THE STATE-COUNTY PROPERTY TAX ADMINISTRATION PROGRAM

The State and the Counties Continue to Benefit, but the Department of Finance Needs to Improve Its Oversight

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The California Legislature established the State-County Property Tax Administration Program (program) through Assembly Bill 818 (Chapter 914, Statutes of 1995). This program, administered by the Department of Finance (department), allows county assessors to receive performance-based loans from the State to help reduce their backlogs and improve their administration of the property tax system. The Joint Legislative Audit Committee requested that we review the program to see if it is still needed and whether the department and counties have operated the program as intended by the law.

We concluded that continuing the program makes good business sense because the program continues to generate a significant amount of new property tax revenues that benefit the State and the counties. However, despite the program's success, the department needs to make improvements.

Audit Highlights . . .

The State-County Property Tax Administration Program (program) should be continued because:

- ☑ *Loans to assessors generate a significant amount of new property tax revenues that benefit the State, the counties, and other local governments.*
- ☑ *Assessors' offices continue to rely on loan funds to reduce or prevent backlogs of work.*
- ☑ *The program is successful during recessions as well as during times of prosperity.*

Despite the program's success, oversight from the Department of Finance (department) has been weak. As a result:

- ☑ *The department often makes loans based on insufficient and unverified information.*
- ☑ *The department loses track of unspent county loan funds.*

Finding #1: The department's oversight of the program has been inadequate.

The department is not managing the program well enough to ensure that loan decisions are based on sufficient information because it does not require the counties to submit the necessary data. The department's oversight has been deficient because there has been so little clear guidance to the counties about reporting information critical to making good loan decisions. As a result, the department cannot be sure it is making prudent decisions in awarding loans. Further, to the extent that counties do not report sufficient data, the department cannot be sure they are using the loan funds for property tax administration and that the counties invest the appropriate share of county resources in these efforts.

We recommended that the department improve its oversight by requiring that counties use a standard process for reporting incremental accomplishments, revenues, and expenditures related to loan funds, including evidence to demonstrate an appropriate county investment of resources in property tax administration. In addition, the loan agreements with the counties should specify how these are calculated.

➲ ***Department Action: Partial corrective action taken.***

The department states it has developed and now uses a standard worksheet to identify additional accomplishments and revenues the counties receive due to loan funds. In addition, the department requires a standard process for reporting the actual expenditures of loan funds. However, it does not require the counties to provide evidence to demonstrate appropriate county investments of local resources in property tax administration. Also, the department does not require the loan agreements with counties to specify how incremental accomplishments, revenues, and expenditures related to loan funds are calculated. In its 60-day response, the department indicated that it would recommend statutory changes to include our remaining recommendations if legislation to extend the program was proposed. Since that time, the Legislature extended the loan program through the 2001–02 fiscal year with the enactment of Chapter 602, Statutes of 2000. However, the department has not yet made efforts to implement these remaining recommendations.

Finding #2: County-reported data are insufficient and unverified.

Information that counties report is not always sufficient to determine workloads accomplished and revenues generated with the loan money. In particular, we found that 9 of the 47 counties in the program reported total rather than incremental workload and revenue data, thus obscuring the accomplishments funded via state loans.

Additionally, the department awards loans to counties based on unverified information. Agreements with counties do not require county auditors to verify the county's use of loan funds and its compliance with maintenance of effort requirements.

To ensure the department is receiving accurate and reliable information from the counties, we recommended that it require each county auditor to validate, according to the agreement language, the following: incremental accomplishments, revenues, and expenditures resulting from loan funds; the amount of county revenues spent on property tax administration; and the amount of unused loan funds from prior years and how the county used those funds.

➲ ***Department Action: Partial corrective action taken.***

The department responded that the nine counties we identified above are now either reporting incremental accomplishments and revenues or are using the methodology identified in our report to determine the incremental increase in property tax revenues as a result of the loan. Also, the department stated that county auditors are now providing validation of the revenues derived from the loan funds in addition to the accomplishments achieved by the loan recipients. However, the department has not ensured that loan agreements with counties require county auditors to validate expenditures of loan funds, the amount of county money spent on property tax administration, the amount of unused loan funds from prior years, and how the funds were spent. As stated above, the department committed to make efforts to implement our remaining recommendations if the loan program was extended. Chapter 602, Statutes of 2000, extended the loan program through the 2001–02 fiscal year, but the department has yet to implement these remaining recommendations.

Finding #3: The department loses track of unspent funds.

Some counties carry over loan funds unspent in one loan period to succeeding loan periods. When counties do this without explaining how and when they plan to spend the excess, the department jeopardizes its ability to determine that loan funds ultimately are spent on property tax administration. In addition, carrying over funds suggests that the department's awards are larger than necessary.

To ensure that counties use loan funds only for property tax administration and that reported revenues are attributable to loan funds actually spent, we recommended that the department require the counties to explain how they plan to use any excess loan funds, report the actual amount of loan funds they spent during the loan period, and calculate additional revenues generated from their actual use of loan funds using one of the acceptable methods described in our report.

Department Action: Corrective action taken.

The department now requires counties to identify if they have any carry-over funds, the amount of those funds, and to explain how they plan to use them. After the funds are used, the department also requires that counties report how the funds were actually spent.