

LASSEN COUNTY

Audit Report

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

July 1, 2017, through June 30, 2024



MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

April 2025



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CALIFORNIA STATE CONTROLLER

April 9, 2025

The Honorable Nancy Cardenas, Auditor-Controller
Lassen County
221 South Roop Street, Suite 1
Susanville, CA 96130

Dear Auditor-Controller Cardenas:

The State Controller's Office audited Lassen County's process for apportioning and allocating property tax revenues for the period of July 1, 2017, through June 30, 2024. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found that Lassen County did not comply with California statutes for the apportionment and allocation of property tax revenues during the audit period because it incorrectly calculated the:

- Computation and distribution of property tax revenue;
- Unitary and operating nonunitary apportionment and allocation;
- Unitary regulated railway apportionment and allocation;
- Educational Revenue Augmentation Fund shift;
- Vehicle License Fee adjustments; and
- Negative bailout (Senate Bill 85) amount.

If you have any questions regarding this report, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at 916-327-3138, or email at lkurokawa@sco.ca.gov. Thank you.

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

Ms. Nancy Cardenas

April 9, 2025

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KAT/ac

Attachment

Copy: The Honorable Aaron Albaugh, Chairperson
Lassen County Board of Supervisors
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited Lassen County's (the county) process for apportioning and allocating property tax revenues to determine whether the county complied with California statutes during the period of July 1, 2017, through June 30, 2024.

Our audit found that the county did not comply with California statutes for the apportionment and allocation of property tax revenues during the audit period because it incorrectly calculated the:

- Computation and distribution of property tax revenue;
- Unitary and operating nonunitary apportionment and allocation;
- Unitary regulated railway apportionment and allocation;
- Educational Revenue Augmentation Fund (ERAF) shift;
- Vehicle License Fee (VLF) adjustments; and
- Negative bailout (Senate Bill 85) amount.

Background

After the passage of Proposition 13 in 1978, the California State Legislature (Legislature) enacted new methods for apportioning and allocating property tax revenues to local government agencies, school districts, and community college districts. The main objective was to provide these agencies and districts with a property tax base that would grow as assessed property values increased. The method has been further refined in subsequent laws.

One key law was Assembly Bill 8 (Chapter 282, Statutes of 1979), which established the method of allocating property taxes for fiscal year (FY) 1979-80 and subsequent fiscal years. The methodology is commonly referred to as the "AB 8 process."

Property tax revenues are apportioned and allocated to local government agencies, school districts, and community college districts using prescribed formulas and methods defined in the Revenue and Taxation Code. In general, the amount of revenue that an agency or district receives is based on the amount received in the prior year plus a share of the property tax growth within its boundaries.

The AB 8 process involves several steps, including the transfer of revenues from school and community college districts to local government agencies and the development of the tax rate area (TRA) annual tax increment (ATI) apportionment factors, which determine the amount of property tax revenues to be allocated to each jurisdiction.

The total amount to be allocated to each jurisdiction is then divided by the total amount to be allocated to all entities to determine the AB 8 factor for each entity for the year. The AB 8 factors are computed each year for all entities using the revenue amounts established in the prior year. These

amounts are adjusted for growth annually using ATI apportionment factors.

Subsequent laws removed from the AB 8 process revenues generated by unitary and operating nonunitary properties, pipelines, regulated railway companies, and qualified electric (QE) properties. These revenues are now apportioned and allocated under separate processes.

Other laws established an ERAF in each county. Most local government agencies are required to transfer a portion of their property tax revenues to the fund. The fund is subsequently apportioned and allocated to school and community college districts by the county auditor according to instructions received from the county superintendent of schools or the chancellor of the California community colleges.

