

**COMMISSION ON STATE MANDATES**

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October 10, 2014

Ms. Hasmik Yaghobyan  
County of Los Angeles,  
Auditor-Controller's Office  
500 West Temple Street, Room 603  
Los Angeles, CA 90012-2766

Ms. Jill Kanemasu  
State Controller's Office  
Division of Accounting and Reporting  
3301 C Street, Suite 700  
Sacramento, CA 95816

*And Parties, Interested Parties and Interested Persons (See Mailing List)*

**RE: Draft Proposed Statewide Cost Estimate, Schedule for Comments, and Notice of Hearing**

*Accounting for Local Revenue Realignments, 05-TC-01*  
Health and Safety Code Section 33681 et al.  
County of Los Angeles, Claimant

Dear Ms. Yaghobyan and Ms. Kanemasu:

The draft proposed statewide cost estimate for this matter is enclosed for your review and comment.

**Written Comments**

Written comments on the draft proposed statewide cost estimate may be filed by **October 20, 2014**.

**Hearing**

This matter is set for hearing on **Friday, December 5, 2014** at 10:00 a.m. in Room 447, State Capitol, Sacramento, CA. The proposed statewide cost estimate will be issued on or about November 21, 2014. This matter is proposed for the Consent Calendar. Please let us know no later than **November 28, 2014** if you oppose having this item placed on consent and wish to testify at the hearing or have a representative testify on your behalf, and if other witnesses will appear.

Please contact Kerry Ortman at (916) 323-3562 if you have questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Heather Halsey".

Heather Halsey  
Executive Director

**Item \_\_\_**

**DRAFT PROPOSED STATEWIDE COST ESTIMATE  
\$217,678**

**(Unknown, but likely either no or minor, future annual costs)**

Health & Safety Code Sections 33681.12, 33681.13, 33681.14, 33681.15; Revenue & Taxation  
Code Sections 97.68, 97.70, 97.71, 97.72, 97.73, 97.75

Statutes of 2003, Chapter 162; Statutes of 2004, Chapter 211; Statutes of 2004, Chapter 610

*Accounting for Local Revenue Realignments*

05-TC-01

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**STAFF ANALYSIS**

**Background and Summary of the Mandate**

This program addresses the shifting and swapping of revenue in three areas: the Educational Revenue Augmentation Fund (ERAF) established by each county; making the Vehicle License Fund (VLF) Swap permanent; and the “triple flip” of sales and use taxes to service debt payments on State Economic Recovery Bonds, “back-filled” from the ERAF, which was in turn replaced by direct subventions from the General Fund.

On September 27, 2013, the Commission on State Mandates (Commission) adopted a test claim statement of decision<sup>1</sup> finding that the test claim statutes impose a partially reimbursable state-mandated program upon local agencies within the meaning of article XIII B, section 6 of the California Constitution and Government Code section 17514.

Parameters and guidelines<sup>2</sup> were adopted on January 24, 2014 approving the reimbursable activities described below under the *Reimbursable Activities* section.

Eligible claimants were required to file initial reimbursement claims, for costs incurred between July 1, 2004, and June 30, 2013, with the State Controller’s Office (SCO) by August 28, 2014. Late initial reimbursement claims may be filed until August 28, 2015. Annual reimbursement claims for fiscal year 2013-2014 are due by February 17, 2015.

Eligible Claimants and Period of Reimbursement

Any county, or city and county, which incurs increased costs as a result of this mandate, is eligible to claim reimbursement.

Government Code section 17557(e) states that a test claim shall be submitted on or before June 30 following a given fiscal year to establish eligibility for that fiscal year. The test claim was filed on August 12, 2005, establishing eligibility for reimbursement for the 2004-2005 fiscal year. However, the approved activities have different periods of reimbursement, based on their effective and ending dates, as specified under *Reimbursable Activities*, below.

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<sup>1</sup> Exhibit A.

<sup>2</sup> Exhibit B.

All reimbursable activities under Revenue and Taxation Code sections 97.71, 97.72, 97.73, and Health and Safety Code sections 33681.12, 33681.13, and 33681.14 are mandated **only** for the 2004-2005 and 2005-2006 fiscal years, and therefore are no longer reimbursable after June 30, 2006. One remaining activity under Health and Safety Code section 33681.15, as discussed below, under *Reimbursable Activities* may result in continuing state-mandated increased costs after June 30, 2006.

