

# STATE OF CALIFORNIA

Report to the California State Legislature

## PROPERTY TAX APPORTIONMENTS

*Calendar Year 2004*



**STEVE WESTLY**  
California State Controller

August 2005



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

August 5, 2005

**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 2004. 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 2004 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 11 audits of county property tax apportionments and allocations completed by the State Controller's Office (SCO) in calendar year 2004. The following counties were audited: Alpine, Amador, Colusa, Contra Costa, Inyo, Los Angeles, Mariposa, Sacramento, San Diego, San Mateo, and Tulare. *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.

Five of the counties audited—Amador, Contra Costa, Los Angeles, Sacramento, and Tulare—had no reportable findings.

## 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 SCO 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 SCO depends on the facts and circumstances of each situation.

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 because 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 the annual tax increment (ATI) was in accordance with *Revenue and Taxation Code* Sections 96 through 96.5;
- The methodology for redevelopment agencies' base-year calculations and apportionment and allocation of the ATI 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 the ATI 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 of Findings and Recommendations in this report is 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 2004 indicated that the counties complied with the legal requirements for the apportionment and allocation of property tax revenues. However, problem areas were identified and are described below. Recommendations to resolve the problems are included 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 action. Procedures are undertaken to determine whether previously noted findings have been resolved. Unresolved prior audit findings are restated in the current audit.

We 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.)

We noted three counties that continued to have base year revenue and factor computation errors that have not been properly corrected.

## 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.

We noted findings for two counties in this area.

- One county improperly adjusted the TRA increment factors for jurisdictions not affected by the change.
- One county did not properly follow exchange resolutions.

## 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.

We noted two counties that used incorrectly computed supplemental apportionment factors for their apportionments.

## 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.

We noted that one county which collected supplemental administrative costs for an inappropriate time period has still not reversed that collection.

## 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.

We noted one county that had base-year value adjustment errors for a new redevelopment project.

## 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 State 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.

We issued findings for three counties in this area.

- One county did not compute excess revenue increases correctly.
- One county failed to carry forward the prior-year revenue correctly and did not compute a revenue decrease properly.
- One county failed to correct errors previously noted in the base-year computation.

## 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.

We noted that two counties failed to properly develop cost/share ratios to collect administrative costs from local agencies.

## 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 to fire districts the exemption that had been lost after the passage of Chapter 290, Statutes of 1997.

We issued findings for two counties in this area.

- One county had continuing uncorrected errors that had been previously reported.
- One county had overpayment computation errors that will require ERAF refunds to a few local agencies.

## **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 Standards 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.

We noted no findings in this area.

# 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 SCO in calendar year 2004. 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; they are not intended to be and should not be used by anyone other than those specified parties. This restriction is not intended to limit distribution of this report or the respective audit reports, which are a matter of public record.

## Alpine County (July 1, 1999, through June 30, 2004)

### Follow-up on Prior Audit Findings

Findings noted in our prior audit report, issued March 20, 2000, have been satisfactorily resolved by the county.

### FINDING— Unitary and operating nonunitary apportionment

The county did not properly compute the unitary and operating nonunitary property tax apportionment amounts for FY 2002-03 and FY 2003-04.

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 Auditor-Controller, with the assistance of the SCO auditor, has computed corrected unitary and operating nonunitary allocation amounts for FY 2002-03 and FY 2003-04. If the corrected amounts are implemented, no further corrective action will be necessary.

## Amador County (July 1, 1998, through June 30, 2004)

### Follow-up on Prior Audit Findings

Findings noted in our prior audit report, issued October 13, 1999, have been satisfactorily resolved by the county.

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

## Colusa County (July 1, 1997, through June 30, 2003)

### Follow-up on Prior Audit Findings

Findings noted in the prior audit report, issued March 31, 1998, have been satisfactorily resolved by the county, with the exception of the calculation and distribution of ATI. During the current audit, the county corrected the apportionment and allocation system for this finding. However, the corrected system was not implemented during the audit period and misallocated property tax revenues had not been repaid as of the last day of fieldwork.