Taxable property includes land, improvements, and other properties that are accounted for on the property tax rolls, which are primarily maintained by the county assessor. Tax rolls contain an entry for each parcel of land, including parcel number, owner's name, and value. The types of property tax rolls are:

- *Secured Roll*—Property that, in the opinion of the assessor, has sufficient value to guarantee payment of the tax levies and that, if the taxes are unpaid, the obligation can be satisfied by the sale of the property by the tax collector.
- *Unsecured Roll*—Property that, in the opinion of the assessor, does not have sufficient permanence or other intrinsic qualities to guarantee payment of taxes levied against it.
- *State-Assessed Roll*—Utility properties composed of unitary and operating nonunitary value assessed by the California State Board of Equalization.
- *Supplemental Roll*—Property that has been reassessed due to a change in ownership or the completion of new construction, where the resulting change in assessed value is not reflected in other tax rolls.

To mitigate problems associated with the apportionment and allocation of property tax revenues, SB 418, which requires the SCO to audit the counties' apportionment and allocation methods and report the results to the Legislature, was enacted in 1985.

Apportionment and allocation of property tax revenues can result in revenues to an agency or agencies being overstated, understated, or misstated. Misstated revenues occur when at least one taxing agency receives more revenue than it was entitled to, while at least one taxing agency receives less revenue than it was entitled to.

The agency that received less tax revenue than its statutory entitlement would have standing to require that adjustments be made by the county, either on a retroactive or prospective basis. The SCO does not have enforcement authority or standing to require the county to take corrective action with respect to misallocation of tax revenues, unless the

misallocation resulted in overpaid state funds (e.g., funds intended for the ERAF, school districts, or community college districts). The SCO has authority to recover misallocations resulting in overpaid state funds pursuant to Government Code (GC) sections 12410, 12418, and 12419.5.

GC section 12410 provides the SCO with broad authority to “superintend the fiscal concerns of the state.” GC section 12418 provides the SCO with the authority to “direct and superintend the collection of all money due the State, and institute suits in its name” against all debtors of the State. GC section 12419.5 provides the SCO with the authority to offset any amounts due the State against any amounts owed to the debtor by the State.

Revenue and Taxation Code (RTC) section 96.1(b) allows a reallocation of current audit findings and unresolved prior audit findings.

RTC section 96.1(c)(3) limits a cumulative reallocation or adjustment to one percent of the total amount levied at a one-percent rate of the current year’s original Secured Tax Roll. For reallocation to the ERAF, school districts, or community college districts, a reallocation must be completed in equal increments within the following three fiscal years, or as negotiated with the SCO.

Audit Authority

We conducted this audit in accordance with GC section 12468, which authorizes the SCO to audit the apportionment and allocation of property tax revenues on a one-, three-, or five-year cycle, depending on the county’s population. The audit results are reported annually to the Legislature along with any recommendations for corrective action.

Objective, Scope, and Methodology

Our audit objective was to determine whether the county complied with Revenue and Taxation Code, Health and Safety Code, and Government Code requirements pertaining to the apportionment and allocation of property tax revenues during the period of July 1, 2017, through June 30, 2024.

A property tax bill contains the property tax levied at a one percent tax rate pursuant to the requirement of Proposition 13. A tax bill may also contain special taxes, debt service levies on voter-approved debt, fees, and assessments levied by the county or a city. The scope of our audit is limited to the distribution of the one percent tax levy. Special taxes, debt service levies on voter-approved debt, fees, and assessments levied by the county or a city are beyond the scope of our audit and were not reviewed or audited.

To achieve our objective, we performed the following procedures:

- We gained an understanding of the county’s processes and internal controls by interviewing key personnel, reviewing the county’s written procedures, and reviewing the county’s transaction flow for apportioning and allocating property tax revenues.

- We assessed the reliability of data from the property tax system by interviewing county staff members knowledgeable about the system, tracing transactions through the system, and recalculating various computations using data produced by the system. We determined that the data was sufficiently reliable for purposes of this report.
- We judgmentally selected a non-statistical sample of five from approximately 39 taxing jurisdictions within the county for all fiscal years in the audit period.

The actual number of taxing jurisdictions can vary from year to year based on jurisdictional changes. For testing purposes, we included the ERAF in our sample of taxing jurisdictions. We also tested a special district, a school district, a city, and the county. We selected only one of each type of local agency because when the apportionment and allocation for one jurisdiction is incorrect, the error affects every other taxing jurisdiction.