Reimbursement for the activities required by Revenue and Taxation Code sections 97.68 and 97.70 ends, for all claimants **except** the City and County of San Francisco (San Francisco), on June 30, 2006.

The relevant period of reimbursement for each of the activities is specified below.

### **Reimbursable Activities**

For each eligible claimant that incurs increased costs, only the following activities are reimbursable:

#### **A. ERAF III Shift**

The following requirements of the test claim statutes impose a reimbursable state-mandated program upon all counties beginning in the 2004-2005 fiscal year.

##### 1. ERAF Shift from Counties and Cities

For 2004-2005 and 2005-2006 fiscal years only, beginning August 5, 2004:

- a. Reduce revenue otherwise required to be allocated to each county by the amounts listed in Revenue and Taxation Code section 97.71(a)(1), and deposit that amount in the county's ERAF.<sup>3</sup>
- b. Reduce revenue otherwise required to be allocated to a city and county by an amount identified by the Controller pursuant to Revenue and Taxation Code section 97.71(b)(2-3), and deposit that amount in the county's ERAF.<sup>4</sup>
- c. Reduce revenue otherwise required to be allocated to each city within the county by an amount identified by the Controller pursuant to Revenue and Taxation Code section 97.71(b)(2-3), and deposit that amount in the county's ERAF.<sup>5</sup>
- d. Where applicable, accept from a city, in lieu of reduction of that city's revenues, an amount equal to the required reduction, and deposit those moneys in the county's ERAF.<sup>6</sup>

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<sup>3</sup> Revenue and Taxation Code section 97.71(a)(1); (c) (Stats. 2004, ch. 211 (AB 1096); Stats. 2004, ch. 610 (AB 2115)).

<sup>4</sup> Revenue and Taxation Code section 97.71(b); (c) (Stats. 2004, ch. 211 (AB 1096); Stats. 2004, ch. 610 (AB 2115)).

<sup>5</sup> Revenue and Taxation Code section 97.71(c) (Stats. 2004, ch. 211 (AB 1096); Stats. 2004, ch. 610 (AB 2115)).

<sup>6</sup> Revenue and Taxation Code section 97.71(b)(5) (Stats. 2004, ch. 211 (AB 1096); Stats. 2004, ch. 610 (AB 2115)).

**Reimbursement is not required for** calculating the amounts of revenue otherwise required to be allocated to a city, county, or city and county, which must be reduced and deposited in the county ERAF.<sup>7</sup>

2. ERAF Shift from Special Districts

For fiscal years 2004-2005 and 2005-2006 only, beginning August 5, 2004:

- a. Reduce the amount of ad valorem property tax otherwise required to be allocated to an enterprise special district, including an enterprise special district located in more than one county, in amounts determined by the Controller and received from the Director of Finance, for each enterprise special district in the county.<sup>8</sup>
- b. Deposit the amounts reduced from each enterprise special district in the county's ERAF.<sup>9</sup>
- c. Reduce the amount of ad valorem property tax otherwise required to be allocated to a nonenterprise special district, including a nonenterprise special district located in more than one county, in amounts determined by the Controller for each special district in each county.<sup>10</sup>
- d. Deposit the amounts reduced from each nonenterprise special district in the county's ERAF.<sup>11</sup>

**Reimbursement is not required for** calculating the amounts of ad valorem property tax otherwise required to be allocated to an enterprise or nonenterprise special district which must be reduced and deposited in the county ERAF.<sup>12</sup>

3. ERAF Shift from Redevelopment Agencies

For fiscal years 2004-2005 and 2005-2006 only, beginning August 5, 2004:

- a. Receive funds directly from a redevelopment agency in the amount identified by the Director of Finance, and deposit those funds in the county's ERAF.<sup>13</sup>

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<sup>7</sup> Revenue and Taxation Code section 97.71(a)(1); (b)(3) (Stats. 2004, ch. 211 (AB 1096); Stats. 2004, ch. 610 (AB 2115)).

<sup>8</sup> Revenue and Taxation Code section 97.72(a)(2) (Stats. 2004, ch. 211 (SB 1096); Stats. 2004, ch. 610 (AB 2115)).

<sup>9</sup> Revenue and Taxation Code section 97.72(b) (Stats. 2004, ch. 211 (SB 1096); Stats. 2004, ch. 610 (AB 2115)).

<sup>10</sup> Revenue and Taxation Code section 97.73(a)(2) (Stats. 2004, ch. 211 (SB 1096); Stats. 2004, ch. 610 (AB 2115)).

