

# **EL DORADO COUNTY**

Audit Report

## **PROPERTY TAX APPORTIONMENT AND ALLOCATION SYSTEM**

*July 1, 2002, through June 30, 2006*



**JOHN CHIANG**  
California State Controller

January 2008



**JOHN CHIANG**  
California State Controller

January 31, 2008

The Honorable Joe Harn  
Auditor-Controller  
El Dorado County  
County Government Center  
360 Fair Lane  
Placerville, CA 95667

Dear Mr. Harn:

The State Controller's Office audited the methods employed by El Dorado County to apportion and allocate property tax revenues for the period of July 1, 2002, through June 30, 2006. The audit was conducted pursuant to the requirements of Government Code section 12468.

Our audit disclosed that the county complied with California statutes, except that it has not resolved a prior finding regarding ERAF contributions for the City of Placerville, as discussed in the Finding and Recommendation section of this report.

The county has disputed certain facts related to the conclusions and recommendations contained in this audit report. The State Controller's Office has an informal audit review process to resolve a dispute of facts. To request a review, the county should submit, in writing, a request for a review and all information pertinent to the disputed issues within 60 days after receiving the final report. The request and supporting documents should be submitted to Richard J. Chivaro, Chief Counsel, State Controller's Office, Post Office Box 942850, Sacramento, CA 94250-0001. In addition, please provide a copy of the request letter to Steven Mar, Chief, Local Government Audits Bureau, State Controller's Office, Division of Audits, Post Office Box 942850, Sacramento, CA 95250-5874.

If you have any questions, please contact Mr. Mar at (916) 324-7226.

Sincerely,

A handwritten signature in black ink that reads "Jeffrey V. Brownfield".

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

JVB/jj:vb

cc: Peggy Collins, Chief Consultant  
    Joint Legislative Budget Committee  
Peter Detwiler, Consultant  
    Senate Local Government Committee  
Elvia Dias, Assistant  
    Senate Local Government Committee  
Dixie Martineau-Petty, Secretary  
    Assembly Local Government Committee  
Martin Helmke, Consultant  
    Senate Revenue and Taxation Committee  
Kimberly Bott, Chief Consultant  
    Assembly Revenue and Taxation Committee  
Diana L. Ducay, Chief  
    Office of State Audits and Evaluations  
    Department of Finance  
Catherine Smith, Executive Director  
    California Special Districts Association  
Richard J. Chivaro, Chief Counsel  
    State Controller's Office

# Contents

## Audit Report

|   |   |
|---|---|
| <b>Summary</b> .....  | 1 |
| <b>Background</b> .....   | 1 |
| <b>Objective, Scope, and Methodology</b> .....  | 2 |
| <b>Conclusion</b> .....   | 4 |
| <b>Follow-Up on Prior Audit Findings</b> .....  | 4 |
| <b>Views of Responsible Officials</b> .....   | 4 |
| <b>Restricted Use</b> .....   | 4 |
| <b>Schedule 1—Summary of Underallocation to the<br/>Educational Revenue Augmentation Fund</b> ..... | 5 |
| <b>Finding and Recommendation</b> .....   | 6 |
| <b>Attachment—County’s Response to Draft Audit Report</b>   |   |

# Audit Report

## Summary

The State Controller's Office (SCO) audited the methods employed by El Dorado County to apportion and allocate property tax revenues for the period of July 1, 2002, through June 30, 2006.

Our audit disclosed that the county complied with California statutes for the allocation and apportionment of property tax revenues, except that it has not resolved a prior finding (see the Finding and Recommendation section of this report) regarding ERAF contributions for the City of Placerville.

## 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 government agencies with a property tax base that would grow as assessed property values increased. 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 (FY) 1979-80 (base year) and subsequent fiscal years. The methodology is commonly referred to as the AB 8 process or the AB 8 system.

