

ALAMEDA COUNTY

Audit Report

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

July 1, 2016, through June 30, 2019



BETTY T. YEE
California State Controller

July 2021



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California State Controller

July 30, 2021

The Honorable Melissa Wilk, Auditor-Controller
Alameda County
1221 Oak Street, Room 249
Oakland, CA 94612

Dear Ms. Wilk:

The State Controller's Office audited Alameda 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, 2016, through June 30, 2019. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found that the county incorrectly calculated the vehicle license fee.

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: Trina Caballero, Chief
Tax Analysis Division
Alameda County Auditor-Controller Agency
Keith Carson, Chairperson
Alameda 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 Alameda 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, 2016, through June 30, 2019.

Our audit found that the county incorrectly calculated the vehicle license fee (VLF).

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 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 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 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, 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.

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. 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 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.

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.

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

To achieve our objective, we:

- Gained an understanding of the county’s process for apportioning and allocating property tax revenues, and of the relevant criteria;
- 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;
- Reviewed documents supporting the transaction flow for apportioning and allocating property tax revenues;

- Judgmentally selected a non-statistical sample of five from approximately 86 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;
 - 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;
 - Reviewed redevelopment agency reports and verified computations used to develop the project base amount and the tax increment distributed to the redevelopment agency;
 - Reviewed Redevelopment Property Tax Trust Fund deposits;
 - 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;
 - 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;
 - Recomputed the VLF computations to verify the amounts transferred from the ERAF to counties and cities to compensate for the diversion of the VLF revenues (See the Finding); and
 - Reviewed the 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

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.

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.

Conclusion

Our audit found that Alameda 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 VLF.

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, 2013, through June 30, 2016, issued on January 19, 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 May 26, 2021. Melissa Wilk, Auditor-Controller, responded by letter dated June 3, 2021, 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 Alameda 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

KIMBERLY TARVIN, CPA
Chief, Division of Audits

July 30, 2021

Schedule—
Summary of Misallocations to the
Educational Revenue Augmentation Fund
July 1, 2016, through June 30, 2019

Finding	Fiscal Years Affected	Amount Due to the ERAF
Incorrect VLF Calculation	FY 2016-17 through FY 2018-19	\$754,284

Finding and Recommendation

FINDING— Incorrect VLF Calculation

During our review of the VLF adjustment process, we found that the county incorrectly calculated the VLF percentage growth for each fiscal year in the audit period because it did not include the non-commercial aircraft assessed values. As a result of this error, the county over-allocated a total of \$754,284 from the ERAF to the county and cities (see the Schedule). The error occurred because the county incorrectly implemented RTC section 97.70, which provides the legal requirements for VLF adjustments.

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 section 97.70 and update its procedures to include non-commercial aircraft assessed values in the VLF growth;
- Recalculate the VLF adjustment for FY 2016-17 through FY 2018-19; and
- Remit \$754,284 to the ERAF.

County's Response

The County has reviewed RTC section 97.70 and is in agreement with this finding. The County has updated its procedures for the VLF adjustment process to ensure that non-commercial aircraft values are included in the calculation. The VLF adjustment has been recalculated for fiscal years 2016-17, 2017-18, and 2018-19. The recalculated VLF adjustments were reviewed by SCO audit staff and processed accordingly.

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



ALAMEDA COUNTY
AUDITOR-CONTROLLER AGENCY
MELISSA WILK
AUDITOR-CONTROLLER/CLERK-RECORDER

June 3, 2021

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

Dear Ms. Kurokawa,

As requested in your letter dated May 26, 2021, please find below Alameda County's response to the finding noted in the draft audit report for the period of July 1, 2016 through June 30, 2019.

Finding – Incorrect VLF Calculation

The County has reviewed RTC section 97.70 and is in agreement with this finding. The County has updated its procedures for the VLF adjustment process to ensure that non-commercial aircraft values are included in the calculation. The VLF adjustment has been recalculated for fiscal years 2016-17, 2017-18, and 2018-19. The recalculated VLF adjustments were reviewed by SCO audit staff and processed accordingly.

If you have any questions, please feel free to contact Trina Caballero at (510) 272-6557 or by email at trina.caballero@acgov.org.

Sincerely,

Melissa Wilk,
Auditor-Controller

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