



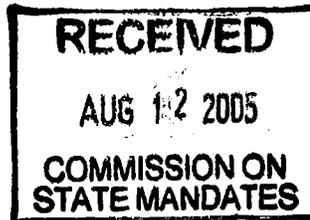
**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

August 11, 2005

Ms. Paula Higashi
Executive Director
Commission on State Mandates
900 Ninth Street, Suite 300
Sacramento, California 95814



Dear Ms. Higashi:

County of Los Angeles Test Claim
Accounting for Local Revenue Realignments

The County of Los Angeles submits and encloses herewith a test claim to obtain timely and complete reimbursement for the State-mandated local program in the test claim legislation, as detailed and documented herein.

Leonard Kaye of my staff is available at (213) 974-8564 to answer questions you may have concerning this submission.

Very truly yours,

John Naimo FOR

J. Tyler McCauley
Auditor-Controller

JTM:CY:LK:hy
Enclosures

County of Los Angeles Test Claim

Health & Safety Code [H&S] Section 33681.12 added by Statutes of 2004 Chapter 211 [SB 1096] and amended by Statutes of 2004, Chapter 610 [AB 2115]; H&S Sections 33681.13, 33681.14 as added by SB 1096; H&S Section 33681.15 added by AB 2115; Revenue & Taxation Code [R&T] Sections 96.81, 97.75, 97.76, 97.77 added by SB 1096; R&T Sections 97.31, 98.02, as amended by SB 1096; R&R Section 97.68 added by Statutes of 2003, Chapter 162 [AB1766] and amended by SB 1096; R&T Sections 97.70, 97.71, 97.72, 97.73, as added by SB 1096 and amended by AB 2115

Accounting for Local Revenue Realignments

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I. TEST CLAIM TITLE

Accounting for Local Revenue Realignments

Chapter 211, Statutes of 2004 [SB 1096]

Chapter 610, Statutes of 2004 [AB 2115]

2. CLAIMANT INFORMATION

County of Los Angeles

Name of Local Agency or School District

J. Tyler McCauley

Claimant Contact

Auditor-Controller

Title

500 West Temple Street, Room 525

Street Address

Los Angeles, CA 90012

City, State Zip

Los Angeles, California 90012-2766

Telephone Number

[213] 974-8301

Fax Number

[213] 626-5427

E-Mail Address

tmccaule@auditor.co.la.ca.us

3. CLAIMANT REPRESENTATIVE INFORMATION

Claimant designates the following person to act as its sole representative in this test claim. All correspondence and communications regarding this claim shall be forwarded to this representative. Any change in representation must be authorized by the claimant in writing, and sent to the Commission on State Mandates.

Leonard Kaye

Claimant Representative Name

SB90 Coordinator

Title

County of Los Angeles

Organization

500 West Temple Street, Room 603

Street Address

Los Angeles, CA 90012-2766

City, State, Zip

(213) 974-8564

Telephone Number

(213) 617-8106

Fax Number

lkaye@auditor.co.la.ca.us

E-Mail Address

RECEIVED <i>For CSM Use Only</i>	
Filing Date:	AUG 12 2005 COMMISSION ON STATE MANDATES
Test Claim #:	05-JC-01

4. TEST CLAIM STATUTES OR EXECUTIVE ORDERS CITED

Please identify all code sections, Statutes, bill numbers, regulations, and/or executive orders that impose the alleged mandates (e.g., Penal Code Section 2045, Statutes of 2004, Chapter 54 [AB 290]. When alleging regulations or executive orders, please include the effective date of each one.

Health & Safety Code [H&S] Section 33681.1.2 added by Statutes of 2004, Chapter 211 [SB 1096] and amended by Statutes of 2004, Chapter 610 [AB 2115]; H&S Sections 33681.13, 33681.14 as added by SB1096; H&S Section 33681.15 added by AB 2115; Revenue & Taxation Code [R&T] Sections 96.81, 97.75, 97.76, 97.77 added by SB 1096; R&T Sections 97.31, 98.02, as amended by SB 1096; R&T Section 97.68 added by Statutes of 2003, Chapter 162 [AB 1766] and amended by SB 1096; R&T Sections 97.70, 97.71, 97.72, 97.73 as added by SB 1096 and amended by AB 2115

Copies of all statutes and executive orders cited are attached

Sections 5, 6, and 7 are attached as follows:

5. Written Narrative: Volume I

6. Declarations : Volume II

7. Documentation: Volumes III, IV, V

Executive Summary

The County of Los Angeles [County] submits this test claim to recover its costs in performing local revenue realignment accounting duties mandated under the test claim legislation¹.

The State Budget Act for 2004-05 [Chapter 208, Statutes of 2004 [SB 1113], enacted on July 31, 2004 required local revenue realignments, but provided no guidance on how this was to be done. As noted in a December 13, 2004 letter from Susan J. Linschoten, Chief of the County's Auditor-Controller Tax Division, to Dr. Marshall Drummond, Chancellor of California's Community Colleges, included herein on page 135 of Volume V:

“The Governor approved Senate Bill 1096 and Assembly Bill 2115 to address the projected budget shortfall in fiscal year 2004-05, through a combination of major and wide-ranging additional borrowing and diversion of local property taxes including the Educational Revenue Augmentation Fund, (ERAF) for the benefit of the State.”

The resulting changes to existing law were pervasive --- affecting property tax, sales and use tax, and vehicle license fee revenues to counties, cities, special districts, community redevelopment agencies, schools and community college districts. New statutory rules, formulas, and procedures, detailed herein, required the overhaul and retooling of local revenue allocation and distribution systems.

The innovative revenue systems, detailed in the test claim legislation, required the close and daily collaboration of State and local revenue management officials. In this regard, the Budget Committee Analysis for AB 2115, indicates [on page 162 of Volume II], that:

¹ Specific code sections included in the test claim legislation are stated in Section 4. herein as: Health & Safety Code [H&S] Section 33681.12 added by Statutes of 2004, Chapter 211 [SB1096] and amended by Statutes of 2004, Chapter 610 [AB 2115], H&S Sections 33681.13, 33681.14 as added by SB 1096; H&S Section 33681.15 added by AB 2115; Revenue & Taxation Code [R&T] Sections 96.81, 97.75, 97.76, 97.77 added by SB 1096; R&T Sections 97.31, 98.02, as amended by SB1096; R&T Section 97.68 added by Statutes of 2003, Chapter 162 [AB 1766] and amended by SB 1096; R&T Sections 97.7, 97.71, 97.72, 97.73 as added by SB 1096 and amended by AB 2115.

“ The 2004-05 budget includes \$1.3 billion of annual General Fund (GF) savings in 2004-05 and 2005-06 by reducing property tax revenues to, or shifting them from, local government. These savings were implemented by SB 1096. Subsequent to enactment of SB 1096, a number of errors, omissions, and necessary revisions have been identified. This cleanup bill addresses various technical issues raised by local governments, the State Controller's Office, the Board of Equalization, and legislative staff. The bill was developed with the participation of bipartisan Assembly and Senate staff as well as the Administration.”

Of course, reimbursement for the \$1.3 billion the State saved in reducing local governments' property tax revenues is not sought here. What is sought here is reimbursement for the increased costs which the County of Los Angeles and other counties throughout the State have incurred during 2004-05 [\$13,301,018] and will incur during 2005-06 [\$12,580,829]² as an unavoidable consequence of complying with this test claim legislation.

The costs claimed herein meet the requirements for reimbursable costs under Section 6 of Article XIII B of the California Constitution. First, increased costs were incurred after July 1, 1980. Secondly, such costs were incurred as a result of statutes enacted on or after January 1, 1975. And, third, increased costs were incurred to implement a new program or a higher level of service of an existing program.

Further, funding disclaimers are not available to bar recovery of otherwise reimbursable costs. Specifically, the funding disclaimer that the County may charge a fee to cover its increased costs [Section 17556(d) of the Government Code] is not available as Revenue and Taxation Code Section 97.75, included as part of the test claim legislation expressly provides that:

“Notwithstanding any other provision of law, for the 2004-05 and 2005-06 fiscal years, a county shall not impose a fee, charge, or other levy on a city, nor reduce a city's allocation of ad valorem property tax revenue, in reimbursement for the services performed by the county under Sections 97.68 and 97.70. For the 2006-07 fiscal year and each

² See cost studies in Volume II, pages 6-17 for 2004-05 costs and pages 18-29 for 2005-06 costs. The Statewide cost for 2004-05 [\$13,301,018] is computed on page 16 of Volume II and for 2005-06 [\$12,580,829] is computed on page 28 of Volume II.

Section 5. Written Narrative
County of Los Angeles Test Claim
Accounting for Local Revenue Realignment

fiscal year thereafter, a county may impose a fee, charge, or other levy on a city for these services, but the fee, charge, or other levy shall not exceed the actual cost of providing these services.” [Emphasis added]

Also, the current funding disclaimer that the test claim legislation “imposes duties that are necessary to implement, reasonably within the scope of, or expressly included in a ballot measure approved by the voters in a statewide or local election ...” [Government Code Section 17556(f)] is not available to bar recovery of otherwise reimbursable costs³.

Accordingly, reimbursement for costs incurred in implementing the test claim legislation, as detailed herein, is required.

B. Realigned Revenues

The comprehensive revisions to local government finances under the test claim legislation may be grouped under three categories. These are:

³ The two ballot initiatives that are possibly pertinent here are Proposition 1A [attached in Volume II, on pages 163-164] and Proposition 57 [attached in Volume II, on pages 165-170]. Prop 1A guarantees 0.65% VLF rate to cities and counties. The VLF/property tax swap is statutory and is not referred to in any way by Proposition 1A. There's nothing in Proposition 1A that otherwise contemplates, refers to, or obliquely references ERAF III. While Proposition 1A does reference the triple flip, it only prohibits the Legislature from extending the triple flip beyond the date on which it terminates according to the existing statute (the day the fiscal recovery bonds are paid off). However, the triple flip is not "reasonably within the scope of" Proposition 1A simply because the same subject matter is referenced. Proposition 57 added Government Code section 99072(c) which pledges revenues raised from the additional 1/4 cent sales tax to the "Fiscal Recovery Fund" to pay off the fiscal recovery bond. Section 99072(c), however, it is not part of the test claim legislation. Further, there is nothing in Prop 57 which indicates that the additional 1/4 cent sales tax, requiring a "triple flip", is "necessary to implement Prop 57. With respect to whether “triple flip” is “reasonably within the scope of” Proposition 57, the test claim legislation goes far beyond any bond financing scheme envisioned by the framers of Prop 57. In this regard, the Senate Floor Analysis of SB 1096, included herein in Volume II, page 157, indicates that SB 1096 “contains legislative findings and declarations that this entire measure [including the “triple flip”] is a comprehensive revision to local government finances ... “, not encompassed by Prop 57. Further, SB 1096 was not affected by Proposition 65 either. Prop 65 was not approved by the voters in the November 2, 2004 general election and, accordingly, is also not applicable here.

1. Property taxes - Educational Revenue Augmentation Fund [ERAF]. The test claim legislation requires additional shifts to ERAF accounts, not required under prior law. The 1992-93 ERAF shift is now being called ERAF I; the 1993-94 ERAF shift is now being called ERAF II. The State Department of Finance has provided guidance on the amounts and timing of the new ERAF III shifts for local jurisdictions. These shifts will only be implemented by local taxing agencies for 2004/05 and 2005/06. It should be noted that cities, counties, redevelopment agencies, special districts, and joint county special districts are included in ERAF III. As the shifted payment criterion for each type of taxing agency is different, this shifting process is complex. The specific elements of the process are detailed in the following provisions of the test claim legislation: Health & Safety Code [H&S] Section 33681.12 added by Statutes of 2004, Chapter 211 [SB1096] and amended by Statutes of 2004, Chapter 610 [AB 2115]; H&S Sections 33681.13, 33681.14 as added by SB 1096; H&S Section 33681.15 added by AB 2115; Revenue & Taxation Code [R&T] Sections 97.75, 97.77 added by SB 1096; R&T Sections 97.31, 98.02, as amended by SB1096; R&T Sections 97.71, 97.72, 97.73 as added by SB 1096 and amended by AB 2115.

2. Motor Vehicle License Fee [MVLFF] Swap – The motor vehicle license fee swap for property taxes is to be a permanent swap. The State Department of Finance provided county Auditors with estimated 2004-05 amounts to be taken from the ERAF Fund for the counties and cities. A one-time “true-up” will be made in 2005-06 and then the MVLFF Swap amount will grow as the agency’s assessed value grows. Growth calculations should be made beginning in 2005/06 and each following year. The calculation is to be based on the percentage change in gross taxable assessed value from the prior fiscal year to the current fiscal year using the city’s prior jurisdictional boundaries (growth is without annexed areas).

The specific elements of the process are detailed in the following provisions of the test claim legislation: Revenue & Taxation Code [R&T] Sections 96.81, 97.76 added by SB 1096; R&T Sections 97.70 as added by SB 1096 and amended by AB 2115.

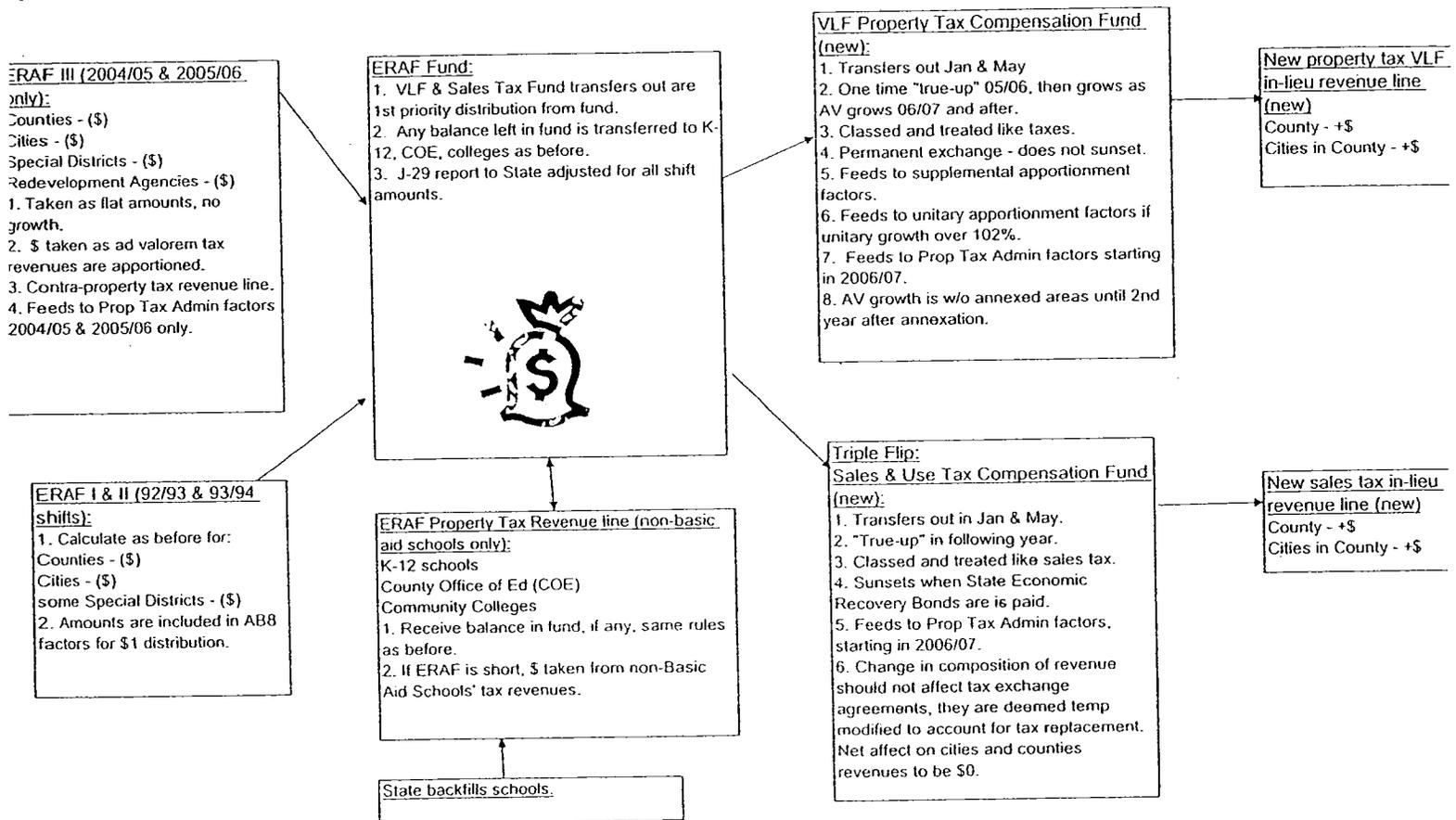
Section 5. Written Narrative
 County of Los Angeles Test Claim
Accounting for Local Revenue Realignments

3. Triple Flip (0.25% Reduction to Bradley-Burns Sales Tax Authority) – The State will take 0.25% of local sales and use tax to repay its Economic Recovery Bonds. The local counties and cities will be reimbursed for this loss from the ERAF Fund. This reimbursement will continue until the State bonds are paid. The State will replace the schools' appropriated ERAF funds with State general fund monies. The specific elements of the process are detailed in the following provisions of the test claim legislation: R&T Section 97.68 added by Statutes of 2003, Chapter 162 [AB 1766] and amended by SB 1096.

It should be noted that the three revenue systems [ERAF III, MVLF Swap, and Triple Flip] are interrelated and realigned under the test claim legislation. The new relationships are diagrammed, on the following page, as follows:

004/2005 TRIPLE FLIP, SB1096, AB2115

FLOWCHART



- Definitions:
1. "AV" to be used for VLF growth in 2005/06. S, U, H/O, Boats, Airplanes, Utility w/o unitary. This is to be Gross, before RDA adjustments are taken off. For city's previous jurisdictional boundaries, without regard to the change in that city's jurisdictional boundaries. For each following fiscal year, the percentage change in gross taxable assessed valuation from the prior FY to the current FY shall be calculated on the basis of the city's prior year jurisdictional boundaries.
 2. Because of special VLF growth, this shift will always be done on a jurisdictional level, with transfers/distributions twice a year in January & May.
 3. It would be prudent to use a contra-revenue line for ERAF III shift amounts.
 4. New revenue source lines should be built for the in-lieu VLF and the in-lieu sales tax. (Code requires it.)
 5. In November, 2004, the State asked that the J-29 report be net of the VLF and Triple Flip amounts.

Section 5. Written Narrative
County of Los Angeles Test Claim
Accounting for Local Revenue Realignment

The milestones in planning, implementing and administering local revenue realignments mandated under the test claim legislation began on September 1, 2004, also the date on which the County began to incur costs as an unavoidable consequence of complying with the test claim legislation. Key dates and steps are:

2004/2005 TRIPLE FLIP, SB1096, AB2115

Date	Action	
March 2, 2004	Proposition 57 passed by voters. Reduced general sales tax rate for local govt; property tax offset reduction in sales tax.	one time only
September 1, 2004	DOF notifies counties & cities of sales tax shift amounts (Countywide adjustment amounts).	annually
September 1, 2004	SCO notifies Counties & cities of VLF amounts.	annually
September 15, 2004	SCO notifies Counties of ERAF III amounts.	two years only
October 1, 2004	Cities may pay ERAF III to County ERAF.	two years only
October 24, 2004	SCO notifies DOF of special district amounts for ERAF III	one time only
November 2, 2004	Voters passed Proposition 1A.	one time only
November 12, 2004	DOF notifies County Auditors of ERAF III amounts for special districts	one time only
November 15, 2004	J-29 (P-1) estimate due State	every year
November 15, 2004	DOF notifies County Auditors of ERAF III amounts for RDAs.	two years only
January 10, 2005	Governor's "countywide adjustment amount" for 2005/06 reported in State budget	every year
January 31, 2005	Transfer 1/2 the Countywide Adjustment Amount into Sales Tax Compensation Fund. (Triple Flip)	every year
January 31, 2005	Transfer 1/2 the VLF Adjustment amount.	every year
March 1, 2005	RDAs notify County Auditors how they will fund ERAF III shift.	two years only
April 15, 2005	J-29 (P-2) estimate due State	every year
May 10, 2005	RDAs pay ERAF III to County ERAF	two years only
May 14, 2005	May Revision of Governor's "countywide adjustment amount" estimate	every year
May 31, 2005	Transfer 1/2 the Countywide Adjustment Amount into Sales Tax Compensation Fund. (Triple Flip)	every year
May 31, 2005	Transfer 1/2 the VLF Adjustment amount.	every year
July, 2005	State calculates "true-up" on Sales Tax in-lieu	every year
August 15, 2005	J-29 (Annual) due to State	every year
September 1, 2005	DOF notifies counties & cities of sales tax shift amounts (Countywide adjustment amounts). Including annual "true-up".	every year
September 1, 2005	State calculates "true-up" on VLF in-lieu	one time only
September 15, 2005	SCO notifies Counties of ERAF III amounts.	two years only
October 1, 2005	Cities may pay ERAF III to County ERAF.	every year
November 15, 2004	J-29 (P-1) estimate due State	every year
November 15, 2005	DOF notifies County Auditors of ERAF III amounts for RDAs.	two years only
January 1, 2006	State calculates Sales tax in-lieu "true-up".	every year
January 31, 2006	Transfer 1/2 the Countywide Adjustment Amount into Sales Tax Compensation Fund. (Triple Flip)	every year
January 31, 2006	Transfer 1/2 the VLF Adjustment amount.	every year
March 1, 2006	RDAs notify County Auditors how they will fund ERAF III shift.	two years only
April 15, 2005	J-29 (P-2) estimate due State	every year
May 10, 2006	RDAs pay ERAF III to County ERAF	two years only
May 31, 2006	Transfer 1/2 the Countywide Adjustment Amount into Sales Tax Compensation Fund. (Triple Flip)	every year
May 31, 2006	Transfer 1/2 the VLF Adjustment amount.	every year
August 15, 2006	J-29 (Annual) due to State	every year
September 1, 2006	DOF notifies counties & cities of sales tax shift amounts (Countywide adjustment amounts). Including annual "true-up".	every year
January 1, 2007	State calculates Sales tax in-lieu "true-up".	every year

Triple Flip

The Triple Flip was the first milestone in the comprehensive revision of local government finances under the test claim legislation. Revenue and Taxation Code Section 97.68 added by Chapter 162, Statutes of 2003 [AB 1766] on August 2, 2003 and subsequently amended by Chapter 211, Statutes of 2004 [SB1096] on September 20, 2004 provides that in order to pledge a sales tax revenue stream to the bondholders who purchase the State Economic Recovery Bonds, the state “flipped” the sales and use tax from the counties and cities to the bond trustee for debt service payments.

In order to compensate lost revenue to cities and counties, a direct dollar for dollar replacement to the county’s and each city in the county from the county Educational Revenue Augmentation Fund (ERAF) was required. Since local ERAF fund amounts would be reduced, any additional revenue that would be lost from each ERAF would be replaced by direct subventions from the State of California’s General Fund to each K-12, community college, and office of the county superintendents to maintain their respective funding levels. These ERAF replacements and reductions were new, not required under prior law.

During the 1992-93 State Budget process, the State Legislature and Governor struggled to balance an \$11 billion budget deficit. As part of the State’s budget solution, the budget bills included a \$1.3 billion shift in local property tax revenues from counties, cities, special districts, and redevelopment agencies to K-12 schools and community colleges, commonly referred to as the Educational Revenue Augmentation Fund [ERAF] I shift.

During the 1993-94 State Budget process, the State Legislature and Governor shifted an additional \$2.6 billion shift (ERAF II) in local property tax revenues from counties, cities, special districts and redevelopment agencies to K-12 schools and community colleges in order to balance the State Budget.

These earlier shifts are both continuing, annual shifts, and the amounts shifted include growth. So annual shifts that once were \$1.3 billion and \$2.6 billion have, and under existing law, will continue to grow significantly larger over time.

The Triple Flip, requiring a 0.25% reduction in the Bradley-Burns Sales Tax Authority, is an extraordinary statute which imposes upon local government the

burden of ensuring that Economic Recovery Bonds would be repaid from a reliable revenue stream.

Further, the Triple Flip is an extraordinary measure in that local counties and cities will be reimbursed for their 0.25% sales tax loss from the ERAF Fund. This reimbursement will continue until the State bonds are paid. The State will replace the schools' appropriated ERAF funds with State general fund monies.

All these elaborate provisions, imposed by R&T Section 97.68 added by Statutes of 2003, Chapter 162 [AB 1766] and amended by SB 1096, required counties to perform many accounting functions not previously required in repaying bonds.

Prior to the passage of this legislation the statewide sales and use tax rate was 7.25 percent. Of the 7.25 percent base rate, 6 percent was the state sales and use tax portion and 1.25 percent was the local sales and use tax portion. The components of the state sales and use tax rate of 6 percent were as follows:

- A. 5 percent state tax allocated to the state's General Fund (Section 6051, 6051.3, 6201 and 6201.3)
- B. ½ percent state tax allocated to the Local Revenue Fund which is dedicated to local governments for program realignment (Section 6051.2 and 6201.2).
- C. ½ percent state tax allocated to the Local Public Safety Fund which is dedicated to local governments to fund safety services (Section 35 of Article XIII of the California Constitution).

Under the Bradley-Burns Uniform Local Sales and Use Tax Law, counties and cities are authorized to impose a local sales and use tax at a fixed rate of 1.25 percent. Counties are authorized to impose a local sales and use tax rate of up to 1.25 percent. Cities are authorized to impose a local sales and use tax rate of up to 1 percent that is credited against the county rate so that the combined local sales and use tax rate does not exceed 1.25 percent. Of the 1.25 percent, cities and counties use the 1 percent to support general operations. The remaining 0.25 percent is designated by statute for county transportation purposes and may be used only for road maintenance or the operation of transit systems.

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AB7x a companion bill to this AB1766 increases the state sales and use tax rate by 0.50 percent and decreases the Bradley-Burns local sales and use tax rate by 0.50 percent. This legislation reduces the amount of property tax revenue allocated to a county's ERAF by an amount attributable to the 0.50 percent reduction in the local sales and use tax rate, and instead requires this amount to be deposited into the Sales and Use Tax Compensation Fund [SUTCF] that is established by this legislation. This legislation requires the county auditor to allocate moneys from the SUTCF to cities and counties to reimburse them for local sales and use tax revenue losses attributable to the 0.50 percent reduction in the local sales and use tax rate.

A 0.50 percent reduction in the local sales and use tax rate would reduce local sales and use tax revenues by \$1.136 billion. Cities and counties would be reimbursed for this \$1.136 billion local revenue loss in fiscal year 2004-05 alone, through property tax revenues from the SUTCF. For Los Angeles County alone the estimated countywide adjustment amount is \$280 million for FY 2004-05.

During the 2004-05 State Budget process, the State Legislature and the Governor enacted Senate Bill 1096 and Assembly Bill 2115, effectively shifting an additional \$1.3 billion in local property tax revenues from counties, cities, special districts and redevelopment agencies to K-12 schools and community colleges. This shift, referred to as ERAF III, is different from the previous two ERAF shifts. ERAF III required that Section 97.68 of the Revenue and Taxation Code be rewritten.

R&T Section 97.68

Revenue and Taxation Code section 97.68, as added by Statutes of 2003, Chapter 162 [AB 1766] and amended by Statutes of 2004, Chapter 211 [SB 1096] provides a mechanism to reimburse cities and counties for their revenue loss due to the reduction in the sales and use tax revenue through a property tax transfer from ERAF III funds in each county to a new Sales and Use Tax Compensation Fund (SUTCF), based on annual estimates of sales and use tax revenue loss by the Director of the Department of Finance.

Section 97.68 as added by Chapter 162, Statutes of 2003 [AB 1766] and amended by Chapter 211, Statutes of 2004 [SB 1096] is included in the subject test claim legislation as, among other things, it details a key component of the

State's new financing scheme - "county-wide adjustment" allocations to go into effect during the 2004-05 and 2005-06 fiscal years.⁴

Section 97.68 as added by Chapter 162, Statutes of 2003 [AB 1766] and amended by Chapter 211, Statutes of 2004. (S.B.1096), included herein under the test claim legislation, requires county staff to perform new mandated activities, as listed below, which were not required under prior law:

"Notwithstanding any other provision of law, in allocating ad valorem property tax revenue allocations for each fiscal year during the fiscal adjustment period, all of the following apply:

(a)(1) The total amount of ad valorem property tax revenue otherwise required to be allocated to a county's Educational Revenue Augmentation Fund shall be reduced by the countywide adjustment amount.

(2) The countywide adjustment amount shall be deposited in a Sales and Use Tax Compensation Fund that shall be established in the treasury of each county. [Emphasis added]

(b) For purposes of this section, the following definitions apply:

(1) "Fiscal adjustment period" means the period beginning with the 2004-05 fiscal year and continuing through the fiscal year in which the Director of Finance notifies the State Board of Equalization pursuant to subdivision (b) of Section 99006 of the Government Code.