We tested the sampled jurisdictions as follows:

- We tested apportionment and allocation reports to verify the computations used to develop property tax apportionment factors.
- We tested TRA reports to verify that the correct TRA factors were used in the computation of the ATI.
- We reviewed supplemental property tax administrative costs and fees to determine whether recovery costs associated with administering supplemental taxes were based on actual costs and did not exceed five percent of revenues collected, as prescribed in statute.
- We verified the computations used to develop supplemental property tax apportionment factors.
- We verified unitary and operating nonunitary, and unitary regulated railway computations used to develop apportionment factors.
- We reviewed property tax administrative cost reports and recomputed administrative costs associated with work performed for apportioning and allocating property tax revenues to local government agencies, school districts, and community college districts.
- We reviewed ERAF reports and verified computations used to determine the shift of property taxes from local government agencies to the ERAF and, subsequently, to school and community college districts.
- We verified VLF computations used to determine the amount transferred from the ERAF to counties and cities to compensate for the diversion of these revenues.
- We reviewed the California State Board of Equalization's jurisdictional change filing logs and their impact on the tax apportionment and allocation system.

Errors found were not projected to the intended (total) population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

Our audit found that the county did not comply with California statutes for the apportionment and allocation of property tax revenues during the audit period because it incorrectly calculated the:

- Computation and distribution of property tax revenue;
- Unitary and operating nonunitary apportionment and allocation;
- Unitary regulated railway apportionment and allocation;
- ERAF shift;
- VLF adjustments; and
- Negative bailout (SB 85) amount.

These instances of noncompliance are described in the Findings and Recommendations section.

Follow-up on Prior Audit Findings

The county has satisfactorily resolved the findings noted in our prior audit report for the period of July 1, 2012, through June 30, 2017, issued on September 26, 2019, with the exception of Finding 5 of this audit report. The implementation status of corrective actions is described in the Appendix.

Views of Responsible Officials

We issued a draft audit report on January 16, 2025. The county's representative responded by e-mail on February 6, 2025, accepting the audit results.

Restricted Use

This report is solely for the information and use of the county, the Legislature, the California Department of Finance, and the SCO; it is not intended to be, and should not be, used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and is available on the SCO website at www.sco.ca.gov.

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

April 9, 2025

Findings and Recommendations

FINDING 1— Computation and distribution of property tax revenue

During our testing of the county’s process for computing and distributing property tax revenue, we found that the county had incorrectly calculated the jurisdiction increment as follows:

- For FY 2017-18, FY 2022-23, and FY 2023-24, the county used incorrect prior-year assessed values.
- For FY 2022-23 and FY 2023-24, the county did not exclude unsecured aircraft assessed values.

The error occurred because the county did not correctly implement the applicable statutes.

RTC sections 96 through 96.5 provide the legal requirements for computing the ATI and for apportioning and allocating property tax revenues.

ATI is the difference between the total amount of property tax revenues computed each year using the equalized assessment rolls and the sum of the amounts allocated pursuant to RTC section 96.1(a). Each TRA receives an increment based on its share of the incremental growth in assessed valuations. ATI is added to the tax computed for the prior fiscal year to develop apportionments for the current fiscal year.

Recommendation

We recommend that the county:

- Review RTC sections 96 through 96.5, and update its procedures;
- Recalculate the jurisdiction increment for FY 2017-18 and all subsequent fiscal years; and
- Make monetary adjustments to the affected taxing entities.

County’s Response

The county accepts the finding.

FINDING 2— Unitary and operating nonunitary apportionment and allocation

During our testing of the unitary and operating nonunitary apportionment and allocation process, we found that the county had incorrectly calculated the unitary and operating nonunitary apportionment factors as follows:

- For FY 2020-21 and FY 2022-23, the county used prior-year pre-ERAF shift AB 8 amounts instead of AB 8 amounts adjusted by the sum of the ERAF shift plus the negative bailout amount in its excess factor calculation.
- For FY 2022-23 and FY 2023-24, the county incorrectly computed 102% of prior-year unitary and operating nonunitary revenue.