### FINDING 1— Calculation and distribution of ATI

The prior audit found that the county recomputed the TRA factors and base revenues each year. The county corrected the system from FY 1978-79 through FY 2002-03, but there were some errors in the recomputations in FY 1992-93 through FY 2002-03. During the audit, the county (with SCO assistance), again recomputed the system in FY 1992-93 through FY 2002-03. The newly recomputed AB 8 system has now been completed and appears to be correct through FY 2002-03. However, the corrected system was not implemented during the audit period and misallocated property tax revenues had not been repaid as of the last day of fieldwork.

Requirements for the apportionment and allocation of the ATI 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 ATI 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 implement the corrected AB 8 system and repay all tax agencies for misallocated secured taxes in all fiscal years.

#### County's Response

The County implemented a corrected AB 8 system during the 2003-04 Fiscal Year. The corrected AB 8 system was reviewed and approved by the State Controller's audit team representative. Senate Bill #1096, Chapter 211, stated that apportionments made by the County Auditor during that period shall be deemed correct.

**FINDING 2—  
Supplemental  
property tax**

The prior audit found that the AB 8 factors used to apportion the supplemental taxes were incorrectly computed, causing all tax agencies to receive incorrect supplemental tax allocations each year. The county has proposed corrected AB 8 factors and supplemental allocations that were verified during the audit fieldwork, but they had not been implemented as of the last day of fieldwork.

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 a change in assessed property value is 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 implement the corrected apportionment factors and repay all tax agencies for misallocated supplemental taxes in all years.

County's Response

The County implemented a corrected AB 8 system during the 2003-04 Fiscal Year. The corrected AB 8 system was reviewed and approved by the State Controller's audit team representative. Senate Bill #1096, Chapter 211, stated that apportionments made by the County Auditor during that period shall be deemed correct.

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

The prior audit found that the AB 8 revenues used to apportion the unitary taxes were incorrectly computed, causing all tax agencies to receive incorrect unitary tax allocations each year. The county has proposed corrected AB 8 revenues and unitary allocations that were verified during the audit fieldwork, but they had not been implemented as of the last day of fieldwork.

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 implement the corrected apportionment factors and repay all tax agencies for misallocated unitary taxes in all years.

County's Response

The County implemented a corrected AB 8 system during the 2003-04 Fiscal Year. The corrected AB 8 system was reviewed and approved by the State Controller's audit team representative. Senate Bill #1096, Chapter 211, states that apportionments made by the County Auditor during that period shall be deemed correct.

**FINDING 4 —  
Property tax  
administrative costs**

The prior audit found that the AB 8 factors used to distribute the administrative costs were incorrectly computed, causing all tax agencies to be charged incorrectly each year. The county has proposed corrected AB 8 factors and administrative charges that were verified during the audit fieldwork, but they had not been implemented as of the last day of fieldwork.

Requirements for the reimbursement of county property tax administrative costs are found in *Revenue and Taxation Code* Section 95.3. County property tax administrative costs are incurred by the assessor, the tax collector, the assessment appeals board, and the auditor. The county is allowed, depending on the fiscal year and any corresponding exclusions, to be reimbursed by local agencies and public schools for these administrative costs.

Recommendation

The county must implement the corrected apportionment factors and repay all tax agencies for under-/overcharged administrative costs in all years.

County's Response

The County implemented a corrected AB 8 system during the 2003-04 Fiscal Year. The corrected AB 8 system was reviewed and approved by the State Controller's audit team representative. Senate Bill #1096, Chapter 211, stated that apportionments made by the County Auditor during that period shall be deemed correct. It is appropriate that the property tax administrative costs calculated and charged to entities should follow the "deemed correct" apportioned and allocated taxes. Otherwise there will be an inconsistency between the actual property tax administration cost charged and the property taxes received.

