

# **PLUMAS COUNTY**

Audit Report

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

*July 1, 2005, through June 30, 2014*



**BETTY T. YEE**  
California State Controller

September 2015



**BETTY T. YEE**  
California State Controller

September 10, 2015

The Honorable Roberta Allen, CPA  
Auditor-Controller  
Plumas County  
520 Main Street, #205  
Quincy, CA 95971

Dear Ms. Allen:

The State Controller's Office audited the methods employed by Plumas County to apportion and allocate property tax revenues for the period of July 1, 2005, 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 current total available revenue in the AB 8 calculations for fiscal year (FY) 2005-06 and FY 2007-08.
- Made calculation errors in establishing the base year revenue for the unitary railroad for all jurisdictions.
- Did not reconcile administrative cost overcharges to the City of Portola.
- Used incorrect assessed values when calculating the vehicle licensing fee swap growth.

If you have any questions, please contact Elizabeth González, Chief, Local Government Compliance Bureau, at (916) 324-0622.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/as

Attachment

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the methods employed by Plumas County to apportion and allocate property tax revenues for the period of July 1, 2005, through June 30, 2014

Our audit found that the county complied with California statutes, except that it:

- Incorrectly computed current total available revenue in the AB 8 calculations for fiscal year (FY) 2005-06 and FY 2007-08.
- Made calculation errors in establishing the base year revenue for the unitary railroad for all jurisdictions.
- Did not reconcile administrative cost overcharges to the City of Portola.
- Used incorrect assessed values when calculating the vehicle licensing fee (VLF) swap growth.

## 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 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 allocated and apportioned 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.

## **Objective, 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 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, 2005, 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 Findings and Recommendations section of this report, Plumas County complied with California statutes for the apportionment and allocation of property tax revenues for the period of July 1, 2005, through June 30, 2014. The county should correct the items discussed in the Findings and Recommendations section.

## **Follow-up on Prior Audit Findings**

Our prior audit report, issued October 21, 2005, 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 June 24, 2015. Roberta Allen, Auditor-Controller, responded by letter dated July 16, 2015, agreeing with the audit results.

## **Restricted Use**

This report is solely for the information and use of the County, the California 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

September 10, 2015

# Findings and Recommendations

## **FINDING 1— Calculation and distribution of annual tax increment**

The county made the following errors when computing the countywide appointment (AB 8) factors:

- In fiscal year (FY) 2005-06 and FY 2007-08, prior-year base revenues were not adjusted for annexation.
- In FY 2009-10 through FY 2013-14, there was a minor line error in the tax rate area (TRA) increment for the school entities in three small, rural TRAs.

As a result, the revenues apportioned were not correctly computed and distributed.

Requirements for the apportionment and allocation of the annual tax increment (ATI) are found in Revenue and Taxation Code sections 96 through 96.5. The annual increment of property tax, which is the change in assessed value from one year to the next, is allocated to TRA on the basis of each TRA's share of the incremental growth in assessed valuations. The tax increment is then multiplied by the jurisdiction's annual tax increment apportionment factors for each TRA. These factors were developed in the 1979-80 base year and are adjusted for jurisdictional changes. The tax increment is then added to the tax computed for the prior fiscal year to develop the apportionment for the current fiscal year.

### Recommendation

The county should review and correct the errors above.

### County Response

Plumas County agrees with this finding and has made corrections to properly reflect actual revenue available to be allocated for future years.

### 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.

## **FINDING 2— Unitary railroad apportionment**

In FY 2007-08, the county made calculation errors in establishing the base year revenue for the unitary railroad allocations and apportionments for all jurisdictions. The ERAF share was substantially over-estimated, resulting in incorrect apportionment amounts to all jurisdictions. The county also failed to properly compute growth in subsequent years, resulting in additional errors. As a result, the county apportioned amount through FY 2013-14 was understated by \$226,616. Of the total amount, the county ERAF apportionment was overstated by \$211,905.

Requirements for the apportionment and allocation of unitary and operating nonunitary property taxes are found in Revenue and Taxation Code section 100.