<sup>11</sup> Revenue and Taxation Code section 97.73(b) (Stats. 2004, ch. 211 (SB 1096); Stats. 2004, ch. 610 (AB 2115)).

<sup>12</sup> Revenue and Taxation Code sections 97.72(a)(2); 97.73(a)(2) (Stats. 2004, ch. 211 (SB 1096); Stats. 2004, ch. 610 (AB 2115)).

<sup>13</sup> Health and Safety Code section 33681.12(a)(1) (added by Stats. 2004, ch. 211 (SB 1096); amended by Stats 2004, ch. 610 (AB 2115)).

- b. Receive from the legislative body of the community associated with a redevelopment agency by March 1 of the applicable fiscal year, a report as to how the redevelopment agency intends to secure the funds required to be transferred to the county.<sup>14</sup>
- c. If a redevelopment agency fails to transmit the full amount of funds required by section 33681.12, is precluded by court order from transmitting that amount, or is otherwise unable to meet its full obligation pursuant to section 33681.12 the county auditor, by no later than May 15 of the applicable fiscal year, shall transfer any amount necessary to meet the obligations determined under section 33681.12 from the legislative body's allocations pursuant to Chapter 6 (commencing with section 95) of the Revenue and Taxation Code.<sup>15</sup>
- d. If the legislative body of the community associated with a redevelopment agency, pursuant to section 33681.12(d), reported to the county auditor that it intended to remit the amount required on behalf of the redevelopment agency and the legislative body fails to transmit the full amount as authorized by section 33681.12 by May 10 of the applicable fiscal year: the county auditor shall, no later than May 15 of the applicable fiscal year, transfer an amount necessary to meet the redevelopment agency's obligation pursuant to section 33681.12 from the legislative body's allocations pursuant to Chapter 6 (commencing with section 95) of the Revenue and Taxation Code. If the amount of the legislative body's allocations are not sufficient to meet the redevelopment agency's obligation pursuant to section 33681.12, the county auditor shall transfer an additional amount necessary to meet the redevelopment agency's obligation from the property tax increment revenue apportioned to the redevelopment agency pursuant to section 33670, provided that no moneys allocated to the agency's Low and Moderate Income Housing Fund shall be used for this purpose.<sup>16</sup>

**Reimbursement is not required** to calculate the amount of moneys to be remitted to the county auditor by a redevelopment agency.<sup>17</sup>

#### 4. ERAF Shift from Redevelopment Agencies

##### Beginning September 20, 2004:

If a redevelopment agency enters into an agreement with an authorized issuer, as defined, pursuant to section 33681.15, in order to obtain a loan, financed by bonds, to make the payment required by section 33681.12 to the county auditor for deposit in the county's ERAF, the county auditor shall receive a schedule of payments for that loan. And in the event the redevelopment agency fails to timely repay the loan in accordance with the schedule, the county auditor shall receive notification from the trustee for the bonds of the amount that is past due. The county auditor shall

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<sup>14</sup> Health and Safety Code section 33681.12(d) (added by Stats. 2004, ch. 211 (SB 1096); amended by Stats 2004, ch. 610 (AB 2115)).

<sup>15</sup> Health and Safety Code section 33681.13(e) (added by Stats. 2004, ch. 211 (SB 1096)).

<sup>16</sup> Health and Safety Code section 33681.14(c) (added by Stats. 2004, ch. 211 (SB 1096)).

<sup>17</sup> Health and Safety Code section 33681.12 (added by Stats. 2004, ch. 211 (SB 1096); amended by Stats 2004, ch. 610 (AB 2115)).

then reallocate funds from the legislative body of the community associated with a redevelopment agency and shall pay to the authorized issuer, on behalf of the redevelopment agency, the past due amount on the loan from the first available proceeds of the property tax allocation that would otherwise be transferred to the legislative body pursuant to Chapter 6 (commencing with section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code. This transfer shall be deemed a reallocation of the property tax revenue from the legislative body to the agency for the purpose of payment of the loan, and not as a payment by the legislative body on the loan.<sup>18</sup>

## **B. Vehicle License Fee Swap**

The following requirements of the test claim statutes impose a reimbursable state-mandated program upon all counties for the 2004-2005 and 2005-2006 fiscal years, beginning August 5, 2004, and for the City and County of San Francisco ONLY, continuing in the 2006-2007 fiscal year.