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

The prior audit found that the allocations used to compute the ERAF shift each year were incorrect. The county has proposed corrected allocations and ERAF shifts that were verified during the audit fieldwork, but they had not been implemented as of the last day of fieldwork. For the period of July 1, 1992, through June 30, 2003, the county overallocated \$170,505 to the ERAF as follows:

<u>Fiscal Year</u>	<u>Allocation by County</u>	<u>State Amount per Audit</u>	<u>Audit Adjustment</u>
1992-93	\$ 412,551	\$ 415,816	\$ 3,265
1993-94	1,399,410	1,362,361	(37,049)
1994-95	1,404,420	1,367,051	(37,369)
1995-96	1,462,661	1,427,659	(35,002)
1996-97	1,561,113	1,532,221	(28,892)
1997-98	1,636,548	1,615,998	(20,550)
1998-99	1,689,959	1,669,866	(20,093)
1999-2000	1,710,016	1,694,376	(15,640)
2000-01	1,767,092	1,754,720	(12,372)
2001-02	1,769,911	1,864,392	94,481
2002-03	1,962,383	1,901,099	(61,284)
Totals	<u>\$ 16,776,064</u>	<u>\$ 16,605,559</u>	<u>\$ (170,505)</u>

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 implement the corrected allocations and make the necessary adjustments for reimbursement from the ERAF.

#### County's Response

The County implemented a corrected AB 8 system during the 2003-04 Fiscal Year. The corrected AB 8 system was reviewed and approved by the State Controller's audit team representative. Senate Bill #1096, Chapter 211, states that apportionments made by the County Auditor during that period shall be deemed correct.

## Contra Costa County (July 1, 1998, through June 30, 2002)

### Follow-up on Prior Audit Findings

Findings noted in our prior audit report, issued August 23, 1999, have been satisfactorily resolved by the county.

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

## Inyo County (July 1, 1998, through June 30, 2003)

### Follow-up on Prior Audit Findings

Findings noted in the prior audit, issued June 30, 1999, have been satisfactorily resolved by the county, with two exceptions: base revenue adjustments required in the original property tax audit have not been completed, and the ERAF contribution error noted in the county general fund contribution amount in the last audit was not corrected. These issues are both restated in this audit.

### FINDING 1— Calculation and distribution of ATI

The prior two property tax audits disclosed errors in the base revenue computations of all jurisdictions, which have not been corrected. As a result, the revenue amounts for all jurisdictions are incorrect. All other annual tax increment (ATI) computation processes were completed properly through this audit period.

Requirements for the apportionment and allocation of the ATI 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 ATI 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 base property tax revenue amounts for all jurisdictions must be corrected, and the county should make the necessary revenue amount adjustments for each subsequent year.

#### County's Response

We agree with the finding that errors in the base revenue computations were not corrected. Base property tax revenue amounts have now been adjusted, including growth for subsequent years. Since this problem was first identified ten years ago, the correction plus growth results in adjustments to some special districts and schools that would be devastating. Therefore, we will consider seeking legislative relief for past tax revenues that were overpaid or underpaid.

**FINDING 2—  
Supplemental  
property tax**

The computation of supplemental apportionment factors properly included the Average Daily Attendance (ADA) computation for schools, but excluded the ERAF, resulting in an underpayment to ERAF and overpayment to all ERAF contributing agencies for all years of this audit period. The ADA computation also included revenue that should have been distributed to the superintendent and the community college district.

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 should compute and pay to the ERAF all supplemental property taxes that were not paid for this audit period. The county should ensure that all future supplemental apportionments are properly distributed to all appropriate jurisdictions.

County's Response

We agree with the finding that supplemental apportionment factors excluded the ERAF and that the ADA computation included revenue that should have been distributed to the superintendent and the community college district. Supplemental allocation factors have been adjusted. Due to the financial hardship that repayment of these tax revenues will create, Inyo County will seek legislative relief for past amounts due to the ERAF fund. If the legislation fails, we will ask for an installment plan.

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

The methodology employed to compute unitary revenue and apportionment factors in years that were less than 102% of the prior year was incorrect. The county computed decreases in revenue as a percentage based upon AB 8 factors, which resulted in substantial distortions in unitary tax shares. This procedure reduced the ERAF to a negative revenue amount for some years of this audit period.

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 should compute and pay to the ERAF all unitary property taxes that were not paid for this audit period. The county should ensure that all future unitary apportionments are properly computed and distributed to all appropriate jurisdictions.

#### County's Response

We agree with the finding that the methodology employed to compute unitary revenue and apportionment factors in years that were less than 102% of the prior year was incorrect. We have corrected the base as recommended by the SCO auditor. Additionally, we have updated our allocation spreadsheet to apply unitary factors rather than AB8 factors when growth is less than 102%. Due to the financial hardship that repayment of these tax revenues will create, Inyo County will seek legislative relief for the past amounts due to the ERAF fund. If the legislation fails, we will ask for an installment plan.