(2) Except as otherwise provided in subdivision (d), the "countywide adjustment amount" means the combined total revenue loss of the county and each city in the county that is annually estimated by the Director of Finance, based upon the actual amount of sales and use tax revenues transmitted under Section 7204 in that county in the prior fiscal year and any projected growth on that amount for the current

⁴ It should be noted that the County began incurring costs to implement AB 1766 on September 1, 2004, less than one year from the date of this test claim filing, and, therefore, this statute is an eligible test claim statute pursuant to Government Code Section 17551(c) as amended by Chapter 890, Statutes of 2004 [AB 2856].

fiscal year as determined by the State Board of Equalization and reported to the director on or before August 15 of each fiscal year during the fiscal adjustment period, to result for each of those fiscal years from the 0.25 percent reduction in local sales and use rate tax authority applied by Section 7203.1. The director shall adjust the estimates described in this paragraph if the board reports to him or her any changes in the projected growth in local sales and use tax revenues for the current fiscal year.

(3) "In lieu local sales and use tax revenues" means those revenues that are transferred under this section to a county or a city from a Sales and Use Tax Compensation Fund or an Educational Revenue Augmentation Fund.

(c) Except as otherwise provided in subdivision (d), for each fiscal year during the fiscal adjustment period, in lieu sales and use tax revenues in the Sales and Use Tax Compensation Fund shall be allocated among the county and the cities in the county, and those allocations shall be subsequently adjusted, as follows:

(1) The Director of Finance shall, on or before September 1 of each fiscal year during the fiscal adjustment period, notify each county auditor of that portion of the countywide adjustment amount for that fiscal year that is attributable to the county and to each city within that county.

(2) The county auditor shall allocate revenues in the Sales and Use Tax Compensation Fund among the county and cities in the county in the amounts described in paragraph (1). The auditor shall allocate one-half of the amount described in paragraph (1) in each January during the fiscal adjustment period and shall allocate the balance of that amount in each May during the fiscal adjustment period. [Emphasis added]

(3) After the end of each fiscal year during the fiscal adjustment period, other than a fiscal year subject to subdivision (d), the Director of Finance shall, based on the actual amount of sales and use tax revenues that were not transmitted for the prior fiscal year, recalculate each amount estimated under paragraph (1) and notify the county auditor of the recalculated amount.

(4) If the amount recalculated under paragraph (3) for the county or any city in the county is greater than the amount allocated to that local agency under paragraph (2), the county auditor shall, in the fiscal year next following the fiscal year for which the allocation was made, 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. [Emphasis added]

(5) If the amount recalculated under paragraph (3) for the county or any city in the county is less than the amount allocated to that local agency under paragraph (2), the county auditor shall, in the fiscal year next 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 Educational Revenue Augmentation Fund. [Emphasis added]

(6) If there is an insufficient amount of moneys in a county's Sales and Use Tax Compensation Fund to make the transfers required by paragraph (4), the county auditor shall transfer from the county Educational Revenue Augmentation Fund an amount sufficient to make the full amount of these transfers. [Emphasis added]

(d) Notwithstanding any other provision of this section, when Section 7203.1 ceases to be operative, all of the following apply:

(1) If Section 7203.1 ceases to be operative on an October 1 of a fiscal year during the fiscal adjustment period, all of the following apply:

(A) The "countywide adjustment amount" for that fiscal year means an amount equal to sum of the following two amounts:

(i) The combined total revenue loss of the county and each city in the county that is estimated by the director, based upon actual sales and use tax revenues transmitted under Section 7204 for the first quarter of the prior fiscal year as determined by the State Board of Equalization and reported to the director on or before that August 15, to result for

the first quarter of the current fiscal year from the 0.25 percent reduction in local sales and use tax rate authority applied by Section 7203.1.

(ii) The difference between the following two amounts:

(I) The total amount that was allocated to the county and each city in the county under subdivision (c) for the prior fiscal year.

(II) The actual total amount of local sales and use tax revenue that was not transmitted the county or city and county and each city in the county 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.

(B) On or before January 31 of that fiscal year, the auditor shall allocate to the county and each city in the county that portion of the countywide adjustment amount for that fiscal year that is attributable to the county and each city in the county. [Emphasis added]

(C) On or before May 1 of that fiscal year, the State Board of Equalization shall report to the director the actual total amount of local sales and use tax revenue that was not transmitted to the county and each city in the county in that 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 May 1 of that fiscal year, the director shall do both of the following:

(i) Determine the difference between the following two amounts:

(I) The amount specified in clause (i) of subparagraph (A) that was allocated to the county and each city in the county for that fiscal year under subparagraph (B).

(II) The actual total amount of local sales and use tax revenue that was not transmitted to the county and each city in the county for that fiscal year as a result of the 0.25 percent suspension of local sales and use tax authority applied by Section 7203.1.

(ii) Notify the auditor of each county of the amounts determined under clause (i) for his or her county and all of the cities in that county.

(D)(i) If, for any county or city, the amount described in subclause (I) of clause (i) of subparagraph (C) is greater than the amount described in subclause (II) of clause (i) of subparagraph (C), the county auditor shall, on or before May 31 of that fiscal year, reallocate from the entity to the county Educational Revenue Augmentation Fund the difference between those amounts. [Emphasis added]

(ii) If, for any county or city, the amount described in subclause (I) of clause (i) of subparagraph (C) is less than the amount described in subclause (II) of clause (i) of subparagraph (C), the county auditor shall, on or before May 31 of that fiscal year, reallocate from the county Educational Revenue Augmentation Fund to that entity the difference between those amounts. [Emphasis added]

(2) If Section 7203.1 ceases to be operative on a January 1 of a fiscal year during the fiscal adjustment period, all of the following apply:

(A) The "countywide adjustment amount" for that fiscal year means an amount equal to the sum of the following two amounts:

(i) The combined total revenue loss of the county and each city in the county that is estimated by the director, based upon actual sales and use tax revenues transmitted under Section 7204 for the first and second quarters of the prior fiscal year as determined by the State Board of Equalization and reported to the director on or before that August 15, to result for the first and second quarters of that fiscal year from the 0.25 percent reduction in local sales and use tax rate authority applied by Section 7203.1.

(ii) The difference between the following two amounts:

(I) The total amount that was allocated to the county and each city in the county under subdivision (c) for the prior fiscal year.

(II) The actual total amount of local sales and use tax revenue that was not transmitted the county or city and county and each city in the

county 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.

(B) The auditor shall allocate to the county and each city in the county that portion of the countywide adjustment amount for that fiscal year that is attributable to the county and each city in the county. One-half of this amount shall be allocated on or before January 31 of that fiscal year and the other one-half of that amount shall be allocated on or before May 31 of that fiscal year. [Emphasis added]

(C) On or before June 30 of that fiscal year, the State Board of Equalization shall report to the director the actual total amount of local sales and use tax revenue that was not transmitted to the county and each city in the county for that 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 June 30 of that fiscal year, the director shall do both of the following:

(i) Determine the difference between the following two amounts:

(I) The amount specified in clause (i) of subparagraph (A) that was allocated to the county and each city in the county for that fiscal year under subparagraph (B).

(II) The actual total amount of local sales and use tax revenue that was not transmitted to the county and each city in the county for that fiscal year as a result of the 0.25 percent suspension of local sales and use tax authority applied by Section 7203.1.

(ii) Notify the auditor of each county of the amounts determined under clause (i) for his or her county and all of the cities in that county.

(D)(i) If, for any county or city, the amount described in subclause (I) of clause (i) of subparagraph (C) is greater than the amount described in subclause (II) of clause (i) of subparagraph (C), the county auditor shall, on or before January 31 of the following fiscal year, reallocate from the entity to the county Educational Revenue Augmentation Fund the difference between those amounts. [Emphasis added]

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(ii) If, for any county or city, the amount described in subclause (I) of clause (i) of subparagraph (C) is less than the amount described in subclause (II) of clause (i) of subparagraph (C), the county auditor shall, on or before January 31 of the following fiscal year, reallocate from the county Educational Revenue Augmentation Fund to that entity the difference between those amounts. [Emphasis added]

(3) If Section 7203.1 ceases to be operative on an April 1 of a fiscal year during the fiscal adjustment period, all of the following apply:

(A) On or before May 1 of that fiscal year, the director shall determine and report to the auditor of each county that portion of the countywide adjustment amount that is 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) The auditor shall reduce the total amount that is otherwise required to be allocated in May of that fiscal year from the county Sales and Use Tax Compensation Fund to the county and each city in the county by the amount reported by the director with respect to that entity under subparagraph (A). After the May allocations have been made, the auditor shall transfer any moneys remaining in the county Sales and Use Tax Compensation Fund to the county Educational Revenue Augmentation Fund. [Emphasis added]

(C) On or before January 1 of the next fiscal year, the State Board of Equalization shall report to the director the actual total amount of local sales and use tax revenue that was not transmitted to the county and each city in the county 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 1 of that fiscal year, the director shall do both of the following:

(i) Determine the difference between the following two amounts:

(I) The total amount that was allocated to the county and each city in the county for the prior fiscal year under subdivision (c), as adjusted

under subparagraph (B).

(II) The actual total amount of local sales and use tax revenue that was not transmitted to the county and each city in the county 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.

(ii) Notify the auditor of each county of the amounts determined under clause (i) for his or her county and all of the cities in that county.

(D)(i) If, for any county or city, the amount described in subclause (I) of clause (i) of subparagraph (C) is greater than the amount described in subclause (II) of clause (i) of subparagraph (C), the county auditor shall, on or before January 31 of that fiscal year, reallocate from the entity to the county Educational Revenue Augmentation Fund the difference between those amounts. [Emphasis added]

(ii) If, for any county or city, the amount described in subclause (I) of clause (i) of subparagraph (C) is less than the amount described in subclause (II) of clause (i) of subparagraph (C), the county auditor shall, on or before January 31 of the following fiscal year, reallocate from the county Educational Revenue Augmentation Fund to that entity the difference between those amounts. [Emphasis added]

(4) If Section 7203.1 ceases to be operative on a July 1, all of the following apply:

(A) On or before January 1 of that fiscal year, the State Board of Equalization shall notify the Director of Finance of the actual total amount of local sales and use tax revenue that was not transmitted to each county and city 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.

(B) On or before January 31 of that fiscal year, the director shall do both of the following:

(i) Determine for each city, county, and city and county, the difference between the following two amounts:

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(I) The total amount that was allocated to that entity under subdivision (c) for the prior fiscal year.

(II) 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.

(ii) Notify the auditor of each county of the amounts determined under clause (i) for his or her county and all of the cities in that county.

(C)(i) If, for any county or city, the amount described in subclause (I) of clause (i) of subparagraph (B) is greater than the amount described in subclause (II) of clause (i) of subparagraph (B), the county auditor shall, on or before January 31 of that fiscal year, reallocate from the entity to the county Educational Revenue Augmentation Fund the difference between those amounts. [Emphasis added]

(ii) If, for any county or city, the amount described in subclause (I) of clause (i) of subparagraph (B) is less than the amount described in sub(ii) If, for any county or city, the amount described in subclause (I) of clause (i) clause (II) of clause (i) of subparagraph (B), the county auditor shall, on or before January 31 of the following fiscal year, reallocate from the county Educational Revenue Augmentation Fund to that entity the difference between those amounts. [Emphasis added]

(e) For the 2005-06 fiscal year and each fiscal year thereafter, the amounts determined under subdivision (a) of Section 96.1, or any successor to that provision, may not reflect any portion of any property tax revenue allocation required by this section for a preceding fiscal year.

(f) This section may not be construed to do any of the following:

(1) Reduce any allocations of excess, additional, or remaining funds that would otherwise have been allocated to cities, counties, cities and counties, or special districts pursuant to clause (i) of subparagraph (B) of paragraph (4) of subdivision (d) of Section 97.2, clause (i) of

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subparagraph (B) of paragraph (4) of subdivision (d) of Section 97.3, or Article 4 (commencing with Section 98), had this section not been enacted. The allocation made pursuant to subdivisions (a) and (c) shall be adjusted to comply with this paragraph.

(2) Require an increased ad valorem property tax revenue allocation to a community redevelopment agency.

(3) Alter the manner in which ad valorem property tax revenue growth from fiscal year to fiscal year is determined or allocated in a county.

(g) Existing tax exchange or revenue sharing agreements, entered into prior to the operative date of this section, between local agencies or between local agencies and nonlocal agencies shall be deemed to be temporarily modified to account for the reduced sales and use tax revenues, resulting from the temporary reduction in the local sales and use tax rate, with those reduced revenues to be replaced in kind by property tax revenue from a Sales and Use Tax Compensation Fund or an Educational Revenue Augmentation Fund, on a temporary basis, as provided by this section.” [Emphasis added]

Section 97.68 as added by Chapter 162, Statutes of 2003 [AB 1766] and amended by Chapter 211, Statutes of 2004. (S.B.1096), included herein under the test claim legislation, requires county staff to perform new mandated activities, as listed below, under conditions specified [above], which were not required under prior law:

1. The county auditor shall now allocate revenues in the Sales and Use Tax Compensation Fund among the county and cities in the county ... The auditor shall allocate one-half of the amount ... in each January during the fiscal adjustment period and shall allocate the balance of that amount in each May during the fiscal adjustment period.

2. The county auditor shall now, in the fiscal year next following the fiscal year for which the allocation was made, 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.

(3) The county auditor shall now, in the fiscal year next following the

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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 Educational Revenue Augmentation Fund.

(4) The county auditor shall now transfer from the county Educational Revenue Augmentation Fund an amount sufficient to make the full amount of these transfers.

(5) The auditor shall allocate to the county and each city in the county that portion of the countywide adjustment amount for that fiscal year that is attributable to the county and each city in the county. One-half of this amount shall be allocated on or before January 31 of that fiscal year and the other one-half of that amount shall be allocated on or before May 31 of that fiscal year.

(6) The county auditor shall, on or before January 31 of the following fiscal year, reallocate from the entity to the county Educational Revenue Augmentation Fund the difference between those amounts.

(7) The auditor shall reduce the total amount that is otherwise required to be allocated in May of that fiscal year from the county Sales and Use Tax Compensation Fund to the county and each city in the county by the amount reported by the director with respect to that entity under subparagraph (A). After the May allocations have been made, the auditor shall transfer any moneys remaining in the county Sales and Use Tax Compensation Fund to the county Educational Revenue Augmentation Fund.

(8) The county auditor shall, on or before January 31 of that fiscal year, reallocate from the entity to the county Educational Revenue Augmentation Fund the difference between those amounts.

(9) The county auditor shall, on or before January 31 of the following fiscal year, reallocate from the county Educational Revenue Augmentation Fund to that entity the difference between those amounts.

In addition, it should be noted that counties are now required to perform new accounting duties in computing, allocating, and transferring revenues under R&T Code Section 97.68(c)(2), as added by Chapter 162, Statutes of 2003 and amended by . This provision directs the County Auditor to allocate revenues in the Sales and Use Tax Compensation Fund among the county and cities in the county. Annually, during the “fiscal adjustment period”, the auditor shall allocate one-half of the annual “countywide adjustment amount” during each January, and shall allocate the balance during each May. The “countywide adjustment amount” estimated by the DOF shall be based upon the actual amount of local sales and use tax revenues transmitted to a county or a city in the prior fiscal year and any projected growth on this amount for the current fiscal year. After the first year, the DOF will recalculate the actual amount of revenue losses and notify the County Auditor for adjustments to prior year estimates that shall be paid from the county’s Sales and Use Tax Compensation Fund (SUTCF) or ERAF if there are insufficient funds within the SUTCF.

Also, Revenue and Taxation Code Section 97.68 (d), added by Chapter 162, Statutes of 2003, includes four different processes depending on when the State Director of Finance determines the bonds have been paid and the Triple Flip should cease. The mandated duties here may continue for many years to come as it is impossible at this time to determine when the Triple Flip will cease. The timing of the final reconciliation is directly related to when the Board of Equalization can provide the actual sales and use tax information for cities and counties to the DOF. In turn, the DOF will provide instructions to the County Auditor regarding additional amounts due the cities and counties or reductions due to payment. In simple terms, the reconciliation of the estimated loss, due to the 0.25 percent reduction, to the actual amounts reported by the Board of Equalization and directions from the DOF will be completed during the next two to three January/May allocations.

We further note that in the absence of the County’s substantial work in developing and operating new property tax revenue allocation systems, the State would have had to hire and train hundreds of accountants, computer programmers and other professionals.

The State, spared the costs of counties’ compliance with the test claim legislation, is now requested to compensate counties as claimed herein.

“Triple Flip” Activities

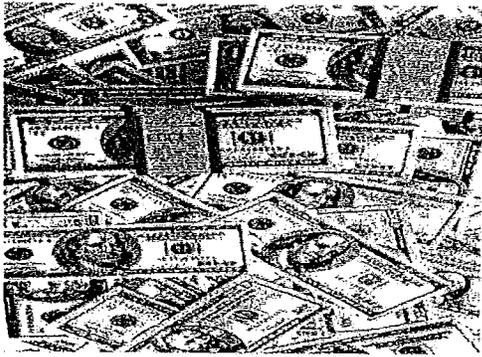
As a result of the test claim legislation, County staff perform new duties to develop and implement new accounting systems and transactions. Some of these new “Triple Flip” duties include:

1. Establishment of Special Funds for Sales and Use Tax Compensation Fund and In-Lieu Local Sales and Use Tax Revenue. (See documentation of work performed in Volume III, pages 12-14)
2. Review of the countywide adjustment amounts submitted by the Department of Finance to the auditor in relation to the counties and cities sales tax shift. (See documentation of work performed in Volume III, pages 15-17)
3. Allocate the Triple Flip revenues during the fiscal adjustment period 1ST half in January and the 2nd half in May to the County and Cities. (See documentation of work performed in Volume III, pages 18-24)
4. Adjust Triple Flip to account for the “true-up” amount provided by the State Controller’s Office to the County Auditor. (See documentation of work performed in Volume III, page 25)
4. Establishment of Special Funds for Vehicle License Fee Property Tax Compensation Fund and Property Tax In-Lieu of Vehicle License Fee. (See documentation of work performed in Volume III, pages 26-27)

Also, see the diagram on the following page.

Also, the costs incurred in performing the [above] duties and other duties, as claimed herein, meet the requirements for reimbursable costs under Section 6 of Article XIIIB of the California Constitution. First, increased costs were incurred after July 1, 1980. Secondly, such costs were incurred as a result of statutes enacted on or after January 1, 1975. And, third, increased costs were incurred to implement a new program or a higher level of service of an existing program, as specified herein, which was not required under prior law.

Triple Flip & VLF Swap Transfer & Distribution



- **December 20, 2004**
 - Transfer 50% of Triple Flip from ERAF (Fund# RD9) into Sales & Use Tax Compensation Fund (Fund# SE1)
 - Transfer 50% of VLF Swap from ERAF (Fund# RD9) into VLF Property Tax Compensation Fund (Fund# SF7)
- **January 20, 2005**
 - Distribute County General and Cities from (Fund# SE1) & (Fund# SF7)
- **April 20, 2005**
 - Transfer 50% of Triple Flip from ERAF (Fund# RD9) into Sales & Use Tax Compensation Fund (Fund# SE1)
 - Transfer 50% of VLF Swap from ERAF (Fund# RD9) into VLF Property Tax Compensation Fund (Fund# SF7)
- **May 20, 2005**
 - Distribute County General and Cities from (Fund# SE1) & (Fund# SF7)

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Vehicle License Fee Swap

The next set of financial events legislated during 2004-05 was the “swapping” of the discretionary vehicle license fee [VLF]⁵ from cities and counties to the State of California. The Motor Vehicle License Fee [MVLFF] swaps these fees for property taxes. It is a permanent swap, carried out every year. The State Department of Finance provided County Auditors estimated 2004/05 amounts to be taken from the ERAF Fund for the counties and cities. A one-time true-up will be made in 2005/06 and then the MVLFF Swap amount will grow as the agency’s assessed value grows. Growth calculations are made, beginning in 2005/06, and each following year. The calculation is to be based on the percentage change in gross taxable assessed value from the prior fiscal year to the current fiscal year using the city’s prior jurisdictional boundaries (growth is without annexed areas). [Revenue & Taxation Code [R&T] Sections 96.81, 97.76 added by SB 1096; R&T Sections 97.70 as added by SB 1096 and amended by AB 2115.]

Section 96.81

R&T Section 96.81, added by SB 1096, specifically requires that:

“Notwithstanding any other provision of law, the property tax apportionment factors applied in allocating property tax revenues in a county for which a Controller's audit conducted under Section 12468 of the Government Code between July 1, 1993, and June 30, 2001, determined that an allocation method was required to be adjusted and a reallocation was required for prior fiscal years, are deemed to be correct. However, for the 2001-02 fiscal year and each fiscal year thereafter, property tax apportionment factors applied in allocating property tax revenues in a county described in the preceding sentence shall be determined on the basis of property tax apportionment factors for prior fiscal years that have been fully corrected and adjusted, pursuant to the review and recommendation of the Controller, as would be required in the absence of the preceding sentence.” [Emphasis added.]

⁵ The VLF is an annual fee on the ownership of a registered vehicle in California, levied in lieu of taxing vehicles as personal property.

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Section 96.81, then, requires County staff to redo property tax apportionment factors applied in allocating property tax revenues in a county based on property tax apportionment factors for prior fiscal years that have been fully corrected and adjusted, pursuant to the review and recommendation of the State Controller's Office.

See documentation of new property tax apportionment factor duties performed in Volume III, page 43 [systems work], Volume III, pages 44-77 [AF91 Apportionment Factor File], and Volume III, pages 78-89 [Modified AF93 Unitary Apportionment Factor File],

Sections 97.76, 97.70

R&T Section 97.76, added by SB 1096, provides that:

“(a) On or before September 1, 2004, the Controller shall determine the countywide vehicle license fee adjustment amount, as defined in Section 97.70, for the 2004-05 fiscal year and the vehicle license fee adjustment amount, as defined in Section 97.70, for each city, county, and city and county for the 2004-05 fiscal year, and notify the county auditor of these amounts.

b) On or before September 1, 2005, the Controller shall determine the amount specified in clause (i) of subparagraph (B) of paragraph (1) of subdivision (c) of Section 97.70 for each city, county, and city and county and notify the county auditor of these amounts”.

Accordingly, the duties performed under Section 97.76 [above] are governed by R&T Section 97.70, added by SB 1096 and amended by AB 2115. Section 97.70 requires that:

“Notwithstanding any other provision of law, for the 2004-05 fiscal year and for each fiscal year thereafter, all of the following apply:

(a)(1)(A) The auditor shall reduce the total amount of ad valorem property tax revenue that is otherwise required to be allocated to a county's Educational Revenue Augmentation Fund by the countywide vehicle license fee adjustment amount. [Emphasis added]

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(B) If, for the fiscal year, after complying with Section 97.68 there is not enough ad valorem property tax revenue that is otherwise required to be allocated to a county Educational Revenue Augmentation Fund for the auditor to complete the allocation reduction required by subparagraph (A), the auditor shall additionally reduce the total amount of ad valorem property tax revenue that is otherwise required to be allocated to all school districts and community college districts in the county for that fiscal year by an amount equal to the difference between the countywide vehicle license fee adjustment amount and the amount of ad valorem property tax revenue that is otherwise required to be allocated to the county Educational Revenue Augmentation Fund for that fiscal year. This reduction for each school district and community college district in the county shall be the percentage share of the total reduction that is equal to the proportion that the total amount of ad valorem property tax revenue that is otherwise required to be allocated to the school district or community college district bears to the total amount of ad valorem property tax revenue that is otherwise required to be allocated to all school districts and community college districts in a county. For purposes of this subparagraph, "school districts" and "community college districts" do not include any districts that are excess tax school entities, as defined in Section 95. [Emphasis added]

(2) The countywide vehicle license fee adjustment amount shall be allocated to the Vehicle License Fee Property Tax Compensation Fund that shall be established in the treasury of each county. [Emphasis added]

(b)(1) The auditor shall allocate moneys in the Vehicle License Fee Property Tax Compensation Fund according to the following:

(A) Each city in the county shall receive its vehicle license fee adjustment amount. [Emphasis added]

(B) Each county and city and county shall receive its vehicle license fee adjustment amount. [Emphasis added]

(2) The auditor shall allocate one-half of the amount specified in paragraph (1) on or before January 31 of each fiscal year, and the

other one-half on or before May 31 of each fiscal year. [Emphasis added]

(c) For purposes of this section, all of the following apply:

(1) "Vehicle license fee adjustment amount" for a particular city, county, or a city and county means, subject to an adjustment under paragraph (2) and Section 97.71, all of the following:

(A) For the 2004-05 fiscal year, an amount equal to the difference between the following two amounts:

(i) The estimated total amount of revenue that would have been deposited to the credit of the Motor Vehicle License Fee Account in the Transportation Tax Fund, including any amounts that would have been certified to the Controller by the auditor of the County of Ventura under subdivision (j) of Section 98.02; as that section read on January 1, 2004, for distribution under the law as it read on January 1, 2004, to the county, city and county, or city for the 2004-05 fiscal year if the fee otherwise due under the Vehicle License Fee Law (Pt. 5 (commencing with Section 10701) of Div. 2) was 2 percent of the market value of a vehicle, as specified in Section 10752 and 10752.1 as those sections read on January 1, 2004.

(ii) The estimated total amount of revenue that is required to be distributed from the Motor Vehicle License Fee Account in the Transportation Tax Fund to the county, city and county, and each city in the county for the 2004-05 fiscal year under Section 11005, as that section read on the operative date of the act that amended this clause.

(B)(i) Subject to an adjustment under clause (ii), for the 2005-06 fiscal year, the sum of the following two amounts:

(I) The difference between the following two amounts:

(Ia) The actual total amount of revenue that would have been deposited to the credit of the Motor Vehicle License Fee Account in the Transportation Tax Fund, including any amounts that would have been certified to the Controller by the auditor of the County of Ventura

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under subdivision (j) of Section 98.02, as that section read on January 1, 2004, for distribution under the law as it read on January 1, 2004, to the county, city and county, or city for the 2004-05 fiscal year if the fee otherwise due under the Vehicle License Fee Law (Part 5 (commencing with Section 10701) of Division 2) was 2 percent of the market value of a vehicle, as specified in Sections 10752 and 10752.1 as those sections read on January 1, 2004.

(Ib) The actual total amount of revenue that was distributed from the Motor Vehicle License Fee Account in the Transportation Tax Fund to the county, city and county, and each city in the county for the 2004-05 fiscal year under Section 11005, as that section read on the operative date of the act that amended this sub-subclause.

(II) The product of the following two amounts:

(IIa) The amount described in subclause (I).

IIb) 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. For the first fiscal year for which a change in a city's jurisdictional boundaries first applies, the percentage change in gross taxable assessed valuation from the prior fiscal year to the current fiscal year shall be calculated solely on the basis of the city's previous jurisdictional boundaries, without regard to the change in that city's jurisdictional boundaries. For each following fiscal year, the percentage change in gross taxable assessed valuation from the prior fiscal year to the current fiscal year shall be calculated on the basis of the city's current jurisdictional boundaries. [Emphasis added]

(ii) The amount described in clause (i) shall be adjusted as follows:

(I) If the amount described in subclause (I) of clause (i) for a particular city, county, or city and county is greater than the amount described in subparagraph (A) for that city, county, or city and county, the amount described in clause (i) shall be increased by an amount equal to this difference. [Emphasis added]

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II) If the amount described in subclause (I) of clause (i) for a particular city, county, or city and county is less than the amount described in subparagraph (A) for that city, county, or city and county, the amount described in clause (i) shall be decreased by an amount equal to this difference. [Emphasis added]

(C) For the 2006-07 fiscal year and for each fiscal year thereafter, the sum of the following two amounts:

(i) The vehicle license fee adjustment amount for the prior fiscal year, f Section 97.71 and clause (ii) of subparagraph (B) did not apply for that fiscal year, for that city, county, and city and county.

ii) The product of the following two amounts:

(I) The amount described in clause (i).

(II) 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. For the first fiscal year for which a change in a city's jurisdictional boundaries first applies, the percentage change in gross taxable assessed valuation from the prior fiscal year to the current fiscal year shall be calculated solely on the basis of the city's previous jurisdictional boundaries, without regard to the change in that city's jurisdictional boundaries. For each following fiscal year, the percentage change in gross taxable assessed valuation from the prior fiscal year to the current fiscal year shall be calculated on the basis of the city's current jurisdictional boundaries. [Emphasis added]

(2) "Countywide vehicle license fee adjustment amount" means, for any fiscal year, the total sum of the amounts described in paragraph (1) for a county or city and county, and each city in the county.

(3) On or before June 30 of each fiscal year, the auditor shall report to the Controller the vehicle license fee adjustment amount for the county and each city in the county for that fiscal year. [Emphasis added]

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(d) For the 2005-06 fiscal year and each fiscal year thereafter, the amounts determined under subdivision (a) of Section 96.1, or any successor to that provision, shall not reflect, for a preceding fiscal year, any portion of any allocation required by this section. [Emphasis added]

e) For purposes of Section 15 of Article XI of the California Constitution, the allocations from a Vehicle License Fee Property Tax Compensation Fund constitute successor taxes that are otherwise required to be allocated to counties and cities, and as successor taxes, the obligation to make those transfers as required by this section shall not be extinguished nor disregarded in any manner that adversely affects the security of, or the ability of, a county or city to pay the principal and interest on any debts or obligations that were funded or secured by that city's or county's allocated share of motor vehicle license fee revenues. [Emphasis added]

(f) This section shall not be construed to do any of the following:

(1) Reduce any allocations of excess, additional, or remaining funds that would otherwise have been allocated to county superintendents of schools, cities, counties, and cities and counties pursuant to clause (i) of subparagraph (B) of paragraph (4) of subdivision (d) of Sections 97.2 and 97.3 or Article 4 (commencing with Section 98) had this section not been enacted. The allocations required by this section shall be adjusted to comply with this paragraph. [Emphasis added]

(2) Require an increased ad valorem property tax revenue allocation or increased tax increment allocation to a community redevelopment agency.

