

VENTURA COUNTY

Audit Report

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

July 1, 2016, through June 30, 2019



BETTY T. YEE
California State Controller

May 2020



BETTY T. YEE
California State Controller

May 21, 2020

The Honorable Jeffery S. Burgh, Auditor-Controller
Ventura County
Hall of Administration
800 South Victoria Avenue
Ventura, CA 93009

Dear Mr. Burgh:

The State Controller's Office audited the methods employed by Ventura County to apportion and allocate property tax revenues for the period of July 1, 2016, through June 30, 2019. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found an instance of noncompliance with California statutes for the apportionment and allocation of property tax revenues for the audit period. Specifically, we determined that Ventura County incorrectly calculated the Tax Equity Allocation for fiscal year (FY) 2016-17 through FY 2018-19.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/lS

cc: Michelle Yamaguchi, Deputy Director
Ventura County Auditor-Controller
Rhoda Farrell, Property Tax Manager
Ventura County Auditor-Controller
The Honorable Steve Bennett, Chairperson
Ventura 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 the methods employed by Ventura County to apportion and allocate property tax revenues for the period of July 1, 2016, through June 30, 2019.

Our audit found an instance of noncompliance with California statutes for the apportionment and allocation of property tax revenues for the audit period. Specifically, we determined that the county incorrectly calculated the Tax Equity Allocation (TEA) for fiscal year (FY) 2016-17 through FY 2018-19.

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 local government agencies, school districts, and community college districts with a property tax base that would grow as assessed property values increased. The method has been further refined in subsequent laws passed by the Legislature.

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

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

The AB 8 process involves several steps, including the transfer of revenues from school and community college districts to local government agencies (AB 8 shift) 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 (percentage share) for each entity for the year. The AB 8 factors are computed each year for all entities using the revenue amounts established in the prior year. These amounts are adjusted for growth annually using ATI factors.

Subsequent legislation removed 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 legislation established an Educational Revenue Augmentation Fund (ERAF) in each county. Most local government agencies are required to transfer a portion of their property tax revenues to the fund. The fund is subsequently 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.

Revenues generated by the different types of property tax are apportioned and allocated to local government agencies, school districts, and community college districts using prescribed formulas and methods, as defined in the Revenue and Taxation Code. Taxable property includes land, improvements, and other properties that are accounted for on the property tax rolls, 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 State Board of Equalization (BOE).
- *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, Senate Bill 418, which requires the State Controller 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. 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 (funds intended for the ERAF, school districts, or community college districts). 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 State Controller with broad authority to “superintend the fiscal concerns of the state.” GC section 12418 provides the State Controller 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 State Controller 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 State Controller.

Objective, Scope, and Methodology

The objective of our audit 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.

The audit period was July 1, 2016, through June 30, 2019.

To achieve our objective, we:

- Interviewed key personnel to gain an understanding of the county’s process for apportioning and allocating property tax revenues;
- Reviewed the county’s written procedures for apportioning and allocating property tax revenues;
- Performed analytical reviews to assess the reasonableness of property tax revenues;
- Judgmentally selected a non-statistical sample of five from approximately 110 taxing jurisdictions within the county for all fiscal years in the audit period (the actual number of taxing jurisdictions, which include the ERAF, can vary from year to year based on jurisdictional changes). Errors found were not projected to the intended (total) population. Then, we:
 - o Recomputed apportionment and allocation reports to verify computations used to develop property tax apportionment factors;
 - o Tested TRA reports to verify that the correct TRA factors were used in the computation of the ATI;
 - o 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;
 - o Verified computations used to develop supplemental property tax apportionment factors;

- o Verified unitary and operating nonunitary, unitary regulated railway, and QE property computations used to develop apportionment factors;
- o Reviewed redevelopment agency (RDA) reports and verified computations used to develop the project base amount and the tax increment distributed to the RDA;
- o Reviewed Redevelopment Property Tax Trust Fund deposits;
- o Reviewed property tax administration 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;
- o 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;
- o Reviewed and recomputed Vehicle License Fee computations used to verify the amount transferred from the ERAF to counties and cities to compensate for the diversion of these revenues;
- o Reviewed reports to determine any increases in property tax revenues due cities having low or nonexistent property tax amounts; and
- o Reviewed BOE jurisdictional change filing logs and their impact on the tax apportionment and allocation system.

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.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow to develop appropriate auditing procedures. We did not evaluate the effectiveness of internal controls relevant to the apportionment and allocation of property tax revenues. We did not audit the county's financial statements.