#### **FINDING 4— Educational Revenue Augmentation Fund (ERAF)**

During the prior audit it was noted that the county had taken a permanent reduction in the general fund ERAF amount as a credit for implementing the alternate "Teeter" method of apportionment. This issue was not corrected and is restated in this audit.

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.

The following schedule summarizes the underallocation to the ERAF by fiscal year.

<u>Fiscal Year</u>	<u>Allocation by County</u>	<u>State Amount per Audit</u>	<u>Audit Adjustment</u>
1994-95	\$ 1,956,078	\$ 2,068,976	\$ 112,898
1995-96	1,887,049	1,995,691	108,642
1996-97	1,782,563	1,884,900	102,337
1997-98	1,815,837	1,920,041	104,204
1998-99	1,760,237	1,879,530	119,293
1999-2000	1,899,177	2,040,791	141,614
2000-01	1,927,838	2,073,076	145,238
2001-02	2,002,087	2,178,734	176,647
2002-03	2,124,229	2,288,632	164,403
Totals	<u>\$ 17,155,095</u>	<u>\$ 18,330,371</u>	<u>\$ 1,175,276</u>

### Recommendation

The county should compute and pay to the ERAF all property taxes that were not paid since this issue was noted. The county should make appropriate adjustments to ensure that the ERAF is properly computed and paid for all future years.

### County's Response

We agree with the finding that the County took a permanent reduction in the general fund ERAF amount as a credit for implementing the "Teeter" method of apportionment. We have corrected the ERAF base amount resulting in proper future allocations. Due to the financial hardship that repayment of these tax revenues will create, Inyo County will seek legislative relief for past amounts due to the ERAF fund. If the legislation fails, we will ask for an installment plan.

## **Los Angeles County (July 1, 2001, through June 30, 2003)**

### **Follow-up on Prior Audit Findings**

Findings noted in our prior audit report, dated December 31, 2003, have been satisfactorily resolved by the county.

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

## **Mariposa County (July 1, 1998, through June 30, 2003)**

### **Follow-up on Prior Audit Findings**

Findings noted in the prior audit report, issued December 17, 1998, have been satisfactorily resolved by the county.

### **FINDING— Jurisdictional changes**

The county incorrectly transferred property tax revenue and incremental growth factors between a few jurisdictions without exchange resolutions signed by the governing board of each affected jurisdiction. School districts were included even though they are specifically precluded from transferring property tax revenue or incremental growth to local agencies.

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 reverse the revenue transfers completed and ensure that future exchanges are completed only with properly executed exchange agreements between affected local agencies. School districts may exchange property tax revenue with other school districts only when transferring areas of responsibility.

### **Sacramento County (July 1, 2000, through June 30, 2003)**

#### **Follow-up on Prior Audit Findings**

Our prior audit report, issued June 29, 2001, had no findings related to the apportionment and allocation of property tax revenues by the county.

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

### **San Diego County (July 1, 1995, through June 30, 2003)**

#### **Follow-up on Prior Audit Findings**

Findings noted in the prior audit, issued May 30, 1997, have been satisfactorily resolved by the county, with the exception of overstating the General Fund revenue base and collecting unallowable supplemental cost reimbursement.

#### **FINDING 1— Calculation and distribution of ATI**

As noted in the previous SCO audit, the 1978-79 base year apportionment (SB 154 Split) was computed by the county in error.

The county did not use the correct “split” factor (percent of local agencies vs. public schools) and apportionment factors computed from the 1977-78 revenues to apportion the 1978-79 property tax revenues. The split and apportionment factors were not off by a large amount, but the county general fund received approximately \$694,500 more revenues, and all other local agencies and schools received slightly less revenues than they should have received.

In the previous audit, the county estimated that the error has increased to between \$12 million and \$29 million as of June 30, 1995. If the amount of \$694,500 is assumed to grow at a conservative rate of 2% annually, the county general fund has received over \$23,407,232 in excess revenues as of June 30, 2003.