1. Establish a Vehicle License Fee Property Tax Compensation Fund in the treasury of the county.<sup>19</sup> This is a one-time activity, by definition.
2. Reduce the total amount of ad valorem property tax otherwise required to be allocated to a county's ERAF by the countywide vehicle license fee adjustment amount.<sup>20</sup>
3. If, after performing the adjustments and allocations required by section 97.68, there is not enough ad valorem property tax revenue that is otherwise required to be allocated to a county ERAF for the auditor to complete the allocation reduction, the auditor shall also reduce the total amount of ad valorem property tax revenue otherwise required to be allocated to all school districts and community college districts in the county, in order to produce the remainder of the countywide vehicle license fee adjustment amount. Reductions to school districts and community college districts shall be made in proportion to each district's share of total ad valorem property tax revenue. School districts and community college districts subject to reductions when ERAF moneys are insufficient shall not include any districts that are excess tax school entities, as defined in Revenue and Taxation Code section 95.<sup>21</sup>
4. Allocate the countywide vehicle license fee adjustment amount to the Vehicle License Fee Property Tax Compensation Fund established in the treasury of each county.<sup>22</sup>

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<sup>18</sup> Health and Safety Code section 33681.15(e-g) (added by Stats 2004, ch. 610 (AB 2115)).

<sup>19</sup> Revenue and Taxation Code section 97.70(a)(2) (Stats. 2004, ch. 211 (SB 1096); Stats. 2004 ch. 610 (AB 2115)).

<sup>20</sup> Revenue and Taxation Code section 97.70(a)(1)(A) (Stats. 2004, ch. 211 (SB 1096); Stats. 2004 ch. 610 (AB 2115)).

<sup>21</sup> Revenue and Taxation Code section 97.70(a)(1)(B) (Stats. 2004, ch. 211 (SB 1096); Stats. 2004 ch. 610 (AB 2115)).

<sup>22</sup> Revenue and Taxation Code section 97.70(a)(2) (Stats. 2004, ch. 211 (SB 1096); Stats. 2004 ch. 610 (AB 2115)).

5. Allocate the moneys in the Vehicle License Fee Property Tax Compensation Fund to each city in the county, and to the county or city and county, based on each entity's vehicle license fee adjustment amount.<sup>23</sup> Allocate one-half of the entity's vehicle license fee adjustment amount on or before January 31 of each fiscal year, and the other one-half on or before May 31 of each fiscal year.<sup>24</sup>
6. On or before June 30 of each fiscal year, report to the Controller the vehicle license fee adjustment amount for the county and each city in the county for that fiscal year.<sup>25</sup>

**Reimbursement for activities B 1-6 is not required for** calculating each entity's vehicle license fee adjustment amount for the 2004-2005 and 2005-2006 fiscal years.<sup>26</sup>

7. For the City and County of San Francisco only: Beginning in the 2006-2007 fiscal year calculate each entity's vehicle license fee adjustment amount, and the countywide vehicle license fee adjustment amount, defined as the sum of the vehicle license fee adjustment amounts of all entities in the county, pursuant to section 97.70(c)(1)(C).<sup>27</sup>

This activity includes increasing the prior year's vehicle license fee adjustment amount for each entity based on the percentage change from the prior fiscal year to the current fiscal year in gross taxable assessed valuation within the jurisdiction of the entity, as reflected in the equalized assessment roll for those fiscal years.

### C. Triple Flip

The following requirements of the test claim statutes impose a reimbursable state-mandated program upon all counties for the 2004-2005 and 2005-2006 fiscal years, and for the City and County of San Francisco ONLY, continuing in the 2006-2007 fiscal year.

1. Establish a Sales and Use Tax Compensation Fund in the treasury of the county.<sup>28</sup> This is a one-time activity, by definition.
2. During the fiscal adjustment period, reduce, by the countywide adjustment amount provided by the Department of Finance, the amount otherwise required to be

<sup>23</sup> Revenue and Taxation Code section 97.70(b)(1) (Stats. 2004, ch. 211 (SB 1096); Stats. 2004 ch. 610 (AB 2115)).

<sup>24</sup> Revenue and Taxation Code section 97.70(b)(2) (Stats. 2004, ch. 211 (SB 1096); Stats. 2004 ch. 610 (AB 2115)).

<sup>25</sup> Revenue and Taxation Code section 97.70(c)(3) (Stats. 2004, ch. 211 (SB 1096); Stats. 2004 ch. 610 (AB 2115)).