(3) Alter the manner in which ad valorem property tax revenue growth from fiscal year to fiscal year is otherwise determined or allocated in a county.

(4) Reduce ad valorem property tax revenue allocations required under Article 4 (commencing with Section 98).

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(g) Tax exchange or revenue sharing agreements, entered into prior to the operative date of this section, between local agencies or between local agencies and nonlocal agencies are deemed to be modified to account for the reduced vehicle license fee revenues resulting from the act that added this section. These agreements are modified in that these reduced revenues are, in kind and in lieu thereof, replaced with ad valorem property tax revenue from a Vehicle License Fee Property Tax Compensation Fund or an Educational Revenue Augmentation Fund.”

Accordingly, the duties performed under R&T Section 97.70, added by SB 1096 and amended by AB 2115 [above], included herein under the test claim legislation, requires county staff to perform new mandated activities, as listed below, under conditions specified [above], which were not required under prior law:

[1] The auditor shall reduce the total amount of ad valorem property tax revenue that is otherwise required to be allocated to a county's Educational Revenue Augmentation Fund by the countywide vehicle license fee adjustment amount.

[2] The auditor shall additionally reduce the total amount of ad valorem property tax revenue that is otherwise required to be allocated to all school districts and community college districts in the county for that fiscal year by an amount equal to the difference between the countywide vehicle license fee adjustment amount and the amount of ad valorem property tax revenue that is otherwise required to be allocated to the county Educational Revenue Augmentation Fund for that fiscal year.

[3] The auditor shall allocate moneys in the Vehicle License Fee Property Tax Compensation Fund...

[4] The auditor shall allocate one-half of the amount specified in paragraph (1) on or before January 31 of each fiscal year, and the other one-half on or before May 31 of each fiscal year. [Emphasis added]

The VLF Swap starts when the VLF revenues are collected by the Department of Motor Vehicles (DMV) and distributed (after deduction of certain minor

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administrative expenses) to cities and counties. The rate is assessed on the depreciated value of the vehicle according to a set schedule. The source of this fund will be the same source of funding for the sales and use tax compensation fund in that each county’s ERAF will be the source of payments. The growth of the “in lieu” VLF will correspond to the annual local growth of each city and county increases in net assessed valuation of taxable property. This VLF swap is an exchange of discretionary vehicle license fees for Property Tax In lieu of VLF. Although these in lieu taxes are property taxes, they are not secured or unsecured but are originated from each county’s ERAF.

Revenue and Taxation Code Section 97.70 (c) (1) as added by Chapter 211, Statutes of 2004 added and amended by Chapter 610, Statutes of 2004 defines the Vehicle License Fee Adjustment Amount as the replacement of the VLF backfill. This amount will be funded by way of reducing the ERAF amount available for allocation to K-12 schools, community college districts, and county office of education pursuant to R&T Code Section 97.70 (a) (1) (A):

“97.70. Notwithstanding any other provision of law, for the 2004-05 fiscal year and for each fiscal year thereafter, all of the following apply:

(a) (1) (A) The auditor shall reduce the total amount of ad valorem property tax revenue that is otherwise required to be allocated to a county's Educational Revenue Augmentation Fund by the countywide vehicle license fee adjustment amount.” [Emphasis added.]

Revenue and Taxation Code Section 97.70 (a) (1) (B) as added by Chapter 211, Statutes of 2004 and amended by Chapter 610, Statutes of 2004 further states that if the ERAF fund is insufficient to fund the VLF Adjustment Amount, the Auditor shall reduce the amount of ad valorem property tax revenue that is otherwise required to be allocated to non-basic aid districts and community college districts in the county for that fiscal year by an amount equal to the difference between the VLF Adjustment amount and the amount of ad valorem property tax revenue that is otherwise required to be allocated to the ERAF in accordance with the R&T Code Section 97.70 (a) (1) (B). These reductions are to be allocated among the various schools and college districts in proportion to their respective proportion of local secured assessed valuations as follows:

“(B) If, for the fiscal year, after complying with Section 97.68 there is not enough ad valorem property tax revenue that is otherwise required to be allocated to a county Educational Revenue Augmentation Fund for the auditor to complete the allocation reduction required by subparagraph (A), the auditor shall additionally reduce the total amount of ad valorem property tax revenue that is otherwise required to be allocated to all school districts and community college districts in the county for that fiscal year by an amount equal to the difference between the countywide vehicle license fee adjustment amount and the amount of ad valorem property tax revenue that is otherwise required to be allocated to the county Educational Revenue Augmentation Fund for that fiscal year. This reduction for each school district and community college district in the county shall be the percentage share of the total reduction that is equal to the proportion that the total amount of ad valorem property tax revenue that is otherwise required to be allocated to the school district or community college district bears to the total amount of ad valorem property tax revenue that is otherwise required to be allocated to all school districts and community college districts in a county. For purposes of this subparagraph, "school districts" and "community college districts" do not include any districts that are excess tax school entities, as defined in Section 95.”
[Emphasis added]

The specific duties mandated in Revenue & Taxation Code [R&T] Sections 96.81, 97.76 added by SB 1096; R&T Sections 97.70 as added by SB 1096 and amended by AB 2115, include:

1. Review of the VLF Adjustment amounts determined by the State Controller’s Office and submitted by the Department of Finance to the auditor in relation to the counties and cities Vehicle License Fee amounts. (See Volume III, pages 38-39)
2. Allocate the VLF revenues to the County and Cities. Revenue & Taxation Code Section 97.70 (b) (1). (See Volume III, pages 17-24)

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3. Calculate Cities and Counties VLF revenues – 2006-07 and Beyond. Revenue & Taxation Code Section 97.70 (c) (1) (C). Adjust VLF to account for growth - consider 1st year annexations. Adjust VLF to account for the “true-up” amount provided by the State Controller’s Office to the County Auditor. (See Volume III, pages 17-24)
4. Calculate apportionment factor for the 2004-05 Supplemental Tax Roll. (See Volume III, page 25)
5. Calculate Unitary Tax Roll in excess of the 2%, beginning with fiscal year 2005-06. Note: AF91 for 2004-05. (See Volume III, pages 15-16)

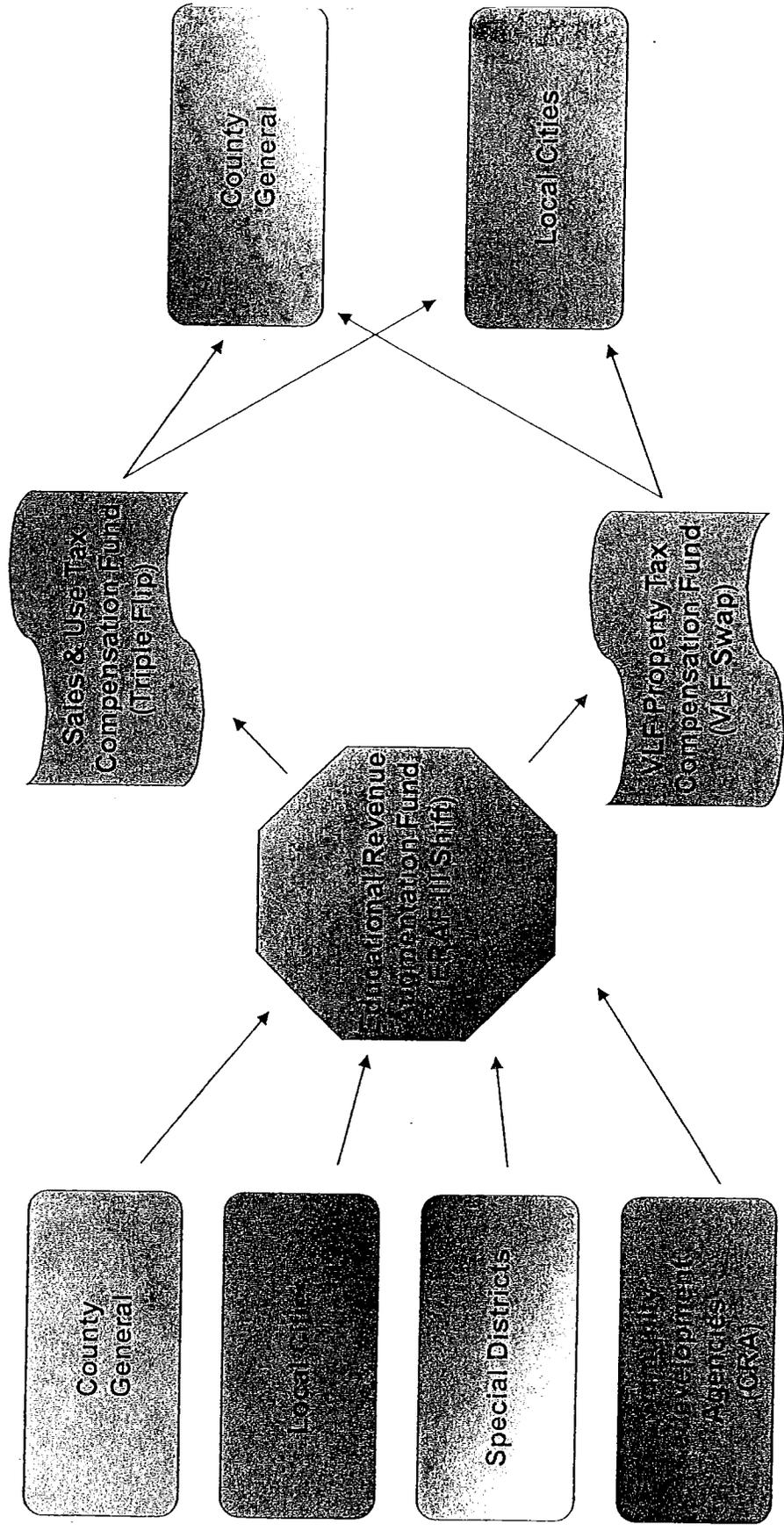
Also, see the diagram on the following page.

The Motor Vehicle License Fee Swap required counties to perform a number of new activities as the test claim legislation eliminated the then existing VLF “offset” mechanism and permanently set the VLF rate at 0.65 percent as of January 1, 2005. Under current law, the basic VLF rate is 0.2 percent, but an offset is applied that reduces the effective rate to taxpayers to 0.65 percent;

In addition, the test claim legislation creates a new County VLF Property Tax Compensation Fund to replace VLF backfill payments. The fund will receive property tax revenues diverted from each county's Educational Revenue Augmentation Fund (ERAF), which helps fund K-14 education. If the amount needed for replacement of backfill exceeds the amount of ERAF in a county, then property tax revenue will be diverted from the basic AB 8 allocations to K-14 education (excluding basic aid districts). Under Proposition 98 and existing law governing school apportionments, the state GF will replace property tax revenues diverted from K-14 education;

The VLF Swap established initial allocations for 2004-05 to each city and each county of replacement property tax revenues. This initial amount is the estimated full MVLF Account allocation that each entity would have received under current law (as of January 1, 2004) in 2004-05 from both VLF revenues and GF backfill payments less (in the case of cities) the amount of actual MVLF Account revenues allocated to them in 2004-05 (from remainder after realignment and

Overview of ERAF III Shift & Distribution of Triple Flip and VLF Swap



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administrative costs are funded). County auditors will make payments to each city and each county twice annually-by January 31 and by May 31. The State Controller would provide these estimates to county auditors by September 1, 2004. Key activities are as follows:

[1] The countywide vehicle license fee adjustment amount shall be allocated to the Vehicle License Fee Property Tax Compensation Fund that shall be established in the treasury of each county.

[2] The auditor shall allocate moneys in the Vehicle License Fee Property Tax Compensation Fund according to the following:

(A) Each city in the county shall receive its vehicle license fee adjustment amount.

(B) Each county and city and county shall receive its vehicle license fee adjustment amount.

[3] The auditor shall allocate one-half of the amount specified in paragraph (1) on or before January 31 of each fiscal year, and the other one-half on or before May 31 of each fiscal year.” [Emphasis added]

The MVLF test claim legislation, defines the VLF adjustment amount for the FY 2004-05 as determined by the State Controller. The VLF adjustment amount is the resulting difference between the estimated total amount of revenue that would have been deposited to the credit of the Motor Vehicle License Fee Account in the transportation Tax Fund and the estimated total amount of revenue that is required to be distributed from the Motor Vehicle License Fee Account in the Transportation Tax Fund under Revenue and Taxation Code Section 11005. Revenue and Taxation Code Section 97.70 (c) (1) (A) states as follows:

“(1)Vehicle license fee adjustment amount” for a particular city, county, or a city and county means, subject to an adjustment under paragraph (2) and Section 97.71, all of the following:

(A) For the 2004-05 fiscal year, an amount equal to the difference between the following two amounts:

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(i) The estimated total amount of revenue that would have been deposited to the credit of the Motor Vehicle License Fee Account in the Transportation Tax Fund, including any amounts that would have been certified to the Controller by the auditor of the County of Ventura under subdivision (j) of Section 98.02, as that section read on January 1, 2004, for distribution under the law as it read on January 1, 2004, to the county, city and county, or city for the 2004-05 fiscal year if the fee otherwise due under the Vehicle License Fee Law (Pt. 5 (commencing with Section 10701) of Div. 2) was 2 percent of the market value of a vehicle, as specified in Section 10752 and 10752.1 as those sections read on January 1, 2004.

(ii) The estimated total amount of revenue that is required to be distributed from the Motor Vehicle License Fee Account in the Transportation Tax Fund to the county, city and county, and each city in the county for the 2004-05 fiscal year under Section 11005, as that section read on the operative date of the act that amended this clause”.

In addition, the MVLFF test claim legislation now defines the VLF adjustment amount for the FY 2005-06 and beyond, the VLF adjustment amount is calculated in accordance with Revenue and Taxation Code Section 97.70 (c) (1) (B) (i) as follows: The current year VLF adjustment amount is equal to the prior year VLF adjustment amount multiplied by (1 + Percent increase in locally assessed values on taxable properties). For the FY 2005-06, the Prior Year VLF Adjustment amount (FY 2004-05) will include a true-up amount to actual revenue. The true-up amount is the difference between the estimated 2004-05 VLF Adjustment amount provided by the State Controller and the actual 2004-05 VLF Adjustment amount that would have been distributed in accordance to R & T Code Section 97.70 (c) (1) (B) (i) (I):

“ (B) (i) Subject to an adjustment under clause (ii), for the 2005-06 fiscal year, the sum of the following two amounts:

(I) The difference between the following two amounts:

(Ia) The actual total amount of revenue that would have been deposited to the credit of the Motor Vehicle License Fee Account in the Transportation Tax Fund, including any amounts that would have been certified to the Controller by the auditor of the County of Ventura

under subdivision (j) of Section 98.02, as that section read on January 1, 2004, for distribution under the law as it read on January 1, 2004, to the county, city and county, or city for the 2004-05 fiscal year if the fee otherwise due under the Vehicle License Fee Law (Part 5 (commencing with Section 10701) of Division 2) was 2 percent of the market value of a vehicle, as specified in Sections 10752 and 10752.1 as those sections read on January 1, 2004.

(Ib) The actual total amount of revenue that was distributed from the Motor Vehicle License Fee Account in the Transportation Tax Fund to the county, city and county, and each city in the county for the 2004-05 fiscal year under Section 11005, as that section read on the operative date of the act that amended this sub-sub clause.

(II) The product of the following two amounts:

(IIa) The amount described in sub clause (I).”

Revenue and Taxation Code Section 97.70 (c) (I) (B) (i) (IIb) added by Chapter 211, Statutes of 2004 and amended by Chapter 610, Statutes of 2004, explains for the first fiscal year for which a change in a city’s jurisdictional boundaries first applies, the percentage change in gross taxable assessed valuation from the prior fiscal year to the current fiscal year shall be calculated solely on the basis of the city’s previous jurisdictional boundaries, without regard to the change in that city’s jurisdictional boundaries. For each following year fiscal year, the percentage change in gross taxable assessed valuation from the prior fiscal year to the current fiscal year shall be calculated on the basis of the city’s current jurisdictional boundaries. Section 97.70(c)(I)(B)(i)(IIb) requires that:

“(IIb) 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. For the first fiscal year for which a change in a city’s jurisdictional boundaries first applies, the percentage change in gross taxable assessed valuation from the prior fiscal year to the current fiscal year shall be calculated solely on the basis of the city’s previous jurisdictional boundaries, without regard to the change in that city’s jurisdictional boundaries. For each following fiscal year, the percentage change in gross taxable assessed valuation from the prior

fiscal year to the current fiscal year shall be calculated on the basis of the city's current jurisdictional boundaries.

(ii) The amount described in clause (i) shall be adjusted as follows:

(I) If the amount described in sub clause (I) of clause (i) for a particular city, county, or city and county is greater than the amount described in subparagraph (A) for that city, county, or city and county, the amount described in clause (i) shall be increased by an amount equal to this difference.

(II) If the amount described in sub clause (I) of clause (i) for a particular city, county, or city and county is less than the amount described in subparagraph (A) for that city, county, or city and county, the amount described in clause (i) shall be decreased by an amount equal to this difference.

(C) For the 2006-07 fiscal year and for each fiscal year thereafter, the sum of the following two amounts:

(i) The vehicle license fee adjustment amount for the prior fiscal year, if Section 97.71 and clause (ii) of subparagraph (B) did not apply for that fiscal year, for that city, county, and city and county.

(ii) The product of the following two amounts:

(I) The amount described in clause (i).

(II) 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. For the first fiscal year for which a change in a city's jurisdictional boundaries first applies, the percentage change in gross taxable assessed valuation from the prior fiscal year to the current fiscal year shall be calculated solely on the basis of the city's previous jurisdictional boundaries, without regard to the change in that city's jurisdictional boundaries. For each following fiscal year, the percentage change in gross taxable assessed valuation from the prior fiscal year to the current fiscal year shall be calculated on the basis of the city's current jurisdictional boundaries.

(2) "Countywide vehicle license fee adjustment amount" means, for any fiscal year, the total sum of the amounts described in paragraph (1) for a county or city and county, and each city in the county." [Emphasis added]

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Revenue and Taxation Code Section 97.70 (c) (C) (3) added by Chapter 211, Statutes of 2004 and amended by Chapter 610, Statutes of 2004, requires the County auditor to report to the State Controller the actual vehicle license fee adjustment amount for the county and each city in the county for that fiscal year on or before June 30.

Section 97.70(c)(C)(3) requires that:

“(3) On or before June 30 of each fiscal year, the auditor shall report to the Controller the vehicle license fee adjustment amount for the county and each city in the county for that fiscal year.

(d) For the 2005-06 fiscal year and each fiscal year thereafter, the amounts determined under subdivision (a) of Section 96.1, or any successor to that provision, shall not reflect, for a preceding fiscal year, any portion of any allocation required by this section.

(e) For purposes of Section 15 of Article XI of the California Constitution, the allocations from a Vehicle License Fee Property Tax Compensation Fund constitute successor taxes that are otherwise required to be allocated to counties and cities, and as successor taxes, the obligation to make those transfers as required by this section shall not be extinguished nor disregarded in any manner that adversely affects the security of, or the ability of, a county or city to pay the principal and interest on any debts or obligations that were funded or secured by that city's or county's allocated share of motor vehicle license fee revenues.” [Emphasis added]

Chapter 211, Statutes of 2004 added and amended by Chapter 610, Statutes of 2004 Revenue and Taxation Code Section 97.70 (f) (1) provides that any basic aid counties will not be financially impacted due to the imposition of the Triple Flip or the VLF Swap. A basic aid county is one where all the K-12 school districts, community college districts, and County Offices of Education (including special education programs) are funded at their basic aid levels. Therefore, in calculating the amount of remaining funds that are available for redistribution to contributing taxing agencies, the amount of the VLF swap or the triple flip sales and use taxes shall not reduce these additional or remaining funds. It reads as follows:

Section 97.70(f) provides that:

“(f) This section shall not be construed to do any of the following:

(1) Reduce any allocations of excess, additional, or remaining funds that would otherwise have been allocated to county superintendents of schools, cities, counties, and cities and counties pursuant to clause (i) of subparagraph (B) of paragraph (4) of subdivision (d) of Sections 97.2 and 97.3 or Article 4 (commencing with Section 98) had this section not been enacted. The allocations required by this section shall be adjusted to comply with this paragraph. [Emphasis added]

(2) Require an increased ad valorem property tax revenue allocation or increased tax increment allocation to a community redevelopment agency.

(3) Alter the manner in which ad valorem property tax revenue growth from fiscal year to fiscal year is otherwise determined or allocated in a county.

(4) Reduce ad valorem property tax revenue allocations required under Article 4 (commencing with Section 98)”.

Revenue and Taxation Code Section 97.70 (g) provides a similar hold harmless provisions relative to the “triple flip”. It provides that any tax exchange or revenue sharing agreements between local or non-local agencies are to be deemed modified to account for the reduced amount of Vehicle License Fees that are replaced by the amount of property tax in lieu of motor vehicle license fees by the enactment of this statute. Section 97.70 (g) mandates that:

“(g) Tax exchange or revenue sharing agreements, entered into prior to the operative date of this section, between local agencies or between local agencies and non local agencies are deemed to be modified to account for the reduced vehicle license fee revenues resulting from the act that added this section. These agreements are modified in that these reduced revenues are, in kind and in lieu thereof, replaced with ad valorem property tax revenue from a Vehicle License Fee Property

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Tax Compensation Fund or an Educational Revenue Augmentation Fund.”

Prior to the test claim legislation, local government officials were not required to transfer property taxes from counties, cities, special districts, and redevelopment agencies to school districts and community college districts as claimed herein.

Section 97.71

Revenue and Taxation Code Section 97.71, added by Chapter 211, Statutes of 2004 and amended by Chapter 610, Statutes of 2004, lists each county’s ERAF III shift amount. The total amount shifted for all counties and cities and counties in each of the two years is \$350 million and is allocated under Section 97.71(a) and (b) as follows:

97.71. “Notwithstanding any other provision of law, for each of the 2004-05 and 2005-06 fiscal years, all of the following apply:

(a) (1) The total amount of revenue required to be allocated to each county and each city and county under Section 97.70 shall be reduced by the dollar amount indicated as follows:

Property Tax Reduction per County

Alameda.....	\$ 14,993,115
Alpine	13,578
Amador	341,856
Butte	1,968,640
Calaveras	367,372
Colusa	227,244
Contra Costa.....	9,266,091
Del Norte	260,620
El Dorado	,465,981
Fresno	,778,611
Glenn	302,192
Humboldt.....	1,433,725
Imperial	1,499,081
Inyo.....	188,370
Kern	6,684,032
Kings	1,409,501

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Lake	531,524
Lassen	317,119
Los Angeles	103,217,625
Madera	1,164,287
Marin	2,369,777
Mariposa	177,419
Mendocino	997,570
Merced	2,211,012
Modoc	119,325
Mono	92,964
Monterrey	3,789,991
Napa	1,128,692
Nevada	503,547
Orange	27,730,861
Placer	2,219,818
Plumas	238,066
Riverside	14,161,003
Sacramento	12,232,737
San Benito	477,872
San Bernardino	16,361,855
San Diego	27,470,228
San Francisco	5,567,648
San Joaquin	6,075,964
San Luis Obispo	2,350,289
San Mateo	6,704,877
Santa Barbara	3,894,357
Santa Clara	17,155,293
Santa Cruz	2,433,423
Shasta	1,592,267
Sierra	37,051
Siskiyou	496,974
Solano	3,796,251
Sonoma	4,439,389
Stanislaus	4,516,707
Sutter	764,351
Tehama	618,393
Trinity	104,770
Tulare	3,781,964
Tuolumne	515,961

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Ventura	7,085,556
Yolo	1,735,079
Yuba	620,137

(2) The total amount of reductions for all counties and cities and counties determined pursuant to this subdivision is three hundred fifty million dollars (\$350,000,000) for the 2004-05 fiscal year and that same amount for the 2005-06 fiscal year.

(b) (1) The total amount of revenue required to be allocated to a city and county under Section 97.70 shall be reduced by the product of the following two amounts:

(A) The percentage represented by the following fraction:

(i) The numerator is the total amount of money allocated to the city and county from the Motor Vehicle License Fee Account in the Transportation Tax Fund for the 2002-03 fiscal year pursuant to subdivision (c) of Section 11005, as reported in the State Controller's Monthly Motor Vehicle License Fee Reports for the 2002-03 fiscal year.

(ii) The denominator is the total amount of money allocated among all cities and counties from the Motor Vehicle License Fee Account in the Transportation Tax Fund for the 2002-03 fiscal year pursuant to subdivision (c) of Section 11005, as reported in the State Controller's Monthly Motor Vehicle License Fee Reports for the 2002-03 fiscal year.

(B) Three hundred fifty million dollars (\$350,000,000)".[Emphasis added]

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As may be seen, Section 97.71 defines the method of calculating the ERAF III shift amount for each city. The State Controller is responsible for making these calculations and notifies each County Auditor-Controller of the amounts to shift.

There are several calculations involved that when combined together with the calculations from Section 97.71 (b) (1), result in a \$350 million total to be shifted in each of the two years. The city and county amount from Section 97.71 (b) (1) is subtracted from the \$350 million to arrive at the cities total shift.

- The first 1/3 of the cities total shift is prorated to each city based upon the pro-rata share of allocations to the city from the VLF account vs. comparable allocations to all cities statewide. The State Controller's Monthly Motor Vehicle License Fee Reports for the 2002-03 fiscal year was used in the calculation.
- The second 1/3 of the cities total shift is prorated to each city based upon the pro-rata share of the sales and use taxes transmitted to the city under Section 7204 vs. comparable amounts transmitted to all cities statewide. The State Board of Equalization Annual Report for the Table 21A of the 2002-03 Edition was used in this calculation.
- The final 1/3 of the cities total shift is prorated to each city based upon the pro-rata share of the total ad valorem property tax revenue allocated to the city for the 2002-03 fiscal year vs. comparable amounts for all cities statewide. The State Controller's Cities Annual Report for the 2001-02 was used in the calculation.
- The amounts were totaled, and subject to limits --- the shift shall not be less than 2%, or more than 4%, of a city's general revenues, as reported in the 2001-02 edition of the State Controller's Cities Annual Report. If any city has a calculated shift in excess of the 4% ceiling, that excess shall be allocated to the remaining cities whose shift is below the limit. Such excess amounts will be allocated based on each City's ERAF III shifts as originally calculated.

Sections 97.71(b), (c) and (d) provide a vast array of terms and conditions in processing the ERAF III shift, as follows:

“(b) (1) The total amount of revenue required to be allocated to a city and county under Section 97.70 shall be reduced by the product of the following two amounts:

(A) The percentage represented by the following fraction:

(i) The numerator is the total amount of money allocated to the city and county from the Motor Vehicle License Fee Account in the Transportation Tax Fund for the 2002-03 fiscal year pursuant to subdivision (c) of Section 11005, as reported in the State Controller's Monthly Motor Vehicle License Fee Reports for the 2002-03 fiscal year.

(ii) The denominator is the total amount of money allocated among all cities and counties from the Motor Vehicle License Fee Account in the Transportation Tax Fund for the 2002-03 fiscal year pursuant to subdivision (c) of Section 11005, as reported in the State Controller's Monthly Motor Vehicle License Fee Reports for the 2002-03 fiscal year.

(B) Three hundred fifty million dollars (\$350,000,000)”.

(2) (A) The total amount of revenue required to be allocated to each city under Section 97.70 shall be reduced by the sum of the following three amounts:

(i) The product of the following two amounts:

(I) The percentage represented by the following fraction:

(Ia) The numerator is the total amount of money allocated to the city from the Motor Vehicle License Fee Account in the Transportation Tax Fund for the 2002-03 fiscal year, as reported in the State Controller's Monthly Motor Vehicle License Fee Reports for the 2002-03 fiscal year.

(Ib) The denominator is the total amount of money allocated among all cities from the Motor Vehicle License Fee Account in the Transportation Tax Fund for the 2002-03 fiscal year, as reported in the State Controller's Monthly Motor Vehicle License Fee Reports for the 2002-03 fiscal year.

(II) The product of the following two amounts:

(IIa) Thirty-three and one-third percent.

(IIb) The difference between three hundred fifty million dollars (\$350,000,000) and the amount described in paragraph (1).

(ii) The product of the following two amounts:

(I) The percentage represented by the following fraction:

(Ia) The numerator is the total amount of money transmitted to the city under Section 7204 for the 2002-03 fiscal year, as reported in Table 21A of the 2002-03 edition of the State Board of Equalization Annual Report.

(Ib) The denominator is the total amount of money transmitted to all cities under Section 7204 for the 2002-03 fiscal year, as reported in Table 21A of the 2002-03 edition of the State Board of Equalization Annual Report.