Requirements for the apportionment and allocation of the annual tax increment (ATI) 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 ATI 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 should correct the base year amounts in the system and reimburse all entities that have been impacted by this error.

### County's Response

The State Controller's Office (SCO) continues to assert in its audit covering July 1, 1995 through June 30, 2003 (the "2003 Audit") that the County miscalculated the 1978/79 base year apportionment. The SCO recommends that the County correct the 1978/79 base year amounts in its system and reimburse all entities impacted by its alleged error. As we explained during the exit interview last year, we disagree with this finding. The County's position remains the same as in previous responses, that is, the County's apportionment methodology is appropriate.

Our County Counsel offers the attached analysis, which serves as the response to this audit finding. In addition, the proposed solution is unsupported and the estimate given is not based on source documentation. . . .

We conclude that the County allocated and apportioned the property tax revenues in accordance with AB 8. . . .

We agree with the background information described in the 2003 Audit concerning the passage of Proposition 13 in 1978 and will not reiterate that history here. However, the background information does not describe the confusion counties experienced in allocating and apportioning property tax revenues as a result of Proposition 13. Thus, in 1981, the State Legislature directed the State Department of Finance to audit counties to ensure that apportionments were in compliance with AB 8 (AB 777, Chap. 100, Stat. of 1981).

The Department of Finance thereafter audited the County and issued a report on March 25, 1982, and a follow-up report dated April 9, 1982 (the "1982 Audit"), both of which are attached. As noted in the March 25<sup>th</sup> letter, "[a] variety of information was reviewed on topics such as computation of the AB 8 adjusted tax base 1979/80 revenues" and "distribution of property tax revenue increment. . . ." The 1982 Audit concluded, "the information which was reviewed indicated that San Diego County's apportionment and allocation methods are generally in compliance with our interpretation of legal requirements." In its follow-up April 9<sup>th</sup> letter, the Department of Finance, having again reviewed its audit findings, confirmed that the County used a correct tax base. The County therefore continued to apply this approved methodology.

The SCO then audited the County's property tax revenue apportionment and allocation procedures for the period of July 1, 1978 through June 30, 1990 (the "1990 Audit"). Concerning the 1978/1979 base year apportionment, the 1990 Audit noted,

Many of the following issues have been noted in other counties and in some instances indicate a need for clarifying legislation. The type or quantity of issues presented do not necessarily indicate a good or bad processing system, but merely demonstrate the complexity of property tax allocation and apportionment. . . . The County did not use the correct "split" factor (percent of local agencies vs. school entities) and apportionment factors computed from the 1977/78 revenue to apportion the 1978/79 Property Tax Revenue. The split and apportionment factors were not off by a large amount, but the County General Fund received approximately \$694,500 more revenue and all other local agencies and schools received slightly less revenue than they should have.

The County responded to the 1990 Audit as follows:

I disagree with the statement that the County did not use the correct split factor to apportion the 1978/79 property tax revenue. The County of San Diego allocated the 1978/79 property tax pursuant to SB154 in that a three-year average was determined for local agencies and the prior year revenue was used for schools. Because of the amount of time that has elapsed from implementation to the audit, some of the microfilm records had deteriorated to the point of being unreadable. I feel it is inappropriate for a specific finding of this nature to be included in the audit findings when the evidence is so circumstantial in light of the whole balancing process. I am also concerned with the fact that when the Department of Finance audit was done in 1982, no findings in this area were noted. As noted in their audit report, a review of the allocation system as well as internal audit working papers indicated that the methods used to allocate property tax revenues were in compliance with their interpretation of legal requirements. At that time, the hard copies of the reports were available and reviewed by the audit staff. I am requesting that finding either be deleted from the audit report or be modified to one with no revenue impact to the County.

The SCO denied the County's request to delete this finding from the 1990 Audit report and affirmed its finding despite the Department of Finance's earlier written confirmation that the County's methods were in compliance with legal requirements.

As the SCO has acknowledged . . . there was much confusion throughout the State in determining proper apportionment and allocation methods. Accordingly, the Legislature sought to remedy this confusion by revising Revenue and Taxation Code section 96, which, in part, validated the calculations used by the counties of Marin and Fresno in allocating property tax revenue pursuant to Sections 96 and 97 of the Revenue and Taxation Code. Notes to the statute state,

"[i]t is the intent of the Legislature not to validate in the future any other mistake in the allocation of property tax revenue *unless the mistake is the result of written advice from the Department of Finance with respect to the particular allocation.*" (Emphasis added.)