<sup>26</sup> Revenue and Taxation Code section 97.76 (added, Stats. 2004, ch. 211 (SB 1096); amended Stats. 2004, ch. 610 (AB 2115)).

<sup>27</sup> Revenue and Taxation Code section 97.70(c)(1)(C) (Stats. 2004, ch. 211 (SB 1096); Stats. 2004 ch. 610 (AB 2115)). See also Revenue and Taxation Code section 97.76 (Stats. 2004, ch. 211 (SB 1096)).

<sup>28</sup> Revenue and Taxation Code section 97.68(a)(2) (Stats. 2003, ch. 162 (AB 1766); Stats. 2004, ch. 211 (SB 1096)).

allocated to a county's ERAF, and deposit that amount in the Sales and Use Tax Compensation Fund.<sup>29</sup>

**Reimbursement is not required** to calculate the countywide adjustment amount; the amount is annually estimated by the Department of Finance, pursuant to section 97.68(b)(2), except in a fiscal year in which the suspension of 0.25 percent taxing authority is ended, pursuant to Revenue and Taxation Code section 7203.1.

3. During the fiscal adjustment period, allocate revenues in the Sales and Use Tax Compensation Fund among the county and the cities in the county pursuant to the portions of the countywide adjustment amount identified by the Department of Finance for each city and for the county. Allocate one half of the amount identified for each city and for the county in each January during the fiscal adjustment period, and one half the amount identified for each city and for the county in each May during the fiscal adjustment period.<sup>30</sup>

**Reimbursement is not required** to calculate the portion of the countywide adjustment amount attributable to the county and each city within the county; the amounts are provided by the Department of Finance, pursuant to section 97.68(c)(1), and recalculated after the end of each fiscal year, pursuant to section 97.68(c)(3), except a fiscal year in which the suspension of 0.25 percent taxing authority is ended, pursuant to Revenue and Taxation Code section 7203.1.

4. If the amount recalculated by the Department of Finance after the end of each fiscal year based on the actual amount of sales and use taxes not transmitted for the prior fiscal year is greater than the amount allocated to a city or to the county based on the portion of the countywide adjustment amount estimated by the Department of Finance, transfer an amount of ad valorem property tax revenue equal to this difference from the Sales and Use Tax Compensation Fund to that local agency.<sup>31</sup>
5. If the amount recalculated by the Department of Finance after the end of each fiscal year based on the actual amount of sales and use taxes not transmitted for the prior fiscal year is less than the amount allocated to a city or to the county based on the portion of the countywide adjustment amount estimated by the Department of Finance, in the fiscal year following the fiscal year for which the allocation was made, reduce the total amount of ad valorem property tax revenue otherwise allocated to that city or county from the Sales and Use Tax Compensation Fund by an amount equal to this difference and instead allocate this difference to the county ERAF.<sup>32</sup>
6. If there is an insufficient amount of moneys in a county's Sales and Use Tax Compensation Fund to make the necessary transfers, transfer from the county ERAF

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<sup>29</sup> Revenue and Taxation Code section 97.68(a-b) (Stats. 2003, ch. 162 (AB 1766); Stats. 2004, ch. 211 (SB 1096)).

<sup>30</sup> Revenue and Taxation Code section 97.68(c) (Stats. 2003, ch. 162 (AB 1766); Stats. 2004, ch. 211 (SB 1096)).

<sup>31</sup> *Ibid.*

<sup>32</sup> *Ibid.*



to the Sales and Use Tax Compensation Fund an amount sufficient to make the full amount of these transfers.<sup>33</sup>

7. If the suspension of sales and use tax authority under section 7203.1 ceases to be operative on October 1 of any fiscal year:
  - a. Allocate that portion of the countywide adjustment amount attributable to the county and each city within the county on or before January 31 of that fiscal year. The countywide adjustment amount shall be defined as the combined total revenue loss to the county and each city within the county, as estimated by the director of the Department of Finance based on the prior year's *first quarter* sales and use tax revenues transmitted under section 7204; *plus* the difference between 1) the total amount allocated from the Sales and Use Tax Compensation Fund among the county and the cities in the county pursuant to the portions of the countywide adjustment amount identified by the Department of Finance in the prior year; and 2) the actual amount of sales and use tax not transmitted to all entities in the county for the prior year as a result of the 0.25% suspension of local sales and use tax authority.
  - b. If, for any county or city, the portion of the countywide adjustment amount allocated to that entity from the Sales and Use Tax Compensation Fund is greater than the actual total amount of local sales and use tax revenue that was not transmitted to the entity for the prior fiscal year as a result of the 0.25 percent suspension of local sales and use tax authority applied by Section 7203.1, on or before January 31 of the following fiscal year, reallocate from the entity to the county ERAF the difference between those amounts.
  - c. If, for any county or city, the portion of the countywide adjustment amount allocated to that entity from the Sales and Use Tax Compensation Fund is less than the actual total amount of local sales and use tax revenue that was not transmitted to the entity for the prior fiscal year as a result of the 0.25 percent suspension of local sales and use tax authority applied by Section 7203.1, on or before January 31 of the following fiscal year, reallocate from the county ERAF to that entity the difference between those amounts.<sup>34</sup>