The property tax revenues that local government agencies receive each fiscal year are based on the amount received in the prior year, plus a share of the property tax growth within their boundaries. Property tax revenues are then apportioned and allocated to local agencies and schools using prescribed formulas and methods defined in the Revenue and Taxation Code.

The AB 8 base process involved numerous steps, including the transfer of revenues from schools to local agencies (AB 8 shift) and the development of the tax rate area annual tax increment apportionment factors (ATI factors), which determine the amount of property tax revenues to be allocated to each jurisdiction.

The total amount to be allocated to each jurisdiction is then divided by the total amount to be allocated to all entities to determine the AB 8 apportionment factor (percentage share) for each entity for the year. The AB 8 factors are computed each year for all entities, using the revenue amounts established in the prior year. These amounts are adjusted for growth annually, using ATI factors.

Subsequent legislation removed 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 fund. The fund is subsequently allocated and apportioned to schools by the county auditor according to instructions received from the county superintendent of schools or the State Chancellor of Community Colleges.

Revenues generated by the different types of property tax are apportioned and allocated to local agencies and schools using prescribed formulas and methods, as defined in the Revenue and Taxation Code. Taxable property includes land, improvements, and other properties that are accounted for on the property tax rolls maintained primarily by the county assessor. Tax rolls contain an entry for each parcel of land, including the parcel number, the owner's name, and the value. Following are the types of property tax rolls:

- *Secured Roll*—This roll contains property that, in the opinion of the assessor, has sufficient value to guarantee payment of the tax levies and that, if necessary, can be sold by the tax collector to satisfy unpaid tax levies.
- *Unsecured Roll*—This roll contains 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*—This roll contains public utility and railroad properties, assessed as either unitary or nonunitary property by the State Board of Equalization.
- *Supplemental Roll*—This roll contains property that has been reassessed due to a change in ownership or the completion of new construction, where the resulting change in assessed value is not reflected in other tax rolls.

To mitigate problems associated with the apportionment and allocation of property taxes, legislation (SB 418) was enacted in 1985 that requires the State Controller to audit the counties' apportionment and allocation methods and report the results to the California State Legislature.

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

Our audit objective was to review the county's apportionment and allocation of property tax revenues to local government agencies and public schools within its jurisdiction to determine whether the county complied with Revenue and Taxation Code requirements.

To meet the objective, we reviewed the systems for apportioning and allocating property tax revenues used by the county auditor and the subsystems used by the tax collector and the assessor.

We performed the following procedures:

- Performed tests to determine whether there had been any incorrect apportionment and allocation of property tax.
- Interviewed key personnel and reviewed supporting documentation to gain an understanding of the county's property tax apportionment and allocation processes.
- Reviewed apportionment and allocation reports prepared by the county showing the computations used to develop the property tax distribution factors.
- Reviewed tax rate area (TRA) reports to verify that the annual tax increment was computed properly.
- Reviewed county unitary and operating nonunitary reports and Board of Equalization reports and verified the computations used by the county to develop the unitary and operating nonunitary property tax distribution factors.
- Reviewed redevelopment agency (RDA) reports prepared by the county and verified the computations used to develop the project base amount and the tax increment distributed to the RDA.
- Reviewed property tax administration cost reports prepared by the county and verified administrative costs associated with procedures used for apportioning and allocating property tax to local government agencies and school districts.
- Reviewed ERAF reports prepared by the county and verified the computations used to determine the shift of property taxes from local agencies to the ERAF and, subsequently, to public schools.

We performed our audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and covered the period of July 1, 2002, through June 30, 2006. However, we did not audit the county's financial statements. Our audit scope was limited to:

- Reviewing operational procedures and significant applicable controls over the apportionment and allocation process;
- Examining selected property tax apportionment and allocation records; and
- Reviewing related property tax revenue data used to determine the apportionment and allocation computation process.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow in order to develop appropriate auditing procedures. We did not evaluate the effectiveness of all internal controls.

In addition, we tested transactions used to apportion and allocate property taxes and performed other procedures deemed necessary. This report relates solely to the method used by the county to apportion and allocate property taxes.

