the code. The property tax revenues in the ERAF are subsequently allocated to the public schools using factors supplied by the county superintendent of schools.

For FY 1992-93, the ERAF shift amount for cities was generally determined by adding a per capita amount to a percentage of property tax revenues received by each city. The amount for counties was generally determined by adding a flat amount, adjusted for growth, to a per capita amount. The amount for special districts was generally determined by shifting the lesser of 10% 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% of the FY 1991-92 property tax revenues received, adjusted for growth. Specified special districts were exempted from the shift.

For FY 1993-94, the 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 Department of Finance, 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 shift to 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 amounts for that year.

#### Recommendation

The county shall make appropriate adjustments to the ERAF contribution amounts for all agencies that were incorrect to bring them into compliance for the current AB8 process and collect amounts underpaid for all previous years for payment into the ERAF.

#### Auditee's Response

The County concurs with the ERAF underpayment finding and intends to make the recommended repayment to schools in fiscal 2002-03 after receipt of the State's final audit report. Additionally, we have restated the ERAF shift and AB8 allocation factors for fiscal 2000-01 to correctly compute the ERAF shift and AB8 allocation factors for fiscal 2001-02.

**FINDING 4—  
ERAF shift credit**

The county properly implemented the alternate apportionment process in FY 1993-94, but failed to properly compute the shift “credit” for the increased revenue received by school entities for that year. The county understated its ERAF credit by \$264,427. The county computed the credit to be \$1,921,367, when it should have been \$2,185,794.

*Revenue and Taxation Code* Sections 97.3(a)(5) and 97.36 provide for a reduction in the amount of the ERAF contribution by a county when the county first implements the alternate method of property tax allocation authorized by *Revenue and Taxation Code*, Part 8, Chapter 2, commencing with Section 4701. This credit, available only for the first year of implementation, is computed based upon the amount of increased revenue allocated to a qualifying school entity that would not have been allocated if the county had not implemented the alternate method of property tax allocation. A qualifying school entity is the ERAF, a school district, a county office of education, or a community college district that is not an excess tax school entity (i.e., an educational agency for which the state funding entitlement under specified sections of the *Education Code*, as appropriate, is zero).

**Recommendation**

The county may collect the additional shift credit of \$264,427 from the ERAF.

**Auditee’s Response**

The County concurs with the ERAF credit finding and will continue our examination of this issue.

**Marin County (July 1, 1998, through June 30, 2001)**

The audit disclosed that the county complied with California statutes for the allocation and apportionment of property tax revenues for the period audited.

**Merced County (July 1, 1998, through June 30, 2000)****FINDING 1—  
Incorrectly computed  
unitary and operating  
nonunitary  
apportionment**

The county did not properly compute and distribute unitary and operating nonunitary revenue in FY 1999-2000 when assessed valuation exceeded 102% of the preceding fiscal year amount. The county inappropriately used FY 1999-2000 rather than FY 1998-99 AB 8 factors to apportion the excess revenues.

Requirements for the apportionment and allocation of unitary and operating nonunitary property taxes are found in *Revenue and Taxation Code* Section 100.

Unitary properties are those properties on which the Board of Equalization “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 and railroads). 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.”

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

After the audit period, the county computed revised unitary and operating nonunitary revenue amounts for FY 1999-2000 and FY 2000-01 adjusting the error noted above. However, until the base unitary and operating nonunitary revenue amounts and factors are corrected, as noted in the prior audit, all unitary and operating nonunitary revenue amounts will continue to be incorrect.

#### Recommendation

The county should correct the base unitary and operating nonunitary revenue amounts and factors.

#### **FINDING 2— ERAF disaster relief credit not reversed**

In FY 1997-98 the county did not reverse the allowed FY 1992-93 ERAF disaster credit for the county and all cities in Merced County as required by *Revenue and Taxation Code* Section 97.2(e)(1) and (2). The resulting underallocation to the ERAF for FY 1997-98 through FY 1999-2000 totaled \$348,739 (Schedule 1).

Requirements for the local agency shift of property tax revenues to the ERAF are generally found in *Revenue and Taxation Code* Sections 97.1 through 97.3. Beginning in FY 1992-93, each local agency was generally required to shift an amount of property tax revenues to the ERAF using formulas detailed in the code. The property tax revenues in the ERAF are subsequently allocated to the public schools using factors supplied by the county superintendent of schools.

