COLUSA COUNTY

Audit Report

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

July 1, 2015, through June 30, 2021

BETTY T. YEE
California State Controller

August 2022

BETTY T. YEE
California State Controller

August 24, 2022

The Honorable Robert Zunino, Auditor-Controller
Colusa County
546 Jay Street, Suite 202
Colusa, CA 95932

Dear Mr. Zunino:

The State Controller's Office audited Colusa 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, 2015, 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:

- Qualified electric property apportionment and allocation; and
- Reimbursement of property tax administrative costs.

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

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/as

cc: Andrea Navarro, Assistant Auditor-Controller
Colusa County
Brittany Wheeler, Accountant-Auditor III
Colusa County
J. Merced Corona, Chair
Colusa 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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Our audit found that the county incorrectly calculated the:

- Qualified electric (QE) property apportionment and allocation; and
- Reimbursement of property tax administrative costs.

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 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 QE 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 SCO 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 SCO with broad authority to "superintend the fiscal concerns of the state." GC section 12418 provides the SCO 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 SCO 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 SCO.

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

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.

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, 2015, through June 30, 2021.

To achieve our objective, we performed the following procedures:

- We interviewed key personnel to gain an understanding of the county's methods for apportioning and allocating property tax revenues.
- 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 performed analytical reviews to assess the reasonableness of property tax revenues.

- We judgmentally selected a non-statistical sample of five from approximately 40 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 (see Finding 2);
  - Verified computations used to develop supplemental property tax apportionment factors;
  - Verified unitary and operating nonunitary, unitary regulated railway, and QE property computations used to develop apportionment factors (see Finding 1);
  - 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 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

[1] The actual number of taxing jurisdictions can vary from year to year due to jurisdictional changes. For testing purposes, we included the ERAF in our sample of taxing jurisdictions. We also tested a special district, a school district, a city, and the county. 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.

reasonable basis for our findings and conclusions based on our audit objective.

Conclusion

Our audit found that Colusa 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:

- QE property apportionment and allocation; and
- Reimbursement of property tax administrative costs.

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, 2009, through June 30, 2015, issued on May 30, 2017.

Views of Responsible Officials

We issued a draft audit report on June 23, 2022. Robert Zunino, Auditor-Controller responded by letter dated July 8, 2022, agreeing with the audit results. The county's response is included as an attachment to this final audit report.

Restricted Use

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

August 24, 2022

Findings and Recommendations

FINDING 1— Qualified electric property apportionment and allocation

During testing of the county's QE process, we found that the county incorrectly excluded the school districts and the non-enterprise special districts from the QE allocations. As a result, the QE revenues of all affected taxing entities were misstated. We did not quantify the monetary impact effect for each affected taxing entity due to the cumulative effect of the errors affecting the computation and allocation.

The errors occurred because the county incorrectly implemented RTC section 100.95, which provides the legal requirements for the apportionment and allocation of QE property tax revenues.

RTC section 100.95 states that qualified property is "all plant and associated equipment, including substation facilities and fee-owned land and easements, placed in service by the public utility on or after January 1, 2007. . . ."

<u>Recommendation</u>

We recommend that the county:

- Review RTC section 100.95 and update its procedures to ensure that schools and non-enterprise special districts are included in the QE apportionments and allocations;
- Recalculate its QE allocations for FY 2015-16 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.

<u>County's Response</u>

> Ms. Wheeler reviewed Revenue and Taxation Code (RTC) section 100.95 and updated the County's procedures to ensure that Schools and Non-Enterprise Special Districts are now included in the QE apportionments and allocations. She recalculated the QE allocations for Fiscal Year (FY) 2015-16 through FY 2020-21. The County will make the monetary adjustments for the recalculated time period and will make the corrections over three fiscal years[; the adjustments] will not exceed one percent of the total amount levied at a one-percent rate of the current year's original Secured tax roll, as required by RTC section 96.1 (c)(3).

FINDING 2— Reimbursement of property tax administrative costs

During testing of the county's property tax administrative costs process, we found that the county incorrectly included QE revenues and regulated railway revenues for all fiscal years in the audit period. The county also incorrectly apportioned current-year costs by using property tax administrative cost factors that were calculated using prior-year revenues rather than current-year revenues.