**Conclusion**

Our audit disclosed that, except for the item discussed in the Finding and Recommendation section of this report, El Dorado County complied with California statutes for the apportionment and allocation of property tax revenues for the period of July 1, 2002, through June 30, 2006. The county should correct the item discussed in the Finding and Recommendation section.

**Follow-up on Prior Audit Findings**

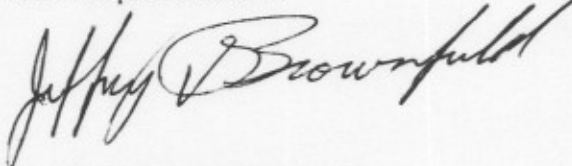
Findings noted in our prior audit, issued April 25, 2003, have been satisfactorily resolved by the county, except for the finding involving the ERAF contributions for the City of Placerville, as discussed in the Finding and Recommendation section of this report.

**Views of Responsible Official**

We issued a draft audit report on April 20, 2007. Joe Harn, Auditor-Controller, responded by letter dated May 30, 2007. Mr. Harn partially agreed with the audit results. The county's response is included in this final audit report as an attachment.

**Restricted Use**

This report is solely for the information and use of El Dorado County, the California Legislature, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.



JEFFREY V. BROWNFIELD  
Chief, Division of Audits

January 31, 2008



**Schedule 1—  
Summary of Underallocation to the  
Educational Revenue Augmentation Fund  
July 1, 2002, through June 30, 2006**

| Fiscal<br>Year             | Allocation by<br>County | State Amount<br>per Audit | Audit<br>Adjustment <sup>1</sup> |
|----------------------------|-------------------------|---------------------------|----------------------------------|
| 2001-02 (from prior audit) | \$ —                    | \$ 111,410                | \$ 111,410                       |
| 2002-03                    | —                       | 111,410                   | 111,410                          |
| 2003-04                    | 13,091                  | 111,410                   | 98,319                           |
| 2004-05                    | 15,913                  | 111,410                   | 95,497                           |
| 2005-06                    | 20,912                  | 111,410                   | 90,498                           |
| Totals                     | <u>\$ 49,916</u>        | <u>\$ 557,050</u>         | <u>\$ 507,134</u>                |

<sup>1</sup> See the Finding and Recommendation section. This amount excludes a computation for growth.

## Finding and Recommendation

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

As noted in the prior audit report issued April 25, 2003, the county has not resolved the prior audit finding regarding its failure to pay the full ERAF amount due for the City of Placerville (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 fiscal year (FY) 1992-93, each local agency is 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 SCO'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 should determine the past due amount, including growth, and begin collecting the proper amount of ERAF from the City of Placerville.

#### County's Response

Pursuant to my response for the audit for the six years ended June 30, 2002, we implemented the following beginning FY2003/04:

Absent an agreement between the City of Placerville and the State Controller's Office, the El Dorado County Auditor-Controller is prepared to execute the following. Effective FY2003/04, the Auditor-Controller will adjust the AB-8 factors for the annual amount shown on the draft audit (adjusted for prior years' growth) for the purpose of shifting property tax revenues from the City of Placerville to the ERAF fund. Effective FY2003/04, the FY2002/03 AB-8 factors will be adjusted to reflect the annual ERAF shift (with growth). These factors will be used for any "prior year" property tax revenues during FY2003/04. Effective FY2003/04, the FY2003/04 AB-8 factor will be adjusted to reflect the annual ERAF shift. These factors will be used for any "current year" property tax revenues during FY2003/04. The process will then be repeated for future years.

Therefore, the only items remaining for discussion are FY1993/94 through FY2002/03. However, it is my understanding that SB1096 forgives issues prior to FY2001/02 and simply require a correction forward from that time. This office has corrected the issue forward starting in FY2003/04. This leaves only FY 2001/02 and FY2002/03

remaining. Because of growth, the FY2001/02 amount should be reflected as \$9,648 while the FY2002/03 should be reflected as \$11,335 for a total of \$20,983. This \$20,983 amount will be deducted from the City of Placerville in the FY2007/08, bringing the entire matter to a close.