**Reimbursement is not required, under Section 97.68(d)(1),** to calculate or identify countywide adjustment amount, or the portion attributable to the county and to each city within the county, or the difference between the countywide adjustment amounts allocated to the county and to each city and the actual sales and use tax revenues not transmitted to the county and to each city as a result of the suspension of sales and use tax authority; the county auditor shall be notified of those amounts by the director of the Department of Finance.<sup>35</sup>

8. If the suspension of sales and use tax authority under section 7203.1 ceases to be operative on January 1 of any fiscal year:

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<sup>33</sup> *Ibid.*

<sup>34</sup> Revenue and Taxation Code section 97.68(d)(1) (Stats. 2004, ch. 211 (SB 1096)).

<sup>35</sup> Revenue and Taxation Code section 97.68(d)(1)(C)(ii) (Stats. 2004, ch. 211 (SB 1096)).

- a. Allocate that portion of the countywide adjustment amount attributable to the county and each city within the county; one half of the amount on or before January 31 of that fiscal year, and the remaining half of the amount on or before May 31 of that fiscal year. The countywide adjustment amount shall be defined as the combined total revenue loss to the county and each city within the county, as estimated by the director of the Department of Finance based on the sales and use tax revenues transmitted under section 7204 for the *first two quarters* of the prior fiscal year as determined by the Board of Equalization and reported to the director on or before that August 15; *plus* the difference between the total amount allocated to all entities in the county in the prior year and the actual amount of sales and use tax not transmitted to all entities in the county for the prior year.
- b. If, for any county or city, the portion of the countywide adjustment amount allocated to that entity from the Sales and Use Tax Compensation Fund is greater than the actual total amount of local sales and use tax revenue that was not transmitted to the entity for the prior fiscal year as a result of the 0.25 percent suspension of local sales and use tax authority applied by section 7203.1, on or before January 31 of the following fiscal year, reallocate from the entity to the county ERAF the difference between those amounts.
- c. If, for any county or city, the portion of the countywide adjustment amount allocated to that entity from the Sales and Use Tax Compensation Fund is less than the actual total amount of local sales and use tax revenue that was not transmitted to the entity for the prior fiscal year as a result of the 0.25 percent suspension of local sales and use tax authority applied by section 7203.1, on or before January 31 of the following fiscal year, reallocate from the county ERAF to that entity the difference between those amounts.<sup>36</sup>

**Reimbursement is not required, under Section 97.68(d)(2),** to calculate or identify countywide adjustment amount, or the portion attributable to the county and to each city within the county, or the difference between the countywide adjustment amounts allocated to the county and to each city and the actual sales and use tax revenues not transmitted to the county and to each city as a result of the suspension of sales and use tax authority; the county auditor shall be notified of those amounts by the director of the Department of Finance.<sup>37</sup>

9. If the suspension of sales and use tax authority under section 7203.1 ceases to be operative on April 1 of any fiscal year:
  - a. Reduce the amount otherwise required to be allocated in May of that fiscal year from the Sales and Use Tax Compensation Fund by the amount reported by director representing that portion of the countywide adjustment amount attributable to the estimated sales and use tax revenue losses resulting from the rate suspension applied by section 7203.1 for the fourth quarter of that fiscal year for the county and each city in the county.
  - b. After May allocations have been made, transfer any moneys remaining in the county Sales and Use Tax Compensation Fund to the county ERAF.

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<sup>36</sup> Revenue and Taxation Code section 97.68 (d)(2) (Stats. 2004, ch. 211 (SB 1096)).

<sup>37</sup> Revenue and Taxation Code section 97.68(d)(2)(C)(ii) (Stats. 2004, ch. 211 (SB 1096)).