- For FY 2023-24, the county did not compute excess unitary and operating nonunitary revenue.

The error occurred because the county did not correctly implement the applicable statutes.

RTC section 100 provides the legal requirements for apportioning and allocating unitary and operating nonunitary property tax revenues.

In FY 1988-89, the Legislature established a separate system for apportioning and allocating unitary and operating nonunitary property tax revenues. The system created the unitary and operating nonunitary base year, and developed formulas to compute the distribution factors for the fiscal years that followed.

RTC section 723 defines unitary properties as properties “that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or QE properties) and on which the California State Board of Equalization “may use the principle of unit valuation.”

RTC section 723.1 defines operating nonunitary properties as properties “that the assessee and its regulatory agency consider to be operating as a unit,” but the California State Board of Equalization considers “not part of the unit in the primary function of the assessee.”

Recommendation

We recommend that the county:

- Review RTC sections 100 (c)(1-3) and 100.01, and update its procedures;
- Recalculate the unitary and operating nonunitary apportionment factors for FY 2020-21 and all subsequent fiscal years; and
- Make monetary adjustments to the affected entities.

County’s Response

The county accepts the finding.

FINDING 3— Unitary regulated railway apportionment and allocation

During our testing of the unitary regulated railway apportionment and allocation process, we found that the county had incorrectly calculated the regulated railway apportionment factors as follows:

- For FY 2022-23, the county used incorrect current-year regulated railway assessed values.
- For FY 2023-24, the county used incorrect prior-year revenues to calculate 102% of prior-year unitary revenue and used incorrect factors for the excess revenue calculation.

The error occurred because the county did not correctly implement the applicable statutes.

RTC section 100.11 provides the legal requirements for apportioning and allocating unitary regulated railway property tax revenues.

As defined in RTC section 100.11, unitary regulated railway properties are railway facilities that meet the following criteria:

- The original cost of the completed facility (including land, but not including track and track materials) was at least \$100,000,000; and
- The facility was completely constructed and placed in service after January 1, 2007.

RTC section 723 defines unitary properties as those properties “that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or QE properties) and on which the California State Board of Equalization “may use the principle of unit valuation.”

Recommendation

We recommend that the county:

- Review RTC sections 100.11(a)(1)(B) and 100.11(a)(2)(C), and update its procedures;
- Recalculate the regulated railway apportionment factors for FY 2022-23 and all subsequent fiscal years; and
- Make monetary adjustments to the affected entities.

County’s Response

The county accepts the finding.

FINDING 4— Educational Revenue Augmentation Fund shift

During our testing of the ERAF shift process, we found that the county had incorrectly calculated the ERAF shift as follows:

- For FY 2017-18 through FY 2023-24, the county incorrectly added the total negative bailout amount to its ERAF shift amount.
- For FY 2022-23, the county used an incorrect prior-year ERAF shift amount.

The error occurred because the county did not correctly implement the applicable statutes.

RTC sections 96.1 through 96.5 and 97 through 97.3 provide the legal requirements for calculating the ERAF shift amount.

In FY 1992-93 and FY 1993-94, some local agencies were required to shift an amount of property tax revenues to the ERAF using formulas detailed in the Revenue and Taxation Code. The ERAF shift amount has been adjusted for growth every year since FY 1993-94.

Recommendation

We recommend that the county:

- Review RTC sections 97.2 and 97.3, and update its procedures;
- Recalculate the ERAF shift for FY 2017-18 and all subsequent fiscal years; and
- Make monetary adjustments to the affected entities.

County's Response

The county accepts the finding.

**FINDING 5—
Vehicle License Fee
adjustments (repeat
finding)**

During our testing of the VLF adjustment process, we found that the county had incorrectly calculated the VLF adjustment for the City of Susanville by using only the secured assessed values, instead of using the sum of secured values, unsecured values, homeowner exemption values, and unsecured aircraft assessed values for FY 2019-20 through FY 2023-24. We also found that the county has not reallocated \$79,365 to the City of Susanville for the prior audit correction on Finding 5.