Unitary properties are those properties on which the Board of Equalization “may use the principle of unit valuation in valuing properties of an assessee that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or qualified electric properties). The Revenue and Taxation Code further states, “Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee.”

In FY 1988-89, the Legislature established a separate system for apportioning and allocating the unitary and operating nonunitary property taxes. The Legislature established the unitary and operating nonunitary base year and developed formulas to compute the distribution factors for the fiscal years that followed.

#### Recommendation

The county should re-compute the unitary railroad revenues for all fiscal years noted above and make an adjustment to the revenue amounts for all affected jurisdictions and the ERAF for all years that included the error in the actual allocation of railroad property taxes.

The county-apportioned amount through FY 2013-14 was understated by \$226,616; the county should be refunded that amount. Of the total amount, county ERAF apportioned was overstated by \$211,905. The ERAF, county, and all other apportionment amounts should be adjusted accordingly going forward.

#### County Response

Plumas County agrees with the finding and has recalculated the Railroad Unitary for each year starting with FY 07/08 through FY 13/14, resulting in changes to all jurisdictions. The prior year adjustments to each jurisdiction will be made accordingly. The FY 14/15 apportionments were recalculated to reflect the corrections to the ERAF factor per this finding and adjusted accordingly.

#### 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.

### **FINDING 3— Property tax administrative costs**

The county included the vehicle licensing fee (VLF) revenue received by the City of Portola for the computation of administrative costs shares for FY 2006-07 through FY 2011-12, resulting in an overcharge to the city.

Requirements for the reimbursement of county property tax administrative costs are found in Revenue and Taxation Code section 95.3. County property tax administrative costs are incurred by the assessor, the tax collector, the assessment appeals board, and the auditor. The county is allowed, depending on the fiscal year and any corresponding exclusions, to be reimbursed by local agencies and public schools for these administrative costs.

#### Recommendation

The county should complete negotiations with the city and refund the over-charge back to the city.

#### County Response

Plumas County agrees with the finding and will refund the City of Portola the indicated amount. In 2012 Plumas County made the adjustment to the calculation so that FY 12/13, FY 13/14, and FY 14/15 were properly calculated. Per the audit finding, Plumas will make the required adjustment to prior years and refund the excess fees charged per negotiations pending with the City of Portola.

#### 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.

#### **FINDING 4— Vehicle licensing fee and sales and use tax adjustments**

The county used incorrect assessed values when calculating the VLF swap growth in FY 2006-07 through FY 2013-14, causing the VLF swap to be incorrect for FY 2006-07 and forward. From FY 2006-07 to FY 2013-14, the county VLF was overpaid by \$271,410 and the City of Portola VLF was overpaid by \$16,639 (Schedule 1).

Requirements for the 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<sup>st</sup> 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

The county should recalculate the VLF amounts, beginning in FY 2006-07 through FY 2013-14. The county VLF was overpaid by \$271,410 and the City of Portola VLF was overpaid by \$16,639. A total amount of \$288,049 must be paid to the ERAF.

The VLF amounts for the county and city should be adjusted going forward.

County Response

Plumas County agrees with the finding and has recalculated the VLF amounts for all affected years starting with FY 06/07. The County will refund ERAF and the City of Portola per the audit finding. The VLF correction was also done for FY 14/15 and adjustments were made accordingly.

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.

**Schedule 1—  
Summary of Misallocations to the  
Educational Revenue Augmentation Fund  
July 1, 2005, through June 30, 2014**

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<u>Finding No.</u>	<u>Years Affected</u>	<u>Amount Due to (owed from) the ERAF</u>
2	2005-06—2013-14	\$ (211,905)
4	2006-07—2013-14	288,049
Total		<u>\$ 76,144</u>

Note: Revenue and Taxation Code Section 96.1 limits the maximum amount of cumulative reallocation to 1% of the 1% tax levied on the current (2013-14) fiscal year secured assessed value. This amount for Plumas County is \$321,551.

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

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