(II) The product of the following two amounts:

(IIa) Thirty-three and one-third percent.

(IIb) The difference between three hundred fifty million dollars (\$350,000,000) and the amount described in paragraph (1).

(iii) The product of the following two amounts:

(I) The percentage represented by the following fraction:

(Ia) The numerator is the total amount of ad valorem property tax revenue allocated to the city for the 2002-03 fiscal year, as reported in the 2001-02 edition of the State Controller's Cities Annual Report.

(Ib) The denominator is the total amount of ad valorem property tax revenue allocated among all cities for the 2002-03 fiscal year, as reported in the 2001-02 edition of the State Controller's Cities Annual Report.

(II) The product of the following two amounts:

(IIa) Thirty-three and one-third percent.

(IIb) The difference between three hundred fifty million dollars (\$350,000,000) and the amount described in paragraph (1).

(B) Notwithstanding subparagraph (A), the reduction required by this paragraph for any city shall not be less than 2 percent, nor more than 4 percent, of the general revenues of the city, as reported in the 2001-02 edition of the State Controller's Cities Annual Report. If the amount determined for a city under subparagraph (A) exceeds 4 percent of the general revenues of the city, as reported in the 2001-02 edition of the State Controller's Cities Annual Report, the amount of that excess shall be allocated among the reductions required for all other cities in percentage shares corresponding to those reduction amounts.

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(3) On or before September 15, 2004, the Controller shall notify the auditor of each county and city and county of the reductions required by this subdivision.

(4) The total amount of reductions for all cities and counties determined pursuant to this subdivision shall be three hundred fifty million dollars (\$350,000,000) for the 2004-05 fiscal year and that same amount for the 2005-06 fiscal year.

(5) (A) In lieu of a reduction under paragraph (2), a city may transmit to the county auditor for deposit in the county Educational Revenue Augmentation Fund an amount equal to that reduction. For the 2004-05 fiscal year, if the county auditor does not receive a payment under this paragraph from a city on or before October 1, 2004, the auditor shall make the reduction required by paragraph (2). For the 2005-06 fiscal year, if the county auditor does not receive a payment under this paragraph from a city on or before October 1, 2005, the auditor shall make the reduction required by paragraph (2). [Emphasis added]

(B) Notwithstanding any other provision of law, to make the transmittals authorized by this paragraph, a city may use any funds or revenues, the use of which is not restricted by federal law or the California Constitution.

(6) (A) Notwithstanding any other provision of law, a city that has established a reserve for subsidence contingencies may, for the 2004-05 and 2005-06 fiscal years only, retain interest earned on that reserve for the previous calendar year in an amount not to exceed the amount of the reduction for that city required by this subdivision.

(B) The Legislature finds and declares that the amounts retained by a city pursuant to subparagraph (A) are in excess of trust needs and are free from the public trust for navigation, commerce, fisheries, and any other trust uses and restrictions.

(C) A city that has retained an amount under subparagraph (A) shall, beginning with the 2006-07 fiscal year, repay to the reserve for subsidence contingencies that amount so retained. The repayment shall be made in annual increments, which increments shall not be less than five hundred thousand dollars (\$500,000), until the amount retained by the city has been repaid. Those amounts repaid to the reserve for subsidence contingencies are subject to the public trust and shall be used only for the purposes prescribed by law for the reserve. [Emphasis added]

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(c) That amount of revenue that is not allocated to a county, city and county, or a city as a result of subdivisions (a) and (b), and that amount that is received by the county auditor under paragraph (5) of subdivision (b), shall be deposited in the county Educational Revenue Augmentation Fund and shall be allocated as specified in subdivision (d) of Section 97.3.

(d) For the 2005-06 fiscal year and each fiscal year thereafter, the amounts determined under subdivision (a) of Section 96.1, or any successor to that provision, shall not reflect, for a preceding fiscal year, any portion of any allocation required by this section”. [Emphasis added]

Accordingly, Section 97.71(b)(c)&(d) provide detail instructions for mandatory transfer of MVLF fee account co cities. In addition, detail formulas are provided in order to make proper reductions under the test claim legislation.

Sections 97.72, 97.73

Chapter 211, Statutes of 2004 added Revenue and Taxation Code Sections 97.72 and 97.73 and amended by Chapter 610, Statutes of 2004, define the method of calculating the ERAFIII shift amount for each special district. The Department of Finance is responsible for finalizing these calculations and will notify each County Auditor-Controller of the amounts to shift. The data used in these calculations came from the 2001-02 State Controller’s Special Districts Annual Report, unless the district wasn’t included in that report, in which case the most currently available report will be used. If a district is located in more than one county as of July 1, 1979, (Multi-County Special District) the county auditor will prorate the total shift amount among the affected counties using the ad valorem property taxes allocated to the District from each county. Unlike the two earlier ERAF shifts, multi-county districts are not exempt from the ERAF III property tax shift.

The ERAF III shift calculations for special districts are more complex, with separate calculations for enterprise districts and non-enterprise districts. In both the enterprise and non-enterprise district calculations, the methods employed include steps to avoid shifting property taxes used for police, fire protection and libraries, services provided by local healthcare districts, memorial districts and

mosquito abatement districts, and amounts pledged for debt service, as defined. (See the diagram on the following page)

Section 97.72 mandates that:

97.72. "Notwithstanding any other provision of law, for each of the 2004-05 and 2005-06 fiscal years, all of the following apply:

(a) (1) (A) (i) Except as otherwise provided in clauses (ii) and (iii), the total amount of ad valorem property tax revenue, other than these revenues that are pledged to debt service, otherwise allocated for each of those fiscal years to each enterprise special district shall be reduced by the lesser of the following: [Emphasis added]

(I) Forty percent of the amount of ad valorem property tax revenue of the district for the 2001-02 fiscal year, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report.

(II) An amount equal to 10 percent of that district's total revenues for the 2001-02 fiscal year, from whatever source, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report.

(ii) The total amount of ad valorem property tax revenue otherwise allocated for each of those fiscal years to each enterprise special district that is a transit district shall be reduced by 3 percent of the amount of ad valorem property tax revenue of the district for the 2001-02 fiscal year, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report.

(iii) The total amount of ad valorem property tax revenue otherwise allocated for each of those fiscal years to an enterprise special district that also performs, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report, non-enterprise functions other than fire protection or police protection shall be decreased by both of the following, not to exceed 10 percent of a district's total revenues from whatever source, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report:

(I) Forty percent of the amount of ad valorem property tax revenue of the district's enterprise functions for the 2001-02 fiscal year, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report.

(II) Ten percent of the amount of ad valorem property tax revenue of the district's non-enterprise functions for the 2001-02 fiscal year, as

reported in the 2001-02 edition of the State Controller's Special Districts Annual Report.

(B) If an enterprise special district is located in more than one county, the auditor of each county in which that enterprise special district is located shall implement that portion of the total reduction, required by subparagraph (A) with respect to that district, determined by the ratio of the amount of ad valorem property tax revenue allocated to that district from the county to the total amount of ad valorem property tax revenue allocated to that district from all counties.

(2) The Controller shall determine the amount of the ad valorem property tax revenue reduction required by paragraph (1) for each enterprise special district in each county. The Controller shall then determine whether the total amount of ad valorem property tax revenue reductions under paragraph (1) and Section 97.73 is less than three hundred fifty million dollars (\$350,000,000). If, for either the 2004-05 or 2005-06 fiscal year, the total of the amount of these reductions is less than three hundred fifty million dollars (\$350,000,000), the total amount of ad valorem property tax revenue allocated to each enterprise special district, other than an enterprise special district that is a transit district, shall be reduced by an additional amount equal to that district's proportionate share of the difference, provided that the total reduction under this section for a district shall not exceed 10 percent of that district's revenue from whatever source for the 2001-02 fiscal year, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report. If, as a result of this 10-percent limitation, any portion of the difference remains unapplied, that remaining portion shall, as many times as necessary, be applied in proportionate shares among those enterprise special districts, other than transit districts, for which the 10-percent limitation has not been reached, until a three hundred fifty million dollar reduction (\$350,000,000) has been applied. The Controller shall, on or before October 25, 2004, notify the Director of Finance of the reduction amounts determined under this subdivision. The Director of Finance shall, on or before November 12, 2004, notify each county auditor of the allocation reductions required by this paragraph and Section 97.73.

(b) That amount of ad valorem property tax revenue that is not allocated to an enterprise special district as a result of subdivision (a) shall instead be deposited in the county Educational Revenue

Augmentation Fund and shall be allocated as specified in subdivision (d) of Section 97.3.

(c) For purposes of this section, all of the following apply:

(1) "Enterprise special district" means a special district that performs, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report, an enterprise function. "Enterprise special district" does not include a fire protection district that was formed under the Shade Tree Law of 1909 set forth in Article 2 (commencing with Section 25620) of Chapter 7 of Division 2 of Title 3 of the Government Code, a local health care district as described in Division 23 (commencing with Section 32000) of the Health and Safety Code, or a qualified special district as defined in Section 97.34.

(2) With respect to an enterprise special district that also performs, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report, a police protection non-enterprise function with certified peace officers, as described in Chapter 4.5 (commencing with Section 830) of Title 3 of Part 2 of the Penal Code, or a fire protection non-enterprise function, "the amount of ad valorem property tax revenue of the district for the 2001-02 fiscal year" does not include ad valorem property tax revenue of that district for fire protection or police protection non-enterprise functions, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report.

(3) For purposes of this section, "revenues that are pledged to debt service" includes only those amounts required as the sole source of repayment to pay debt service costs in the 2002-03 fiscal year on debt instruments issued by an enterprise special district for the acquisition of fixed assets. For purposes of this paragraph, "fixed assets" means land, buildings, equipment, and improvements, including improvements to buildings.

(d) For the purposes of this section, if a special district's financial transactions do not appear in the 2001-02 edition of the State Controller's Special Districts Annual Report, the Controller shall use the most recent data available for that district.

(e) For the 2005-06 fiscal year and each fiscal year thereafter, the amounts determined under subdivision (a) of Section 96.1, or any successor to that provision, shall not reflect, for a preceding fiscal year, any portion of any allocation required by this section". [Emphasis added]

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As noted [on page 113, of Volume IV] in the “SB 1096 Guidelines” of the Accounting Standards Committee of the California State Association of County Auditors, (October 26, 2004), for the 2004-05 and 2005-06 fiscal years, on or before September 15, the State Controller shall notify each County Auditor-Controller of the total reduction amount for each city and:

“On or before October 25, 2004, the State Controller shall notify the Department of Finance of the special district amounts calculated pursuant to Revenue and Taxation Code sections 97.72 and 97.73; and on or before November 12, 2004, the Department of Finance shall notify each County Auditor-Controller of the final reduction amounts for each special district.

For the 2004-05 and 2005-06 fiscal years, on or before November 15, the Department of Finance shall notify each County Auditor-Controller of the total amount to shift for each redevelopment agency in his or her county, and each agency and legislative body of their respective shift.

Redevelopment agencies are also required, by March 1, to notify the County Auditor-Controller as to how the agency intends to fund the allocation or that the legislative body intends to remit the amount in lieu of the agency pursuant to Health and Safety Code section 33681.14.

Section 97.73 requires that:

97.73. “ Notwithstanding any other provision of law, for each of the 2004-05 and 2005-06 fiscal years, all of the following apply:

(a) (1) (A) The total amount of ad valorem property tax revenue, other than those revenues that are pledged to debt service, otherwise allocated for each of those fiscal years to each non-enterprise special district shall be reduced by 10 percent of the amount of ad valorem property tax revenue of the district for the 2001-02 fiscal year, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report.

(B) (i) Notwithstanding subparagraph (A), for the Laguna Niguel Community Service District in the County of Orange, the reduction described in subparagraph (A) shall be 4 percent rather than 10 percent.

(ii) If the district described in clause (i) is not dissolved before July 1, 2006, for each of the 2006-07 and 2007-08 fiscal years, the auditor shall reduce the total amount of ad valorem property tax revenue, other than those revenues that are pledged to debt service, otherwise allocated to that district for each of those fiscal years by 6 percent of the amount of ad valorem property tax revenue of the district for the 2001-02 fiscal year, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report.

(C) If a non-enterprise special district is located in more than one county, the auditor of each county in which that non-enterprise special district is located shall implement that portion of the total reduction, required by subparagraph (A) with respect to that district, determined by the ratio of the amount of ad valorem property tax revenue allocated to that district from the county to the total amount of ad valorem property tax revenue allocated to that district from all counties.

(2) The Controller shall determine the amount of the ad valorem property tax revenue reduction required by paragraph (1) for each non-enterprise special district in each county and notify the Director of Finance of these amounts on or before October 25, 2004.

(b) That amount of ad valorem property tax revenue that is not allocated to a non-enterprise special district as a result of subdivision (a) shall instead be deposited in the county Educational Revenue Augmentation Fund and shall be allocated as specified in subdivision (d) of Section 97.3". [Emphasis added]

The ERAF III calculations for special districts are more complex, with separate calculations for enterprise districts and non-enterprise districts. In both the enterprise and non-enterprise district calculations, the methods employed include steps to avoid shifting property taxes used for police, fire protection and libraries, services provided by local healthcare districts, memorial districts and mosquito abatement districts, and amounts pledged for debt service, as defined. The R&T Code Section 97.73 (c) (1) defines the above as follows:

“(c) For purposes of this section, all of the following apply:

(1) (A) "Non-enterprise special district" means a special district that engages solely, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report, in non-enterprise functions, and a qualified special district as defined in Section 97.34.

(B) Notwithstanding any other provision of law, "non-enterprise special district" does not include any of the following:

(i) A fire protection district that was formed under the Shade Tree Law of 1909 set forth in Article 2 (commencing with Section 25620) of Chapter 7 of Division 2 of Title 3 of the Government Code.

(ii) A police protection district formed pursuant to Part 1 (commencing with Section 20000) of Division 14 of the Health and Safety Code.

(iii) A fire protection district formed under the Fire Protection District Law of 1987 (Part 2.7 (commencing with Section 13800) of Division 12 of the Health and Safety Code) or a fire protection district formed under the Fire Protection District Law of 1961, or any of its statutory predecessors, and that existed on January 1, 1988.

(iv) Any library special district, including, but not limited to, the following:

(I) A county free library system established pursuant to Article 1 (commencing with Section 19100) of Chapter 6 of Part 11 of Division 1 of Title 1 of the Education Code.

(II) A unified school district and union school district public library district established pursuant to Chapter 3 (commencing with Section 18300) of Part 11 of Division 1 of Title 1 of the Education Code.

(III) A library district established pursuant to Chapter 8 (commencing with Section 19400) of Part 11 of Division 1 of Title 1 of the Education Code.

(IV) A library district in unincorporated towns and villages established pursuant to Chapter 9 (commencing with Section 19600) of Part 11 of Division 1 of Title 1 of the Education Code.

(v) A memorial district formed pursuant to Article 1 (commencing with Section 1170) of Chapter 1 of Part 2 of Division 6 of the Military and Veterans Code.

(vi) A mosquito abatement district or a vector control district formed pursuant to Chapter 1 (commencing with Section 2000) of Division 3 of the Health and Safety Code, or any predecessor to that law.

(vii) The Glenn County Pest Abatement District and the East Side Mosquito Abatement District formed pursuant to Chapter 8 (commencing with Section 2800) of Division 3 of the Health and Safety Code.

(2) With respect to a non-enterprise special district that performs, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report, non-enterprise functions and police protection

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services with certified peace officers, as described in Chapter 4.5 (commencing with Section 830) of Title 3 of Part 2 of the Penal Code, or non-enterprise functions and fire protection services, "the amount of ad valorem property tax revenue of the district for the 2001-02 fiscal year" does not include ad valorem property tax revenue of that district for fire protection or police protection non-enterprise functions, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report.

(3) With respect to a non-enterprise special district formed pursuant to Article 3 (commencing with Section 5500) of Chapter 3 of Division 5 of the Public Resources Code that performs, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report, non-enterprise functions and police protection services with certified peace officers, as described in Chapter 4.5 (commencing with Section 830) of Title 3 of Part 2 of the Penal Code, or non-enterprise functions and fire protection services, "the amount of ad valorem property tax revenue of the district for the 2001-02 fiscal year" does not include total expenditures net of total revenues by that district for fire protection or police protection non-enterprise functions, as reported in the 2001-02 edition of the State Controller's Special Districts Annual Report.

(4) For purposes of this section, "revenues that are pledged to debt service" includes only those amounts required as the sole source of repayment to pay debt service costs in the 2002-03 fiscal year on debt instruments issued by a non-enterprise special district for the acquisition of fixed assets. For purposes of this paragraph, "fixed assets" means land, buildings, equipment, and improvements, including improvements to buildings.

(d) For the purposes of this section, if a special district's financial transactions do not appear in the 2001-02 edition of the State Controller's Special Districts Annual Report, the Controller shall use the most recent data available for that district.

(e) For the 2005-06 fiscal year and each fiscal year thereafter, the amounts determined under subdivision (a) of Section 96.1, or any successor to that provision, shall not reflect, for a preceding fiscal year, any portion of any allocation required by this section".

In implementing Sections 97.72 and 97.73, County staff were required to perform new duties for special districts within the County and multi-county special districts:

- Verify special districts from the listing provided by the Department of Finance to ensure that it is on County's Apportionment Factor File (AF91). [The AF91 is a listing of all local taxing jurisdictions including special districts that currently received a share of the 1% ad-valorem property tax.]

- The first list pertains to just those special districts within Los Angeles County. Two special districts were noted to have been included incorrectly. LA County Consolidated Sewer Maintenance District and Green Valley County Water District. It was also noted that two county parks and recreation districts were not included on the list. Hacienda Recreation and Park and the Montebello Recreation and Park.

- The second list pertains to those multi-county special districts. The County reported the amount pertaining to the LA County portion of the reduction only. For example in the case of the Antelope Valley East Kern Water Agency (AVEK), we reported \$2,432,830.19 out of a total required amount of \$2,814,864.70. [The State Department of Finance was contacted regarding this discrepancy and instructed the County to reduce the amount sent by \$172,188.] Please see Attachment 13-F

The implementation of complex special district ERAF III computations, transfers and adjustments required the close collaboration of State as well as local officials. Hence, the time to meet and confer on these matters is a reimbursable "cost mandated by the State" as defined in Government Code section 17514. (See the diagram on the following page)

Section 3368.12

Chapter 211, Statutes of 2004 added Section 33681.12 of the Health and Safety Code and amended by Chapter 610, Statutes of 2004 defines the calculation of the Redevelopment Agencies ERAF III shift. The Department of Finance is required



TRUE-UPS (ADJUSTMENTS)

The Department of Finance will provide a reconciliation of the 2004-05 VLF and sales tax estimates by providing the actual VLF and sales tax amounts. The prior year adjustment amount (TRUE -UPS) will be an adjustment to the 2005-06 actual.

	2004-05 (Estimate)	2004-05 (Actual)	Prior Year Adjustment	2005-06 (Actual)	2005 - 06 Adjusted Amount	2006-07 Actual (only)
SALES TAX	280 Million	310 Million	30 Million	330 Million	360 Million	
VLF	1.2 Billion	1.4 Billion	.2 Billion	1.6 Billion	1.8 Billion	1.6 Billion + Growth

In the 2006 - 07 fiscal year the actual sales tax amount will continue to be provided by DOF. However, the VLF amount will consist of the 2005 - 06 actual and calculated growth for 2006 - 07. All future VLF calculations will include the 2005 - 06 base amount plus growth

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to perform the necessary calculations, prorating the \$250 million shift in two buckets:

Amounts passed through to affected agencies pursuant to Sections 33401, 33607.5 or 33676.

1. \$125 million prorated using net tax increment, defined as the increment apportioned to all agencies per H & S Code Section 33670, net of amounts passed through to affected agencies pursuant to Sections 33401, 33607.5 or 33676, and,
2. \$125 million prorated using total tax increment, which is the total increment apportioned to all agencies pursuant to H & S Code Section 33670, including any amounts passed through to affected agencies per Sections 33401, 33607.5, and 33676.

Specifically, Section 33681.12 requires that:

“(a) (1) During the 2004-05 fiscal year, a redevelopment agency shall, prior to May 10, remit an amount equal to the amount determined for that agency pursuant to subparagraph (I) of paragraph (2) to the county auditor for deposit in the county's Educational Revenue Augmentation Fund created pursuant to Article 3 (commencing with Section 97) of Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code. During the 2005-06 fiscal year, a redevelopment agency shall, prior to May 10, remit an amount equal to the amount determined for that agency pursuant to subparagraph (I) of paragraph (2) to the county auditor for deposit in the county's Educational Revenue Augmentation Fund created pursuant to Article 3 (commencing with Section 97) of Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code.

(2) For the 2004-05 and 2005-06 fiscal years, on or before November 15, the Director of Finance shall do all of the following:

(A) Determine the net tax increment apportioned to each agency pursuant to Section 33670, excluding any amounts apportioned to affected taxing agencies pursuant to Section 33401, 33607.5, or 33676.

(B) Determine the net tax increment apportioned to all agencies pursuant to Section 33670, excluding any amounts apportioned to affected taxing agencies pursuant to Section 33401, 33607.5, or 33676.

(C) Determine a percentage factor by dividing one hundred twenty-five million dollars (\$125,000,000) by the amount determined pursuant to subparagraph (B).

(D) Determine an amount for each agency by multiplying the amount determined pursuant to subparagraph (A) by the percentage factor determined pursuant to subparagraph (C).

(E) Determine the total amount of property tax revenue apportioned to each agency pursuant to Section 33670, including any amounts apportioned to affected taxing agencies pursuant to Section 33401, 33607.5, or 33676.

(F) Determine the total amount of property tax revenue apportioned to all agencies pursuant to Section 33670, including any amounts apportioned to affected taxing agencies pursuant to Section 33401, 33607.5, or 33676.

(G) Determine a percentage factor by dividing one hundred twenty-five million dollars (\$125,000,000) by the amount determined pursuant to subparagraph (F).

(H) Determine an amount for each agency by multiplying the amount determined pursuant to subparagraph (E) by the percentage factor determined pursuant to subparagraph (G).

(I) Add the amount determined pursuant to subparagraph (D) to the amount determined pursuant to subparagraph (H).

(J) Notify each agency and each legislative body of the amount determined pursuant to subparagraph (I).

(K) Notify each county auditor of the amounts determined pursuant to subparagraph (I) for each agency in his or her county.

(3) The obligation of any agency to make the payments required pursuant to this subdivision shall be subordinate to the lien of any pledge of collateral securing, directly or indirectly, the payment of the principal, or interest on any bonds of the agency including, without limitation, bonds secured by a pledge of taxes allocated to the agency pursuant to Section 33670.

(b) (1) Notwithstanding Sections 33334.2, 33334.3, and 33334.6, and any other provision of law, in order to make the full allocation required by this section, an agency may borrow up to 50 percent of the amount required to be allocated to the Low and Moderate Income Housing Fund pursuant to Sections 33334.2, 33334.3, and 33334.6 during the 2004-05 fiscal year and, if applicable, the 2005-06 fiscal year, unless executed contracts exist that would be impaired if the agency reduced

the amount allocated to the Low and Moderate Income Housing Fund pursuant to the authority of this subdivision.

(2) As a condition of borrowing pursuant to this subdivision, an agency shall make a finding that there are insufficient other moneys to meet the requirements of subdivision (a). Funds borrowed pursuant to this subdivision shall be repaid in full within 10 years following the date on which moneys are remitted to the county auditor for deposit in the county's Educational Revenue Augmentation Fund pursuant to subdivision (a).

(c) In order to make the allocation required by this section, an agency may use any funds that are legally available and not legally obligated for other uses, including, but not limited to, reserve funds, proceeds of land sales, proceeds of bonds or other indebtedness, lease revenues, interest, and other earned income. No moneys held in a low- and moderate-income fund as of July 1 of the applicable fiscal year may be used for this purpose". [Emphasis added]

Chapter 211, Statutes of 2004 added and amended by Chapter 610, Statutes of 2004 enacted Health and Safety Code Section 33681.12 (d) and states that redevelopment agencies shall, by March 1st, notify the County Auditor-Controller as to how the agency intends to fund the allocation or that the legislative body intends to remit the amount in lieu of the agency as follows:

“(d) The legislative body shall by March 1 report to the county auditor as to how the agency intends to fund the allocation required by this section, or that the legislative body intends to remit the amount in lieu of the agency pursuant to Section 33681.14.

(e) The allocation obligations imposed by this section, including amounts owed, if any, created under this section, are hereby declared to be an indebtedness of the redevelopment project to which they relate, payable from taxes allocated to the agency pursuant to Section 33670, and shall constitute an indebtedness of the agency with respect to the redevelopment project until paid in full.

(f) It is the intent of the Legislature, in enacting this section, that these allocations directly or indirectly assist in the financing or refinancing, in whole or in part, of the community's redevelopment project pursuant to Section 16 of Article XVI of the California Constitution.

(g) In making the determinations required by subdivision (a), the

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Director of Finance shall use those amounts reported as the "Tax Increment Retained by Agency" for all agencies and for each agency in the most recent published edition of the Controller's Community Redevelopment Agencies Annual Report made pursuant to Section 12463.3 of the Government Code".

(h) If revised reports have been accepted by the Controller on or before September 1, 2005, the Director of Finance shall use appropriate data that has been certified by the Controller for the purpose of making the determinations required by subdivision (a)". [Emphasis added]

Chapter 211, Statutes of 2004 added and amended by Chapter 610, Statutes of 2004 states that the County may borrow under conditions specified in H & S Code Section 33681.12 (i), a county may enter into a loan agreement with its redevelopment agency for the agency to fund all or portion of its ERAF III shift, with terms that the loan is repaid with interest within the three years subsequent to the year the agreement is entered into. Section 33681.12(i) provides that:

“(i) (1) Notwithstanding any other provision of law, a county redevelopment agency may enter into a loan agreement with the legislative body to have the agency remit to the county's Educational Revenue Augmentation Fund for each of the 2004-05 and 2005-06 fiscal years an amount greater than that determined pursuant to subparagraph (I) of paragraph (2) of subdivision (a) if all of the following conditions are met:

(A) The agency does not exercise its authority under subdivision (b) to borrow from its Low and Moderate Income Housing Fund to finance its payments to the county's Educational Revenue Augmentation Fund.

(B) The agency does not have any outstanding loans from its Low and Moderate Income Housing Fund that were made under subdivision (b) of Section 33981.5, subdivision (b) of Section 33681.7, or subdivision (b) of Section 33681.9.

(C) The loan agreement requires the county to repay any excess remitted amounts, including interest, to the agency within three fiscal years subsequent to the fiscal year in which the loan is made.

(D) The agency making the loan does not participate in pooled borrowing under Section 33681.15.

(2) A loan agreement described in paragraph (1) shall be transmitted to the county auditor not later than December 1 of the fiscal year in which

the loan is made. Any amount remitted by the agency to the county Educational Revenue Augmentation Fund for the 2004-05 or 2005-06 fiscal year in excess of the amount determined pursuant to paragraph (1) of subdivision (a) shall be credited to the amount that would otherwise be subtracted by the county auditor pursuant to subdivision (a) of Section 97.71 of the Revenue and Taxation Code for, as applicable, the 2004-05 and 2005-06 fiscal years.”

As noted [on page 112 of Volume IV] in “SB 1096 Guidelines” of the Accounting Standards Committee of the California State Association of County Auditors, (October 26, 2004), the calculations for redevelopment agencies are set forth in Health and Safety Code section 33681.12, as added by Section 15 of Chapter 211, Statutes of 2004, and amended by Section 4 of Chapter 610, Statutes of 2004:

“The Department of Finance is required to perform the necessary calculations, prorating the \$250 million shift in two pots:

- (1) \$125 million prorated using net tax increment, defined as the increment apportioned to all agencies pursuant to Health and Safety Code section 33670, net of amounts passed through to affected agencies pursuant to sections 33401, 33607.5 or 33676 and
- (2) \$125 million prorated using total tax increment, which is the total increment apportioned to all agencies pursuant to Health and Safety Code section 33670, including any amounts passed through to affected agencies pursuant to sections 33401, 33607.5 or 33676.

In performing these calculations, the Department of Finance is required to use those amounts reported as the “Tax Increment Retained by the Agency” for all agencies and for each agency in the most recent published edition of the Controller’s Community Redevelopment Agencies Annual Report. This provision allows for a second calculation for the 2005-06 fiscal year, based on the State Controller’s Community Redevelopment Agencies Annual Report for Fiscal Year 2003-04.

A final note regarding redevelopment agencies is the provision for accepting revised reports. If the Controller accepts a revised report on or

before September 1, 2005, the Department of Finance will use the alternate data as provided by the Controller.”

Hence, the implementation of complex requirements under Health and Safety Code Section 33681.12 required the close collaboration of State as well as local officials. Hence, the time to meet and confer on these matters is a reimbursable “cost mandated by the State” as defined in Government Code section 17514.