- c. If, for any county or city, the portion of the countywide adjustment amount allocated to that entity from the Sales and Use Tax Compensation Fund is greater than the actual total amount of local sales and use tax revenue that was not transmitted to the entity for the prior fiscal year as a result of the 0.25 percent suspension of local sales and use tax authority applied by section 7203.1, on or before January 31 of that fiscal year, reallocate from the entity to the county ERAF the difference between those amounts.
- d. If, for any county or city, the portion of the countywide adjustment amount allocated to that entity from the Sales and Use Tax Compensation Fund is less than the actual total amount of local sales and use tax revenue that was not transmitted to the entity for the prior fiscal year as a result of the 0.25 percent suspension of local sales and use tax authority applied by section 7203.1, on or before January 31 of the following fiscal year, reallocate from the county ERAF to that entity the difference between those amounts.<sup>38</sup>

**Reimbursement is not required, under Section 97.68(d)(3),** to calculate or identify countywide adjustment amount, or the portion attributable to the county and to each city within the county, or the difference between the countywide adjustment amounts allocated to the county and to each city and the actual sales and use tax revenues not transmitted to the county and to each city as a result of the suspension of sales and use tax authority; the county auditor shall be notified of those amounts by the director of the Department of Finance.<sup>39</sup>

10. If the suspension of sales and use tax authority under section 7203.1 ceases to be operative on July 1 of any fiscal year:

- a. If, for any county or city, the portion of the countywide adjustment amount allocated to that entity from the Sales and Use Tax Compensation Fund is greater than the actual total amount of local sales and use tax revenue that was not transmitted to the entity for the prior fiscal year as a result of the 0.25 percent suspension of local sales and use tax authority applied by section 7203.1, on or before January 31 of that fiscal year, reallocate from the entity to the county ERAF the difference between those amounts.
- b. If, for any county or city, the portion of the countywide adjustment amount allocated to that entity from the Sales and Use Tax Compensation Fund is less than the actual total amount of local sales and use tax revenue that was not transmitted to the entity for the prior fiscal year as a result of the 0.25 percent suspension of local sales and use tax authority applied by section 7203.1, on or before January 31 of the following fiscal year, reallocate from the county ERAF to that entity the difference between those amounts.<sup>40</sup>

**Reimbursement is not required, under Section 97.68(d)(4),** to calculate or identify countywide adjustment amount, or the portion attributable to the county and to each city within the county, or the difference between the countywide adjustment amounts

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<sup>38</sup> Revenue and Taxation Code section 97.68(d)(3) (Stats. 2004, ch. 211 (SB 1096)).

<sup>39</sup> Revenue and Taxation Code section 97.68(d)(3)(C)(ii) (Stats. 2004, ch. 211 (SB 1096)).

<sup>40</sup> Revenue and Taxation Code section 97.68(d)(4) (Stats. 2004, ch. 211 (SB 1096)).

allocated to the county and to each city and the actual sales and use tax revenues not transmitted to the county and to each city as a result of the suspension of sales and use tax authority; the county auditor shall be notified of those amounts by the director of the Department of Finance.<sup>41</sup>

## **Offsetting Revenues and Reimbursements**

The parameters and guidelines<sup>42</sup> provide:

Any offsets the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate from any source, including but not limited to, service fees collected, federal funds, and other state funds, shall be identified and deducted from this claim.

## **Statewide Cost Estimate**

### Assumptions

Staff reviewed the reimbursement claims data submitted by 8 counties and compiled by the SCO.<sup>43</sup> The actual claims data showed that 16 initial claims were filed for fiscal years 2004-2005 through 2005-2006 for a total of \$217, 678. Based on this data, staff made the following assumptions and used the following methodology to develop a statewide cost estimate for this program.

- *The actual amount claimed for reimbursement may increase and exceed the statewide cost estimate.*
  - There are currently 58 counties in California. Of those, only 8 counties filed claims. If eligible claimants file late or amended initial claims, the reimbursement claims would exceed the statewide cost estimate. Late initial claims for the majority of activities in this program, which are reimbursable only for fiscal years 2004-2005 through 2005-2006, may be filed until August 28, 2015.
  - One remaining activity under Health and Safety Code section 33681.15, may have resulted in state-mandated increased costs for fiscal years 2006-2007 through 2012-2013 in the initial claiming period. No initial claims have been filed for costs during those fiscal years, however, such costs may be included in late initial claims, due by August 28, 2015. This activity may also result in continuing increased costs, beyond the initial claiming period.
  - San Francisco is the only local agency eligible to claim costs for the activities required by Revenue and Taxation Code sections 97.68 and 97.70 in fiscal years 2006-2007 through 2012-13, and annually thereafter. No claims have been filed by San Francisco for the initial claiming period to date. San Francisco may file a late claim and may also file an annual claim for 2013-14 by February 15, 2015, and future annual claims thereafter.
- *The total amount of reimbursement for this program may be lower than the statewide cost*

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<sup>41</sup> Revenue and Taxation Code section 97.68(d)(4)(B)(2) (Stats. 2004, ch. 211 (SB 1096)).

