

# **SOLANO COUNTY**

Audit Report

## **PROPERTY TAX APPORTIONMENT AND ALLOCATION SYSTEM**

*July 1, 2010 through June 30, 2014*



**BETTY T. YEE**  
California State Controller

June 2016



**BETTY T. YEE**  
California State Controller

June 23, 2016

The Honorable Simona Padilla-Scholtens, Auditor-Controller  
Solano County Auditor-Controller's Office  
675 Texas Street, Suite 2800  
Fairfield, CA 94533

Dear Ms. Padilla-Scholtens:

The State Controller's Office (SCO) audited the methods employed by Solano County to apportion and allocate property tax revenues for the period of July 1, 2010, through June 30, 2014. The audit was conducted pursuant to the requirements of Government Code section 12468.

Our audit found that the county complied with California statutes, except that it incorrectly computed the Vehicle Licensing Fee Swap growth.

Additionally, we made the following observations:

**Qualified Electric Properties Tax Revenue Allocation**

In fiscal year 2007-08 the California State Legislature enacted a new type of property tax for Qualified Electric Properties (QE). The SCO and the California State Association of County Auditors, Property Tax Managers' Sub-Committee are currently discussing the interpretation of Revenue and Taxation Code section 100.95, which governs the tax revenue allocation for QE. Therefore, the SCO cannot make a determination on the county's methodology at this time. We will follow up on this issue in the subsequent audit.

**Redevelopment Property Tax Trust Fund**

In May 2015, a court case between the cities of Chula Vista, El Cajon, Escondido, Poway, San Diego, San Marcos, and Vista versus the County of San Diego challenged the methodology in apportioning the residual balance from the redevelopment property tax trust fund. Therefore, the SCO cannot make a determination on the county's methodology at this time. We will follow up on this issue in the subsequent audit.

The Honorable Simona Padilla-Scholtens,     -2-  
Auditor-Controller

June 23, 2016

If you have any questions, please contact Elizabeth González, Bureau Chief, by telephone at (916) 324-0622 or by email at [egonzalez@sco.ca.gov](mailto:egonzalez@sco.ca.gov).

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/rg

Attachment

cc: Rosemary Bettencourt, Deputy Auditor Controller  
Solano County Auditor-Controllers Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the methods employed by Solano County to apportion and allocate property tax revenues for the period of July 1, 2010, through June 30, 2014.

Our audit found that the county complied with California statutes for the allocation and apportionment of property tax revenues, except that it incorrectly computed the Vehicle Licensing Fee (VLF) Swap growth.

Additionally, we made the following observations:

### **Qualified Electric Properties Tax Revenue Allocation**

In fiscal year (FY) 2007-08 the California State Legislature enacted a new type of property tax for Qualified Electric Properties (QE). The State Controller's Office (SCO) and the California State Association of County Auditors, Property Tax Managers' Sub-Committee are currently discussing the interpretation of Revenue and Taxation Code section 100.95, which governs the tax revenue allocation for QE. Therefore, the SCO cannot make a determination on the county's methodology at this time. We will follow up on this issue in the subsequent audit.

### **Redevelopment Property Tax Trust Fund**

In May 2015, a court case between the cities of Chula Vista, El Cajon, Escondido, Poway, San Diego, San Marcos, and Vista versus the County of San Diego challenged the methodology in apportioning the residual balance from the redevelopment property tax trust fund. Therefore, the SCO cannot make a determination on the county's methodology at this time. We will follow up on this issue in the subsequent audit.

## Background

After the passage of Proposition 13 in 1978, the California State Legislature enacted new methods for allocating and apportioning property tax revenues to local government agencies and public schools. The main objective was to provide local government agencies with a property tax base that would grow as assessed property values increased. These methods have 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.

The 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 agencies and schools using prescribed formulas and methods defined in the Revenue and Taxation Code.

The AB 8 base process involved numerous steps, including the transfer of revenues from schools to local agencies (AB 8 shift) and the development of the tax rate area annual tax increment apportionment factors (ATI 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 apportionment 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 revenues generated by unitary and nonunitary properties, regulated railway companies, and qualified electric properties from the AB 8 process. These revenues are now allocated and apportioned 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 allocated and apportioned to schools by the county auditor according to instructions received from the county superintendent of schools or the State Chancellor of Community Colleges.