It appears that the Legislature wanted counties, like San Diego, to be able to rely on written advice received from the Department of Finance. This is reasonable: counties should not be punished because one State department disagrees with previous advice from another State department. The County relied on the Department of Finance's written confirmation that its 1978/79 base year apportionment is correct and has operated in the approved manner for well over two decades. For this reason, and because of the legislative note quoted above, we conclude that the County's apportionment and allocation method is proper.

We further note that this 25-year old issue was favorably resolved 22 years ago; the statute of limitations is three years. Civ. Proc. §338, subd. (a). If the parties in interest had an issue with the County's base year apportionment, they should have brought an action, at the latest, in 1985, or at least have questioned this matter. Counties and other public entities were well aware of the confusion that AB8 created and should have exercised due diligence to ensure that they received their fair share. The County has not received any claims concerning its property tax apportionment and allocation methods. The SCO, in its attempt to reopen this matter, is placing itself and the County in jeopardy by rehashing an issue that was resolved long ago.

Finally, it is of great concern to the County that the SCO has conducted this audit outside the timeframe described in Government Code section 12468. Government Code section 12468, subdivision (b), requires the Controller to regularly audit counties' apportionment and allocation of property tax revenue on a three-year cycle for counties with a population greater than 200,000 and less than 5,000,000. The 2003 Audit is on a nine-year cycle. This potentially increases the County's exposure to liability threefold. This should be addressed with the SCO audit team.

#### SCO's Comment

In a previous response to this finding, the county contended that it received approximately \$694,500 in penalties and interest that was included in the county's receipts and thus included in the base property tax revenues. The county did not and has not provided documentation that approximately \$694,500 in penalties and interest was received by the county and has not documented that interest and penalties were not included in the county totals when the three-year average computation was calculated. The problem is that the factors used by the county to apportion FY 1978-79 property tax revenues were not the same factors computed by the county using revenues received. In addition, the county has not provided documentation that the base revenue amount is wrong. Finally, in responding to the county's response to the finding for the 1990 audit (for July 1, 1978, through June 30, 1990), the SCO noted that the finding was based on the county's own computations, reports, and working papers, which clearly indicated that the amount apportioned to the county general fund in FY 1978-79 was not accurately derived from the "split percentage" and three-year average revenue ratio.

The issue of the statute of limitations is a legal issue. However, the Legislature did not require the SCO to start performing the audits until after the (county-proposed) statute of limitations would have expired.

The State would have had no chance to discover the error until the statute had expired, thus precluding the State from seeking a remedy.

The finding remains as written.

**FINDING 2—  
Jurisdictional changes**

The calculation of revenue exchange ratio was computed incorrectly for the Castro/Bancroft Drive Reorganization. The incorrect ratios impacted the revenues of the City of La Mesa and the county general fund.

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 ATI, and the base property tax revenues are adjusted according to the negotiated agreements.

Recommendation

The county concurred with this finding and will make all necessary corrections.

County's Response

We concur with this finding and the necessary adjustments have been made to correct the error.

**FINDING 3—  
Supplemental  
property tax**

As noted in the previous SCO audit, the county collected 5% administrative costs for supplemental assessments retroactively for the period of July 1, 1985, through December 31, 1986. The statute (*Revenue and Taxation Code* Section 75.60) pertaining to the collection of supplemental assessments administrative costs was changed effective January 1, 1987. The county interpreted the statute change to be retroactive for collection rather than simply retroactive for computing the costs.

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 a change in assessed property value is 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 has provided its legal counsel's opinion on this matter. This opinion has been referred to the SCO legal counsel for review and resolution. Depending upon the results of the review, the county may incur an additional liability.

### County's Response

We disagree with this finding. Our County Counsel's opinion of March 25, 1987 (see attached) serves as the response to this finding.

