YUBA COUNTY

Audit Report

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

July 1, 2014, through June 30, 2021

BETTY T. YEE
California State Controller

July 2022

BETTY T. YEE
California State Controller

July 27, 2022

The Honorable C. Richard Eberle, CPA,
Auditor-Controller
Yuba County
915 8th Street, Suite 105
Marysville, CA 95901

Dear Mr. Eberle:

The State Controller's Office audited Yuba 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, 2021. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found that the county incorrectly calculated the SB 2557 administrative cost factor and the Vehicle License Fee. In addition, we found that the county did not correct the unitary regulated railway apportionment factors for fiscal year 2009-10 through fiscal year 2013-14, as noted in our prior audit report.

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/ls

cc: Nisha Johnson, Accountant-Auditor
Yuba County Auditor-Controller's Office
The Honorable Randy Fletcher, Chair
Yuba County Board of Supervisors
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance

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Audit Report

Summary

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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 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.

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.
- *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. The 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). The 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 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 was 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, 2014, through June 30, 2021.

To achieve our objective, we performed the following procedures:

- We gained an understanding 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 documents supporting the transaction flow for apportioning and allocating property tax revenues.
- We judgmentally selected a non-statistical sample of five from approximately 44 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;

[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.

- 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 computations and unitary regulated railway computations used to develop apportionment factors;
- Reviewed redevelopment agency (RDA) reports and verified computations used to develop the project base amount and the tax increment distributed to the RDA;
- Reviewed Redevelopment Property Tax Trust Fund (RPTTF) 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 (see Finding 1);
- We 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;
- We 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
- We reviewed California State Board of Equalization 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 did not audit the county's financial statements.

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.

Conclusion

Our audit found that Yuba 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 SB 2557 administrative cost factor and the VLF. These instances of noncompliance are described in the Findings and Recommendations section.

In addition, we found that the county did not correct the unitary regulated railway apportionment factors for FY 2009-10 through FY 2013-14, as noted in our prior audit report. This instance of noncompliance is described in the Uncorrected Prior Audit Finding section.

Follow-up on Prior Audit Findings

Findings noted in our prior audit report, for the period of July 1, 2006, through June 30, 2014, issued on February 16, 2016, have been satisfactorily resolved by the county, with the exception of unitary regulated railway apportionment and allocation.

Views of Responsible Officials

We issued a draft audit report on May 6, 2022. Yuba County Auditor-Controller C. Richard Eberle responded by email on May 12, 2022, agreeing with the audit results.

Restricted Use

This audit report is solely for the information and use of Yuba 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

July 27, 2022

Uncorrected Prior Audit Finding

UNCORRECTED PRIOR AUDIT FINDING— Unitary Regulated Railway Apportionment and Allocation

As discussed in Finding 6 of our prior audit report dated February 16, 2016, the county used base-year values (FY 2007-08) that did not correspond to the values used in the AB 8 process for the unitary regulated railway adjustment. In addition, the county made the following errors in calculating its unitary regulated railway apportionment and allocation:

- In comparing the greater of the prior-year 102% values versus current-year values, the county included its debt services amount; and
- In apportioning the railway revenue, the county used the prior-year excess growth factors instead of the newly created railway factors.

This prior audit finding remains uncorrected because the county did not correct the railway apportionment factors for FY 2009-10 through FY 2013-14.

RTC section 100.11 provides the legal requirements for the apportionment and allocation of unitary regulated railway property tax revenues.

Unitary regulated railway properties are facilities that were completely constructed and placed in service after January 1, 2007. RTC section 723 defines unit valuation of a property that is operated as a unit in a primary function of the assessee.

<u>Recommendation</u>

We recommend that the county:

- Review RTC section 100.11 and update its procedures;
- Recalculate the regulated railway apportionment starting in FY 2009-10; and
- Make monetary adjustments to school districts and the ERAF. (Monetary adjustments to all other affected taxing entities will be necessary, if the error amount is significant).

<u>County's Response</u>

> The County agree[s] with the finding. The calculations . . . have been completed for the fiscal years in question and the rates have been corrected for the 2021-2022 fiscal year and going forward. The County will analyze the materiality of the previous years impact and make any adjustments deemed necessary.

Findings and Recommendations

FINDING 1— Reimbursement of Property Tax Administrative Costs

During testing of the reimbursement of property tax administrative costs, we found that the county incorrectly calculated the SB 2557 administrative cost factor by including the VLF shift adjustment for FY 2017-18 through FY 2020-21. As a result, the cities were overcharged for administrative costs. We did not quantify the monetary impact for each affected taxing entity due to various errors affecting the computation and allocations. The error occurred because the county did not correctly implement procedures for RTC section 95.3, which provides the legal requirements for reimbursement of property tax administrative costs.

The County Assessor, the County Tax Collector, the Assessment Appeals Board, and the Auditor-Controller all incur administrative costs associated with the apportionment and allocation of property tax revenues. Applicable statutes enable the county to be reimbursed by local agencies for the aforementioned costs.

<u>Recommendation</u>

We recommended that the county:

- Review RTC section 95.3, and update its procedures to exclude the VLF shift from the SB 2557 administrative cost factor calculation;
- Recalculate the administrative cost factors for FY 2017-18 through FY 2020-21; and
- Remit the overpaid administrative costs to the cities.

<u>County's Response</u>

> The County agrees with the finding. Calculations for fiscal impact are in progress. Once [the calculations are] completed, overpaid administrative costs from the Cities will be corrected.

FINDING 2— Vehicle License Fee Adjustments

During testing of the county's VLF adjustment process, we found that the county made the following errors in calculating the VLF shift adjustment:

- For FY 2015-16, an incorrect assessed value was used for the City of Marysville;
- For FY 2015-16, the City of Wheatland's assessed value was not adjusted for FY 2015-16 annexation; and
- For FY 2018-19 through FY 2020-21, the utility's assessed value was removed; as a result, the assessed value used did not reconcile to the county's Auditor Certified Values by Tax Base (AUD70-2360-100) report.

These errors resulted in misallocation of funds to the cities and ERAF. We did not quantify the monetary impact due to various errors affecting the computation and allocation. The errors occurred because the county incorrectly implemented RTC sections 97.69 and 97.70.

RTC section 97.70 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 97.69 and 97.70, and update its procedures;
- Recalculate its VLF adjustment starting in FY 2015-16, and carry forward corrected amounts to subsequent VLF computations; and
- Make monetary adjustments to the ERAF.

County's Response

> The County agrees with the finding. Monetary calculations are in progress. Once [the calculations are] completed, amounts pertaining to ERAF and Cities will be adjusted.

Appendix—
Summary of Prior Audit Findings

The following table shows the implementation status of Yuba County's corrective actions related to the findings contained in the county's prior audit report dated February 16, 2016:

Prior Audit Finding Number	Prior Audit Finding Title	Status
1	Calculation and distribution of annual tax increment	Fully implemented
2	Jurisdictional Changes	Fully implemented
3	Supplemental property tax	Fully implemented
4	Supplemental property tax – Administrative costs	Fully implemented
5	Unitary and operating nonunitary apportionment	Fully implemented
6	Unitary railroad apportionment	Not corrected; see Uncorrected Prior Audit Finding
7	Redevelopment Property Tax Trust Fund (RPTTF) and Recognized Obligation Payments Schedule	N/A[1]

[1] We continue to audit the deposits into the RPTTF, but no longer audit the funds distributed from the RPTTF. The Department of Finance reviews the funds distributed from the RPTTF during its review and approval of the Recognized Obligation Payments Schedule.

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