Revenues generated by the different types of property tax are apportioned and allocated to local agencies and schools 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 maintained primarily by the county assessor. Tax rolls contain an entry for each parcel of land, including the parcel number, the owner's name, and the value. Following are the types of property tax rolls:

- *Secured Roll*—This roll contains property that, in the opinion of the assessor, has sufficient value to guarantee payment of the tax levies and that, if necessary, can be sold by the tax collector to satisfy unpaid tax levies.
- *Unsecured Roll*—This roll contains property that, in the opinion of the assessor, does not have sufficient “permanence” or have other intrinsic qualities to guarantee payment of taxes levied against it.
- *State-Assessed Roll*—This roll contains public utility, railroad, and qualified electric properties, assessed as either unitary or nonunitary property by the State Board of Equalization.
- *Supplemental Roll*—This roll contains 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 taxes, Senate Bill 418 was enacted in 1985 requiring the State Controller to audit the counties' apportionment and allocation methods and report the results to the California State Legislature.

## **Objectives, Scope, and Methodology**

Our audit objective was to review the county's apportionment and allocation of property tax revenues to local government agencies and public schools within its jurisdiction to determine whether the county complied with Revenue and Taxation Code requirements.

To meet the objective, we reviewed the county's procedures for apportioning and allocating property tax revenues used by the county auditor and the processes used by the tax collector and the assessor.

We performed the following procedures:

- Conducted tests to determine whether the county correctly apportioned and allocated property tax revenue.
- Interviewed key personnel and reviewed supporting documentation to gain an understanding of the county's property tax apportionment and allocation processes.
- Reviewed apportionment and allocation reports prepared by the county showing the computations used to develop the property tax distribution factors.
- Reviewed tax rate area (TRA) reports to verify that the annual tax increment was computed properly.
- Reviewed county unitary and operating nonunitary reports and Board of Equalization reports and verified the computations used by the county to develop the unitary and operating nonunitary property tax distribution factors.
- Reviewed redevelopment agency (RDA) reports prepared by the county and verified the computations used to develop the project base amount and the tax increment distributed to the RDA.
- Reviewed successor agency Recognized Obligation Payment Schedules (ROPS) and county apportionment and allocation reports addressing the Redevelopment Property Tax Trust fund (RPTTF).
- Reviewed property tax administration cost reports prepared by the county and verified administrative costs associated with procedures used for apportioning and allocating property tax to local government agencies and school districts.
- Reviewed ERAF reports prepared by the county and verified the computations used to determine the shift of property taxes from local agencies to the ERAF and, subsequently, to public schools.

- Reviewed Sales and Use Tax (SUT) and VLF reports and computations used to verify the amount of ERAF transferred to counties and cities to compensate for the diversion of these revenues.

We conducted this performance audit under the authority of Government Code sections 12468 and 12410. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit covered the period of July 1, 2010, through June 30, 2014. Our audit scope was limited to:

- Reviewing operational procedures and significant applicable controls over the apportionment and allocation process;
- Examining selected property tax apportionment and allocation records; and
- Reviewing related property tax revenue data used to determine the apportionment and allocation computation process.

A property tax bill contains the property tax levied at a 1% tax rate pursuant to the requirement of Proposition 13. A bill may also contain special taxes, debt services 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 1% 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.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow in order to develop appropriate auditing procedures. We did not evaluate the effectiveness of all internal controls.

In addition, we tested transactions used to apportion and allocate property taxes and performed other procedures deemed necessary. This report relates solely to the method used by the county to apportion and allocate property taxes.

## **Conclusion**

Our audit found that, except for the items discussed in the Finding and Recommendation section of this report, Solano County complied with California statutes for the apportionment and allocation of property tax revenues for the period of July 1, 2010, through June 30, 2014. The county should correct the item discussed in the Finding and Recommendation section.

Additionally, we made observations related to the qualified electric properties tax revenue allocation and the redevelopment property tax trust fund discussed in the Observations section of this report.

**Follow-up on Prior  
Audit Findings**

The county has satisfactorily resolved the findings noted in our prior audit report, issued August 2011.

**Views of  
Responsible  
Officials**

We issued a draft audit report on April 20, 2016. Simona Padilla-Scholtens, Auditor Controller, responded by letter dated April 28, 2016, agreeing with the audit results. The response is included as an attachment to this report.

**Restricted Use**

This report is solely for the information and use of Solano County, the California State Legislature, 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 report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

June 23, 2016

# Finding and Recommendation

## **FINDING— Vehicle Licensing Fee and Sales and Use Tax adjustments**

The county incorrectly computed the Vehicle Licensing Fee (VLF) growth in fiscal year (FY) 2010-11 through FY 2013-14 by not including utility assessed values, and adjusting for all other enrolled exemptions and annexations. This resulted in a misstatement of VLF Swap amounts for all contributing agencies for all fiscal years of the audit by the following estimated amounts<sup>1</sup>:

County General	\$	49,285
Benicia		(2,044)
Dixon		23,067
Fairfield		107,560
Rio Vista		3,435
Suisun		18,595
Vacaville		(153,111)
Vallejo		117,859
FOR ALL YEARS:	\$	164,646

Requirements for the Educational Revenue Augmentation Fund (ERAF) adjustment for the VLF and Sales and Use Tax (SUT) are found in Revenue and Taxation Code sections 97.68-97.70.