R&T 97.31

Revenue and Taxation Code 97.31 requires the County auditor to perform numerous duties at the request of the Department of Finance. Section 97.31 provides that:

“(a)(1) The Director of Finance shall direct the county auditor to reduce, in the 1993-94 fiscal year, the amount of the transfer to the Educational Revenue Augmentation Fund determined pursuant to subdivision (a) of Section 97.3 for any eligible county in accordance with subdivision (b) of this section, and also shall direct the county auditor to reduce, in the 1993-94 fiscal year, the amount of that transfer for certain counties in accordance with subdivision (c). The total amount of the reductions for all counties made for the 1993-94 fiscal year pursuant to subdivision (b) shall not exceed two million dollars (\$2,000,000) . For the 1994-95 fiscal year and each fiscal year thereafter, ad valorem property tax revenue allocations made pursuant to subdivision (a) of Section 96.1 shall fully incorporate the adjustments required by this section. [Emphasis added]

(2) For purposes of this section, an "eligible county" is a county with a population of less than 350,000, as reported in the 1990 federal census that had a fire element of the tax bill in 1977-78, that continues to fund some portion of those costs from the county general fund in 1993-94, and that provides these services in the same manner as a special district less than countywide and has so indicated in the Controller's Report on Financial Transactions Concerning Counties. [Emphasis added]

(b)(1) For each eligible county, the county auditor may submit the following information to the Director of Finance not later than November 1, 1993:

(A) The amount of property tax allocated to the county fire district in the 1977-78 fiscal year.

(B) The amount allocated from the county budget to the county fire district in the 1978-79 fiscal year.

(C) The amount of property tax reduction for the county fire district attributable to the passage of Article XIII A of the California Constitution by the voters in the primary election in June 1978.

(D) The amount of money allocated from the county budget to the county fire district in the 1993-94 fiscal year.

(E) The amount allocated to the county fire district from the Special District Augmentation Fund in the 1992-93 fiscal year.

(2) For each eligible county that submits to the Director of Finance by November 1, 1993, the information described in paragraph (1), the Director of Finance shall make the following calculations:

(A) Multiply the amount of property tax allocated to the county fire district in the 1977-78 fiscal year by the change in the value of the property tax base for the county from the 1977-78 fiscal year to the 1978-79 fiscal year.

(B) Subtract the amount reported pursuant to subparagraph (C) of paragraph (1) from the amount determined pursuant to subparagraph (A).

(C) Multiply the amount determined pursuant to subparagraph (B) by an amount determined by the Director of Finance to be the change in assessed value for the county from the 1978-79 fiscal year to the 1993-94 fiscal year.

(D) Multiply the amount reported pursuant to subparagraph (E) of paragraph (1) by 1.038.

(E) Add the amount determined pursuant to subparagraph (C) to the

amount determined pursuant to subparagraph (D).

(F) Subtract the amount determined pursuant to subparagraph (E) from the amount reported pursuant to subparagraph (D) of paragraph (1).

(3) The Director of Finance shall determine the sum of all the amounts determined pursuant to subparagraph (F) of paragraph (2).

(4) If the sum determined pursuant to paragraph (3) is greater than two million dollars (\$2,000,000), then the Director of Finance shall proportionately reduce the amount for each county so that the total of the amounts for all counties does not exceed two million dollars (\$2,000,000). If the sum determined pursuant to subdivision (e) does not exceed two million dollars (\$2,000,000), then the Director of Finance shall not reduce the amount determined for each county.

(5) The Director of Finance shall by January 15, 1994, notify each county of its reduction in the amount to be transferred to the Educational Revenue Augmentation Fund pursuant to subdivision (a) of Section 97.3. The maximum amount of the reduction that may be authorized pursuant to this subdivision is one-half the amount determined pursuant to subparagraph (F) of paragraph (2).

(c) The amount to be transferred from a county to an Educational Revenue Augmentation Fund pursuant to subdivision (a) of Section 97.3 shall be reduced by one hundred thousand dollars (\$100,000) for the County of Madera and by two hundred thousand dollars (\$200,000) for the County of Tulare”.

Hence, Section 97.31 provides mandatory and detailed instructions in making reductions to ERAF accounts under [the above] specified conditions.

R&T 98.02

Revenue and Taxation code Section 98.02 requires the County to estimate the allocated property tax revenue for each city and special districts based on the “TEA” formula as follows:

“(a) In the County of Ventura, the computations made pursuant to

Section 96.1 or its predecessor section, for the 1989-90 fiscal year and each fiscal year thereafter, shall be modified as follows:

With respect to tax rate areas, except excluded tax rate areas, within the boundaries of a qualifying city, there shall be excluded from the aggregate amount of "property tax revenue allocated pursuant to this chapter to local agencies, other than for a qualifying city, in the prior fiscal year," an amount equal to the sum of the amounts calculated pursuant to the TEA formula:

(b)(1) Each qualifying city shall, for the 1989-90 fiscal year and each fiscal year thereafter, be allocated by the auditor an amount determined pursuant to the TEA formula.

(2) For each qualifying city, the auditor shall, for the 1989-90 fiscal year and each fiscal year thereafter, distribute the amount determined pursuant to the TEA formula to all tax rate areas, except excluded tax rate areas, within that city in proportion to each tax rate area's share of the total assessed value in the city for the applicable fiscal year, and the amount so determined shall be subtracted from the county's proportionate share of the property tax revenue for that fiscal year within those tax rate areas. [Emphasis added]

(3) After making the allocations pursuant to paragraphs (1) and (2), but before making the calculations pursuant to Section 96.5 or its predecessor section, the auditor shall, for all tax rate areas, except excluded tax rate areas, in the qualifying city, calculate the proportionate share of property tax revenue allocated pursuant to this section and Section 96.1, or their predecessor sections, in the 1989-90 fiscal year and each fiscal year thereafter to each jurisdiction in the tax rate area.

(4) In lieu of making the allocations of annual tax increment pursuant to subdivision (e) of Section 96.5 or its predecessor section, the auditor shall for the 1989-90 fiscal year and each fiscal year thereafter, allocate the amount of property tax revenue determined pursuant to subdivision (d) of Section 98 to jurisdictions in the tax rate area, except an excluded tax rate area, using the proportionate shares derived pursuant to paragraph (3).

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(5) For purposes of the calculations made pursuant to Section 96.1 or its predecessor section, in the 1990-91 fiscal year and each fiscal year thereafter, the amounts that would have been allocated to all tax rate areas, except excluded tax rate areas, of qualifying cities pursuant to this subdivision shall be deemed to be the "amount of property tax revenue allocated to those tax rate areas in the prior fiscal year."

(c) "TEA formula" means the Tax Equity Allocation formula, and shall be calculated by the auditor for each qualifying city as follows:

(1) For the 1988-89 fiscal year and each fiscal year thereafter, the auditor shall determine the total amount of property tax revenue to be allocated to all jurisdictions in all tax rate areas, except excluded tax rate areas, within the qualifying city, before the allocation and payment of funds in that fiscal year to a community redevelopment agency within the qualifying city, as provided in subdivision (b) of Section 33670 of the Health and Safety Code.

(2) The auditor shall determine the amount of funds allocated in each fiscal year to those tax rate areas, except excluded tax rate areas, within a community redevelopment agency in accordance with subdivision (b) of Section 33670 of the Health and Safety Code.

(3)(A) The auditor shall determine the total amount of funds paid in each fiscal year by a community redevelopment agency within the city to jurisdictions other than the city pursuant to subdivision (b) of Section 33401 and Section 33676 of the Health and Safety Code, and the cost to the redevelopment agency of any land or facilities transferred and any amounts paid to jurisdictions other than the city to assist in the construction or reconstruction of facilities pursuant to an agreement entered into under Section 33401 or 33445.5 of the Health and Safety Code.

(B) Of the total amount determined in subparagraph (A), the auditor shall compute a proportionate amount to be attributed to all tax rate areas, except excluded tax rate areas, within the community redevelopment agency. That proportionate amount shall be equal to that proportion which the amount determined in paragraph (2) in each

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fiscal year bears to the total amount of funds allocated in each fiscal year to a community redevelopment agency in accordance with subdivision (b) of Section 33670 of the Health and Safety Code.

(4) The auditor shall subtract the amount determined in subparagraph (B) of paragraph (3) from the amount determined in paragraph (2).

(5) The auditor shall subtract the amount determined in paragraph (4) from the amount determined in paragraph (1).

(6) The amount computed in paragraph (5) shall be multiplied by the following percentages in order to determine the TEA formula amount to be distributed to the qualifying city in each fiscal year:

(A) For the first fiscal year in which the qualifying city receives a distribution pursuant to this section, 1 percent of the amount determined in paragraph (5).

(B) For the second fiscal year in which the qualifying city receives a distribution pursuant to this section, 2 percent of the amount determined in paragraph (5).

(C) For the third fiscal year in which the qualifying city receives a distribution pursuant to this section, 3 percent of the amount determined in paragraph (5).

(D) For the fourth fiscal year and each fiscal year thereafter in which the qualifying city receives a distribution pursuant to this section, 4 percent of the amount determined in paragraph (5).

(d) For purposes of this section, "excluded tax rate area" means either of the following:

(1) Any tax rate area included in territory annexed by the qualifying city and allocated a prescribed percentage of property tax revenue pursuant to an existing agreement between the qualifying city and the county.

(2) Any tax rate area described in paragraph (1) that was detached from

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the county library district and that is also allocated an additional prescribed percentage of property tax revenue pursuant to an existing agreement between the qualifying city and the county.

(e)(1) All existing agreements between the qualifying city and the county covering the allocation of property tax revenues to tax rate areas described in subdivision (d) shall remain in force.

(2) All existing agreements between the qualifying city and the county covering the allocation of property tax revenues to tax rate areas that were detached from the county library district but are not included in territory that was annexed by the qualifying city shall remain in force.

(3) All allocations to those tax rate areas described in subdivision (d), including allocations of annual tax increments, made pursuant to the existing agreements between the qualifying city and the county shall be governed by subdivision (a) of Section 96.1 and Section 96.5.

(4) All allocations to those tax rate areas described in paragraph (2), including allocations of annual tax increments, made pursuant to the existing agreements between the qualifying city and the county shall be governed by subdivision (a) of Section 96.1 and Section 96.5. However, the tax rate areas referred to in this paragraph shall also be distributed an amount of property tax revenue determined pursuant to the TEA formula that is over and above the amount allocated as provided in the preceding sentence.

(f) "Qualifying city" means any city that incorporated prior to June 5, 1987, and had an amount of property tax revenue allocated to it pursuant to subdivision (a) of Section 96.1 or its predecessor section in the 1988-89 fiscal year that is less than 4 percent of the amount of property tax revenue computed as follows:

(1) The auditor shall determine the total amount of property tax revenue allocated to all tax rate areas, except excluded tax rate areas, in the city in the 1988-89 fiscal year.

(2) The auditor shall subtract the amount in the 1988-89 fiscal year determined in paragraph (3) of subdivision (c) from the amount

determined in paragraph (2) of subdivision (c).

(3) The auditor shall subtract the amount determined in paragraph (2) from the amount of property tax revenue in paragraph (1) of subdivision (c).

(4) The auditor shall divide the amount of property tax revenue determined in paragraph (1) of this subdivision by the amount of property tax revenue determined in paragraph (3) of this subdivision.

(5) If the quotient determined in paragraph (4) of this subdivision is less than 0.04, the city is a qualifying city. If the quotient determined in that paragraph is equal to or greater than 0.04, the city is not a qualifying city.

(g) The auditor may assess each qualifying city its proportional share of the actual costs of making the calculations required by this section, and may deduct that assessment from the amount allocated pursuant to subdivision (b). For purposes of this subdivision, a qualifying city's proportional share of the auditor's actual costs shall not exceed the proportion it receives of the total amounts excluded in the county pursuant to subdivision (a).

(h)(1) Notwithstanding subdivision (b), except as otherwise provided in paragraph (2), in any fiscal year in which a qualifying city receives a distribution pursuant to this section, the auditor shall reduce the actual amount distributed to the qualifying city by the amount of revenue not collected by the qualifying city in the first fiscal year following the city's reduction after January 1, 1988, of the tax rate or tax base of any locally imposed general or special tax. The amount so computed by the auditor shall constitute a reduction in the amount of property tax revenue distributed to the qualifying city pursuant to this section in each succeeding fiscal year. That amount shall be aggregated with any additional amount computed pursuant to this paragraph as the result of the city's reduction in any subsequent year of the tax rate or tax base of the same or any other locally imposed general or special tax.

(2) No reduction shall be made pursuant to paragraph (1) in the case in which a local tax is reduced or eliminated as a result of either a court

decision or the approval or rejection of a ballot measure by the voters.

(i) If the auditor determines that the amount to be distributed to a qualifying city pursuant to subdivision (b), as modified by subdivisions (g) and (h), would result in a qualifying city having proceeds of taxes in excess of its appropriation limit, the auditor shall reduce the amount, on a dollar-for-dollar basis, by the amount that exceeds the city's appropriations limit.

(j) Notwithstanding any other provision of this section, no qualifying city shall be distributed an amount pursuant to this section that is less than the amount the city would have been allocated without the application of the TEA formula.

(k)(1) Notwithstanding any other provision of this section, commencing with the 1994-95 fiscal year, the auditor shall not reduce the amount distributed to a qualifying city under this section by reason of that city becoming the successor agency to a special district that is dissolved, merged with that city, or becomes a subsidiary district of that city, on or after July 1, 1994.

(2) Notwithstanding any other provision of this section, in no event may the auditor reduce the amount of ad valorem property tax revenue otherwise allocated to a qualifying city pursuant to this section on the basis of any additional ad valorem property tax revenues received by that city pursuant to a services for revenue agreement. For purposes of this subdivision, a "services for revenue agreement" means any agreement between a qualifying city and the county in which it is located, entered into by joint resolution of that city and that county, under which additional service responsibilities are exchanged in consideration for additional property tax revenues.

(l) The amount not distributed as a result of this section to the tax rate areas, except excluded tax rate areas, in each qualifying city shall be allocated by the auditor to the county". [Emphasis added]

Accordingly, where applicable, the Tax Equity Allocation [TEA] formula requires the county auditor to perform complex transactions under [the above] specified circumstances.

R&T 97.77

Revenue and Taxation code Section 97.77 states that enterprise and non enterprise special district cannot contribute funds on debt instruments, it specifically states that:

“An enterprise special district and a nonenterprise special district shall not pledge, on or after July 1, 2004, and before June 30, 2006, through a bond covenant to pay debt service costs on debt instruments issued by the district, any ad valorem property tax revenue that would otherwise be dedicated to the reduction required by Sections 97.72 and 97.73”. [Emphasis added]

Hence, certain restrictions in implementing Sections 97.72 and 97.73 affect debt instruments issued by a special district and such planning is a necessary and reimbursable activity under this test claim legislation.

R&T 97.75

Revenue Taxation code Section 97.75 prohibits the County from imposing a fee on the services required by the test claim legislation. It reads as follows:

“Notwithstanding any other provision of law, for the 2004-05 and 2005-06 fiscal years, a county shall not impose a fee, charge, or other levy on a city, nor reduce a city's allocation of ad valorem property tax revenue, in reimbursement for the services performed by the county under Sections 97.68 and 97.70. For the 2006-07 fiscal year and each fiscal year thereafter, a county may impose a fee, charge, or other levy on a city for these services, but the fee, charge, or other levy shall not exceed the actual cost of providing these services”. [Emphasis added.]

Therefore, the fee disclaimer in Government Code Section 17556[d], that local government has sufficient authority to offset the costs of mandated duties as claimed herein, is not applicable for the 2004-05 and 2005-06 fiscal years.

H&S 33681.13

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Health and Safety Code Section 3368.13 defines the term indebtedness for a local agency. Section 3368.13 provides that:

“(a)(1) For the purpose of this section, "existing indebtedness" means one or more of the following obligations incurred by a redevelopment agency prior to the effective date of this section, the payment of which is to be made in whole or in part, directly or indirectly, out of taxes allocated to the agency pursuant to Section 33670, and that is required by law or provision of the existing indebtedness to be made during the fiscal year of the relevant allocation required by Section 33681.12.

(A) Bonds, notes, interim certificates, debentures, or other obligations issued by the agency whether funded, refunded, assumed, or otherwise pursuant to Article 5 (commencing with Section 33640).

(B) Loans or moneys advanced to the agency, including, but not limited to, loans from federal, state, or local agencies, or a private entity.

(C) A contractual obligation that, if breached, could subject the agency to damages or other liabilities or remedies.

(D) An obligation incurred pursuant to Section 33445.

(E) Indebtedness incurred pursuant to Section 33334.2.

(F) An amount, to be expended for the operation and administration of the agency, that may not exceed 90 percent of the amount spent for those purposes in the 2002-03 fiscal year.

(G) Obligations imposed by law with respect to activities that occurred prior to the effective date of the act that adds this section.

(2) Existing indebtedness incurred prior to the effective date of this section may be refinanced, refunded, or restructured after that date, and shall remain existing indebtedness for the purposes of this section, if the annual debt service during that fiscal year does not increase over the prior fiscal year and the refinancing does not reduce the ability of the agency to make the payment required by subdivision (a) of Section

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33681.12.

(3) For the purposes of this section, indebtedness shall be deemed to be incurred prior to the effective date of this section if the agency has entered into a binding contract subject to normal marketing conditions, to deliver the indebtedness, or if the redevelopment agency has received bids for the sale of the indebtedness prior to that date and the indebtedness is issued for value and evidence thereof is delivered to the initial purchaser no later than 30 days after the date of the contract or sale.

(b) During the 2004-05 and 2005-06 fiscal years, an agency that has adopted a resolution pursuant to subdivision (c) may, pursuant to subdivision (a) of Section 33681.12, allocate to the auditor less than the amount required by subdivision (a) of Section 33681.12, if the agency finds that either of the following has occurred:

(1) That the difference between the amount allocated to the agency and the amount required by subdivision (a) of Section 33681.12 is necessary to make payments on existing indebtedness that are due or required to be committed, set aside, or reserved by the agency during the applicable fiscal year and that are used by the agency for that purpose, and the agency has no other funds that can be used to pay this existing indebtedness, and no other feasible method to reduce or avoid this indebtedness.

(2) The agency has no other funds to make the allocation required by subdivision (a) of Section 33681.12.

(c)(1) Any agency that, pursuant to subdivision (b), intends to allocate to the auditor less than the amount required by subdivision (a) of Section 33681.12 shall adopt, prior to December 31 of the applicable fiscal year, after a noticed public hearing, a resolution that lists all of the following:

(A) Each existing indebtedness incurred prior to the effective date of this section.

(B) Each indebtedness on which a payment is required to be made

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during the applicable fiscal year.

(C) The amount of each payment, the time when it is required to be paid, and the total of the payments required to be made during the applicable fiscal year. For indebtedness that bears interest at a variable rate, or for short-term indebtedness that is maturing during the fiscal year and that is expected to be refinanced, the amount of payments during the fiscal year shall be estimated by the agency.

(2) The information contained in the resolution required by this subdivision shall be reviewed for accuracy by the chief fiscal officer of the agency.

(3) The legislative body shall additionally adopt the resolution required by this section.

(d)(1) Any agency that, pursuant to subdivision (b), determines that it will be unable either in the 2004-05 or the 2005-06 fiscal year, to allocate the full amount required by subdivision (a) of Section 33681.12 shall, subject to paragraph (3), enter into an agreement with the legislative body by February 15 of the applicable fiscal year, to fund the payment of the difference between the full amount required to be paid pursuant to subdivision (a) of Section 33681.12 and the amount available for allocation by the agency.

(2) The obligations imposed by paragraph (1) are hereby declared to be indebtedness incurred by the redevelopment agency to finance a portion of a redevelopment project within the meaning of Section 16 of Article XVI of the California Constitution. This indebtedness shall be payable from tax revenues allocated to the agency pursuant to Section 33670, and any other funds received by the agency. The obligations imposed by paragraph (1) shall remain an indebtedness of the agency to the legislative body until paid in full, or until the agency and the legislative body otherwise agree.

(3) The agreement described in paragraph (1) shall be subject to these terms and conditions specified in a written agreement between the legislative body and the agency.

(e) If the agency fails, under either Section 33681.12 or subdivision (d), 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 obligation determined for that agency in paragraph (1) of subdivision (c) of Section 33681.12 from the legislative body's allocations pursuant to Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code". [Emphasis added]

Section 33681.13 provides detailed instructions on how to define and measure "existing indebtedness" for purposes of implementing ERAF III transfers and reductions mandated in Section 33681.12, previously discussed.

H&S 33681.14

Health and Safety Code Section requires a legislative body to remit the amount determined by the County auditor in order to be deposited in the ERAF a county.

Section 33681.14 States that:

“(a) In lieu of the remittance required by Section 33681.12, during either the 2004-05 or 2005-06 fiscal year, a legislative body may, prior to May 10 of the applicable fiscal year, remit an amount equal to the amount determined for the agency pursuant to subparagraph (I) of paragraph (2) of subdivision (a) of Section 33681.12 to the county auditor for deposit in the county's Educational Revenue Augmentation Fund created pursuant to Article 3 (commencing with Section 97) of Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code.

(b) The legislative body may make the remittance authorized by this section from any funds that are legally available for this purpose. No moneys held in an agency's Low and Moderate Income Housing Fund shall be used for this purpose.

(c) If the legislative body, pursuant to subdivision (d) of Section 33681. 12, reported to the county auditor that it intended to remit the amount in lieu of the agency and the legislative body fails to transmit

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the full amount as authorized by this section by May 10 of the applicable fiscal year, the county auditor, no later than May 15 of the applicable fiscal year, shall transfer an amount necessary to meet the obligation from the legislative body's allocations pursuant to Chapter 6 (commencing with Section 95) of Part 0.5 of Division 1 of the Revenue and Taxation Code. If the amount of the legislative body's allocations are not sufficient to meet this obligation, the county auditor shall transfer an additional amount necessary to meet this obligation from the property tax increment revenue apportioned to the 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". [Emphasis added]

Section 33681.14 details the conditions under which the county auditor shall transfer amounts necessary to meet this [test claim] obligation as well as other obligations. As such, care must be taken to ensure that complex requirements are met. Hence, the time to review, plan, and if necessary, modify pertinent debt instruments is a reimbursable "cost mandated by the State" as defined in Government Code section 17514.

H&S 33681.15

Health and Safety Code Section 33681.15 specifies the authorized issuers of an entity. It reads as follows:

"(a) For the purposes of this section, an "authorized issuer" is limited to a joint powers entity created pursuant to Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code that consists of no less than 100 local agencies issuing bonds pursuant to the Marks-Roos Local Bond Pooling Act of 1984 (commencing with Section 6584) of the Government Code.

(b) An authorized issuer may issue bonds, notes, or other evidence of indebtedness to provide net proceeds to make one or more loans to one or more redevelopment agencies to be used by the agency to timely make the payment required by Section 33681.12.

(c) With the prior approval of the legislative body by adoption of a resolution by a majority of that body that recites that a first lien on the

property tax revenues allocated to the legislative body will be created in accordance with subdivision (h), an agency may enter into an agreement with an authorized issuer issuing bonds pursuant to subdivision (b) to repay a loan used to make the payment required by Section 33681.12, notwithstanding the expiration of the time limit on establishing loans, advances, advances and indebtedness, and the time limit on repayment of indebtedness. For the purpose of calculating the amount that has been divided and allocated to the redevelopment agency to determine whether the limitation adopted pursuant to Section 33333.2 or 33333.4 or pursuant to an agreement or court order has been reached, any funds used to repay a loan entered into pursuant to this section shall be deducted from the amount of property tax revenue deemed to have been received by the agency.

(d) A loan made pursuant to this section shall be repayable by the agency from any available funds of the agency not otherwise obligated for other uses and shall be repayable by the agency on a basis subordinate to all existing and future obligations of the agency.

(e) Upon making a loan to an agency pursuant to this section, the trustee for the bonds issued to provide the funds to make the loan shall timely pay, on behalf of the agency, to the county auditor of the county in which the agency is located the net proceeds (after payment of costs of issuance, credit enhancement costs, and reserves, if any) of the loan in payment in full or in part, as directed by the agency, of the amount required to be paid by the agency pursuant to Section 33681.12 and shall provide the county auditor with the repayment schedule for the loan, together with the name of the trustee.

(f) In the event the agency shall, at any time and from time to time, fail to repay timely the loan in accordance with the schedule provided to the county auditor, the trustee for the bonds shall promptly notify the county auditor of the amount of the payment on the loan that is past due.

(g) The county auditor shall reallocate from the legislative body and shall pay, on behalf of the agency, the past due amount from the first available proceeds of the property tax allocation that would otherwise be transferred to the legislative body pursuant to Chapter 6

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County of Los Angeles Test Claim
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(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.

(h) To secure repayment of a loan to an agency made pursuant to this section, the trustee for the bonds issued to provide the funds to make the loan shall have a lien on the property tax revenues allocated 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 lien shall arise by operation of this section automatically upon the making of the loan without the need for any action on the part of any person. This lien shall be valid, binding, perfected, and enforceable against the legislative body, its successors, creditors, purchasers, and all others asserting rights in those property tax revenues, irrespective of whether those persons have notice of the lien, irrespective of the fact that the property tax revenues subject to the lien may be commingled with other property, and without the need for physical delivery, recordation, public notice, or any other act. This lien shall be a first priority lien on these property tax revenues. This lien shall not apply to any portion of the property taxes allocated to the agency pursuant to Section 33670".
[Emphasis added]

Health and Safety Code Section 33681.15 requires the county auditor, under specified conditions to pay, on behalf of the agency, past due amounts from the first available proceeds of the property tax allocation that would otherwise be transferred to the legislative body. Such duties are an unavoidable consequence of complying with the test claim legislation and therefore impose reimbursable "costs mandated by the State" as that term is defined in Government Code Section 17514.

Scope of Work

In making the required allocation changes, substantial work had to be performed. Not only, for example, would each affected local unit's property tax collection and distribution factors and percentage formulas need to be modified in accordance with the test claim legislation, but also, continuous monitoring of revenue transfers into and out of specific affected local unit revenue accounts was necessary. State agencies required verification that actual revenue collections and transfers throughout the year meet met tax revenue allocation targets.

Counties are fiduciaries and function as an administrative agency, designated under the test claim legislation, to not only plan, develop and implement tax allocations and transfers, but also to prepare periodic, detailed reports for the State Controller's Office (SCO). The State Department of Finance (DOF) then uses these reports in monitoring and revising specified revenue reallocations.

Based on DOF's assessment on whether target property tax revenue allocations are being achieved, DOF instructs counties as to adjustments to property tax revenue allocation formulas for each type of local unit so that tax revenue statutory targets are met by year end.

In order to develop and implement a compliant ancillary tax revenue allocation system, counties performed planning, implementation, State reporting, distribution and administrative duties not required under prior law. The costs of performing these duties were studied by twenty-four counties and are reported herein under the Cost Study section. Mandatory planning, implementation, State reporting, distribution and administrative duties are illustrated as follows:

Planning

Statutory and regulatory requirements were reviewed with State and local officials to ensure timely compliance. Susan Linschoten, Chief of the Los Angeles County Auditor-Controller, Tax Division and her managers met with state and local officials in Sacramento. The Auditor Controller's Property Tax Committee worked with the State Controller, California

State Association of Counties (CSAC), the League of Cities, Association of Special Districts, LAO, Department of Finance and others to develop guidelines for the implementation of SB1096 and AB2115. Numerous issues discussed and interpretations made with the sole intent of implementing these laws uniformly statewide. In particular:

1. Dave Elledge, Santa Clara County Auditor-Controller, conferred with State Controller's Office staff regarding a model using the Santa Clara County format for the Triple Flip, VLF and ERAFIII. This was presented in the October 6, 2004 meeting in Sacramento [See agenda and background information on pages 148 - 153 of Volume IV].
2. On September 9, 2004, a revision was made to the format to include an additional schedule of property tax allocation, the "Schedule of Reverse ERAF Necessity and Allocation". This schedule addressed the condition of when the ERAF balance after adjustment is negative, and therefore requiring a reverse ERAF allocation. [See agenda and background information on page 158 of Volume IV for pertinent milestone chart].
3. On September 22, 2004, the committee implemented two more revisions to the model. The Community colleges were included in the Reverse ERAF Schedule and a schedule for Unitary Allocation Factors [when assessed valuation exceeds 102 percent] was added. [See flowcharts of the "model" prepared by the Los Angeles County, Auditor-Controller, Tax Division staff, on pages 119-136 of Volume IV].
4. On September 24, 2004 Pam Johnston, former president of the State Association of County Auditors (SACA) e-mailed all members regarding the availability of the VLF Adjustment amounts on the SCO website.
5. On October 6, 2004 – The Tax Managers hosted a presentation to describe the guidelines being drafted and reviewed key provisions. Rich Arrow, Marin County Auditor-Controller and Rod Dole, Sonoma County Auditor-

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Controller presented the group with the Guidelines for the VLF, Triple Flip, and ERAFIII. They were later joined by Wayne Beck, Local Government Reporting Section, Division of Accounting and Reporting, of the State Controller's Office. [See agenda and background information on pages 148 - 153 of Volume IV].

