

TRINITY COUNTY

Audit Report

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

July 1, 2013, through June 30, 2021



BETTY T. YEE
California State Controller

May 2022



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California State Controller

May 4, 2022

The Honorable Angela Bickle, Auditor-Controller
Trinity County
P.O. Box 1230
Weaverville, CA 96093

Dear Ms. Bickle:

The State Controller's Office audited Trinity County's process for apportioning and allocating property tax revenues to determine whether the county complied with California statutes for the period of July 1, 2013, through June 30, 2021. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found that the county incorrectly calculated the:

- Unitary regulated railway apportionment and allocation;
- Vehicle license fee adjustments, and
- Negative bailout adjustment.

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

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/as

cc: Christine Gaffney, Assistant Auditor-Controller
Trinity County
Dan Frasier, Chairman
Trinity 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 Trinity County's process for apportioning and allocating property tax revenues to determine whether the county complied with California statutes for the period of July 1, 2013, through June 30, 2021.

Our audit found that the county incorrectly calculated the:

- Unitary regulated railway apportionment and allocation;
- Vehicle license fee (VLF) adjustments, and
- Negative bailout adjustment.

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 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 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 (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 apportionment factors.

Subsequent legislation removed from the AB 8 process revenues generated by unitary and operating nonunitary properties, pipelines, regulated railway companies, and qualified electric 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 California 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 (e.g., 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.

Audit Authority

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 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 actions.

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.

A property tax bill contains the property tax levied at a one percent tax rate, as required by 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 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.

The audit period was July 1, 2013, through June 30, 2021.

To achieve our objective, we performed the following procedures:

- We gained an understating of the county’s process for apportioning and allocating property tax revenues by interviewing key personnel.
- We reviewed the county’s written procedures for apportioning and allocating property tax revenues.
- We reviewed documentation supporting the transaction flow for apportioning and allocating property tax revenues.

- We judgmentally selected a non-statistical sample of five from approximately 34 taxing jurisdictions within the county for all fiscal years in the audit period.¹ Then, we:
 - Recomputed apportionment and allocation reports to verify computations used to develop property tax apportionment factors (see Finding 3);
 - Tested TRA reports to verify that the correct TRA factors were used in the computation of the ATI;
 - 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;
 - Verified computations used to develop supplemental property tax apportionment factors;
 - Verified unitary and operating nonunitary, and unitary regulated railway computations used to develop apportionment factors (see Finding 1);
 - 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;
 - Reviewed the Sales and Use Tax letter and recomputed VLF computations used to verify the amount transferred from the ERAF to counties and cities to compensate for the diversion of these revenues (see Finding 2); and
 - Reviewed BOE'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.

We did not audit the county's financial statements.

¹ The actual number of taxing jurisdictions, which include the ERAF, can vary from year to year based on jurisdictional changes. The five sampled taxing jurisdictions include a special district, a school district, a city, the county, and the ERAF. 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.

Conclusion

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

- Unitary regulated railway apportionment and allocation;
- VLF adjustments, and
- Negative bailout adjustment.

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

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, 2005, through June 30, 2013, issued on June 12, 2014.

Views of Responsible Officials

We issued a draft audit report on March 9, 2022. Christine Gaffney, Assistant Auditor-Controller, responded by letter dated March 23, 2022, agreeing with the audit results. The county's response is included as an attachment to this audit report.

Restricted Use

This audit report is solely for the information and use of Trinity 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 TARVIN, CPA
Chief, Division of Audits

May 4, 2022

Findings and Recommendations

FINDING 1— Unitary and Operating Nonunitary Apportionment and Allocation

During testing of the unitary and operating nonunitary (unitary) apportionment and allocation process, we found that the county incorrectly calculated the unitary factors for FY 2014-15, FY 2015-16, and FY 2017-18 through FY 2020-21. The error occurred because county staff members did not correctly implement procedures for RTC section 100; the error resulted in misallocations to all affected taxing entities that received unitary and operating nonunitary revenue. We could not quantify the monetary impact for each affected taxing entity due to cumulative effect of the various errors affecting the computation and allocation.

RTC section 100 provides the legal requirements for the apportionment and allocation of unitary and operating nonunitary property tax revenues.

Unitary properties are those properties on which BOE “may use the principle of unit valuation in valuing properties of an assessee that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or qualified electric properties). RTC section 723.1 states, in part:

Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee.

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.

Recommendation

We recommend that the county:

- Review RTC section 100 and update its procedures;
- Recalculate the unitary apportionment factors for FY 2014-15 through FY 2020-21; and
- Make monetary adjustments to school districts and community college districts. Monetary adjustments to all other affected taxing entities will be necessary, if the errors are significant.

County’s Response

We concur with the finding and the recommendation for the Unitary and Operating Nonunitary Apportionment and Allocation.