<sup>42</sup> Exhibit B.

<sup>43</sup> Claims data reported as of September 10, 2014.

*estimate because the SCO may reduce any reimbursement claim for this program.*

- The SCO may conduct audits and reduce any claims it deems to be excessive or unreasonable. The reimbursable activities in this program are part of a larger process and several activities were specifically identified in the test claim decision and parameters and guidelines as non-reimbursable. Claimants may file claims for activities that, while part of the larger process, are not reimbursable and those claims may therefore be reduced by the SCO.

Methodology

*Fiscal Years 2004-2005 through 2005-2006*

The statewide cost estimate for fiscal years 2004-2005 through 2005-2006 was developed by totaling the 16 reimbursement claims filed with the SCO for these years, for a total of \$217,678. One remaining activity under Health and Safety Code section 33681.15, may result in state-mandated increased costs on or after July 1, 2006. However, to date, no claims have been filed for fiscal years after 2005-2006. Additionally, beginning in fiscal year 2006-2007, San Francisco is the only potential claimant eligible to claim costs for activities required by Revenue and Taxation Code sections 97.68 and 97.70. All other activities cease to be reimbursable as of June 30, 2006.

San Francisco has not submitted a claim on this program. Therefore, staff cannot estimate potential future annual costs on these few remaining activities because there is a lack of data to support such an estimate. San Francisco could submit a late initial claim by August 28, 2015 or future annual claims by the annual deadline of February 15. Following is a breakdown of estimated total costs per fiscal year:

<b>Fiscal Year</b>	<b>Number of Claims Filed with SCO</b>	<b>Estimated Cost</b>
2004-2005	8	\$123,285
2005-2006	8	\$94,393
<b>TOTAL</b>	<b>16</b>	<b>\$217,678</b>

**Staff Recommendation**

Staff recommends the Commission adopt the proposed statewide cost estimate of **\$217,678** for costs incurred in complying with the *Accounting for Local Revenue Realignments* program.

**DECLARATION OF SERVICE BY EMAIL**

I, the undersigned, declare as follows:

I am a resident of the County of Yolo and I am over the age of 18 years, and not a party to the within action. My place of employment is 980 Ninth Street, Suite 300, Sacramento, California 95814.

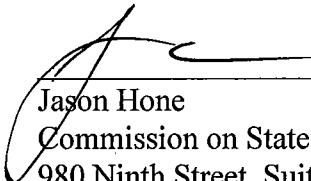
On October 10, 2014, I served the:

**Draft Proposed Statewide Cost Estimate, Schedule for Comments, and  
Notice of Hearing**

*Accounting for Local Revenue Realignments, 05-TC-01*  
Health and Safety Code Section 33681 et al.  
County of Los Angeles, Claimant

by making it available on the Commission's website and providing notice of how to locate it to the email addresses provided on the attached mailing list.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on October 10, 2014 at Sacramento, California.

  
\_\_\_\_\_  
Jason Hone  
Commission on State Mandates  
980 Ninth Street, Suite 300  
Sacramento, CA 95814  
(916) 323-3562

# COMMISSION ON STATE MANDATES

## Mailing List

**Last Updated:** 10/10/14

**Claim Number:** 05-TC-01

**Matter:** Accounting for Local Revenue Realignments

**Claimant:** County of Los Angeles

### TO ALL PARTIES, INTERESTED PARTIES, AND INTERESTED PERSONS:

Each commission mailing list is continuously updated as requests are received to include or remove any party or person on the mailing list. A current mailing list is provided with commission correspondence, and a copy of the current mailing list is available upon request at any time. Except as provided otherwise by commission rule, when a party or interested party files any written material with the commission concerning a claim, it shall simultaneously serve a copy of the written material on the parties and interested parties to the claim identified on the mailing list provided by the commission. (Cal. Code Regs., tit. 2, § 1181.3.)

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