As a result of these errors, the property tax administrative costs for all affected taxing entities were misstated. We did not quantify the monetary impact effect for each affected taxing entity due to the cumulative effect of the errors affecting the computation and allocation.

The errors occurred because the county incorrectly implemented RTC section 95.3, which provides the legal requirements for 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 recommend that the county:

- Review RTC section 95.3 and update its procedures to ensure that QE and regulated railway revenues are excluded;
- Use current-year revenues and prior-year actual costs to create property tax administrative cost factors;
- Recalculate its property tax administrative costs for FY 2015-16 through FY 2020-21; and
- Make monetary adjustments to affected taxing entities, if the errors are significant.

<u>County's Response</u>

> Ms. Wheeler reviewed RTC section 95.3 and updated our procedures to ensure [that] we are correctly calculating our Property Tax Administrative costs (PTAC). She recalculated the PTAC costs for FY 2015-16 through FY 2020-21. It will be at the Colusa County Board of Supervisor's discretion if monetary adjustments will be made to the affected taxing entities.

Appendix—
Summary of Prior Audit Findings

The following table shows the implementation status of Colusa County's corrective actions related to the findings contained in the county's prior audit report dated May 30, 2017:

Prior Audit Finding Number	Finding Title	Implementation Status
1	Supplemental apportionment factors	Fully implemented
2	Unitary and operating nonunitary apportionment factors	Fully implemented
3	Unitary and regulated railway apportionment factors	Fully implemented

Attachment—
County's Response to Draft Audit Report

COLUSA COUNTY

AUDITOR - CONTROLLER

Office of
Robert Zunino
County Auditor-Controller

Andrea Navarro
Asst. Auditor-Controller

546 Jay Street, Suite #202
Colusa, CA 95932

Phone: 530-458-0400
Fax: 530-458-0402

7/8/2022

Ms. Lisa Kurokawa
Chief of Compliance Audits Bureau
State Controller's Office
P.O. Box 942850
Sacramento, CA 94250

Subject: Colusa County Audit Report
Property Tax Apportionment and Allocation System
July 1, 2015, through June 30, 2021

Dear Ms. Kurokawa:

I have compared the audit findings with my notes and the report from the Exit Conference conducted by Kandy Liu and Scott Freesmeier. I concur with the two findings; 1. Qualified Electric (QE) property apportionment and allocation and 2. Reimbursement of Property Tax Administrative Costs.

I appreciate the time that Kandy Liu spent with County staff member Brittany Wheeler. They worked closely throughout the audit engagement and I am confident that Ms. Wheeler gained valuable knowledge regarding the property tax apportionment process.

Ms. Wheeler reviewed Revenue and Taxation Code (RTC) section 100.95 and updated the County's procedures to ensure that Schools and Non-Enterprise Special Districts are now included in the QE apportionments and allocations. She recalculated the QE allocations for Fiscal Year (FY) 2015-16 through FY 2020-21. The County will make the monetary adjustments for the recalculated time period and will make the corrections over three fiscal years and will not exceed one percent of the total amount levied at a one-percent rate of the current year's original Secured tax roll as required by RTC section 96.1(c)(3).

Ms. Wheeler reviewed RTC section 95.3 and updated our procedures to ensure we are correctly calculating our Property Tax Administrative costs (PTAC). She recalculated the PTAC costs for FY 2015-16 through FY 2020-21. It will be at the Colusa County Board of Supervisor's discretion if monetary adjustments will be made to the affected taxing entities.

Prior to completing our fieldwork, Kandy audited the revised calculation methods for County's QE and PTAC processes to ensure the new method is correct for FY 2021-2022 and forward. Consequently, I am confident that these findings have been fully resolved and will not be an issue in future audits.

Thank you for the opportunity to improve and correct our County property tax system. I understand SCO staffing is limited, similar to Colusa County. However, if possible I appreciate more frequent property tax audits to ensure everything is correct, or revised on a timelier basis, as accurate property tax apportionment and allocation is vital to all governmental agencies.

Sincerely,

COUNTY OF COLUSA

Robert Zunino

ROBERT ZUNINO
Auditor-Controller

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250

http://www.sco.ca.gov

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