FINDING 2— Vehicle License Fee Adjustments

During testing of the VLF adjustment process, we found that the county incorrectly calculated the VLF adjustment because it used the wrong assessed value for FY 2013-14 through FY 2020-21. The errors occurred because county staff members incorrectly implemented RTC sections 97.69 and 97.70, which provide the legal requirement for VLF

adjustments. This error resulted in a misallocation of property tax revenues to all affected taxing entities that had VLF adjustments, including the county's ERAF and general fund. We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation.

The VLF permanently provided additional property tax revenues to cities and counties 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 adjustments for FY 2013-14 through FY 2020-21; and
- Make monetary adjustments to the county's ERAF and general fund.

County's Response

We concur with the finding and the recommendation for the Vehicle License Fee Adjustments.

FINDING 3— Negative Bailout (SB 85)

During testing of the negative bailout adjustment, we found that the county incorrectly calculated the negative bailout amount because it made the following errors:

- For FY 2013-14, county staff members incorrectly adjusted the negative bailout amount on the AB 8 Factor Worksheet. The amount did not agree with the Negative Bailout Growth Worksheet.
- For FY 2016-17 through FY 2020-21, county staff members used the negative bailout amount that had been computed for FY 2015-16 instead of increasing it by the total county assessed value percentage growth.

The errors occurred because county staff members incorrectly implemented RTC section 96.11, which provides the legal requirements for negative bailout adjustments. This error resulted in misallocations to all taxing entities that were affected by the negative bailout. We could not quantify the monetary impact for each affected taxing entity due to the cumulative effect of the various errors affecting the computation and allocation.

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

After the passage of Proposition 13, the Legislature passed SB 154 (Chapter 292, Statutes of 1978), which provided for the distribution of state assistance, or bailout, to partially mitigate property tax losses. The relief for counties was \$436 million in cash grants, plus the State's

assumption of \$1 billion in costs associated with mandated health and welfare programs.

In the second year following the passage of Proposition 13, the Legislature passed AB 8 (Chapter 282, Statutes of 1979), which provided a long-term solution for the bailout program consisting of a one-time adjustment (shift) that created a new property tax base for each local agency. Counties received all of their SB 154 block grants and 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 was so great that it 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. Consequently, the negative bailout amount received by the counties has grown each year as the assessed value of property in the counties has grown.

Recommendation

We recommend that the county:

- Review RTC section 96.11 and update its procedures; and
- Recalculate the negative bailout adjustment for FY 2013-14 through FY 2020-21.

County's Response

We concur with the finding and the recommendation for the Negative Bailout (SB 85).

Appendix— Summary of Prior Audit Findings

The following table shows the implementation status of Trinity County's corrective actions related to the findings contained in the county's prior audit report dated June 12, 2014:

Prior Audit Finding Number	Prior Audit Finding Title	Implementation Status
1	Calculation and distribution of annual tax increment	Fully implemented
2	Negative bailout	Fully implemented
3	Unitary debt service	N/A ¹
4	Unitary and operating nonunitary apportionment	Fully implemented
5	Educational Revenue Augmentation Fund	Fully implemented
6	Educational Revenue Augmentation Fund – Vehicle Licensing Fee	Fully implemented

¹ The unitary debt service is not a part of the 1% property tax calculation and the SCO no longer reviews this calculation.

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



TRINITY COUNTY
ANGELA BICKLE, AUDITOR-CONTROLLER
CHRISTINE GAFFNEY, ASSISTANT AUDITOR-CONTROLLER
P.O. BOX 1230, WEAVERVILLE, CALIFORNIA 96093-1230
PHONE (530) 623-1317 FAX (530) 623-1323

March 23, 2022

State Controller's Office
Attention: Lisa Kurokawa
PO Box 942850
Sacramento, CA 94250-5874

Dear Ms. Kurokawa:

This letter details my comments concerning the property tax draft audit report issued by your office covering the period of July 1, 2013 through June 30, 2021.

The following are my comments concerning each of the findings listed below:

Finding 1

We concur with the finding and the recommendation for the Unitary and Operating Nonunitary Apportionment and Allocation. We have completed all necessary corrections and submitted them to the State Controller's Office for review. Based on Tuan Tran's initial review, he determined that the corrections were made appropriately.

Finding 2

We concur with the finding and the recommendation for the Vehicle License Fee Adjustments. We have completed all necessary corrections and submitted them to the State Controller's Office for review. Based on Tuan Tran's initial review, he determined that the corrections were made appropriately.

Finding 3

We concur with the finding and the recommendation for the Negative Bailout (SB 85). We have completed all necessary corrections and submitted them to the State Controller's Office for review. We have completed all necessary corrections and submitted them to the State Controller's Office for review.

Sincerely,

Christine Gaffney
Digitally signed by Christine Gaffney
DN: cn = Christine Gaffney email =
cgaffney@trinitycounty.org, c = U.S.A.,
o = Trinity County Auditor-Controller's
Office, ou = Assistant Auditor
Date: 2022.03.23 10:24:10 -0700

Christine Gaffney
Assistant Auditor-Controller

**State Controller's Office
Division of Audits
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