

CALAVERAS COUNTY

Reissued Audit Report

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

July 1, 2010, through June 30, 2017



BETTY T. YEE
California State Controller

June 2019



BETTY T. YEE
California State Controller

June 28, 2019

The Honorable Rebecca Callen, Auditor-Controller
Calaveras County
891 Mountain Ranch Road
San Andreas, CA 95249

Dear Ms. Callen:

The State Controller's Office audited the methods employed by Calaveras County to apportion and allocate property tax revenues for the period of July 1, 2010, through June 30, 2017. The audit was conducted pursuant to the requirements of Government Code section 12468.

This reissued report updates our previous report dated January 19, 2018. We are reissuing this report to update the Objective, Scope, and Methodology section. This reissued report also provides additional information in the Revised Background section and in the Revised Findings and Recommendations section. These revisions do not affect the audit conclusion.

Our audit found instances of noncompliance with California statutes for the apportionment and allocation of property tax revenues for the audit period. Specifically, we determined that Calaveras County incorrectly calculated the:

- Unitary and operating nonunitary apportionment factors; and
- Educational Revenue Augmentation Fund shift amount.

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/hf

cc: Greg Sessions, Property Tax Manager
Calaveras County
John Garamendi, Chair
Calaveras County Board of Supervisors
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance

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Reissued Audit Report

Summary

The State Controller's Office (SCO) audited the methods employed by Calaveras County to apportion and allocate property tax revenues for the period of July 1, 2010, through June 30, 2017.

Our audit found instances of noncompliance with California statutes for the apportionment and allocation of property tax revenues for the audit period. Specifically, we determined that Calaveras County incorrectly calculated the:

- Unitary and operating nonunitary apportionment factors; and
- Educational Revenue Augmentation Fund (ERAF) shift amount.

Revised 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 (AB) 8, Chapter 282, Statutes of 1979, which established the method of allocating property taxes for fiscal year (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 nonunitary properties, regulated railway companies, and qualified electric (QE) properties. These revenues are now apportioned and allocated under separate processes.

Other legislation 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.

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 owing 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.

Revised 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, 2010, through June 30, 2017.

To achieve our objective, we:

- Interviewed key personnel to gain an understanding of the county’s property tax apportionment and allocation processes;
- 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 60 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 population. Then, we:
 - Recomputed apportionment and allocation reports to verify computations used to develop property tax apportionment factors;
 - Tested TRA reports to verify that the correct TRA factors are 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 computations used to develop apportionment factors;
- Reviewed property tax administration cost reports and recomputed administrative costs associated with work performed for apportioning and allocating property tax to local government agencies, school districts, and community college districts;
- Reviewed ERAF reports and verified computations used to determine the shift of property taxes from local government agencies to ERAF and, subsequently, to school and community college districts; and
- Reviewed the Sales and Use Tax letter 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.

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 revenue. 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 Calaveras 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:

- Unitary and operating nonunitary apportionment factors; and
- ERAF shift amount.

These instances of noncompliance are described in the Revised 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, 2003, through June 30, 2010, issued February 3, 2012.

Views of Responsible Officials

We issued a draft audit report on November 3, 2017. Rebecca Callen, Auditor-Controller, responded by letter dated December 12, 2017, agreeing with the audit results. The county's response is included as an attachment to this report.

On August 6, 2018, we notified Greg Session, Property Tax Manager, of this reissued report and the reason for reissuance.

Reason for Reissuance

This reissued report updates our previous report dated January 19, 2018. We are reissuing this report to update the Objective, Scope, and Methodology section. This reissued report also provides additional information in the Revised Background section and in the Revised Findings and Recommendations section. These revisions do not affect the audit conclusion.

Restricted Use

This report is solely for the information and use of Calaveras 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

JIM L. SPANO, CPA
Chief, Division of Audits

June 28, 2019

Revised Findings and Recommendations

REVISED FINDING 1— Unitary and Operating Nonunitary Apportionment

During testing of the unitary and operating nonunitary apportionment process, we found that the county incorrectly computed the unitary and operating nonunitary excess growth factors because it used the wrong prior-year AB 8 factors for FY 2014-15 through FY 2016-17. As a result, the county misallocated revenues to all taxing entities.

The miscalculation occurred because the county misinterpreted the applicable statutes. We did not quantify the monetary impact due to the various errors affecting the calculation.

RTC section 100 provides the legal requirements for the apportionment and allocation of the 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 QE properties). RTC section 723.1 states, “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 the 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 sections 100 and 723.1, and establish and implement procedures to properly calculate the unitary and operating nonunitary apportionment factors;
- Recompute the unitary and operating nonunitary apportionment factors and corresponding apportionments beginning with FY 2014-15; and
- Make monetary adjustments using the corrected apportionment factors, if significant.

County’s Response

The county agreed with the findings included in the draft audit report.

**REVISED
FINDING 2—
Educational Revenue
Augmentation Fund**

During testing of the ERAF shift process, we found that the county incorrectly computed the ERAF shift because it used the FY 2014-15 ERAF shift amount (instead of the FY 2015-16 ERAF shift amount) in FY 2016-17.

The miscalculation is due to a clerical error on the part of county when calculating the ERAF shift. We did not quantify the monetary impact due to the various errors affecting the calculation.

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

In FY 1992-93 and FY 1993-94, some local agencies were required to shift an amount, subsequently annually adjusted for growth, of property tax revenues to the ERAF using formulas detailed in statute.

Recommendation

We recommend that the county:

- Review RTC sections 96.1 through 96.5, and 97 through 97.3, and establish and implement procedures to properly calculate the ERAF shift;
- Ensure that the ERAF shift for FY 2016-17 and subsequent years is properly calculated; and
- Make necessary adjustments to the affected entities, if significant.

County's Response

The county agreed with the findings included in the draft audit report.

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

COUNTY OF CALAVERAS



Office of AUDITOR-CONTROLLER

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Sacramento, CA 94250-5874

RE: Calaveras County Property Tax Audit Draft Report

We have received and reviewed the findings of the property tax audit for years 2010-11 through 2016-17. The report represents the discussions that we had onsite and via email. We agree with the findings sent in the draft audit report

Signature: 
County Auditor-Controller

GJS

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