For FY 1992-93, the ERAF shift amount for cities was generally determined by adding a per capita amount to a percentage of property tax revenues received by each city. The amount for counties was generally determined by adding a flat amount, adjusted for growth, to a per capita amount. The amount for special districts was generally determined by shifting the lesser of 10% 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% of the FY 1991-92 property tax revenues received, adjusted for growth. Specified special districts were exempted from the shift.

For FY 1993-94, the 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 Department of Finance, 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 shift to 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 amounts for that year.

After the audit period, the county computed and corrected ERAF shift amounts for FY 1997-98 through FY 2000-01 and made the appropriate transfers.

#### Recommendation

The county has corrected the error noted. Thus no recommendation is needed.

**FINDING 3—  
Incorrectly computed  
ERAF shift credit**

The county properly implemented the alternate apportionment process in FY 1993-94, but failed to properly compute the “credit” against the county’s ERAF shift for the increased revenue received by school entities for that year. The county computed a \$3,419,038 ERAF shift credit. The credit should have been \$4,336,576. Consequently, the county understated the credit and is entitled to an additional \$917,538 from the ERAF.

*Revenue and Taxation Code* Sections 97.3(a)(5) and 97.36 provide for a reduction in the amount of the ERAF contribution by a county when the county first implements the alternate method of property tax allocation authorized by *Revenue and Taxation Code*, Part 8, Chapter 2, commencing with Section 4701. This credit, available only for the first year of implementation, is computed based upon the amount of increased revenue allocated to a qualifying school entity, which would not have been allocated if the county had not implemented the alternate method of property tax allocation. A qualifying school entity, which is a school district, a county office of education, or a community college district that is not an excess tax school entity (i.e., an educational agency for which the state funding entitlement under specified sections of the *Education Code*, as appropriate, is zero).

Recommendation

The county should collect the additional credit in the amount of \$917,538 from the ERAF.

**Placer County (July 1, 1997, through June 30, 2001)**

**FINDING 1—  
Jurisdictional changes**

The prior audit found that the county adjusts the ATI factors, in certain circumstances, for all jurisdictions in a given tax rate area affected by a jurisdictional change except schools. This caused some jurisdictions not involved in the change to receive incorrect property tax revenues. As of FY 2001-02, the county has corrected this issue and the SCO auditor has verified and documented the corrections in the audit workpapers. Since the corrections were made after the scope of the current audit period, the finding will remain as written.

The legal requirements for jurisdictional changes are found in *Revenue and Taxation Code* Section 99. A jurisdictional change involves a change in organization or boundaries of local government agencies and school districts. Normally, these are service area or responsibility changes between the local jurisdictions. As part of the jurisdictional change, the local government agencies are required to negotiate any exchange of base year property tax revenue and annual tax increment. After the jurisdictional change, the local agency whose responsibility increased receives additional annual tax increment, and the base property tax revenues are adjusted according to the negotiated agreements.

Recommendation

None. The corrections have been implemented.

Auditee's Response

We concur.

**FINDING 2—  
Underallocation to the  
Educational Revenue  
Augmentation Fund  
(ERAF)**

The prior audit found that the county library did not contribute to the ERAF for FY 1992-93. The amount that should have been contributed at that time was \$152,545 as detailed in Schedule 1. As of FY 2000-01, the cumulative effect of the county library undershift to the ERAF has increased to \$1,663,983, which must be repaid. Beginning in FY 2001-02, the county is taking the necessary steps to correct its AB 8 and ERAF computations in order to shift the correct amount to the ERAF from the county library (Schedule 1).

Requirements for the local agency shift of property tax revenues to the ERAF are generally found in *Revenue and Taxation Code* Sections 97.1 through 97.3. Beginning in FY 1992-93, each local agency was generally required to shift an amount of property tax revenues to the ERAF using formulas detailed in the code. The property tax revenues in the ERAF are subsequently allocated to the public schools using factors supplied by the county superintendent of schools.