6. Dave Elledge, Santa Clara County Auditor-Controller, in his e-mail dated October 21, 2004 to some members of the committee, clarified and/or responded to some issues regarding the cost recovery for counties administering the SB1096 requirements through the SB90 state mandated cost program. Along with this e-mail was a discussion as to whether the ERAFIII reduction should be included in the calculation of the County Property Tax Administrative Cost factor. [See County tax administrative requirements on pages 175-235 of Volume III].
7. On November 19, 2004, Pat Landingham of the Department of Finance responded to some of the issues raised by Rita Woodard of Tulare County regarding some special districts not receiving ad valorem property tax allocation to cover their ERAF III shift amount.
8. Pam Johnston based on a letter received from the State Controller's Office announced that the ERAFIII amounts on the Special Districts ERAF contributions form be reported as required by AB2115 Chapter 610 of the Statutes of 2004.
9. On March 10, 2005, Pam Johnston of Sonoma County sent an e-mail to all members of SACA regarding the result of a March 8, 2005 teleconference as to whether RDA's should or should not be included in the ERAFIII reduction on the allocation portion of the Property Tax Admin. Fee. The committee determined that RDA's admin. Fee should not be reduced.

A key activity in the planning phase was interpretation of the subject laws. Presentations and discussions about key test claim provisions were tape-recorded and provided to tax managers throughout the State for further interpretation. Tax supervisors were also provided a copy of this tape to come up with their own interpretations.

The next step was the development of policies, procedures and guidelines for timely compliance. The State Association of County Auditors formed a special subcommittee on the subject.

Implementation

The ancillary tax allocation system requires county staff to flawlessly perform a multitude of accounting activities in meeting the general funding levels set forth in the 2004 State Budget Act. For instance, complex custodial account transfers via detailed journal vouchers were executed. New interest earning allocations had to be computed. Special ERAF accounts had to be balanced and reconciled.

Also, allocation transactions and balances were periodically confirmed and verified. This is particularly important when allocation adjustment changes are made by Department of Finance (DOF).

In addition, all work performed was and remains subject to audit. Great care must be taken to document work and maintain clear audit trails. This is particularly important where so many complex transactions are involved, as here, under the test claim legislation.

To implement the new ancillary tax revenue allocation system the following additional work had to be performed:

1. Establishment of two new special funds – Sales and Use Tax Compensation Fund and Vehicle License Fee Property Tax Compensation Fund.
2. Development of local user requirements for the two newly created funds for additional property tax revenue allocations. Apportionment

of the monthly payment distributions of the Educational Revenue Augmentation Fund (ERAF) revised to meet the requirements of the statute. See Volume V, pages 14-18, for details of work performed regarding:

1. ERAF Apportionment Summary Schedules – December 2004 Distribution
 - a. Sales & Use Tax Compensation Fund [SE1]
 - b. Vehicle License Fee Compensation Fund [SF7]

2. ERAF Apportionment VLF/Sales Tax & Use Tax – January 2005 Distribution
 - a. Sales & Use Tax Compensation Fund [SE1]
 - b. Vehicle License Fee Compensation Fund [SF7]

3. ERAF Apportionment VLF/Sales Tax & Use Tax – February 2005 Distribution
 - a. Sales & Use Tax Compensation Fund [SE1]

3. Review the Educational Revenue Augmentation Fund Shift (ERAF III) reduction received from the Department of Finance to verify inclusion of appropriate taxing agencies. See Volume V, pages 22-56, for details of work performed regarding:

1. Estimated Countywide Adjustment Amount [Page 22]
2. VLF Fee Adjustment Amount Schedule [Page 23]
3. Revenue and Taxation Code Section 10751 – 10760 [Page 24]
4. Revenue and Taxation Code Section 11001 – 11006 [Page 25]
5. State Controller's Office Allocation Reduction Schedule [Pages 26-28]
 - a. Reduction to Amounts Allocated R & T Code Section 97.70 [County]
 - b. Reduction to Amounts Allocated R & T Code Section 97.71 [Cities Only]
6. ERAF III Distribution from Agencies to ERAF [Pages 29-32]
7. ERAF Shift & Health and Safety Code 33681.12 [Pages 33-34]
8. ERAF Shift Schedule by Special District [Pages 35-36]
9. ERAF Shift Schedule by County – Multi County Special

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- Districts Correspondence Green Valley Water District [Pages 37-38]
10. Department of Finance Opinion – ERAF III Non-Ad Valorem Special Districts [Pages 39]
 11. Special Districts Financial Transaction Report [Pages 40-48]
 - a. Consolidated Sewer Maintenance District
 12. Secured Defaulted Tax Ledger – Special District [Pages 49-56]
4. Distribute ERAF into the Sales and Use Tax Compensation Fund and the Vehicle License Fee Property Tax Compensation Fund. See Volume V, pages 57-58, for details of work performed regarding:
1. ERAF – VLF Fee and Sales & Use Tax
 - a. Summary Payment Distribution Schedule
5. VLF/Sales Tax & Use Tax 1st Payment Schedule 2004-05 [Counties, Cities, Special Districts]. See Volume V, pages 59-62, for details of work performed regarding:
1. Sales & Use Tax Compensation Fund [SE1]
 2. Vehicle License Fee Compensation Fund [SF7]
6. Development and implementation of a new Supplemental Tax Roll apportionment factor file to include the VLF adjustment amounts. VLF/Sales Tax & Use Tax 1st Payment Schedule 2004-05. See Volume V, pages 63-85, for details of work performed regarding:
1. Apportionment Factor File AF91. Pages 63 - 75
 2. Modified AB8 Ratio Reports Pages 76 - 85
7. Inclusion of the ERAF III shift in the calculation of the County Property Tax Administrative Cost (SB2557). See Volume V, pages 98-133, for details of work performed regarding:
1. SB2557 County Property Tax Administrative Cost 2004-05. Page 98
 2. SB2557 Property Tax Administrative Cost – Recovered/Share to Departments. Page 99
 3. SB2557 Administrative Cost Schedule for County/Cities 2004-05. Pages 100 - 121
 - a. Recovery of Administrative Cost for Special Districts
 - b. Recovery of Administrative Cost for County Redevelopment Agency
 - c. Recovery of Administrative Cost for Cities

4. SB2557 Administrative Cost Variance Schedule for County/Cities.
Pages 122 - 133

8. Modification of the monthly payment distributions of the Educational Revenue Augmentation Fund (ERAF) in order to meet the requirements of the statute. See Volume V, pages 134-136, for details of work performed regarding:
 1. ERAF Allocation Correspondence – County Office of Education
Page 134
 2. ERAF Allocation – Community Redevelopment Agency. Page 135
 3. Accounting – Fund transfer Journal Voucher [ERAF to Various]
Page 136

9. Perform the activities necessary to shift Community Redevelopment Agencies ERAF III contribution in May to ERAF. See Volume V, pages 137-161, for details of work performed regarding:
 1. South Pasadena Redevelopment Agency ERAF Shift. Page 137
 2. CRA Remittance Advice. Page 138
 3. Remittance Advice Summary. Page 139
 4. ERAF Shift H & S Code 33681.12. Page 140
 5. CRA ERAF Shift Adjustment Correspondence. Pages 142 - 143
 6. Remittance Advice Summary – Bellflower. Pages 144 - 149
 7. Department of Finance RDA Transfer Schedules. Page 150
 - a. CRA Correspondence ERAF Shift – San Dimas

10. Calculation of the Unitary apportionment factor by including the VLF adjustment amount to allocate the Unitary revenue growth in excess of the 2%. See Volume V, pages 151-161, for details of work performed regarding:
 1. Apportionment Factor File [AF93] – Modified AB8 Ratios Report
Pages 151-161.

11. Adjust the “true-up” amount for Sales and Use Tax and Vehicle License Fee as provided by the State Controller’s Office. See Volume V, page 162, for details of work performed regarding:
 1. VLF Property Tax Compensation Fund – True Up Calculations
Page 162

12. Perform 1st and 2nd ERAFIII shift from local taxing agencies to ERAF in December and April, respectively. See Volume V, pages 163-168, for details of work performed regarding:

1. ERAF 1st Payment Schedule 2004-05 [Counties, Cities, Special Districts]. Pages 163 - 167
 - a. Transfer of Funds to ERAF Fund RD9
2. Accounting Division Journal Vouchers – First Payment Transfer
 - a. VLF Swap, Triple Flip, ERAF Fund Transfers. Page 168

State Reporting

The State Controller's Office is charged with monitoring compliance with statutory mandates to reallocate property tax revenues under the subject laws. The County prepares voluminous, periodic, special State reports, required by the State Controller's Office (SCO) to monitor compliance with the subject laws. As an example, the County has to report in June to the State Controller's Office, the Vehicle License Fee amounts apportioned to each taxing agency within the County. The County also has to report the ERAF III contribution on the Local Government Reporting Section (LGRS) report.

Distribution

Based on property tax revenue collections, the County was required to periodically update (input) computerized distribution ERAF schedules, affecting K-12, Community Colleges and the Superintendent of Schools. Initially, to ensure timely compliance, manual apportionments, distributions, allocations were performed. See example of work performed on an ERAF distribution schedule in Volume III, pages 131-132].

Administration

County Auditor-Controller personnel were called upon to explain the new property tax revenue allocations under the subject laws. Tax Division management planned on informing everyone affected of the new legislation by having a training presentation on the issue. On three separate occasions, the Apportionment and Refund Section and the Community Redevelopment Agency and Distribution Section provided a training presentation to all Tax

Division staff and County departments affected by SB 1096 and AB 2115 (e.g. Auditor-Controller, Assessor, Treasurer-Tax Collector, and Chief Administrative Office). In addition considerable staff time was involved in answering questions from the County's local taxing jurisdictions regarding their specific allocation (s).

Therefore Los Angeles County has performed, and continues to perform, substantial work specifically to comply with the subject laws and should be reimbursed for its "costs mandate by the State" as defined in Government Code Section 17514.

Cost Study

The additional costs which the County of Los Angeles and twenty-three other counties incurred in complying with the test claim legislation were studied and are reported here for two years [2004-05 and 2005-06]. As noted on the milestone chart [attached on page 6 in Volume I], counties began incurring these costs on September 1, 2004. The three cost categories used in the study were:

- A. Planning
- B. Implementation
- C. Administration and Reporting.

The cost survey was based on responses of county staff to questions on the their time and resources necessary to comply with the requirements of the test claim legislation, not required under prior law. Specifically, county staff were asked about the following activities:

A. Planning

1. Legislation Analysis
2. Training Expenses. This includes transportation, lodging, and employee hours.
3. Preparation of Training Presentation.
4. Training Presentation provide to County departments (e.g. Auditor-Controller, Assessor, Treasurer-Tax Collector, and Chief Administrative Office).

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5. Review Cities and County Vehicle License Fee revenues to include growth.
6. Review of ERAF III shift for the computation of the County Property Tax Administrative Costs (SB2557).
7. Other – Please specify the procedure.
8. Other

B. Implementation

1. Establish Special Funds – Sales and Use Tax Compensation Fund and Vehicle License Fee Property Tax Compensation Fund.
2. Review of the “countywide adjustment amounts” for the Sales and Use Tax and Vehicle License Fee as submitted by the State Department of Finance.
3. Review the Educational Revenue Augmentation Fund Shift (ERAF III) reduction received from the Department of Finance to verify inclusion of appropriate taxing agencies.
4. Allocate the Sales and Use Tax and Vehicle License Fee revenues during the fiscal adjustment period (1st half in January and the 2nd half in May to the County and Cities).
5. Adjust the “true-up” amount of Sales and Use Tax and Vehicle License Fee as provided by the State Controller’s Office.
6. Develop and implement new Supplemental Tax Roll apportionment factor file. This includes establishing procedures and completing system application modifications.
7. Calculate Unitary apportionment factor to allocate Unitary tax roll growth in excess of 2%.
8. Perform 1st and 2nd ERAF III shift from local taxing agencies to ERAF in December and April, respectively.
9. Perform the activities necessary to shift Community Redevelopment Agencies contribution in May to ERAF.
10. Prepare the J29 report (1st and 2nd) estimates to include Sales and Use Tax, Vehicle License Fee, and ERAF III contributions.

11. Distribution ERAF into the Sales and Use Tax Compensation Fund and the Vehicle License Fee Property Tax Compensation Fund.
12. Other – Please specify the procedure
13. Other
14. Other

C. Administration and Reporting

1. Report in June 2005 to the State Controller's Office the Vehicle License Fee amounts apportioned to each taxing agency within the County.
2. Report the ERAF III contribution on the Local Government Reporting Section (LGRS) report.
3. Notification to all County taxing agencies of tax revenue distribution changes due to 2004 State Budget Act.
4. Perform all necessary accounting activities to report County changes due to 2004 State Budget Act.
5. County Property Tax Administration Cost (SB 2557) reduction due to ERAF III contribution.
7. Other – Please specify the procedure.
8. Other
9. Other

Cost Survey Findings

The cost survey findings indicated that Statewide, counties have incurred costs during 2004-05¹, in implementing the test claim legislation and that those costs total \$13,301,018. The costs which counties will incur during 2005-06, in implementing the test claim legislation, are estimated to total \$12,580,829. Los Angeles County costs for these periods was \$2,787,650 for 2004-05 and \$2,876,875 for 2005-06. On the following pages the costs are reported by county and by reimbursable activity for the 2004-05 and 2005-06 fiscal years. Also, the methodology used in preparing the Statewide cost estimates follows each year's cost data.

¹ As noted in the declarations of Kelvin Aikens [in Volume II, page 2], Darlene Quyen Hoang [in Volume II, page 30], and Leonard Kaye [in Volume II, page 135], the County of Los Angeles began incurring costs under the test claim legislation on September 1, 2004.

SB90 TEST CLAIM FOR

SB1096 AND AB2116
 FISCAL YEAR 2004-06

YEAR 1

	LOS ANGELES COUNTY	ALAMEDA COUNTY	AMADOR COUNTY	BUTTE COUNTY	CALAVERAS COUNTY	CONTRA COSTA COUNTY	EL DORADO COUNTY	HUMBOLDT COUNTY	MADERA COUNTY	
A. PLANNING										
1	Legislation Analysis	\$ 2,380	\$ -	\$ 444	\$ 28,740	\$ 88	\$ 3,545	\$ 2,011	\$ 100	\$ 1,043
2	Training Expenses. This includes transportation, lodging, and employee hours.	\$ 17,219	\$ -	\$ 2,221	\$ 2,569	\$ 622	\$ 291	\$ 1,227	\$ 100	\$ 1,859
3	Preparation of Training Presentation	\$ 5,138	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	Training Presentation provided to County Departments (e.g. Auditor-Controller, Assessor, Treasurer-Tax Collector, and Chief Administrative Office).	\$ 1,909	\$ -	\$ 444	\$ 216	\$ -	\$ -	\$ -	\$ -	\$ -
5	Review Cities and County Vehicle License Fee revenues to include growth.	N/A	\$ -	\$ 222	\$ 900	\$ -	\$ -	\$ -	\$ 100	\$ -
6	Review of ERAF III shift for the computation of the County Property Tax Administrative Costs (SB2557).	\$ 1,951	\$ -	\$ -	\$ 1,830	\$ 192	\$ 927	\$ 108	\$ 100	\$ 225
7	Other - Please specify the procedure.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,068	\$ -	\$ -	\$ -
	SUB-TOTAL (A)	\$ 28,596	\$ -	\$ 3,331	\$ 34,255	\$ 902	\$ 5,831	\$ 3,346	\$ 400	\$ 3,127
B. IMPLEMENTATION										
1	Establish Special Funds - Sales and Use Tax Computation Fund and Vehicle License Fee Property Tax Compensation Fund.	\$ 1,951	\$ -	\$ -	\$ 983	\$ 192	\$ 502	\$ 295	\$ 100	\$ 128
2	Review of the "countywide adjustment amounts" for the Sales and Use Tax and Vehicle License Fee as submitted by the State Department of Finance.	\$ 465	\$ -	\$ -	\$ 2,062	\$ 36	\$ 125	\$ 166	\$ 200	\$ 64

SB90 TEST CLAIM FOR

SB1096 AND AB2116
 FISCAL YEAR 2004-06

YEAR 1

	LOS ANGELES COUNTY	ALAMEDA COUNTY	AMADOR COUNTY	BUTTE COUNTY	CALAVERAS COUNTY	CONTRA COSTA COUNTY	EL DORADO COUNTY	HUMBOLDT COUNTY	MADERA COUNTY	
3	Review the Educational Revenue Augmentation Fund Shift (ERAF III) reduction received from the Department of Finance to verify inclusion of appropriate taxing agencies.	\$ 1,046	\$ -	\$ -	\$ 1,139	\$ 48	\$ 752	\$ 865	\$ 100	\$ 160
4	Allocate the Sales and Use Tax and Vehicle License Fee revenues during the fiscal adjustment period (1st half in January and the 2nd half in May to the County and Cities.	\$ 626	\$ -	\$ -	\$ 848	\$ 24	\$ 494	\$ 261	\$ 200	\$ 257
5	Adjust the "true up" amount for Sales and Use Tax and Vehicle License fee as provided by the State Controller's Office.	\$ -	\$ -	\$ -	\$ 762	\$ -	\$ -	\$ -	\$ -	\$ -
6	Develop and implement new Supplemental Tax Roll apportionment factor file. This includes establishing procedures and completing system application modifications.	\$ 6,613	\$ -	\$ -	\$ 1,399	\$ 576	\$ 938	\$ 540	\$ 100	\$ 898
7	Calculate Unitary apportionment factor to allocate Unitary tax roll growth in excess of 2%.	\$ 4,002	\$ -	\$ -	\$ 876	\$ 340	\$ -	\$ 27	\$ 200	\$ -
8	Perform 1st and 2nd ERAF III shift from local taxing agencies to ERAF in December and April, respectively.	\$ 417	\$ -	\$ -	\$ 673	\$ 48	\$ 316	\$ 324	\$ 200	\$ 128
9	Perform the activities necessary to shift Community Redevelopment Agencies contribution in May to ERAF.	\$ 3,361	\$ -	\$ -	\$ 109	\$ -	\$ 322	\$ 108	\$ 50	\$ 128
10	Prepare the J29 report (1st and 2nd) estimates to include Sales and Use Tax, Vehicle License Fee, and ERAF III contributions.	\$ 209	\$ -	\$ -	\$ 1,713	\$ 48	\$ 211	\$ 158	\$ 450	\$ 513
11	Distribute ERAF into the Sales and Use Tax Compensation Fund and the Vehicle License Fee Property Tax Compensation Fund.	\$ 565	\$ -	\$ -	\$ 539	\$ 36	\$ -	\$ 261	\$ 100	\$ 128
12	Other - Please specify the procedure.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	SUB-TOTAL (B)	\$ 19,255	\$ -	\$ -	\$ 11,103	\$ 1,348	\$ 3,660	\$ 3,005	\$ 1,700	\$ 2,404

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 1

LOS ANGELES COUNTY	ALAMEDA COUNTY	AMADOR COUNTY	BUTTE COUNTY	CALAVERAS COUNTY	CONTRA COSTA COUNTY	EL DORADO COUNTY	HUMBOLDT COUNTY	MADERA COUNTY
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C. ADMINISTRATION, ACCOUNTING AND REPORTING

1	Report in June 2005 to the State Controller's Office the Vehicle License Fee amounts apportioned to each taxing agency within the County.	\$ 254	\$ -	\$ -	\$ -	\$ 32	\$ 89	\$ 81	\$ 100	\$ 128
2	Report the ERAF III contribution on the Local Government Reporting Section (LGRS) report.	\$ 254	\$ -	\$ -	\$ 1,754	\$ 32	\$ 293	\$ 162	\$ 100	\$ 193
3	Notification to all County taxing agencies of tax revenue distribution changes due to 2004 State Budget Act.	\$ 1,738	\$ -	\$ -	\$ 767	\$ 72	\$ 145	\$ 216	\$ 100	\$ 128
4	Perform all necessary accounting activities to report County changes due to 2004 State Budget Act.	\$ 12,706	\$ -	\$ -	\$ 335	\$ 450	\$ -	\$ 1,905	\$ -	\$ -
5	County Property Tax Administration Cost (SB2557) reduction due to ERAF III contribution.	\$ 2,724,847	\$ 429,718	\$ -	\$ 58,237	\$ 1,576,595	\$ 275,498	\$ 172,579	\$ 53,444	\$ 22,287
6	Other - Please specify the procedure.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

SUB-TOTAL (C)	\$2,739,799	\$ 429,718	\$ -	\$ 61,093	\$1,577,181	\$ 276,025	\$174,943	\$ 53,744	\$ 22,736
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GRAND TOTAL (A + B + C)	\$2,787,650	\$ 429,718	\$ 3,331	\$106,451	\$1,579,431	\$ 285,516	\$181,294	\$ 55,844	\$ 28,267
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Note:

Year 1 - Some of the costs are estimates.

Year 2 - All of the costs are estimates.

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 1

	MARIN COUNTY	MERCED COUNTY	PLACER COUNTY	SACRAMENTO COUNTY	SAN DIEGO COUNTY	S.L. OBISPO COUNTY	SANTA BARBARA COUNTY	SANTA CLARA COUNTY
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A. PLANNING

1	Legislation Analysis	\$ 3,546	\$ 1,567	\$ 2,497.95	\$ 9,880	\$ 7,070	\$ 3,649	\$ 1,449	\$ 550
2	Training Expenses. This includes transportation, lodging, and employee hours.	\$ 2,938	\$ 933	\$ 2,870.36	\$ -	\$ 4,226	\$ 2,487	\$ 5,647	\$ 1,926
3	Preparation of Training Presentation	\$ 1,735	\$ -	\$ 155.30	\$ 2,860	\$ 5,127	\$ 570	\$ -	\$ 550
4	Training Presentation provided to County Departments (e.g. Auditor-Controller, Assessor, Treasurer-Tax Collector, and Chief Administrative Office).	\$ 867	\$ -	\$ 1,294.96	\$ -	\$ 532	\$ 122	\$ -	\$ 275
5	Review Cities and County Vehicle License Fee revenues to include growth.	\$ -	\$ -	\$ 155.30	\$ -	\$ -	\$ 285	\$ -	\$ 275
6	Review of ERAF III shift for the computation of the County Property Tax Administrative Costs (SB2557).	\$ 676	\$ 38	\$ 155.30	\$ 520	\$ 1,221	\$ 204	\$ 1,573	\$ 559
7	Other - Please specify the procedure.	\$ 4,215	\$ -	\$ 232.95	\$ -	\$ -	\$ -	\$ -	\$ -
8	Other	\$ 624	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUB-TOTAL (A)		\$ 14,601	\$ 2,538	\$ 7,362.12	\$ 13,260	\$ 18,176	\$ 7,317	\$ 8,669	\$ 4,135

B. IMPLEMENTATION

1	Establish Special Funds - Sales and Use Tax Computation Fund and Vehicle License Fee Property Tax Compensation Fund.	\$ 250	\$ 82	\$ 161.87	\$ 260	\$ 429	\$ 41	\$ 617	\$ 275
2	Review of the "countywide adjustment amounts" for the Sales and Use Tax and Vehicle License Fee as submitted by the State Department of Finance.	\$ -	\$ 76	\$ 575.33	\$ 260	\$ 626	\$ 326	\$ 571	\$ 255

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

Section 5. Written Narrative
 County of Los Angeles Test Claim
Accounting for Local Revenue Realignments

YEAR 1

	MARIN COUNTY	MERCED COUNTY	PLACER COUNTY	SACRAMENTO COUNTY	SAN DIEGO COUNTY	S.L. OBISPO COUNTY	SANTA BARBARA COUNTY	SANTA CLARA COUNTY
3 Review the Educational Revenue Augmentation Fund Shift (ERAF III) reduction received from the Department of Finance to verify inclusion of appropriate taxing agencies.	\$ -	\$ 38	\$ 355.72	\$ 260	\$ 2,347	\$ 366	\$ 1,196	\$ 1,150
4 Allocate the Sales and Use Tax and Vehicle License Fee revenues during the fiscal adjustment period (1st half in January and the 2nd half in May to the County and Cities.	\$ 445	\$ 76	\$ 310.60	\$ 312	\$ 706	\$ 285	\$ 543	\$ 697
5 Adjust the "true up" amount for Sales and Use Tax and Vehicle License fee as provided by the State Controller's Office.	\$ -	\$ -	\$ -	\$ 260	\$ -	\$ -	\$ -	\$ -
6 Develop and implement new Supplemental Tax Roll apportionment factor file. This includes establishing procedures and completing system application modifications.	\$ 291	\$ 268	\$ 388.25	\$ 312	\$ 20,928	\$ 407	\$ 963	\$ 3,120
7 Calculate Unitary apportionment factor to allocate Unitary tax roll growth in excess of 2%.	\$ -	\$ -	\$ -	\$ -	\$ 458	\$ -	\$ -	\$ -
8 Perform 1st and 2nd ERAF III shift from local taxing agencies to ERAF in December and April, respectively.	\$ 542	\$ 154	\$ 155.30	\$ 312	\$ 602	\$ 163	\$ 1,333	\$ 485
9 Perform the activities necessary to shift Community Redevelopment Agencies contribution in May to ERAF.	\$ 269	\$ 76	\$ 380.94	\$ 312	\$ 598	\$ 489	\$ -	\$ 1,995
10 Prepare the J29 report (1st and 2nd) estimates to include Sales and Use Tax, Vehicle License Fee, and ERAF III contributions.	\$ 388	\$ 38	\$ 167.90	\$ -	\$ 560	\$ 326	\$ 667	\$ 155
11 Distribute ERAF into the Sales and Use Tax Compensation Fund and the Vehicle License Fee Property Tax Compensation Fund.	\$ 178	\$ 19	\$ 77.65	\$ -	\$ 257	\$ 285	\$ 2,346	\$ 355
12 Other - Please specify the procedure.	\$ 542	\$ -	\$ -	\$ -	\$ -	\$ 163	\$ -	\$ -
13 Other	\$ 857	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14 Other	\$ 344	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUB-TOTAL (B)	\$ 4,106	\$ 827	\$ 2,573.56	\$ 2,288	\$ 27,511	\$ 2,851	\$ 8,236	\$ 8,487

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

Accounting for Local Revenue Realignment

YEAR 1

MARIN COUNTY	MERCED COUNTY	PLACER COUNTY	SACRAMENTO COUNTY	SAN DIEGO COUNTY	S.L. OBISPO COUNTY	SANTA BARBARA COUNTY	SANTA CLARA COUNTY
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C. ADMINISTRATION, ACCOUNTING AND REPORTING

1	Report in June 2005 to the State Controller's Office the Vehicle License Fee amounts apportioned to each taxing agency within the County.	\$ -	\$ 38	\$ 155.30	\$ 260	\$ 1,024	\$ 81	\$ -	\$ 110
2	Report the ERAF III contribution on the Local Government Reporting Section (LGRS) report.	\$ 502	\$ 38	\$ 714.85	\$ 260	\$ 560	\$ 81	\$ -	\$ 110
3	Notification to all County taxing agencies of tax revenue distribution changes due to 2004 State Budget Act.	\$ 242	\$ 38	\$ 310.60	\$ 260	\$ 206	\$ 448	\$ -	\$ 110
4	Perform all necessary accounting activities to report County changes due to 2004 State Budget Act.	\$ 970	\$ -	\$ 608.66	\$ 260	\$ -	\$ 463	\$ 7,050	\$ 303
5	County Property Tax Administration Cost (SB2557) reduction due to ERAF III contribution.	\$ 141,687	\$ 68,650	\$ 124,966.00	\$ 140,000	\$ 524,362	\$ 159,487	\$ 105,464	\$ 667,755
6	Other - Please specify the procedure.	\$ 954	\$ -	\$ -	\$ -	\$ -	\$ 896	\$ -	\$ -
7	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 529	\$ -	\$ -
8	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUB-TOTAL (C)		\$ 144,355	\$ 68,764	\$ 126,755.41	\$ 141,040	\$ 526,152	\$ 161,985	\$ 112,514	\$ 668,388
GRAND TOTAL (A + B + C)		\$ 163,062	\$ 72,129	\$ 136,691.09	\$ 156,588	\$ 571,839	\$ 172,153	\$ 129,419	\$ 681,010

Note:

Year 1 - Some of the costs are estimates.

Year 2 - All of the costs are estimates.