The error occurred because the county did not correctly implement the applicable statute.

RTC section 97.70 provides the legal requirements for VLF adjustments.

The VLF permanently provided additional property tax revenues to counties and cities in lieu of the discretionary VLF revenues that these agencies previously received.

Recommendation

We recommend that the county:

- Review RTC sections 97.69 and 97.70, and update its procedures;
- Recalculate the VLF adjustment for FY 2019-20 and all subsequent fiscal years; and
- Make monetary adjustments to the affected entities.

County's Response

The county accepts the finding.

**FINDING 6—
Negative bailout
(Senate Bill 85) amount**

During our testing of the negative bailout process, we found that the county had incorrectly calculated the negative bailout amount as follows:

- For FY 2022-23, the county used the prior-year total negative bailout amount instead of the current-year total negative bailout amount to calculate the adjustments for the county's general fund and schools.

- For FY 2023-24, the county used a positive total bailout amount instead of a negative total bailout amount in its calculation of adjustments for the county's general fund and schools.

The issues were due to clerical error.

RTC section 96.11 provides the legal requirements for calculating the negative bailout amount.

After Proposition 13 was enacted, the Legislature passed SB 154 (Chapter 292, Statutes of 1978), which provided bailout block grants to counties to make up, in part, for property tax losses. The relief for counties was \$436 million in cash grants plus the State's assumption of \$1 billion associated with mandated health and welfare programs.

Two years after Proposition 13 was enacted, the Legislature passed AB 8 (Chapter 282, Statutes of 1979) as a long-term solution for the property tax shortfall. AB 8 created a one-time adjustment that established a new property tax base for each local agency, and it provided block grants for indigent health programs. Counties received the amount of their SB 154 block grant funding, plus a small adjustment for Aid to Families with Dependent Children, minus the amount of the indigent health block grant. For some counties, the value of the indigent health block grant exceeded the value of the SB 154 block grant. In those cases, the transfer of revenues from school and community college districts to local government agencies resulted in a reduction of the property tax base instead of an increase; this created "negative bailout" counties.

Over time, it became apparent that the "negative bailout" counties had not been transferring the required property taxes to their schools. The Legislature consequently passed AB 2162 (Chapter 899, Statutes of 1983), forgiving prior allocation errors but requiring future payments to be made in accordance with statute.

The amount received by the "negative bailout" counties has grown each year as the assessed value of property in the counties has grown. For many years, the "negative bailout" counties tried unsuccessfully to have the negative bailout amount eliminated. In 2010, the Legislature passed SB 85 (Chapter 5, Section 1), which did not eliminate the negative bailout amount, but capped it according to a specified formula. In 2015, the Legislature passed SB 107 (Chapter 325, Section 24), which amended SB 85 to remove the cap for FY 2015-16 and subsequent fiscal years.

Recommendation

We recommend that the county:

- Review RTC section 96.11 and update its procedures;
- Recalculate the negative bailout amount for FY 2022-23 and all subsequent fiscal years; and
- Make monetary adjustments to the affected entities.

County's Response

The county accepts the finding.

Appendix— Summary of Prior Audit Findings

The following table shows the implementation status of Lassen County's corrective actions related to the findings contained in our prior audit report dated September 26, 2019.

Prior Audit Finding	Status
Finding 1— Supplemental Property Tax Administrative Costs	Fully implemented
Finding 2— Unitary and Operating Nonunitary Apportionment and Allocation	Fully implemented
Finding 3— Unitary Regulated Railway Apportionment and Allocation	Fully implemented
Finding 4— Negative Educational Revenue Augmentation Fund Adjustments	Fully implemented
Finding 5— Vehicle License Fee Adjustments	Partially implemented; see the current Finding 5
Finding 6— Negative Bailout	Fully implemented

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