For FY 1992-93, the ERAF shift amount for cities was generally determined by adding a per capita amount to a percentage of property tax revenues received by each city. The amount for counties was generally determined by adding a flat amount, adjusted for growth, to a per capita amount. The amount for special districts was generally determined by shifting the lesser of 10% 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% of the FY 1991-92 property tax revenues received, adjusted for growth. Specified special districts were exempted from the shift.

For FY 1993-94, the 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 Department of Finance, 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 shift to 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 amounts for that year.

#### Recommendation

The county library must reimburse the ERAF, in the amount of \$1,663,983. The county should make the appropriate adjustments to the ERAF calculation in its AB 8 and ERAF computations.

#### Auditee's Response

The adjustment has been made to transfer the adjusted amount to ERAF from the library for 2001/02. We have reached an agreement with the State Controller's office to repay the \$1,663,983 over a five year period.

#### SCO's Response

In a letter dated November 6, 2001, the SCO stated that it is willing to enter into a five-year repayment plan with the county to repay \$1,663,983 owed to the ERAF in your county. However, as of this date, we have not received documentation from the county committing to this agreement.

**Riverside County (July 1, 1997, through June 30, 2001)**

The audit disclosed that the county complied with California statutes for the allocation and apportionment of property tax revenues for the period audited.

**San Luis Obispo County (July 1, 1996, through June 30, 2001)**

The audit disclosed that the county complied with California statutes for the allocation and apportionment of property tax revenues for the period audited.

**San Joaquin County (July 1, 1998, through June 30, 2001)**

The audit disclosed that the county complied with California statutes for the allocation and apportionment of property tax revenues for the period audited.

**Santa Cruz County (July 1, 1998, through June 30, 2001)**

The audit disclosed that the county complied with California statutes for the allocation and apportionment of property tax revenues for the period audited.

**Solano County (July 1, 1999, through June 30, 2001)**

The audit disclosed that the county complied with California statutes for the allocation and apportionment of property tax revenues for the period audited.

**Yolo County (July 1, 1995, through June 30, 2001)****FINDING 1—  
Calculation and  
distribution of ATI**

The county converted the AB 8 system from the jurisdictional level to the TRA level without correcting unreconciled base revenue balances. In addition, the county could not explain why the ERAF and the library fund factors did not reconcile to the original system.

Requirements for the apportionment and allocation of the annual tax increment are found in *Revenue and Taxation Code* 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 annual tax increment apportionment factors for each TRA. These factors were developed in the 1979-80 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.

Recommendation

The county must reconcile and correct all errors that resulted from the conversion of the AB 8 system.

**FINDING 2—  
Jurisdictional  
changes**

The SCO sampled the implementation of jurisdictional changes during the audit period. The assessed valuation and TRA factors were incorrectly adjusted for the jurisdictional changes in the sample.

The legal requirements for jurisdictional changes are found in *Revenue and Taxation Code* Section 99. A jurisdictional change involves a change in organization or boundaries of local government agencies and school districts. Normally, these are service area or responsibility changes between the local jurisdictions. As part of the jurisdictional change, the local government agencies are required to negotiate any exchange of base year property tax revenue and annual tax increment. After the jurisdictional change, the local agency whose responsibility increased receives additional annual tax increment, and the base property tax revenues are adjusted according to the negotiated agreements.

Recommendation

The county must review all jurisdictional changes from FY 1995-96 to present and correct the assessed valuations and TRA factors in accordance with the governing agreements.

Auditee's Response

Please state whether a sample or all of the assessed valuation and TRA factors from 1995-96 through 2001 were incorrectly adjusted for jurisdictional changes.

SCO Comments

The finding has been revised to indicate that a sample of jurisdictional changes was reviewed.

**FINDING 3—  
Supplemental  
property tax**

The county ADA adjustment from FY 1999-2000 was used in FY 2000-01 for the supplemental apportionment factor.

The legal requirements for supplemental roll property tax apportionment and allocation are found in *Revenue and Taxation Code* Sections 75.60 through 75.71 and 100.2. When there is a change in assessed property value due to changes in ownership or completion of new construction, the property owner is charged a supplemental property tax. This process enables the counties to retroactively tax property for the period when changes in ownership or completion of new construction occurred, rather than at the time the secured roll is developed.