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

Section 5. Written Narrative
 County of Los Angeles Test Claim
Accounting for Local Revenue Realignments

YEAR 1

SANTA CRUZ COUNTY	SHASTA COUNTY	SISKIYOU COUNTY	SONOMA COUNTY	STAINSLAUS COUNTY	TRINITY COUNTY	TULARE COUNTY	TOTAL
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A. PLANNING

1	Legislation Analysis	\$ 1,512	\$ -	\$ 2,025	\$ 21,289	\$ 7,044.78	\$ 1,600	\$ 751.50	\$ 102,781.98
2	Training Expenses. This includes transportation, lodging, and employee hours.	\$ 252	\$ 3,081	\$ -	\$ 2,901	\$ 1,673.26	\$ 1,924	\$ 7,077.82	\$ 64,044.46
3	Preparation of Training Presentation	\$ 1,016	\$ -	\$ 567	\$ 1,516	\$ -	\$ -	\$ 1,002.00	\$ 20,235.92
4	Training Presentation provided to County Departments (e.g. Auditor-Controller, Assessor, Treasurer-Tax Collector, and Chief Administrative Office).	\$ 583	\$ -	\$ 931	\$ -	\$ -	\$ -	\$ -	\$ 7,173.90
5	Review Cities and County Vehicle License Fee revenues to include growth.	\$ -	\$ -	\$ -	\$ 1,213	\$ -	\$ -	\$ -	\$ 3,150.30
6	Review of ERAF III shift for the computation of the County Property Tax Administrative Costs (SB2557).	\$ 450	\$ 216	\$ -	\$ 2,721	\$ 365.84	\$ 200	\$ 334.00	\$ 14,566.14
7	Other - Please specify the procedure.	\$ -	\$ -	\$ -	\$ 2,212	\$ -	\$ -	\$ -	\$ 6,659.95
8	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,692.00
SUB-TOTAL (A)		\$ 3,813	\$ 3,297	\$ 3,523	\$ 31,852	\$ 9,083.88	\$ 3,724	\$ 9,165.32	\$ 220,304.65

B. IMPLEMENTATION

1	Establish Special Funds - Sales and Use Tax Computation Fund and Vehicle License Fee Property Tax Compensation Fund.	\$ 150	\$ 83	\$ 81	\$ 271	\$ -	\$ 40	\$ 83.50	\$ 6,975.37
2	Review of the "countywide adjustment amounts" for the Sales and Use Tax and Vehicle License Fee as submitted by the State Department of Finance.	\$ 150	\$ 81	\$ 567	\$ 202	\$ 272.89	\$ -	\$ -	\$ 7,080.22

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

Section 5. Written Narrative
County of Los Angeles Test Claim
Accounting for Local Revenue Realignments

YEAR 1

	SANTA CRUZ COUNTY	SHASTA COUNTY	SISKIYOU COUNTY	SONOMA COUNTY	STAINSLAUS COUNTY	TRINITY COUNTY	TULARE COUNTY	TOTAL
3 Review the Educational Revenue Augmentation Fund Shift (ERAF III) reduction received from the Department of Finance to verify inclusion of appropriate taxing agencies.	\$ 300	\$ 243	\$ 405	\$ 1,401	\$ 252.51	\$ -	\$ 459.25	\$ 12,883.48
4 Allocate the Sales and Use Tax and Vehicle License Fee revenues during the fiscal adjustment period (1st half in January and the 2nd half in May to the County and Cities.	\$ 300	\$ 419	\$ 141	\$ 277	\$ 95.77	\$ 320	\$ 334.00	\$ 7,971.37
5 Adjust the "true up" amount for Sales and Use Tax and Vehicle License fee as provided by the State Controller's Office.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,022.00
6 Develop and implement new Supplemental Tax Roll apportionment factor file. This includes establishing procedures and completing system application modifications.	\$ 3,800	\$ 243	\$ -	\$ 492	\$ 808.33	\$ 640	\$ 626.25	\$ 44,350.83
7 Calculate Unitary apportionment factor to allocate Unitary tax roll growth in excess of 2%.	\$ 950	\$ -	\$ -	\$ -	\$ 42.79	\$ 320	\$ -	\$ 7,215.79
8 Perform 1st and 2nd ERAF III shift from local taxing agencies to ERAF in December and April, respectively.	\$ 75	\$ 324	\$ 141	\$ 364	\$ 85.58	\$ 80	\$ 46.58	\$ 6,968.46
9 Perform the activities necessary to shift Community Redevelopment Agencies contribution in May to ERAF.	\$ 75	\$ 81	\$ -	\$ 351	\$ 85.58	\$ -	\$ 125.25	\$ 8,915.77
10 Prepare the J29 report (1st and 2nd) estimates to include Sales and Use Tax, Vehicle License Fee, and ERAF III contributions.	\$ 75	\$ -	\$ -	\$ 101	\$ 171.16	\$ -	\$ 234.36	\$ 6,185.42
11 Distribute ERAF into the Sales and Use Tax Compensation Fund and the Vehicle License Fee Property Tax Compensation Fund.	\$ 75	\$ -	\$ 41	\$ 188	\$ 42.79	\$ -	\$ 46.58	\$ 5,540.02
12 Other - Please specify the procedure.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 705.00
13 Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 857.00
14 Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 344.00
SUB-TOTAL (B)	\$ 5,950	\$ 1,474	\$ 1,376	\$ 3,647	\$ 1,857.40	\$ 1,400	\$ 1,955.77	\$ 117,014.73

SB90 TEST CLAIM FOR

Accounting for Local Revenue Realignment

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 1

	SANTA CRUZ COUNTY	SHASTA COUNTY	SISKIYOU COUNTY	SONOMA COUNTY	STAINSLAUS COUNTY	TRINITY COUNTY	TULARE COUNTY	TOTAL	
C. ADMINISTRATION, ACCOUNTING AND REPORTING									
1	Report in June 2005 to the State Controller's Office the Vehicle License Fee amounts apportioned to each taxing agency within the County.	\$ 75	\$ -	\$ 20	\$ 101	\$ 85.58	\$ 40	\$ 125.25	\$ 2,799.13
2	Report the ERAF III contribution on the Local Government Reporting Section (LGRS) report.	\$ 75	\$ 40	\$ 20	\$ 878	\$ 85.58	\$ 40	\$ 164.49	\$ 6,356.92
3	Notification to all County taxing agencies of tax revenue distribution changes due to 2004 State Budget Act.	\$ 75	\$ -	\$ 81	\$ 202	\$ 244.05	\$ -	\$ 199.21	\$ 5,581.86
4	Perform all necessary accounting activities to report County changes due to 2004 State Budget Act.	\$ -	\$ -	\$ 324	\$ 676	\$ 85.58	\$ 500	\$ 2,235.60	\$ 28,871.84
5	County Property Tax Administration Cost (SB2557) reduction due to ERAF III contribution.	\$ 83,563	\$ 30,777	\$ -	\$ 153,184	\$ 91,450.00	\$ -	\$ 339,707.00	\$ 7,944,257.00
6	Other - Please specify the procedure.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,850.00
7	Other	\$ -	\$ 203	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 732.00
8	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUB-TOTAL (C)		\$ 83,788	\$ 31,020	\$ 445	\$ 155,041	\$ 91,951	\$ 580	\$ 342,432.00	\$ 7,990,448.75
GRAND TOTAL (A + B + C)		\$ 93,551	\$ 35,791	\$ 5,344	\$ 190,540	\$ 102,892	\$ 5,704	\$ 353,553.00	\$ 8,327,768.13

Note:

Year 1 - Some of the costs are estimates.

Year 2 - All of the costs are estimates.

COUNTY OF LOS ANGELES AUDITOR-CONTROLLER, TAX DIVISION

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

Section 5. Written Narrative
 County of Los Angeles Test Claim
Accounting for Local Revenue Realignment

YEAR 1

California: County	[1] Population		[2] Sample Cost	[3] Percentage Allocation		Cost
	As of 1/1/2005	% Population	A	B	A or B	
ALAMEDA	1,507,500	4.0953%	429,718	-	429,718.00	
ALPINE	1,262	0.0034%	-	456.01	456.01	
AMADOR	37,574	0.1021%	3,331	-	3,331.00	
BUTTE	214,119	0.5817%	106,451	-	106,451.00	
CALAVERAS	44,796	0.1217%	1,579,431	-	1,579,431.00	
COLUSA	20,880	0.0567%	-	7,544.76	7,544.76	
CONTRA COSTA	1,020,898	2.7734%	285,516	-	285,516.00	
DEL NORTE	28,895	0.0785%	-	10,440.89	10,440.89	
EL DORADO	173,407	0.4711%	181,294	-	181,294.00	
FRESNO	883,537	2.4002%	-	319,256.40	319,256.40	
GLENN	28,197	0.0766%	-	10,188.68	10,188.68	
HUMBOLDT	131,334	0.3568%	55,844	-	55,844.00	
IMPERIAL	161,800	0.4396%	-	58,464.65	58,464.65	
INYO	18,592	0.0505%	-	6,718.02	6,718.02	
KERN	753,070	2.0458%	-	272,113.58	272,113.58	
KINGS	144,732	0.3932%	-	52,297.32	52,297.32	
LAKE	63,250	0.1718%	-	22,854.69	22,854.69	
LASSEN	35,455	0.0963%	-	12,811.28	12,811.28	
LOS ANGELES	10,226,506	27.7816%	2,787,650	-	2,787,650.00	
MADERA	141,007	0.3831%	28,267	-	28,267.00	
MARIN	252,485	0.6859%	163,062	-	163,062.00	
MARIPOSA	17,991	0.0489%	-	6,500.85	6,500.85	
MENDOCINO	89,974	0.2444%	-	32,511.12	32,511.12	
MERCED	240,162	0.6524%	72,129	-	72,129.00	
MODOC	9,700	0.0264%	-	3,504.99	3,504.99	
MONO	13,563	0.0368%	-	4,900.84	4,900.84	
MONTEREY	425,102	1.1548%	-	153,605.94	153,605.94	
NAPA	133,294	0.3621%	-	48,164.32	48,164.32	
NEVADA	98,955	0.2688%	-	35,756.30	35,756.30	
ORANGE	3,056,865	8.3044%	-	1,104,564.63	1,104,564.63	

COUNTY OF LOS ANGELES AUDITOR-CONTROLLER, TAX DIVISION

Section 5. Written Narrative
 County of Los Angeles Test Claim
Accounting for Local Revenue Realignment

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 1

California: County	[1] Population		[2] Sample Cost	[3] Percentage Allocation		Cost
	As of 1/1/2005	% Population	A	B	A or B	
PLACER	305,675	0.8304%	136,691	-	136,691.09	
PLUMAS	21,231	0.0577%	-	7,671.59	7,671.59	
RIVERSIDE	1,877,000	5.0991%	-	678,233.36	678,233.36	
SACRAMENTO	1,369,855	3.7214%	156,588	-	156,588.00	
SAN BENITO	57,602	0.1565%	-	20,813.85	20,813.85	
SAN BERNARDINO	1,946,202	5.2871%	-	703,238.74	703,238.74	
SAN DIEGO	3,051,280	8.2892%	571,839	-	571,839.00	
SAN FRANCISCO	799,263	2.1713%	-	288,804.92	288,804.92	
SAN JOAQUIN	653,333	1.7749%	-	236,074.71	236,074.71	
SAN LUIS OBISPO	260,727	0.7083%	172,153	-	172,153.00	
SAN MATEO	723,453	1.9654%	-	261,411.80	261,411.80	
SANTA BARBARA	419,260	1.1390%	129,419	-	129,419.00	
SANTA CLARA	1,759,585	4.7801%	681,010	-	681,010.00	
SANTA CRUZ	260,240	0.7070%	93,551	-	93,551.00	
SHASTA	178,197	0.4841%	35,791	-	35,791.00	
SIERRA	3,538	0.0096%	-	1,278.42	1,278.42	
SISKIYOU	45,819	0.1245%	5,344	-	5,344.00	
SOLANO	421,657	1.1455%	-	152,361.13	152,361.13	
SONOMA	478,440	1.2997%	190,540	-	190,540.00	
STANISLAUS	504,482	1.3705%	102,892	-	102,892.00	
SUTTER	88,945	0.2416%	-	32,139.30	32,139.30	
TEHAMA	60,019	0.1630%	-	21,687.21	21,687.21	
TRINITY	13,749	0.0374%	5,704	-	5,704.00	
TULARE	409,871	1.1135%	353,553	-	353,553.00	
TUOLUMNE	58,504	0.1589%	-	21,139.78	21,139.78	
VENTURA	813,052	2.2088%	-	293,787.42	293,787.42	
YOLO	187,743	0.5100%	-	67,838.87	67,838.87	
YUBA	66,734	0.1813%	-	24,113.60	24,113.60	
Total	36,810,358	100.00%	8,327,768	4,973,249.98	13,301,018.07	

Section 5. Written Narrative
 County of Los Angeles Test Claim
Accounting for Local Revenue Realignments

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 1

California: County	[1] Population		[2] Sample Cost	[3] Percentage Allocation	Cost
	As of 1/1/2005	% Population	A	B	A or B

Notes:

- [1] Source: From California Department of Finance website, "E-1 City / County Population Estimates with Annual Percent Change — January 1, 2004 and 2005." Located at www.dof.ca.gov/HTML/DEMOGRAP/repndat.htm.
- [2] Source: Sample cost is the cost as reported by 24 counties that participated in the State-wide cost survey for this test claim.
- [3] The cost is based on the percentage of the population of 35 counties that did not respond, times the total estimated cost for the entire population less the amount reported by the 24 participating counties. (See computation of estimated cost of 35 non-participating counties below in Note 4)

[4] **Computation of total cost of 35 non-participating counties:**

100%	=	62.61% + 37.39%	62.61%	=	8,327,768.00
	=	62.61%X + 37.39%	62.61% X	=	8,327,768.00
	=	8,327,768.00 + 37.	X	=	8,327,768.00/62.61%
			X	=	13,301,019.01
		Therefore:	Y	=	13,301,019.01 - 8,327,768
			Y	=	4,973,251.01

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 2

	LOS ANGELES COUNTY	ALAMEDA COUNTY	AMADOR COUNTY	BUTTE COUNTY	CALAVERAS COUNTY	CONTRA COSTA COUNTY	EL DORADO COUNTY	HUMBOLDT COUNTY	MADERA COUNTY	
A. PLANNING										
1	Legislation Analysis	\$ -	\$ -	\$ -	\$ 1,533	\$ -	\$ -	\$ 479	\$ -	\$ -
2	Training Expenses. This includes transportation, lodging, and employee hours.	\$ -	\$ -	\$ -	\$ 1,170	\$ -	\$ -	\$ 840	\$ 100	\$ -
3	Preparation of Training Presentation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	Training Presentation provided to County Departments (e.g. Auditor-Controller, Assessor, Treasurer-Tax Collector, and Chief Administrative Office).	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Review Cities and County Vehicle License Fee revenues to include growth.	\$ 2,086	\$ -	\$ -	\$ 1,343	\$ 160	\$ 789	\$ 114	\$ 100	\$ 621
6	Review of ERAF III shift for the computation of the County Property Tax Administrative Costs (SB2557).	\$ 975	\$ -	\$ -	\$ 383	\$ 72	\$ 116	\$ 57	\$ 100	\$ 272
7	Other - Please specify the procedure.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	SUB-TOTAL (A)	\$ 3,061	\$ -	\$ -	\$ 4,429	\$ 232	\$ 905	\$ 1,490	\$ 300	\$ 893
B. IMPLEMENTATION										
1	Establish Special Funds - Sales and Use Tax Computation Fund and Vehicle License Fee Property Tax Compensation Fund.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Review of the "countywide adjustment amounts" for the Sales and Use Tax and Vehicle License Fee as submitted by the State Department of Finance.	\$ 465	\$ -	\$ -	\$ 577	\$ 36	\$ 125	\$ 157	\$ 200	\$ 78

SB90 TEST CLAIM FOR

SB1096 AND AB2116
 FISCAL YEAR 2004-06

YEAR 2

	LOS ANGELES COUNTY	ALAMEDA COUNTY	AMADOR COUNTY	BUTTE COUNTY	CALAVERAS COUNTY	CONTRA COSTA COUNTY	EL DORADO COUNTY	HUMBOLDT COUNTY	MADERA COUNTY
3 Review the Educational Revenue Augmentation Fund Shift (ERAF III) reduction received from the Department of Finance to verify inclusion of appropriate taxing agencies.	\$ -	\$ -	\$ -	\$ 568	\$ 48	\$ -	\$ -	\$ 100	\$ -
4 Allocate the Sales and Use Tax and Vehicle License Fee revenues during the fiscal adjustment period (1st half in January and the 2nd half in May to the County and Cities.	\$ 626	\$ -	\$ -	\$ 733	\$ 24	\$ 494	\$ 196	\$ 200	\$ 310
5 Adjust the "true up" amount for Sales and Use Tax and Vehicle License fee as provided by the State Controller's Office.	\$ 834	\$ -	\$ -	\$ 806	\$ 48	\$ 494	\$ 322	\$ -	\$ 621
6 Develop and implement new Supplemental Tax Roll apportionment factor file. This includes establishing procedures and completing system application modifications.	\$ 9,715	\$ -	\$ -	\$ 647	\$ 970	\$ 211	\$ 114	\$ 100	\$ 621
7 Calculate Unitary apportionment factor to allocate Unitary tax roll growth in excess of 2%.	\$ 4,002	\$ -	\$ -	\$ 689	\$ 340	\$ -	\$ 28	\$ 200	\$ 621
8 Perform 1st and 2nd ERAF III shift from local taxing agencies to ERAF in December and April, respectively.	\$ 417	\$ -	\$ -	\$ 537	\$ 48	\$ 316	\$ 343	\$ 200	\$ 155
9 Perform the activities necessary to shift Community Redevelopment Agencies contribution in May to ERAF.	\$ 1,721	\$ -	\$ -	\$ 76	\$ -	\$ 322	\$ 57	\$ 50	\$ 155
10 Prepare the J29 report (1st and 2nd) estimates to include Sales and Use Tax, Vehicle License Fee, and ERAF III contributions.	\$ 209	\$ -	\$ -	\$ 333	\$ 48	\$ 105	\$ 160	\$ 450	\$ 621
11 Distribute ERAF into the Sales and Use Tax Compensation Fund and the Vehicle License Fee Property Tax Compensation Fund.	\$ 565	\$ -	\$ -	\$ 461	\$ 36	\$ -	\$ 196	\$ 100	\$ 155
12 Other - Please specify the procedure.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13 Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14 Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUB-TOTAL (B)	\$ 18,554	\$ -	\$ -	\$ 5,427	\$ 1,598	\$ 2,067	\$ 1,573	\$ 1,600	\$ 3,337

SB90 TEST CLAIM FOR

SB1096 AND AB2116
 FISCAL YEAR 2004-06

YEAR 2

LOS ANGELES COUNTY	ALAMEDA COUNTY	AMADOR COUNTY	BUTTE COUNTY	CALAVERAS COUNTY	CONTRA COSTA COUNTY	EL DORADO COUNTY	HUMBOLDT COUNTY	MADERA COUNTY
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C. ADMINISTRATION, ACCOUNTING AND REPORTING

1	Report in June 2005 to the State Controller's Office the Vehicle License Fee amounts apportioned to each taxing agency within the County.	\$ 254	\$ -	\$ -	\$ -	\$ 32	\$ 89	\$ 57	\$ 100	\$ -
2	Report the ERAF III contribution on the Local Government Reporting Section (LGRS) report.	\$ 254	\$ -	\$ -	\$ 409	\$ 32	\$ 110	\$ 85	\$ 100	\$ 244
3	Notification to all County taxing agencies of tax revenue distribution changes due to 2004 State Budget Act.	\$ 869	\$ -	\$ -	\$ 155	\$ 48	\$ -	\$ 57	\$ 100	\$ 155
4	Perform all necessary accounting activities to report County changes due to 2004 State Budget Act.	\$ 11,159	\$ -	\$ -	\$ -	\$ 300	\$ -	\$ 478	\$ -	\$ -
5	County Property Tax Administration Cost (SB2557) reduction due to ERAF III contribution.	\$ 2,842,724	\$ -	\$ -	\$ 60,733	\$1,639,659	\$ 283,763	\$ 175,000	\$ 53,500	\$ 22,750
6	Other - Please specify the procedure.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

SUB-TOTAL (C)	\$ 2,855,260	\$ -	\$ -	\$ 61,297	\$1,640,071	\$ 283,962	\$175,677	\$ 53,800	\$ 23,149
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GRAND TOTAL (A + B + C)	\$ 2,876,875	\$ -	\$ -	\$ 71,153	\$1,641,901	\$ 286,934	\$178,740	\$ 55,700	\$ 27,379
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Note:

Year 1 - Some of the costs are estimates.

Year 2 - All of the costs are estimates.

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 2

	MARIN COUNTY	MERCED COUNTY	PLACER COUNTY	SACRAMENTO COUNTY	SAN DIEGO COUNTY	S.L. OBISPO COUNTY	SANTA BARBARA COUNTY	SANTA CLARA COUNTY
A. PLANNING								
1	Legislation Analysis	\$ -	\$ -	\$ 807.50	\$ 1,482	\$ -	\$ -	\$ -
2	Training Expenses. This includes transportation, lodging, and employee hours.	\$ -	\$ -	\$ 2,203.81	\$ -	\$ -	\$ 620	\$ -
3	Preparation of Training Presentation	\$ -	\$ -	\$ 80.75	\$ 715	\$ -	\$ -	\$ -
4	Training Presentation provided to County Departments (e.g. Auditor-Controller, Assessor, Treasurer-Tax Collector, and Chief Administrative Office).	\$ -	\$ -	\$ 673.38	\$ -	\$ -	\$ 126	\$ -
5	Review Cities and County Vehicle License Fee revenues to include growth.	\$ 2,000	\$ 76	\$ 1,614.99	\$ 1,560	\$ 1,356	\$ -	\$ 1,000
6	Review of ERAF III shift for the computation of the County Property Tax Administrative Costs (SB2557).	\$ 100	\$ 38	\$ 161.50	\$ 520	\$ 306	\$ -	\$ 7,865
7	Other - Please specify the procedure.	\$ -	\$ -	\$ 161.50	\$ -	\$ -	\$ -	\$ -
8	Other	\$ 100	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUB-TOTAL (A)		\$ 3,100	\$ 114	\$ 5,703.43	\$ 4,277	\$ 1,662	\$ 746	\$ 8,865
0								
1	Establish Special Funds - Sales and Use Tax Computation Fund and Vehicle License Fee Property Tax Compensation Fund.	\$ -	\$ -	\$ -	\$ 78	\$ -	\$ -	\$ -
2	Review of the "countywide adjustment amounts" for the Sales and Use Tax and Vehicle License Fee as submitted by the State Department of Finance.	\$ 200	\$ 76	\$ 598.33	\$ 260	\$ 146	\$ 252	\$ 500

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 2

	MARIN COUNTY	MERCED COUNTY	PLACER COUNTY	SACRAMENTO COUNTY	SAN DIEGO COUNTY	S.L. OBISPO COUNTY	SANTA BARBARA COUNTY	SANTA CLARA COUNTY
3 Review the Educational Revenue Augmentation Fund Shift (ERAF III) reduction received from the Department of Finance to verify inclusion of appropriate taxing agencies.	\$ 100	\$ -	\$ 127.69	\$ 260	\$ -	\$ 377	\$ 1,000	\$ -
4 Allocate the Sales and Use Tax and Vehicle License Fee revenues during the fiscal adjustment period (1st half in January and the 2nd half in May to the County and Cities.	\$ 450	\$ 76	\$ 322.99	\$ 312	\$ 492	\$ 168	\$ 500	\$ -
5 Adjust the "true up" amount for Sales and Use Tax and Vehicle License fee as provided by the State Controller's Office.	\$ 500	\$ 38	\$ 403.74	\$ 260	\$ 765	\$ 419	\$ -	\$ -
6 Develop and implement new Supplemental Tax Roll apportionment factor file. This includes establishing procedures and completing system application modifications.	\$ 500	\$ 268	\$ 322.99	\$ 312	\$ 87	\$ 168	\$ 1,400	\$ -
7 Calculate Unitary apportionment factor to allocate Unitary tax roll growth in excess of 2%.	\$ -	\$ 76	\$ 322.99	\$ 260	\$ 46,615	\$ -	\$ -	\$ -
8 Perform 1st and 2nd ERAF III shift from local taxing agencies to ERAF in December and April, respectively.	\$ 500	\$ 154	\$ 161.50	\$ 312	\$ 173	\$ 168	\$ 1,333	\$ -
9 Perform the activities necessary to shift Community Redevelopment Agencies contribution in May to ERAF.	\$ 250	\$ 76	\$ 396.18	\$ 312	\$ 43	\$ 419	\$ -	\$ -
10 Prepare the J29 report (1st and 2nd) estimates to include Sales and Use Tax, Vehicle License Fee, and ERAF III contributions.	\$ 350	\$ 38	\$ 174.62	\$ -	\$ 901	\$ 294	\$ 667	\$ -
11 Distribute ERAF into the Sales and Use Tax Compensation Fund and the Vehicle License Fee Property Tax Compensation Fund.	\$ 150	\$ 19	\$ 80.75	\$ -	\$ 43	\$ 84	\$ 2,346	\$ -
12 Other - Please specify the procedure.	\$ 500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13 Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14 Other	\$ 500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUB-TOTAL (B)	\$ 4,000	\$ 821	\$ 2,911.78	\$ 2,366	\$ 49,265	\$ 2,349	\$ 7,746	\$ -

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 2

	MARIN COUNTY	MERCED COUNTY	PLACER COUNTY	SACRAMENTO COUNTY	SAN DIEGO COUNTY	S.L. OBISPO COUNTY	SANTA BARBARA COUNTY	SANTA CLARA COUNTY	
C. ADMINISTRATION, ACCOUNTING AND REPORTING									
1	Report in June 2005 to the State Controller's Office the Vehicle License Fee amounts apportioned to each taxing agency within the County.	\$ 300	\$ 38	\$ 161.50	\$ 260	\$ 492	\$ 84	\$ -	\$ -
2	Report the ERAF III contribution on the Local Government Reporting Section (LGRS) report.	\$ 300	\$ 38	\$ 716.93	\$ 260	\$ 346	\$ 84	\$ -	\$ -
3	Notification to all County taxing agencies of tax revenue distribution changes due to 2004 State Budget Act.	\$ 250	\$ 38	\$ 322.99	\$ 260	\$ 206	\$ 461	\$ -	\$ -
4	Perform all necessary accounting activities to report County changes due to 2004 State Budget Act.	\$ 1,000	\$ -	\$ 982.69	\$ 260	\$ -	\$ 322	\$ 7,040	\$ -
5	County Property Tax Administration Cost (SB2557) reduction due to ERAF III contribution.	\$ 148,000	\$ 68,650	\$ 120,000.00	\$ 147,000	\$ 525,346	\$ 162,125	\$ 110,200	\$ -
6	Other - Please specify the procedure.	\$ 800	\$ -	\$ -	\$ -	\$ -	\$ 419	\$ -	\$ -
7	Other	\$ 500	\$ -	\$ -	\$ -	\$ -	\$ 503	\$ -	\$ -
8	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUB-TOTAL (C)		\$ 151,150	\$ 68,764	\$ 122,184.11	\$ 148,040	\$ 526,390	\$ 163,998	\$ 117,240	\$ -
GRAND TOTAL (A + B + C)		\$ 158,250	\$ 69,699	\$ 130,799.32	\$ 154,683	\$ 577,317	\$ 167,093	\$ 133,851	\$ -

Note:

Year 1 - Some of the costs are estimates.

Year 2 - All of the costs are estimates.