You have requested our advice on A.B. 2890 which has been chaptered under the statutes of 1986, signed by the Governor and filed with the Secretary of State on September 30, 1986. Specifically, you have asked what the effective date is for the new law and what effect A.B. 2890 has on Revenue and Taxation Code section 75.60. . . . Section 75.60 authorizes the County to allocate to itself an amount not to exceed 5% of increased revenue from supplemental assessments to cover administrative costs connected with collecting supplemental assessments. The previous provision of section 75.60 limited the County to the 1983-84 and 1984-85 fiscal years in making such allocations. You ask whether section 75.60, as amended, authorizes the County to make such allocations from the 1985-86 and 1986-87 fiscal years.

We conclude that A.B. 2890 became effective and operative on January 1, 1987 and that section 75.60 provides authority for the County to allocate to itself an amount equal to the actual administrative costs incurred in the 1985-86 and 1986-87 fiscal years, but not to exceed 5% of the additional revenues collected due to the increased supplemental assessments for the same fiscal years.

We believe the statutory change to section 75.60, when put in context with the previous language limiting its applicability to the 1983-84 and 1984-85 fiscal years, reflects the Legislature's intent to make the section applicable to the 1985-86 and 1986-87 fiscal years through its use of the language "regardless of the date those costs are incurred." Had the Legislature not included this language there clearly would not be as strong an argument in favor of any retroactive intent. Furthermore, it appears that the objective of the legislation is to assist the counties with covering the added administrative costs associated with collecting supplemental assessments. Such authority existed for 1983-84 and 1984-85, and upon the enactment of A.B. 2890 in 1986, the Legislature demonstrated its intent to continue this assistance. In light of this continued assistance, it appears reasonable to conclude that the Legislature intended that there should be no "break" or "gap" in the fiscal years during which the counties could have their administrative costs covered by property tax revenues. Such an interpretation is certainly in furtherance of the objective of the legislation, and moreover, consistent with the specific language that the County can use the revenues to cover administrative costs regardless of the date that the administrative costs are incurred. Accordingly, we conclude that under section 75.60 the County may allocate to itself, prior to the allocation of property tax revenues pursuant to sections 95 et seq. and 75.70, an amount equal to the actual administrative costs incurred in fiscal years 1985-86 and 1986-87, so long as the amount of revenues allocated to the County do not exceed 5% of the supplemental assessment revenues collected by the County in fiscal years 1985-86 and 1986-87.

### SCO's Comment

The county legal counsel's opinion has been referred to the SCO legal counsel for review and resolution.

**FINDING 4 —  
Property tax  
administrative costs**

The county reduced the redevelopment revenues with pass-through monies when computing the administrative cost allocation factors.

Requirements for the reimbursement of county property tax administrative costs are found in *Revenue and Taxation Code* Section 95.3. County property tax administrative costs are incurred by the assessor, the tax collector, the assessment appeals board, and the auditor. The county is allowed, depending on the fiscal year and any corresponding exclusions, to be reimbursed by local agencies and public schools for these administrative costs.

Recommendation

The county concurred with this issue and will implement a corrected system.

County's Response

We concur with this finding. The County has corrected its method of allocating property tax administrative cost pursuant to *Revenue and Taxation Code* 95.3 by excluding pass-through monies beginning with the 2003/04 reporting period.

## **San Mateo County (July 1, 1999 through June 30, 2003)**

**Follow-up on Prior  
Audit Findings**

Findings noted in the prior audit report, issued January 31, 2001, have been satisfactorily resolved by the county.

**FINDING—  
Redevelopment  
agencies**

During the comparison of the FY 1998-99 base parcel list and the FY 2000-01 parcel list, some of the secured parcels were not properly transferred into the San Bruno Redevelopment Project tax rate areas.

Requirements for the apportionment and allocation of property tax to RDAs are found in *Revenue and Taxation Code* Sections 96.4 and 96.5. California Community Redevelopment Law generally entitles a community redevelopment agency to all of the property tax revenues that are realized from growth in values since the redevelopment project's inception.

Recommendation

The county should develop and install appropriate controls to ensure that all secured parcels within RDA project boundaries are properly identified and recorded in new TRAs.

## **Tulare County (July 1, 2000, through June 30, 2003)**

**Follow-Up on Prior  
Audit Findings**

The finding noted in the prior audit report, issued October 31, 2001, has been satisfactorily resolved by the county.

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

*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>**