Recommendation

The county must adjust the FY 2000-01 supplemental apportionment factor using the correct ADA amounts and adjust the revenues accordingly.

**FINDING 4—  
Unitary and operating  
nonunitary  
apportionment**

The county excluded the pipeline assessed value and did not use the FY 1997-98 revenue as base amount for the subsequent fiscal year.

Requirements for the apportionment and allocation of unitary and operating nonunitary property taxes are found in *Revenue and Taxation Code* Section 100.

Unitary properties are those properties on which the Board of Equalization “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 and railroads). 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.”

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

Recommendation

The county must correct the errors identified by the SCO and adjust the revenues accordingly.

**FINDING 5—  
Educational Revenue  
Augmentation Fund  
(ERAF)**

The ERAF shift from FY 1995-96 up to the current fiscal year is not in compliance with the *Revenue and Taxation Code* due to the following:

- The county incorrectly computed the per resident growth amount for the ERAF shift in 1995-96;
- The county incorrectly computed the per resident growth amounts for the 1996-97 ERAF shift;
- The county incorrectly carried forward the 1995-96 base revenue amounts;
- The county made errors when it converted to the TRA level, but nothing was done or no attempt was made to reconcile the differences. The county went forward with the new system without correcting the differences; and
- The county did not reverse the disaster relief amount in FY 1997-98 (Schedule 1).

Requirements for the local agency shift of property tax revenues to the ERAF are generally found in *Revenue and Taxation Code* Sections 97.1 through 97.3. Beginning in FY 1992-93, each local agency was generally required to shift an amount of property tax revenues to the ERAF using formulas detailed in the code. The property tax revenues in the ERAF are subsequently allocated to the public schools using factors supplied by the county superintendent of schools.

For FY 1992-93, the ERAF shift amount for cities was generally determined by adding a per capita amount to a percentage of property tax revenues received by each city. The amount for counties was generally determined by adding a flat amount, adjusted for growth, to a per capita amount. The amount for special districts was generally determined by shifting the lesser of 10% 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% of the FY 1991-92 property tax revenues received, adjusted for growth. Specified special districts were exempted from the shift.

For FY 1993-94, the 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 Department of Finance, 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 shift to 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 amounts for that year.

#### Recommendation

The county must correct all the errors in the ERAF shift and correct the ERAF shift accordingly.

### **FINDING 6— ERAF shift credit**

The county did not adjust the estimated Teeter credit calculation for actual amounts. During the audit, the county recomputed the ERAF shift credit. The SCO has reviewed the recomputation and, subject to the effects of correcting the other findings in this report, concurs with the recomputation.

*Revenue and Taxation Code* Sections 97.3(a)(5) and 97.36 provide for a reduction in the amount of the ERAF contribution by a county when the county first implements the alternate method of property tax allocation authorized by *Revenue and Taxation Code*, Part 8, Chapter 2, commencing with Section 4701. This credit, available only for the first year of implementation, is computed based upon the amount of increased revenue allocated to a qualifying school entity that would not have been allocated if the county had not implemented the alternate method of property tax allocation. A qualifying school entity is the ERAF, a school district, a county office of education, or a community college district that is not an excess tax school entity (i.e., an educational agency for which the state funding entitlement under specified sections of the *Education Code*, as appropriate, is zero).

#### Recommendation

The county should correct the Teeter credit and adjust the general fund revenue accordingly.

#### Auditee's Response

The finding should reflect the fact that the County has recalculated the Teeter Credit and the Auditor has reviewed and accepted the revised calculation.

#### SCO Comments

The finding has been revised to reflect the concurrence with the recomputation, subject to the effects of correcting the other findings in the report.

## Yuba County (July 1, 1995, through June 30, 2001)

### **FINDING— Prior audit finding**

The prior audit noted that the county computed the base unitary amounts incorrectly by using county-wide local roll factors rather than developing the unitary base revenue amount by determining each jurisdiction's ratio of unitary assessed value.

The legal requirements for the apportionment and allocation of the unitary and operating nonunitary property taxes are found in *Revenue and Taxation Code* Section 100. Unitary properties are those properties on which the Board of Equalization "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 and railroads). 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."