#### SCO's Comment

As stated in the previous audit, it is our understanding that the City of Placerville agreed to transfer its share of property tax revenue to the El Dorado County Fire District and retain only a small factor for growth (ATI). The district agreed to assume the city's required ERAF shift amount related to percentage of property taxes received. There was no agreement on the city's required population shift amount to the ERAF. The net result is that the city agreed to transfer to the district property tax revenue that should have, by statute, been shifted to the ERAF. In return, the ERAF was underallocated property tax revenue in the amount of the city's required population shift amount.

The \$49,916 charged to the City of Placerville as noted on Schedule 1 (Allocated by County) and the additional \$20,983 proposed to be charged in FY 2007-08, only addresses part of the unpaid City of Placerville ERAF.

The remaining audit adjustment amount, as shown on Schedule 1, is the 1993-94 ERAF responsibility. This amount still must be paid by the City of Placerville or the Fire District as part of the property tax exchange negotiated between the City and the Fire District.

The Auditor-Controller is responsible for the proper allocation and apportionment of property tax revenues.

The SCO recommends that the county act as a facilitator between the City of Placerville and El Dorado County Fire District to negotiate a plan to repay the net underallocated ERAF amount of \$507,134 as noted on Schedule 1.

Further, we have adjusted Schedule 1 to account for the effects of SB 1096. We will review the county's computation during the next audit.

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

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**County of El Dorado**  
OFFICE OF AUDITOR-CONTROLLER

360 FAIR LANE  
PLACERVILLE, CALIFORNIA 95667  
Phone: (530) 621-5487 FAX: (530) 296-2535

JOE HARN, CPA  
Auditor-Controller

BOB TOSCANO  
Assistant Auditor-Controller

May 30, 2007

Mr. Jeffrey V. Brownfield, Chief, Division of Audits  
Office of the California State Controller  
P.O. Box 942850  
Sacramento, CA 94250-5874

RE: Property Tax Apportionment & Allocation System Audit Finding Dated April 20, 2007

Mr. Brownfield:

The purpose of this letter is to serve as my response to your draft audit report on El Dorado County's Property Tax Apportionment and Allocation System for the four years ended June 30, 2006. My formal response to the report's one finding is as follows:

Pursuant to my response for the audit for the six years ended June 30, 2002, we implemented the following beginning FY2003/04:

Absent an agreement between the City of Placerville and the State Controller's Office, the El Dorado County Auditor-Controller is prepared to execute the following. Effective FY2003/04, the Auditor-Controller will adjust the AB-8 factors for the annual amount shown on the draft audit (adjusted for prior years' growth) for the purpose of shifting property tax revenues from the City of Placerville to the ERAF fund. Effective FY2003/04, the FY2002/03 AB-8 factors will be adjusted to reflect the annual ERAF shift (with growth). These factors will be used for any "prior year" property tax revenues during FY2003/04. Effective FY2003/04, the FY2003/04 AB-8 factor will be adjusted to reflect the annual ERAF shift. These factors will be used for any "current year" property tax revenues during FY2003/04. The process will then be repeated for future years.

Therefore, the only items remaining for discussion are FY1993/94 through FY2002/03. However, it is my understanding that SB1096 forgives issues prior to FY2001/02 and simply require a correction forward from that time. This office has corrected the issue forward starting in FY2003/04. This leaves only FY 2001/02 and FY2002/03 remaining. Because of growth, the FY2001/02 amount should be reflected as \$9,648 while the FY2002/03 should be reflected as \$11,335 for a total of \$20,983. This \$20,983 amount will be deducted from the City of Placerville in the FY2007/08, bringing the entire matter to a close.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Harn".

Joe Harn  
Auditor-Controller

Cc: Sally Zutter, Accounting Division Manager

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

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