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 2

	SANTA CRUZ COUNTY	SHASTA COUNTY	SISKIYOU COUNTY	SONOMA COUNTY	STAINSLAUS COUNTY	TRINITY COUNTY	TULARE COUNTY	TOTAL	
A. PLANNING									
1	Legislation Analysis	\$ -	\$ -	\$ -	\$ 322	\$ -	\$ -	\$ -	\$ 4,623.50
2	Training Expenses. This includes transportation, lodging, and employee hours.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,933.81
3	Preparation of Training Presentation	\$ -	\$ -	\$ 162	\$ -	\$ -	\$ -	\$ -	\$ 957.75
4	Training Presentation provided to County Departments (e.g. Auditor-Controller, Assessor, Treasurer-Tax Collector, and Chief Administrative Office).	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 799.38
5	Review Cities and County Vehicle License Fee revenues to include growth.	\$ 375	\$ 243	\$ -	\$ 630	\$ 250.00	\$ 960	\$ 1,766.60	\$ 17,044.59
6	Review of ERAF III shift for the computation of the County Property Tax Administrative Costs (SB2557).	\$ 175	\$ 81	\$ -	\$ 1,444	\$ 135.00	\$ 100	\$ 347.36	\$ 13,247.86
7	Other - Please specify the procedure.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 161.50
8	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,000.00
	SUB-TOTAL (A)	\$ 550	\$ 324	\$ 162	\$ 2,396	\$ 385.00	\$ 1,060	\$ 2,113.96	\$ 42,768.39
B. IMPLEMENTATION									
1	Establish Special Funds - Sales and Use Tax Computation Fund and Vehicle License Fee Property Tax Compensation Fund.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 78.00
2	Review of the "countywide adjustment amounts" for the Sales and Use Tax and Vehicle License Fee as submitted by the State Department of Finance.	\$ 150	\$ 81	\$ 162	\$ 104	\$ 272.89	\$ -	\$ -	\$ 4,440.22

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 2

	SANTA CRUZ COUNTY	SHASTA COUNTY	SISKIYOU COUNTY	SONOMA COUNTY	STAINSLAUS COUNTY	TRINITY COUNTY	TULARE COUNTY	TOTAL
3 Review the Educational Revenue Augmentation Fund Shift (ERAF III) reduction received from the Department of Finance to verify inclusion of appropriate taxing agencies.	\$ 300	\$ -	\$ 122	\$ 196	\$ -	\$ -	\$ 477.62	\$ 3,676.31
4 Allocate the Sales and Use Tax and Vehicle License Fee revenues during the fiscal adjustment period (1st half in January and the 2nd half in May to the County and Cities.	\$ 300	\$ 419	\$ 141	\$ 288	\$ 95.77	\$ 320	\$ 347.36	\$ 6,815.12
5 Adjust the "true up" amount for Sales and Use Tax and Vehicle License fee as provided by the State Controller's Office.	\$ -	\$ -	\$ -	\$ 952	\$ 135.00	\$ -	\$ 706.64	\$ 7,304.38
6 Develop and implement new Supplemental Tax Roll apportionment factor file. This includes establishing procedures and completing system application modifications.	\$ -	\$ 243	\$ -	\$ 510	\$ -	\$ 640	\$ 621.30	\$ 17,480.29
7 Calculate Unitary apportionment factor to allocate Unitary tax roll growth in excess of 2%.	\$ -	\$ -	\$ -	\$ -	\$ 42.79	\$ 320	\$ -	\$ 53,516.78
8 Perform 1st and 2nd ERAF III shift from local taxing agencies to ERAF in December and April, respectively.	\$ 75	\$ 324	\$ 141	\$ 380	\$ 85.58	\$ 80	\$ 47.51	\$ 5,950.59
9 Perform the activities necessary to shift Community Redevelopment Agencies contribution in May to ERAF.	\$ 75	\$ -	\$ -	\$ 276	\$ 85.58	\$ -	\$ 130.26	\$ 4,444.02
10 Prepare the J29 report (1st and 2nd) estimates to include Sales and Use Tax, Vehicle License Fee, and ERAF III contributions.	\$ 75	\$ -	\$ -	\$ 104	\$ 42.79	\$ -	\$ 243.73	\$ 4,816.14
11 Distribute ERAF into the Sales and Use Tax Compensation Fund and the Vehicle License Fee Property Tax Compensation Fund.	\$ 75	\$ -	\$ 41	\$ 196	\$ 72.79	\$ -	\$ 47.40	\$ 4,637.94
12 Other - Please specify the procedure.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500.00
13 Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14 Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500.00
SUB-TOTAL (B)	\$ 1,050	\$ 1,067	\$ 607	\$ 3,006	\$ 803.19	\$ 1,360	\$ 2,651.82	\$ 114,159.79

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 2

	SANTA CRUZ COUNTY	SHASTA COUNTY	SISKIYOU COUNTY	SONOMA COUNTY	STAINSLAUS COUNTY	TRINITY COUNTY	TULARE COUNTY	TOTAL	
C. ADMINISTRATION, ACCOUNTING AND REPORTING									
1	Report in June 2005 to the State Controller's Office the Vehicle License Fee amounts apportioned to each taxing agency within the County.	\$ 75	\$ -	\$ 20	\$ 104	\$ 85.58	\$ 40	\$ 130.26	\$ 2,322.34
2	Report the ERAF III contribution on the Local Government Reporting Section (LGRS) report.	\$ 75	\$ 40	\$ 20	\$ 460	\$ 85.58	\$ 40	\$ 171.07	\$ 3,870.58
3	Notification to all County taxing agencies of tax revenue distribution changes due to 2004 State Budget Act.	\$ 75	\$ -	\$ 81	\$ 104	\$ 85.58	\$ -	\$ 207.18	\$ 3,474.75
4	Perform all necessary accounting activities to report County changes due to 2004 State Budget Act.	\$ -	\$ -	\$ 324	\$ 354	\$ 85.58	\$ 40	\$ 2,325.02	\$ 24,670.29
5	County Property Tax Administration Cost (SB2557) reduction due to ERAF III contribution.	\$ 88,577	\$ 32,000	\$ -	\$ 156,250	\$ 91,450.00	\$ -	\$ 353,296.00	\$ 7,081,023.00
6	Other - Please specify the procedure.	\$ -	\$ -	\$ -	\$ 968	\$ -	\$ -	\$ -	\$ 2,187.00
7	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,003.00
8	Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SUB-TOTAL (C)		\$ 88,802	\$ 32,040	\$ 445	\$ 158,240	\$ 91,792.32	\$ 120	\$ 356,130.00	\$ 7,118,550.96
GRAND TOTAL (A + B + C)		\$ 90,402	\$ 33,431	\$ 1,214	\$ 163,642	\$ 92,980.51	\$ 2,540	\$ 360,895.00	\$ 7,275,479.14

Note:

Year 1 - Some of the costs are estimates.

Year 2 - All of the costs are estimates.

COUNTY OF LOS ANGELES AUDITOR-CONTROLLER, TAX DIVISION

Section 5. Written Narrative
 County of Los Angeles Test Claim
Accounting for Local Revenue Realignment

SB90 TEST CLAIM FOR

SB1096 AND AB2116
 FISCAL YEAR 2004-06

YEAR 2

California: County	[1] Population		[2] Sample Cost	[3] Percentage Allocation		Cost
	As of 1/1/2005	% Population	A	B	A or B	
ALAMEDA	1,507,500	4.0953%	-	-	-	
ALPINE	1,262	0.0034%	-	431.32	431	
AMADOR	37,574	0.1021%	-	-	-	
BUTTE	214,119	0.5817%	71,153	-	71,153	
CALAVERAS	44,796	0.1217%	1,641,901	-	1,641,901	
COLUSA	20,880	0.0567%	-	7,136.24	7,136	
CONTRA COSTA	1,020,898	2.7734%	286,934	-	286,934	
DEL NORTE	28,895	0.0785%	-	9,875.56	9,876	
EL DORADO	173,407	0.4711%	178,740	-	178,740	
FRESNO	883,537	2.4002%	-	301,970.04	301,970	
GLENN	28,197	0.0766%	-	9,637.00	9,637	
HUMBOLDT	131,334	0.3568%	55,700	-	55,700	
IMPERIAL	161,800	0.4396%	-	55,299.04	55,299	
INYO	18,592	0.0505%	-	6,354.26	6,354	
KERN	753,070	2.0458%	-	257,379.80	257,380	
KINGS	144,732	0.3932%	-	49,465.64	49,466	
LAKE	63,250	0.1718%	-	21,617.21	21,617	
LASSEN	35,455	0.0963%	-	12,117.60	12,118	
LOS ANGELES	10,226,506	27.7816%	2,876,875	-	2,876,875	
MADERA	141,007	0.3831%	27,379	-	27,379	
MARIN	252,485	0.6859%	158,250	-	158,250	
MARIPOSA	17,991	0.0489%	-	6,148.86	6,149	
MENDOCINO	89,974	0.2444%	-	30,750.78	30,751	
MERCED	240,162	0.6524%	69,699	-	69,699	
MODOC	9,700	0.0264%	-	3,315.21	3,315	
MONO	13,563	0.0368%	-	4,635.48	4,635	
MONTEREY	425,102	1.1548%	-	145,288.84	145,289	
NAPA	133,294	0.3621%	-	45,556.43	45,556	
NEVADA	98,955	0.2688%	-	33,820.25	33,820	
ORANGE	3,056,865	8.3044%	-	1,044,757.19	1,044,757	

COUNTY OF LOS ANGELES AUDITOR-CONTROLLER, TAX DIVISION

Section 5. Written Narrative
County of Los Angeles Test Claim
Accounting for Local Revenue Realignments

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 2

California: County	[1] Population		[2] Sample Cost		[3] Percentage Allocation		Cost
	As of 1/1/2005	% Population	A	B	A	B	A or B
PLACER	305,675	0.8304%	130,799	-	-	-	130,799
PLUMAS	21,231	0.0577%	-	-	7,256.21	-	7,256
RIVERSIDE	1,877,000	5.0991%	-	-	641,509.93	-	641,510
SACRAMENTO	1,369,855	3.7214%	154,683	-	-	-	154,683
SAN BENITO	57,602	0.1565%	-	-	19,686.87	-	19,687
SAN BERNARDINO	1,946,202	5.2871%	-	-	665,161.38	-	665,161
SAN DIEGO	3,051,280	8.2892%	577,317	-	-	-	577,317
SAN FRANCISCO	799,263	2.1713%	-	-	273,167.37	-	273,167
SAN JOAQUIN	653,333	1.7749%	-	-	223,292.28	-	223,292
SAN LUIS OBISPO	260,727	0.7083%	167,093	-	-	-	167,093
SAN MATEO	723,453	1.9654%	-	-	247,257.48	-	247,257
SANTA BARBARA	419,260	1.1390%	133,851	-	-	-	133,851
SANTA CLARA	1,759,585	4.7801%	-	-	601,380.53	-	601,381
SANTA CRUZ	260,240	0.7070%	90,402	-	-	-	90,402
SHASTA	178,197	0.4841%	33,431	-	-	-	33,431
SIERRA	3,538	0.0096%	-	-	1,209.20	-	1,209
SISKIYOU	45,819	0.1245%	1,214	-	-	-	1,214
SOLANO	421,657	1.1455%	-	-	144,111.43	-	144,111
SONOMA	478,440	1.2997%	163,642	-	-	-	163,642
STANISLAUS	504,482	1.3705%	92,981	-	-	-	92,981
SUTTER	88,945	0.2416%	-	-	30,399.09	-	30,399
TEHAMA	60,019	0.1630%	-	-	20,512.94	-	20,513
TRINITY	13,749	0.0374%	2,540	-	-	-	2,540
TULARE	409,871	1.1135%	360,895	-	-	-	360,895
TUOLUMNE	58,504	0.1589%	-	-	19,995.15	-	19,995
VENTURA	813,052	2.2088%	-	-	277,880.09	-	277,880
YOLO	187,743	0.5100%	-	-	64,165.69	-	64,166
YUBA	66,734	0.1813%	-	-	22,807.95	-	22,808
Total	36,810,358	100.00%	7,275,479	5,805,350.33	12,580,829		

Section 5. Written Narrative
 County of Los Angeles Test Claim
Accounting for Local Revenue Realignments

SB90 TEST CLAIM FOR

SB1096 AND AB2116

FISCAL YEAR 2004-06

YEAR 2

California: County	[1] Population		[2] Sample Cost	[3] Percentage	
	As of 1/1/2005	% Population	A	Allocation	Cost
				B	A or B

Notes:

- [1] Source: From California Department of Finance website, "E-1 City / County Population Estimates with Annual Percent Change — January 1, 2004 and 2005." Located at www.dof.ca.gov/HTML/DEMOGRAP/repndat.htm.
- [2] Source: Sample cost is the cost as reported by 24 counties that participated in the State-wide cost survey for this test claim.
- [3] The cost is based on the percentage of the population of 35 counties that did not respond, times the total estimated cost for the entire population less the amount reported by the 24 participating counties. (See computation of estimated cost of 35 non-participating counties below in Note 4)
- [4] **Computation of total cost of 35 non-participating counties:**

100%	=	57.8299% + 42.1	57.8299%	=	7,275,479.00
	=	57.8299% X + 42.	57.8299% X	=	7,275,479.00
	=	7,275,479.00 + 37.	X	=	7,275,479.00/57.8299%
			X	=	12,580,825.84
		Therefore:	Y	=	12,580,825.84 - 7,275,479
			Y	=	5,305,346.84

Section 5. Written Narrative
County of Los Angeles Test Claim
Accounting for Local Revenue Realignments

Fee, Offset Disclaimers are Not Applicable

The fee and offset funding disclaimers set forth in Government Code Sections 17556 (d) and (e) do not bar the recovery of 'costs mandated by the state', as defined in Government Code Section 17514.

Section 17556(d) is only applicable where “[t]he local agency or school district has the authority to levy service charges, fees or assessments sufficient to pay for the mandated program or increased level of service.” Here the County has no authority to levy service charges, fees or assessments under the test claim legislation or under other authority. In fact the test claim legislation explicitly prohibits the County from imposing a service charge, fee or assessment to pay for services claimed herein under Revenue and Taxation Code Section 97.75:

“Notwithstanding any other provision of law, for the 2004-05 and 2005-06 fiscal years, a county shall not impose a fee, charge, or other levy on a city, nor reduce a city's allocation of ad valorem property tax revenue, in reimbursement for the services performed by the county under Sections 97.68 and 97.70. For the 2006-07 fiscal year and each fiscal year thereafter, a county may impose a fee, charge, or other levy on a city for these services, but the fee, charge, or other levy shall not exceed the actual cost of providing these services. [Emphasis added.]

Therefore, the fee disclaimer in 17556 (d) is not applicable to the instant claim and will not bar the recovery of 'costs mandated by the state' as claimed herein.

The offset funding disclaimers set forth in Government Code Sections 17556 (e) also does not bar the recovery of 'costs mandated by the state', as defined in Government Code Section 17514.

Section 17556(e) is only applicable where “ [t]he statute or executive order provides for offsetting savings to local agencies or school districts which result in no net costs to the local agencies or school districts, or includes additional revenue that was specifically intended to fund the costs of the State mandate in an amount sufficient to fund the cost of the State mandate.”

No offsetting savings to local agencies or school districts were provided. Further, no revenue that was specifically intended to fund the costs of the State mandates claimed herein was provided. In this regard, no dedicated State, federal, local, or other non-local funds was available to implement the test claim legislation. So, the further conditions set forth in Government Code Sections 17553(b) (F) (i), (ii), (iii) and (iv) in Section 12 of Chapter 890, Statutes of 2004 [AB 2856] are met.

The fee and offset funding disclaimers set forth in Government Code Sections 17556 (d) and (e) do not bar the recovery of 'costs mandated by the state', as defined in Government Code Section 17514.

Section 17556(d) is only applicable where “[t]he local agency or school district Ballot Initiative Disclaimer is Not Applicable

The ballot initiative funding disclaimer set forth in Government Code Section 17556 (f) does not bar the recovery of 'costs mandated by the state', as defined in Government Code Section 17514.

Section 17556(f) is only applicable where “[t]he statute or executive order imposed duties that are necessary to implement, reasonably within the scope of, or expressly included in a ballot measure approved by the voters in a Statewide election or local election. This subdivision applies regardless of whether the statute or executive order was enacted or adopted before or after the date on which the ballot measure was approved by the voters.”

Here the test claim legislation was not expressly included in ballot initiatives or ‘reasonably within [their] scope’.

Two, possibly pertinent, ballot initiatives are Proposition 1A [attached in Volume II, on pages 163-164] and Proposition 57 [attached in Volume II, on pages 165-170].

Prop 1A guarantees 0.65% VLF rate to cities and counties. The VLF/property tax swap is statutory and is not referred to in any way by Proposition 1A. There's nothing in Proposition 1A that otherwise contemplates, refers to, or

obliquely references ERAF III. While Proposition 1A does reference the triple flip, it only prohibits the Legislature from extending the triple flip beyond the date on which it terminates according to the existing statute (the day the fiscal recovery bonds are paid off). However, the triple flip is not "reasonably within the scope of" Proposition 1A simply because the same subject matter is referenced.

Proposition 57 added Government Code section 99072(c) which pledges revenues raised from the additional 1/4 cent sales tax to the "Fiscal Recovery Fund" to pay off the fiscal recovery bond. Section 99072(c), however, it is not part of the test claim legislation. Further, there is nothing in Prop 57 which indicates that the additional 1/4 cent sales tax, requiring a "triple flip", is "necessary to implement Prop 57.

With respect to whether "triple flip" is "reasonably within the scope of" Proposition 57, the test claim legislation goes far beyond any bond financing scheme envisioned by the framers of Prop 57. In this regard, the Senate Floor Analysis of SB 1096, included herein in Volume II, page 157, indicates that SB 1096 "contains legislative findings and declarations that this entire measure [including the "triple flip"] is a comprehensive revision to local government finances ... ", not encompassed by Prop 57.

Further, SB 1096 was not affected by Proposition 65 either. Prop 65 was not approved by the voters in the November 2, 2004 general election and, accordingly, is also not applicable here.

Therefore, the ballot initiative funding disclaimer set forth in Government Code Section 17556 (f) does not bar the recovery of 'costs mandated by the state', as defined in Government Code Section 17514.

State Funding Disclaimers Are Not Applicable

There are seven disclaimers specified in Government Code Section 17556 which could serve to bar recovery of "costs mandated by the State", as defined in Section 17514. These seven disclaimers do not apply to the instant claim, as shown, in seriatim, for pertinent sections of Section 17556.

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- (a) “The claim is submitted by a local agency or school district which requested legislative authority for that local agency or school district to implement the Program specified in the statute, and that statute imposes costs upon that local agency or school district requesting the legislative authority. A resolution from the governing body or a letter from a delegated representative of the governing body of a local agency or school district which requests authorization for that local agency to implement a given program shall constitute a request within the meaning of this paragraph.”
- (a) is not applicable as the subject law was not requested by the County claimant or any local agency or school district.
- (b) “The statute or executive order affirmed for the State that which had been declared existing law or regulation by action of the courts.”
- (b) is not applicable because the subject law did not affirm what had been declared existing law or regulation by action of the courts.
- (c) “The statute or executive order implemented a federal law or regulation and resulted in costs mandated by the federal government, unless the statute or executive order mandates costs which exceed the mandate in that federal law or regulation.”
- (c) is not applicable as no federal law or regulation is implemented in the subject law.
- (d) “The local agency or school district has the authority to levy service charges, fees or assessments sufficient to pay for the mandated program or increased level of service.”

- (d) is not applicable because, as previously discussed, the subject law did not provide or include any authority to levy any service charges, fees, or assessments.

- (e) “The statute or executive order provides for offsetting savings to local agencies or school districts which result in no net costs to the local agencies or school districts, or includes additional revenue that was specifically intended to fund the costs of the State mandate in an amount sufficient to fund the cost of the State mandate.”

- (e) is not applicable as no offsetting savings are provided in the subject law and no dedicated revenue to fund the subject law is available as previously discussed.

- (f) “The statute or executive order imposed duties that are necessary to implement, reasonably within the scope of, or expressly included in a ballot measure approved by the voters in a Statewide election or local election. This subdivision applies regardless of whether the statute or executive order was enacted or adopted before or after the date on which the ballot measure was approved by the voters.”

- (f) is not applicable as the duties imposed in the subject law were not included in a ballot measure or reasonably within its scope as previously discussed.

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(g) “The statute created a new crime or infraction, eliminated a crime or infraction, or changed the penalty for a crime or infraction, but only for that portion of the statute relating directly to the enforcement of the crime or infraction.”

(g) is not applicable as the subject law did not create or eliminate a crime or infraction and did not change that portion of the statute not relating directly to the penalty enforcement of the crime or infraction.

Therefore, [the above] seven disclaimers will not bar the recovery of “costs mandated by the State” as claimed herein.

Prior Decisions

The ‘Allocation of Property Tax Revenues’ decision of the Commission on State Mandates [Commission] in 1994 [CSM-4448] is the only one that is relevant to the instant claim. This decision, based on a test claim filed by County of Los Angeles, was the only response to a “tax” “allocation” key word search on Commission’s web site. A copy of this decision is include herein on pages 137-151 of Volume II].

Commission’s 1994 ‘Allocation of Property Tax Revenues’ decision held that reimbursable “costs mandated by the State” were incurred when performing property tax allocations and that such reimbursable activities were not subject to the fee and other funding disclaimers as is claimed herein. As noted in Commission’s [CSM-4448] decision [on page 141 herein of Volume II]:

“The Commission acknowledged that Revenue & Taxation Code section 97 does require the county auditor to follow guidelines which set forth instructions for counties regarding property tax reduction and allocation computations, deposits to the Educational Revenue Augmentation Fund, and property tax administrative costs. In addition, the Commission

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observed that the Revenue & Taxation Code section 97, subdivision (g), precludes counties from charging schools for administrative costs of property tax revenue allocation after the 1989-90 fiscal year and from recovering any lost school administrative fees by charging other types of jurisdictions.”

Here, the present test claim legislation also prohibits the County from charging a fee as Revenue Taxation code Section 97.75, under the current test claim legislation, explicitly states:

“Notwithstanding any other provision of law, for the 2004-05 and 2005-06 fiscal years, a county shall not impose a fee, charge, or other levy on a city, nor reduce a city's allocation of ad valorem property tax revenue, in reimbursement for the services performed by the county under Sections 97.68 and 97.70. For the 2006-07 fiscal year and each fiscal year thereafter, a county may impose a fee, charge, or other levy on a city for these services, but the fee, charge, or other levy shall not exceed the actual cost of providing these services”.
[Emphasis added.]

Therefore, the Commission has precedent in its prior decision [CSM-4448] for finding reimbursable “costs mandated by the State” here, in the instant test claim legislation overhauling three types of tax allocation systems, without any fee authority to recover costs, as claimed herein.

Legislative Intent

The Legislature’s intent in imposing new duties upon local government in the test claim legislation is clearly illustrated in the Legislative Counsel’s Digest to Chapter 211, Statutes of 2004 [SB1096]. The Legislative Counsel finds [on page 37 herein of Volume II] that “this bill would impose a state-mandated local program” upon local government as “new duties [are imposed] upon local tax officials” as follows:

“This bill would, for the 2004-05 and 2005-06 fiscal years, reduce, by a specified amount, the vehicle license fee adjustment

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amount required to be allocated to a city, county, and city and county and instead require these revenues to be deposited in a county ERAF. This bill would also, for those same fiscal years, require a transfer of ad valorem property tax revenues from enterprise special districts and nonenterprise special districts, as defined, to county ERAFs. This bill would also require, for the 2006-07 fiscal year, that the amount of ad valorem property tax revenue deemed allocated to each enterprise special district and nonenterprise special district be increased by an amount equal to their reductions for the 2004-05 and 2005-06 fiscal years. This bill would also require a redevelopment agency to make a remittance to county ERAFs for those same fiscal years. This bill would authorize a redevelopment agency to defer the payment of a portion of this remittance if that agency finds that it is unable, for either of certain reasons, to pay the full allocation, and if the agency adopts a specified resolution. The bill would also authorize a legislative body, in lieu of making that payment during the 2004-05 and 2005-06 fiscal years, to remit, prior to May 10, 2005, and 2006 respectively, a designated amount to the county auditor for deposit in the county's Educational Revenue Augmentation Fund. This bill also would make conforming changes to related provisions. By imposing new duties upon local tax officials in the annual allocation of these revenues, this bill would impose a state-mandated local program.” [Emphasis added.]

Also, in the body of Chapter 211, Statutes of 2004 [SB 1096] itself, the Legislature provides in Section 48 [included herein on page 101 of Volume II] to indicate that State mandated reimbursements to local government are implicated under the bill as follows:

“Notwithstanding Section 17610 of the Government Code, if the Commission on State Mandates determines that this act contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made pursuant to Part 7 (commencing with Section 17500) of Division 4 of Title 2 of the Government Code. If the statewide cost of the claim for reimbursement does not exceed one million dollars (\$1,000,000),

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reimbursement shall be made from the State Mandates Claims Fund.”

It should be noted the Legislature did not merely tinker with local governments revenue allocation systems. The Legislature wanted [and got] sweeping changes. As noted in the Senate Floor Analysis for SB 1096, included herein in Volume II, page 157, SB 1096 “contains legislative findings and declarations that this entire measure [including the “triple flip”] is a comprehensive revision to local government finances ... “.

Moreover, the innovative revenue systems, detailed in the test claim legislation, required the close and daily collaboration of State and local revenue management officials. In this regard, the Budget Committee Analysis for AB 2115, indicates [on page 162 of Volume II], that:

“ The 2004-05 budget includes \$1.3 billion of annual General Fund (GF) savings in 2004-05 and 2005-06 by reducing property tax revenues to, or shifting them from, local government. These savings were implemented by SB 1096. Subsequent to enactment of SB 1096, a number of errors, omissions, and necessary revisions have been identified. This cleanup bill addresses various technical issues raised by local governments, the State Controller's Office, the Board of Equalization, and legislative staff. The bill was developed with the participation of bipartisan Assembly and Senate staff as well as the Administration.”

Of course, reimbursement for the \$1.3 billion the State saved in reducing local governments' property tax revenues is not sought here. What is sought here is reimbursement for the increased costs which the County of Los Angeles and other counties throughout the State have incurred during 2004-05 [\$13,301,018] and will incur during 2005-06 [\$12,580,829]¹ as an unavoidable consequence of complying with this test claim legislation.

“Costs Mandated by the State”

¹ See cost studies in Volume II, pages 6-17 for 2004-05 costs and pages 18-29 for 2005-06 costs. The Statewide cost for 2004-05 [\$13,301,018] is computed on page 16 of Volume II and for 2005-06 [\$12,580,829] is computed on page 28 of Volume II.

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In meeting the imperative and urgent requirements to overhaul property tax, sales and use tax, and vehicle license fee revenue allocation systems in California, counties performed substantial work as detailed herein. Adding to the complexity and difficulty of this work, specifications were frequently changed to meet specific revenue targets. Often, redesigned blueprints, so to speak, were redesigned again in “clean-up” bills, also included herein under the test claim legislation. These frequent changes, like construction change orders, proved to be expensive. In some cases, plans, methods, procedures, and computer programs had to be redone. In all cases, adjustments had to be re-computed, transacted, reported, and verified.

In the absence of counties’ substantial work in developing and operating new revenue allocation systems, the State would have had to hire and train hundreds of accountants, computer programmers and other professionals.

The State, spared the subject costs to date, is herein requested to compensate counties for such “costs mandated by the State” as defined in Government Code Section 17514.

Section 17514 defines “costs mandated by the state” and finds them present:

1. If there are “increased costs which a local agency is required to incur after July 1, 1980” and
2. If the costs are incurred “as a result of any statute enacted on or after January 1, 1975” and
3. If the costs are the result of “a new program or higher level of service of an existing program within the meaning of Section 6 of Article XIII B of the California Constitution”.

All three of the above criteria for finding cost mandated by the State are met.

The first two criteria are met in that the County is incurring increased costs after July 1, 1980 to comply with State mandates in the test claim legislation, all enacted in either 2003 or 2004 legislative sessions, well after the 1975 session.

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In addition, the County began incurring costs in order to comply with the test claim legislation on September 1, 2004 and so meets the recent requirement for reimbursement set forth in Section 17551(c) as amended by Chapter 890, Statutes of 2004 [AB 2856].

Also, as previously shown, costs resulting from the alleged mandates in the test claim legislation are well in excess of one thousand dollars (\$1,000) per annum, the minimum standard set forth in Government Code Section 17564(a).

Finally, the costs are the result of “a new program or higher level of service of an existing program within the meaning of Section 6 of Article XIII B of the California Constitution”.

The comprehensive revisions to local government finances under the test claim legislation were detailed herein under three categories:

1. Property taxes - Educational Revenue Augmentation Fund [ERAF]. The test claim legislation requires additional shifts to ERAF accounts, not required under prior law. The 1992-93 ERAF shift is now being called ERAF I; the 1993-94 ERAF shift is now being called ERAF II. The State Department of Finance has provided guidance on the amounts and timing of the new ERAF III shifts for local jurisdictions. These shifts will only be implemented by local taxing agencies for 2004/05 and 2005/06. It should be noted that cities, counties, redevelopment agencies, special districts, and joint county special districts are included in ERAF III. As the shifted payment criterion for each type of taxing agency is different, this shifting process is complex. The specific elements of the process are detailed in the following provisions of the test claim legislation: Health & Safety Code [H&S] Section 33681.12 added by Statutes of 2004, Chapter 211 [SB1096] and amended by Statutes of 2004, Chapter 610 [AB 2115]; H&S Sections 33681.13, 33681.14 as added by SB 1096; H&S Section 33681.15 added by AB 2115; Revenue & Taxation Code [R&T] Sections 97.75, 97.77 added by SB 1096; R&T Sections 97.31, 98.02, as amended by SB1096; R&T Sections 97.71, 97.72, 97.73 as added by SB 1096 and amended by AB 2115.

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2. Motor Vehicle License Fee [MVLFF] Swap – The motor vehicle license fee swap for property taxes is to be a permanent swap. The State Department of Finance provided county Auditors with estimated 2004-05 amounts to be taken from the ERAF Fund for the counties and cities. A one-time “true-up” will be made in 2005-06 and then the MVLFF Swap amount will grow as the agency’s assessed value grows. Growth calculations should be made beginning in 2005/06 and each following year. The calculation is to be based on the percentage change in gross taxable assessed value from the prior fiscal year to the current fiscal year using the city’s prior jurisdictional boundaries (growth is without annexed areas). The specific elements of the process are detailed in the following provisions of the test claim legislation: Revenue & Taxation Code [R&T] Sections 96.81, 97.76 added by SB 1096; R&T Sections 97.70 as added by SB 1096 and amended by AB 2115.

3. Triple Flip (0.25% Reduction to Bradley-Burns Sales Tax Authority) – The State will take 0.25% of local sales and use tax to repay its Economic Recovery Bonds. The local counties and cities will be reimbursed for this loss from the ERAF Fund. This reimbursement will continue until the State bonds are paid. The State will replace the schools’ appropriated ERAF funds with State general fund monies. The specific elements of the process are detailed in the following provisions of the test claim legislation: R&T Section 97.68 added by Statutes of 2003, Chapter 162 [AB 1766] and amended by SB 1096.

Therefore, all three conditions for finding “cost mandated by the State”, as defined in Government Code Section 17514, are satisfied and reimbursement of county costs in complying with the test claim legislation is required.

Test Claim Section 8: Claim Certification

This test claim alleges the existence of a reimbursable state-mandated program within the meaning of article XIII B, section 6, of the California Constitution and Government Code section 17514. I hereby declare, under penalty of perjury under the laws of the State of California, that the information in this test claim submission is true and complete to the best of my own knowledge or information or belief.

County of Los Angeles
Print or Type Name of Authorized Local Agency
or School District Official

Auditor-Controller
Print or Type Title

J Tyler McCauley (JN)
Signature of Authorized Local Agency or
School District Official

8/11/05
Date