

PLUMAS COUNTY

Audit Report

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

July 1, 2014, through June 30, 2020



BETTY T. YEE
California State Controller

July 2021



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California State Controller

July 27, 2021

The Honorable Roberta M. Allen, Auditor-Controller
Plumas County
520 Main Street, Room 205
Quincy, CA 95971

Dear Ms. Allen:

The State Controller's Office audited Plumas 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, 2014, through June 30, 2020. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found that the county incorrectly calculated the supplemental apportionment factors.

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/ac

cc: Bianca Harrison, Assistant Auditor-Controller
Plumas County
Kevin Goss, Chairperson
Plumas 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 Plumas 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, 2014, through June 30, 2020.

Our audit found that the county incorrectly calculated the supplemental apportionment factors.

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 (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.

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, 2014, through June 30, 2020.

To achieve our objective, we completed the following procedures:

- We gained an understanding of the county’s process for apportioning and allocating property tax revenues, and of the relevant criteria.
- We interviewed key personnel to gain an understanding of the county’s process for apportioning and allocating property tax revenues.
- We reviewed the county’s written procedures for apportioning and allocating property tax revenues.
- We reviewed documents supporting the transaction flow for apportioning and allocating property tax revenues.
- We judgmentally selected a non-statistical sample of five from approximately 49 taxing jurisdictions within the county for all fiscal

years in the audit period.¹ Errors found were not projected to the intended (total) 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 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 (see the Finding);
- Verified unitary and operating nonunitary, and unitary regulated railway 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 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;
- 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; and
- 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 did not audit the county's financial statements.

Conclusion

Our audit found that Plumas County did not comply with California statutes for the apportionment and allocation of property tax revenues for

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.

the audit period. Specifically, we determined that the county incorrectly calculated the supplemental apportionment factors.

This instance of noncompliance is described in the Finding and Recommendation section and quantified in the Schedule 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, 2014, issued on September 10, 2015.

Views of Responsible Officials

We issued a draft audit report on June 10, 2021. Roberta M. Allen, Auditor-Controller, responded by letter dated June 18, 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 Plumas 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 27, 2021

**Schedule—
Summary of Misallocations to the
Educational Revenue Augmentation Fund
July 1, 2014, through June 30, 2020**

Finding	Fiscal Years Affected	Amount Due to the ERAF
Supplemental Property Tax Apportionment and Allocation	FY 2014-15 through FY 2019-20	\$ 207,049
Total		<u>\$ 207,049</u>

Finding and Recommendation

FINDING— Supplemental Property Tax Apportionment and Allocation

During testing of the supplemental apportionment allocation process, we found that the county incorrectly computed the supplemental apportionment factors because it included the Vehicle License Fee shift for all fiscal years in the audit period. As a result of this error, the county over-allocated a total of \$207,049 from the ERAF to the county and the City of Portola.

The error occurred because the county incorrectly implemented RTC sections 75.60, 75.71, and 100.2, which provide the legal requirements for the apportionment and allocation of supplemental property tax revenue.

Supplemental property tax revenues enable counties to tax a property retroactively for the period when a change in ownership or completion of new construction occurs.

Recommendation

We recommend that the county:

- Review RTC sections 75.60, 75.71, and 100.2, and update its procedures to exclude the Vehicle License Fee shift from the supplemental apportionment factor calculation;
- Recalculate the supplemental apportionment factors for FY 2014-15 through FY 2019-20; and
- Remit \$207,049 to the ERAF (see the Schedule).

County's Response

The County has reviewed RTC sections 75.60, 75.71, and 100.2 and we agree with the finding. The correction has been made to the supplemental apportionment factor calculation, and \$207,049 has been remitted to ERAF.

Due to turnover in key positions in the Auditor's office in [FY] 2012/13, and [FY] 2013/14, County officials responsible for property tax apportionments were unaware of the change in the law. This issue was not mentioned in the audit that was completed for fiscal years 2006–2014. We have made the required corrections and will continue to follow the guidance in the above code sections in the future

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

PLUMAS COUNTY AUDITOR / CONTROLLER

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Roberta M. Allen, CPA AUDITOR / CONTROLLER
Bianca Harrison, CMA ASSISTANT AUDITOR / CONTROLLER



Audit Response – Property Tax Audit Audit period 7/1/2014 to 6/30/2020

Finding – Supplemental Property Tax Apportionment and Allocation

Recommendation:

The county Review RTC sections 75.60, 75.71, and 100.2, and update its procedures to exclude the Vehicle License Fee shift from the supplemental apportionment factor calculation; and recalculate the supplemental apportionment factors for FY 2014-15 through FY 2019-20; and remit \$207,049 to the ERAF.

Response:

The County has reviewed RTC sections 75.60, 75.71, and 100.2 and we agree with the finding. The correction has been made to the supplemental apportionment factor calculation, and \$207,049 has been remitted to ERAF.

Due to turnover in key positions in the Auditor's office in 2012/13 and 2013/14, County officials responsible for property tax apportionments were unaware of the change in the law. This issue was not mentioned in the audit that was completed for fiscal years 2006 – 2014. We have made the required corrections and will continue to follow the guidance in the above code sections in the future.

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