We conducted this audit under the authority of GC section 12468, which requires the SCO to audit the apportionment and allocation of property tax revenues. A property tax bill contains the property tax levied at a one percent tax rate pursuant to the requirement of Proposition 13. A 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 concerned with 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.

Conclusion

Our audit found that Ventura County did not comply with California statutes for the apportionment and allocation of property tax revenues for the audit period. Specifically, we determined that the county incorrectly calculated the TEA for FY 2016-17 through FY 2018-19.

This instance of noncompliance is described in the Finding and Recommendation section of this audit report.

Follow-up on Prior Audit Findings

Our prior audit report, for the period of July 1, 2009, through June 30, 2016, issued on May 10, 2017, included no findings related to the apportionment and allocation of property tax revenues by the county.

Views of Responsible Officials

We issued a draft audit report on April 22, 2020. Jeffery Burgh, Auditor-Controller, responded by letter dated April 29, 2020 (Attachment), agreeing with the audit results. The county's complete response is included as an attachment to this final audit report.

Restricted Use

This audit report is solely for the information and use of Ventura County, the Legislature, the California Department of Finance, and 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

JIM L. SPANO, CPA
Chief, Division of Audits

May 21, 2020

Finding and Recommendation

FINDING— Tax Equity Allocation

During testing of the county’s TEA process, we found that the county did not reduce the cities’ AB 8 revenues by the cities’ RDA contribution for FY 2016-17 through FY 2018-19.

We did not quantify the monetary impact due to the various components involved in the calculation.

The county made the errors because it misinterpreted the applicable statutes.

RTC section 98, and the Guidelines for County Property Tax Administrative Charges and “No/Low Property Tax Cities” Adjustment, distributed by the County Accounting Standards and Procedures Committee, provide a formula for increasing the amount of property tax revenues allocated to a city that had either no or low property tax revenues.

Recommendation:

We recommend that the county:

- Review RTC section 98.02;
- Update and implement its procedures to reduce the cities’ AB 8 revenues by the cities’ RDA contributions;
- Recalculate the TEA for FY 2016-17 through FY 2018-19; and
- Make monetary adjustments to affected cities, if the amounts are significant.

County’s Response

The County concurs with this finding. The recommendation was implemented for FY 2019-20 and the monetary adjustments to the affected cities for FY 2016-17 through FY 2018-19 were made in April 2020.

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

**JEFFERY S. BURGH
AUDITOR-CONTROLLER**

COUNTY OF VENTURA
800 SOUTH VICTORIA AVE.
VENTURA, CA 93009-1540



**ASSISTANT
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April 29, 2020

Lisa Kurokawa, Chief
Compliance Audits Bureau
State Controller's Office
Division of Audits
PO Box 942850
Sacramento, CA 94250

**RE: Property Tax Apportionment and Allocation System Draft Audit Report for the Period of
July 1, 2016 through June 30, 2019**

Dear Ms. Kurokawa:

On April 22, 2020, the State Controller's Office issued the DRAFT Ventura County Audit Report "Apportionment and Allocation of Property Tax Revenues" that included one finding and recommendation to the Ventura County Auditor-Controller. This letter provides the Ventura County Auditor-Controller's response to the finding and recommendation made in your letter.

Finding – Tax Equity Allocation

Recommendation

We recommend that the county:

- Review RTC section 98.02;
- Update and implement its procedures to reduce the cities' AB 8 revenues by the cities' RDA contributions;
- Recalculate the TEA for FY 2016-17 through FY 2018-19; and
- Make monetary adjustments to affected cities, if the amounts are significant.

Response

The County concurs with this finding. The recommendation was implemented for FY2019-20 and the monetary adjustments to the affected cities for FY2016-17 through FY2018-19 were made in April 2020.

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ventura.org/auditor-controllers-office

Jeff.Burgh@ventura.org

We would like to extend our appreciation to your staff auditor, Kandy Liu, for the cooperative and professional manner in which the audit was conducted and we look forward to working with you in the future. Should you have any questions, please contact Michelle Yamaguchi, Chief Deputy Auditor-Controller at michelle.yamaguchi@ventura.org.

Sincerely,



Jeffery S. Burgh
Auditor-Controller

cc: Jim L. Spano, CPA, Chief, Division of Audits, State Controller's Office
Scott W. Freesmeier, Audit Manager, Division of Audits, State Controller's Office

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