

GLENN COUNTY

Audit Report

PROPERTY TAX APPORTIONMENT AND ALLOCATION SYSTEM

July 1, 2007, through June 30, 2014



BETTY T. YEE
California State Controller

October 2015



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California State Controller

October 9, 2015

Edward J. Lamb, Director of Finance
Glenn County Department of Finance
516 West Sycamore Street
Willows, CA 95988

Dear Mr. Lamb:

The State Controller's Office audited the methods employed by Glenn County to apportion and allocate property tax revenues for the period of July 1, 2007, 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:

- Had errors when computing the countrywide apportionment (AB 8) factors.
- Had computation and transfer errors in the jurisdictional changes sampled.
- Had errors when computing the unitary railroad base and fiscal year (FY) 2012-13 unitary railroad apportionment.
- Had errors in the calculation of the property tax administration factors.
- Incorrectly computed the Educational Revenue Augmentation Fund (ERAF) growth for FY 2008-09 and FY 2010-11.

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

cc: Cathy Ehorn, Supervising Accountant
Glenn County

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Audit Report

Summary

The State Controller's Office (SCO) audited the methods employed by Glenn County to apportion and allocate property tax revenues for the period of July 1, 2007, 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:

- Had errors when computing the countrywide apportionment (AB8) factors.
- Had computation and transfer errors in the jurisdictional changes sampled.
- Had errors when computing the unitary railroad base and fiscal year (FY) 2012-13 unitary railroad apportionment.
- Had errors in the calculation of the property tax administration factors.
- Incorrectly computed the Educational Revenue Augmentation Fund (ERAF) growth for FY 2008-09 and FY 2010-11.

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.

**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 Vehicle Licensing Fee (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, 2007, 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 gain 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, Glenn County complied with California statutes for the apportionment and allocation of property tax revenues for the period of July 1, 2007, through June 30, 2014. The county should correct the items discussed in the Findings and Recommendations section.

Follow-up on Prior Audit Findings

The county has satisfactorily resolved the findings noted in our prior audit report, issued January 28, 2009.

Views of Responsible Officials

We issued a draft audit report on June 18, 2015. Edward J. Lamb, Director of Finance, responded by letter dated July 9, 2015. The county's response is included in this final audit report as an attachment.

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

October 9, 2015

Findings and Recommendations

FINDING 1— Calculation and distribution of annual tax increment

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

- For fiscal year (FY) 2007-08 through FY 2013-14, the AB 8 amounts could not be reconciled to the 1% of the Assessor's certified assessed values. The totals between systems appear to differ for each fiscal year
- For FY 2007-08 through FY 2009-10, the AB 8 allocation (current revenue) amounts were not recomputed for the unitary railroad adjustment; therefore, incorrect increment growths were used to compute the AB 8 factors

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 tax rate areas (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 recalculate the AB 8 factors and correct any misallocations of property tax revenues from FY 2007-08 through FY 2013-14 and from FY 2014-15 forward.

FINDING 2— Jurisdictional changes

The county made the following errors in their calculation of jurisdictional changes:

- Board of Equalization Filing #2007-001 and 2010-003: The county incorrectly computed/implemented the jurisdictional changes by not following the agreements as defined in the Board of Supervisors, Glenn County, California, Resolution No. 2006-03 and No. 2009-56.
- Board of Equalization Filing #2008-010: The county followed the Board of Supervisors, California, Resolution No. 2008-10 as defined; however, the county incorrectly computed/implemented the jurisdictional change.

The legal requirements for jurisdictional changes are found in Revenue and Taxation Code section 99. A jurisdictional change involves a change in the organization or boundaries of a local government agency or school district. Normally, these are service area or responsibility changes between the local jurisdictions. As part of the jurisdictional change, the local government agencies are required to negotiate any exchange of base year property tax revenue and annual tax increment. After the jurisdictional change, the local agency whose responsibility increased receives

additional annual tax increment, and the base property tax revenues are adjusted according to the negotiated agreements.

Recommendation

The county should review the jurisdictional changes for all fiscal years, including those noted above, and correct any misallocated amounts.

**FINDING 3—
Unitary railroad
apportionment**

The county made the following errors in their calculation of the unitary railroad factors:

- In FY 2007-08, the county used incorrect ERAF factors in its computation to establish the unitary railroad base.
- In FY 2012-13, the county used incorrect prior year AB 8 factors for the excess growth calculation.

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 base and correct any misallocated amounts for all fiscal years noted above.

**FINDING 4—
Property tax
administrative costs**

The county made the following errors in its calculation of the property tax administration cost apportionment:

- In FY 2007-08, the county used incorrect unitary and unitary railroad factors.
- For FY 2008-09 through FY 2011-12, the county used incorrect unitary railroad factors.

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 generally 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 recalculate the property tax administration factors using the correct unitary and unitary railroad factors for all fiscal years noted above, and return the total difference to each appropriate jurisdiction.

FINDING 5— Educational Revenue Augmentation Fund

The county made the following errors when computing the ERAF growth:

- In FY 2008-09, the ERAF shift was not carried forward correctly from the prior year Shift Adjusted for Growth.
- In FY 2010-11, the ERAF shift for General Fund and City of Willows were not carried forward correctly from the prior year Shift Adjusted for Growth (Schedule 1).

