YOLO COUNTY

Audit Report

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

July 1, 2017, through June 30, 2021

BETTY T. YEE
California State Controller

April 2022

BETTY T. YEE
California State Controller

April 26, 2022

Tom Haynes, Interim Chief Financial Officer
Yolo County
625 Court Street, Room 103
Woodland, CA 95695

Dear Mr. Haynes:

The State Controller's Office audited Yolo 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, 2017, 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:

- Reimbursement of property tax administrative costs; and
- Redevelopment Property Tax Trust Fund deposits.

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: Chad Rinde, Interim County Administrator
Yolo County
Sheryl Hardy-Salgado, Property Tax Supervisor
Yolo County
Angel Barajas, Chair
Yolo County Board of Supervisors
Julie Dachtler, Deputy Clerk
Yolo 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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- Reimbursement of property tax administrative costs; and
- Redevelopment Property Tax Trust Fund (RPTTF) deposits.

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 (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.

Revenues generated by the different types of property tax are apportioned and allocated to local government agencies, school districts, and community college districts 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, 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. 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 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 action.

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 pursuant to the requirement of Proposition 13. A 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, 2017, 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 documentation supporting the transaction flow for apportioning and allocating property tax revenues.

- We judgmentally selected a non-statistical sample of five from approximately 63 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 1);
  - Verified computations used to develop supplemental property tax apportionment factors;
  - Verified unitary and operating nonunitary, 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 RPTTF deposits (see Finding 2);
  - Reviewed property tax administrative 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 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;
  - Reviewed the California State Board of Equalization's 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 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, 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.

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

We did not audit the county's financial statements.

Conclusion

Our audit found that Yolo County did not comply with California statutes for the apportionment and allocation of property tax revenues for the audit period, as it incorrectly calculated the following:

- Reimbursement of property tax administrative costs; and
- RPTTF deposits.

These instances of noncompliance are described in the Findings and Recommendations section of this audit report.

Follow-up on Prior Audit Findings

Findings noted in our prior audit report, for the period of July 1, 2014, through June 30, 2017, issued on March 13, 2019, have been satisfactorily resolved by the county, with the exception of miscalculated RPTTF deposit amounts; see current Finding 2. See the Appendix for the current-year status of the prior audit findings.

Views of Responsible Officials

We issued a draft audit report on March 15, 2022. Tom Haynes, Interim Chief Financial Officer, responded by letter dated March 21, 2022, agreeing with the audit results. The county's response is included as an attachment to this audit report.

Restricted Use

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

April 26, 2022

Findings and Recommendations

FINDING 1— Reimbursement of Property Tax Administrative Costs

During testing of the county's property tax administrative costs process, we found that the county incorrectly excluded unsecured and Home Owners Property Tax Relief revenues from the property tax administrative costs factor computations for FY 2019-20 and FY 2020-21. As a result, the affected taxing entities' property tax administrative costs were misstated. We could not quantify the monetary effect on each taxing jurisdiction due the cumulative effect of the errors affecting the computation. The error occurred because the county incorrectly implemented the applicable statutes.

RTC section 95.3 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 recommend that the county:

- Review RTC section 95.3 and update its procedures to ensure that all appropriate revenues are included;
- Recalculate its property tax administrative costs for FY 2019-20 and FY 2020-21; and
- Make monetary adjustments to the affected taxing entities.

<u>County's Response</u>

> The County agrees with this finding. The County has reviewed the applicable [section of] Revenue and Taxation Code. The County will recalculate the property tax administrative costs for fiscal years 2019-20 and 2020-21, and will make monetary adjustments to effected entities, if material.

FINDING 2— Redevelopment Property Tax Trust Fund Deposit Amounts (Repeat Finding)

During testing of the county's prior audit corrections and current process for RPTTF calculations, we found that the county miscalculated RPTTF deposit amounts. Specifically, in FY 2016-17 the county did not carry forward the California Consumer Price Index adjusted base amount from the revised FY 2015-16 tax increment computations for the City of Winters' former RDA. As a result, the tax increment computations for FY 2017-18 through FY 2020-21 were miscalculated. We could not quantify the monetary effect on each taxing jurisdiction due the cumulative effect of the errors affecting the computation. The mistake was due to clerical error.

RTC section 97.401 and Health and Safety Code sections 34182 through 34188 provide the legal requirements for administration of the RPTTF.

In 2012, the Legislature passed a law dissolving the RDAs. Provisions of the law included the creation of successor agencies and oversight boards to oversee the winding-down of the defunct agencies' affairs.

Under the applicable Health and Safety Code sections, successor agencies will receive the ATI previously given to RDAs to fund payments of their obligations, including but not limited to administrative costs, pass-through payments, and debts.

Recommendation

We recommend that the county:

- Review RTC section 97.401 and update its procedures to ensure that the tax increment computations are performed correctly, by carrying forward the prior-year California Consumer Price Index adjusted base amounts;
- Recalculate the City of Winters' successor agency's tax increment computations for FY 2016-17 and all subsequent years; and
- Make monetary adjustments to the affected taxing entities.

County's Response

> The County agrees with this finding. The County has updated its procedures to ensure accuracy on the tax increment computation for the successor agencies. The County will recompute the City of Winters tax increment factors for 2016-17 and all subsequent years, and will make monetary adjustments to affected taxing entities, if material.

Appendix— Summary of Prior Audit Findings

The following table shows the implementation status of Yolo County's corrective actions related to the findings contained in the county's prior audit report dated March 13, 2019:

Prior Audit Finding Number	Prior Audit Finding Title	Implementation Status
1	Computation and distribution of property tax revenues	Fully implemented
2	Unitary and Operating Nonunitary Allocation and Apportionment	Fully implemented
3	Unitary Regulated Railway Allocation and Apportionment	Fully implemented
4	Redevelopment Property Tax Trust Fund Administration	Partially implemented – see current Finding 2

Attachment—
County’s Response to Draft Audit Report

County of Yolo

www.yolocounty.org

TOM HAYNES
Interim Chief Financial Officer

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- *Procurement*

March 21, 2022

Lisa Kurokawa, Chief
Compliance Audits Bureau,
State Controller's Office
Division of Audits
P. O. Box 942850
Sacramento, CA 95360

Dear Ms. Kurokawka,

Please find our responses below to your audit report dated March 15, 2022.

FINDING 1 – REIMBURSMENT OF PROPERTY TAX ADMINSTRATIVE COSTS

The County agrees with this finding. The County has reviewed the applicable Revenue and Taxation Code. The County will recalculate the property tax administrative costs for fiscal years 2019-20 and 2020-21 and will make monetary adjustments to effected entities, if material.

FINDING 2 – REDEVELOPMENT PROPERTY TAX TRUST FUND DEPOSIT AMOUNTS

The County agrees with this finding. The County has updated its procedures to ensure accuracy on the tax increment computation for the successor agencies. The County will recompute the City of Winters tax increment factors for 2016-17 and all subsequent years and will make monetary adjustments to affected taxing entities, if material.

Sincerely,

Tom Haynes, Interim CFO

Cc: Sheryl Salgado, Property Tax Supervisor

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