In FY 2004-05 the county was given a VLF estimate that was to be transferred from the ERAF to the Vehicle License Fee Property Tax Compensation Fund, and eventually to the county and cities. In FY 2005-06, the county was given another estimate, including true-ups. In FY 2006-07 and subsequent years, the county calculates the VLF adjustment based on the prior-year VLF adjusted for growth. The growth for the county's VLF should be based on countywide growth, not only on unincorporated parcels. The growth for each city's VLF should be based on the growth of all incorporated parcels in all Tax Rate Areas within the city.

The SUT amounts for each county and cities within the county are provided by the Department of Finance, on or before September 1 of each fiscal year. These amounts are to be transferred from the ERAF to the SUT Compensation Fund, and eventually to each designated county and cities within each county.

### Recommendation

During the audit, the county corrected the VLF growth calculation. The county should use the correct VLF growth calculation going forward.

<sup>1</sup> These amounts don't account for any adjustments in regards to the inclusion of utility assessed values, and adjustments for all other enrolled exemptions and annexations.

County's Response

The County concurs with the finding. The VLF growth calculation for 2010-11 through 2013-14 was corrected by including the utility assessed value and adjusting for all other enrolled exemptions and annexations. The corrected VLF allocations were carried forward and used in calculating the subsequent years VLF allocations to the County and Cities.

SCO's Comment

The SCO agrees with the County's corrective action. The SCO will review the implementation of the corrections in the next audit.

# Observations

## **OBSERVATION 1— Qualified Electric Properties Tax Revenue Allocation**

In fiscal year (FY) 2007-08 the California State Legislature enacted a new type of property tax for Qualified Electric Properties (QE). The State Controller's Office (SCO) and the California State Association of County Auditors, Property Tax Managers' Sub-Committee (Sub-Committee) are currently discussing the interpretation of Revenue and Taxation Code section 100.95, which governs the tax revenue allocation for QE.

There is a difference of interpretation as to whether the Education Revenue Augmentation Fund (ERAF) is entitled to a portion of the QE tax revenue. The Sub-Committee contends that if QE tax revenue is allocated to ERAF, the State is essentially in violation of Proposition 1A. However, the SCO believes that ERAF should be entitled to QE tax revenue pursuant to the Revenue and Taxation (R&T) Code section 100.95 (a)(3)(A)(i).

R&T Code section 100.95 (a)(3)(A)(i) states:

School entities, as defined in subdivision (f) of Section 95, shall be allocated an amount equivalent to the same percentage the school entities received in the prior fiscal year from the property tax revenues paid by the utility in the county in which the qualified property is located.

R&T Code section 95 (f) states:

School entities" means school districts, community college districts, the Educational Revenue Augmentation Fund, and county superintendents of schools.

Therefore, the SCO cannot make a determination on the county's methodology at this time. We will follow up on this issue in the subsequent audit.

## **OBSERVATION 2— Redevelopment Property Tax Trust Fund**

In May 2015, a court case between the cities of Chula Vista, El Cajon, Escondido, Poway, San Diego, San Marcos, and Vista versus the County of San Diego challenged the methodology in apportioning the residual balance from the redevelopment property tax trust fund. Therefore, the SCO cannot make a determination on the county's methodology at this time. We will follow up on this issue in the subsequent audit.

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

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## OFFICE OF THE AUDITOR-CONTROLLER

SIMONA PADILLA-SCHOLTENS, CPA  
Auditor-Controller

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# SOLANO COUNTY

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April 28, 2016

Mr. Jeffrey V. Brownfield  
State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874

Dear Mr. Brownfield:

We have reviewed the State Controller's draft report on the methods employed by Solano County to apportion and allocate property tax revenues for the period of July 1, 2010 through June 30, 2014.

Finding: Vehicle Licensing Fee (VLF) Swap growth calculation

The County concurs with the finding. The VLF growth calculation for 2010-11 through 2013-14 was corrected by including the utility assessed value and adjusting for all other enrolled exemptions and annexations. The corrected VLF allocations were carried forward and used in calculating the subsequent years VLF allocations to the County and Cities.

I want to thank you for your efforts in completing our audit.

Sincerely,

  
Simona Padilla-Scholtens, CPA  
Auditor-Controller

**State Controller's Office  
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