### Recommendation

The county must recompute the unitary base revenue amounts for all jurisdictions and update the amounts for each year, as specified by statute, to achieve a correct file for the current fiscal year.

### Auditee's Response

Discussions with no less than four members of your staff provided documented proof of complete compliance by Yuba County with all required adjustments from the prior audit. YOUR PEOPLE CONCURRED!

Yuba County is in full compliance and does not understand why a different position is being taken at this time. Please advise.

### SCO Comments

The SCO did not and does not concur with the county's methodology for determining the base revenue amounts for unitary and operating non-unitary revenues. At the exit conference held on October 22, 2001, the SCO discussed this issue with Mr. Dehr.

The prior audit found that the county computed the base year unitary amounts incorrectly by using county-wide local roll factors rather than by determining each jurisdiction's ratio of unitary assessed value. Although the county attempted to make the corrections to the unitary base, the SCO does not concur with the county's method. During the current audit, the SCO assisted the county in preparing a correction to the unitary base amounts, but was unable to complete an acceptable computation for all parties. The county must research the source documentation to determine the correct amounts to be apportioned.

At the conclusion of the exit conference, Mr. Dehr acknowledged the items discussed and that he understood that the SCO does not concur with the county's methodology.

**Schedule 1—  
Summary of Underallocation to the  
Educational Revenue Augmentation Fund**

**Butte County (July 1, 1997, through June 30, 2001)**

<u>Fiscal Year</u>	<u>Allocation by County</u>	<u>State Amount per Audit</u>	<u>Audit Adjustment <sup>1</sup></u>
1997-98	\$ 2,064,561	\$ —	\$ 2,064,561
1998-99	2,092,682	—	2,092,682
1999-2000	2,134,439	—	2,134,439
2000-01	<u>2,182,131</u>	<u>—</u>	<u>2,182,131</u>
Totals	<u>\$ 8,473,813</u>	<u>\$ —</u>	8,473,813
Amount forgiven		<u>\$ 7,416,329</u>	<u>(7,416,329)</u>
Net amount due to ERAF			<u>\$ 1,057,484</u>

**Lake County (July 1, 1994, through June 30, 2001)**

<u>Fiscal Year</u>	<u>Allocation by County</u>	<u>State Amount per Audit</u>	<u>Audit Adjustment <sup>1</sup></u>
1999-2000	\$ 4,940,870	\$ 4,954,103	\$ 13,233
2000-01	<u>5,205,709</u>	<u>5,218,877</u>	<u>13,168</u>
Totals	<u>\$ 10,146,579</u>	<u>\$ 10,172,980</u>	<u>\$ 26,401</u>

**Merced County (July 1, 1998, through June 30, 2000)**

<u>Fiscal Year</u>	<u>Reversal of ERAF Disaster Credit by County</u>	<u>Reversal of ERAF Disaster Credit per Audit</u>	<u>Audit Adjustment <sup>1</sup></u>
1997-98	\$ —	\$ 112,028	\$ 112,028
1998-99	—	116,204	116,204
1999-2000	<u>—</u>	<u>120,507</u>	<u>120,507</u>
Totals	<u>\$ —</u>	<u>\$ 348,739</u>	<u>\$ 348,739</u>

## Schedule 1 (continued)

### Placer County (July 1, 1997, through June 30, 2001)

<u>Fiscal Year</u>	<u>Allocation by County</u>	<u>State Amount per Audit</u>	<u>Audit Adjustment <sup>1</sup></u>
1992-93	\$ —	\$ 152,545	\$ 152,545
1993-94	136,095	295,219	159,124
1994-95	142,018	308,067	166,049
1995-96	147,988	321,017	173,029
1996-97	153,513	333,003	179,490
1997-98	158,275	343,332	185,057
1998-99	167,634	363,634	196,000
1999-2000	182,791	395,771	212,980
2000-01	205,731	445,440	239,709
Totals	<u>\$ 1,294,045</u>	<u>\$ 2,958,028</u>	<u>\$ 1,663,983</u>

<sup>1</sup> See Findings of Individual County Audits section.

*Copies of the audit reports referred to in this report may be obtained by contacting:*

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, California 94250-5874**

**<http://www.sco.ca.gov>**