Requirements for the local agency shift of property tax revenues to the Educational Revenue Augmentation Fund (ERAF) primarily are found in Revenue and Taxation Code sections 97.1 through 97.3. Beginning in FY 1992-93, most local agencies were required to shift an amount of property tax revenues to the ERAF using formulas detailed in the code. The property tax revenues in the ERAF are subsequently allocated to the public schools using factors supplied by the county superintendent of schools.

For FY 1992-93, the ERAF shift amount for cities was determined by adding a per capita amount to a percentage of property tax revenues received by each city. The amount for counties was determined by adding a flat amount, adjusted for growth, to a per capita amount. The amount for special districts was generally determined by shifting the lesser of 10% of that district's total annual revenues as shown in the FY 1989-90 edition of the State Controller's Report on Financial Transactions Concerning Special Districts or 40% of the FY 1991-92 property tax revenues received, adjusted for growth. Specified special districts were exempted from the shift.

For FY 1993-94, the ERAF shift for cities and counties generally was determined by:

- Reducing the FY 1992-93 ERAF shift by the FY 1992-93 per capita shift;
- Adjusting the result for growth; and
- Adding the result to a flat amount and a per capita amount determined by the Department of Finance, adjusted for growth.

The FY 1993-94 ERAF shift for special districts, other than fire districts, was generally determined by:

- Multiplying the property tax allocation for FY 1992-93, pre-ERAF, by the Special District Augmentation Fund (SDAF) factor for the district effective on June 15, 1993;
- Adjusting this amount by subtracting the FY 1992-93 shift to the ERAF;
- If the above amount is greater than zero, adjusting this amount for FY 1993-94 growth (zero is used for negative amounts); and
- Adding this amount to the FY 1992-93 ERAF shift, adjusting for growth.

For fire districts, the FY 1993-94 ERAF shift generally was determined by:

- Deducting the FY 1992-93 ERAF shift for the district from the FY 1992-93 property tax allocation;
- Multiplying the result by the SDAF factor for the district effective on June 13, 1993 (net current-year bailout equivalent);
- For a district governed by a board of supervisors, deducting the amount received from the SDAF in FY 1992-93 from the net current-year bailout equivalent; or, for an independent district, deducting the amount received from the SDAF and the difference between the net current-year bailout equivalent and the amount contributed to the SDAF from the net current-year bailout equivalent;
- Adjusting this amount for growth; and
- Adding this amount to the FY 1992-93 ERAF shift, adjusted for growth.

For fiscal years subsequent to FY 1993-94, the amounts determined are adjusted for growth annually to determine the ERAF shift amounts for that year.

Recommendation

The county should review and correct the ERAF growth computation errors noted in FY 2008-09 and FY 2010-11.

County's Response

The county addressed the findings, as follows:

1. There were no errors for FY 2013-14 except for rolling forward prior-year errors.
2. The report states that the county complied with California statutes for apportionment and allocation of property tax for all periods examined. Therefore all findings were based on computational errors.
3. In the audit exit interview we were advised that if the County corrected the computational and roll-forward errors prior to the draft report, those computational and roll-forward errors would not be treated as a finding.
4. The County did correct all such computational and roll-forward errors and did so well before the release date.
5. We acknowledge that because of these corrections, there are/will be true-ups required with the various agencies.

See attachment for the county's complete response.

SCO's Comment

The SCO advised that if the County corrected the findings, the corrective action would be noted in the final report.

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

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



COUNTY OF GLENN

Department of Finance

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Willows, California 95988
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Edward J. Lamb
Director of Finance

Humberto Medina, CPA
Assistant Director of Finance

July 9, 2015

Ms. Elizabeth González
Chief, Local Government Compliance Bureau
State Controller's Office, Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Re: SCO audit of Glenn County Apportionment and Allocation of Property Tax Revenues
For the Period Jul 1, 2007 through June 30, 2014

Dear Ms. González:

In response to Mr. Brownfield's letter dated June 18, 2005 with attached draft report the following is offered.

1. This was a seven year audit. None of the personnel currently performing the tax revenue apportionment and allocation were in their current positions prior to FY 2013-2014. There were no errors for FY2013-2014 except of a roll forward nature. Personnel that performed the tax revenue apportionment and allocation tasks prior to FY 2013-2014 are no longer employees of Glenn County.
2. The report states that the County complied with California statutes for apportionment and allocation of property tax for all periods examined. Therefore all findings were based on computational errors.
3. In the audit exit interview we were advised that if the County corrected the computational and roll forward errors prior to the draft report, those computational and roll forward errors would not be treated as a finding.
4. The County did correct all such computational and roll forward errors and did so well before the draft release date as acknowledged by the email from POrth@sco.ca.gov on May 28, 2015. Please see attachments "Follow-up Correspondence.pdf" and "Property Tax Audit Corrective Action Notes.xlsx".
5. We acknowledge that because of these corrections, there are/will be true-ups required with the various agencies. Those will also include the "8th" year, FY 2014-2015.

In reliance on the verbal assurances provided at the audit exit interview regarding completion of the corrections prior to release of the draft report, which they were, we ask that the findings be expunged. Failing that we ask that the report reflect that County has satisfactorily resolved all findings.

Sincerely,

Edward J. Lamb
Director of Finance
Attachments: As Stated

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