

# SIERRA COUNTY

Audit Report

## APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

*July 1, 2017, through June 30, 2024*



MALIA M. COHEN  
CALIFORNIA STATE CONTROLLER

June 2025



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CALIFORNIA STATE CONTROLLER

June 25, 2025

The Honorable Van Maddox, CPA, Auditor-Controller  
Sierra County  
211 Nevada Street  
Downieville, CA 95936

Dear Auditor-Controller Maddox:

The State Controller's Office audited Sierra County's process for apportioning and allocating property tax revenues for the period of July 1, 2017, through June 30, 2024. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found that Sierra County did not comply with California statutes for the apportionment and allocation of property tax revenues during the audit period because it incorrectly calculated the:

- Computation and distribution of property tax revenues;
- Supplemental property tax apportionment and allocation;
- Unitary and operating nonunitary apportionment and allocation;
- Unitary regulated railway apportionment and allocation;
- Reimbursement of property tax administrative costs;
- Educational Revenue Augmentation Fund adjustments; and
- Vehicle license fee adjustments.

If you have any questions regarding this report, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at 916-327-3138, or email at [lkurokawa@sco.ca.gov](mailto:lkurokawa@sco.ca.gov). Thank you.

Sincerely,

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

Mr. Van Maddox

June 25, 2025

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KAT/am

Attachment

Copy: The Honorable Lee Adams, Chair  
Sierra County Board of Supervisors  
Chris Hill, Principal Program Budget Analyst  
Local Government Unit  
California Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) audited Sierra County's (the county) process for apportioning and allocating property tax revenues to determine whether the county complied with California statutes during the period of July 1, 2017, through June 30, 2024.

Our audit found that the county did not comply with California statutes for the apportionment and allocation of property tax revenues during the audit period because it incorrectly calculated the:

- Computation and distribution of property tax revenues;
- Supplemental property tax apportionment and allocation;
- Unitary and operating nonunitary apportionment and allocation;
- Unitary regulated railway apportionment and allocation;
- Reimbursement of property tax administrative costs;
- Educational Revenue Augmentation Fund (ERAF) adjustments; and
- Vehicle license fee (VLF) adjustments.

## 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.

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 laws removed from the AB 8 process revenues generated by unitary and operating nonunitary properties, pipelines, regulated railway companies, and qualified electric (QE) properties. These revenues are now apportioned and allocated under separate processes.

Other laws established an 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. The 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). The 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 in accordance with GC section 12468, which authorizes 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**

Our audit objective 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 during the period of July 1, 2017, through June 30, 2024.

A property tax bill contains the property tax levied at a one percent tax rate pursuant to the requirement of 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 limited to 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.

To achieve our objective, we performed the following procedures:

- We gained an understanding of the county’s processes and internal controls by interviewing key personnel, reviewing the county’s written procedures, and reviewing the county’s transaction flow for apportioning and allocating property tax revenues.

- We assessed the reliability of data from the property tax system by interviewing county staff members knowledgeable about the system, tracing transactions through the system, and recalculating data produced by the system. We determined that the data was sufficiently reliable for purposes of this report.
- We judgmentally selected a non-statistical sample of five from approximately 23 taxing jurisdictions within the county for all fiscal years in the audit period.

The actual number of taxing jurisdictions can vary from year to year based on 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.

We tested the sampled jurisdictions as follows:

- We tested apportionment and allocation reports to verify the computations used to develop property tax apportionment factors.
- We tested TRA reports to verify that the correct TRA factors were used in the computation of the ATI.
- We 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.
- We verified the computations used to develop supplemental property tax apportionment factors.
- We verified unitary and operating nonunitary, and unitary regulated railway computations used to develop apportionment factors.
- We 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.
- We 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.
- We verified VLF computations used to determine the amount transferred from the ERAF to counties and cities to compensate for the diversion of these revenues.
- We 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 reasonable basis for our findings and conclusions based on our audit objective.

## **Conclusion**

Our audit found that the county did not comply with California statutes for the apportionment and allocation of property tax revenues during the audit period because it incorrectly calculated the:

- Computation and distribution of property tax revenues;
- Supplemental property tax apportionment and allocation;
- Unitary and operating nonunitary apportionment and allocation;
- Unitary regulated railway apportionment and allocation;
- Reimbursement of property tax administrative costs;
- ERAF adjustments; and
- VLF adjustments.

These instances of noncompliance are described 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 for the period of July 1, 2009, through June 30, 2017, issued on April 2, 2019. The implementation status of corrective actions is described in the Appendix.

## **Views of Responsible Officials**

We issued a draft audit report on April 8, 2025. The county did not provide comments on the draft audit report.

## **Restricted Use**

This report is solely for the information and use of the 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](http://www.sco.ca.gov).

*Original signed by*

Kimberly A. Tarvin, CPA  
Chief, Division of Audits

June 25, 2025

# Findings and Recommendations

## **FINDING 1— Computation and distribution of property tax revenue**

During our testing of the county's process for computing and distributing property tax revenue, we found that the county had incorrectly calculated the ATI by using incorrect assessed values for FY 2023-24.

We also found that the county had not used the AB 8 factors calculated in the worksheets for its journal vouchers for FY 2017-18, FY 2018-19, and FY 2020-21 through FY 2023-24.

The errors occurred because the county incorrectly implemented the applicable statutes, especially RTC section 96.5(d).

These errors resulted in a misallocation of property tax revenue to all taxing jurisdictions in the county. We could not quantify the monetary impact for each affected taxing entity due to the cumulative effect of the various errors affecting the computation and distribution.

RTC sections 96 through 96.5 provide the legal requirements for computing the ATI and for apportioning and allocating property tax revenues.

ATI is the difference between the total amount of property tax revenues computed each year using the equalized assessment rolls and the sum of the amounts allocated pursuant to RTC section 96.1(a). Each TRA receives an increment based on its share of the incremental growth in assessed valuations. ATI is added to the tax computed for the prior fiscal year to develop apportionments for the current fiscal year.

### Recommendation

We recommend that the county:

- Review RTC section 96.5 and update its procedures to correctly implement the applicable statute;
- Recalculate its ATI for FY 2023-24;
- Redistribute AB 8 revenue using amounts from the corrected worksheets for FY 2017-18, FY 2018-19, and FY 2020-21 through FY 2023-24; and
- Make monetary adjustments to all affected jurisdictions if amounts are material.

## **FINDING 2— Supplemental property tax apportionment and allocation**

During our testing of the county's supplemental property tax administrative costs, we found that the county had incorrectly computed supplemental apportionment factors for FY 2023-24 because it used incorrect assessed values.

We also found that the county had not used the supplemental factors calculated in the worksheets for its journal vouchers for FY 2017-18, FY 2018-19, and FY 2020-21 through FY 2023-24.

The error occurred because the county misinterpreted the criteria outlined in the Revenue and Taxation Code.

These errors resulted in a misallocation of property tax revenue to all taxing jurisdictions in the county. We could not quantify the monetary impact for each affected taxing entity due to the cumulative effect of the various errors affecting the computation and distribution.

RTC sections 75.60, 75.71, and 100.2 provide the legal requirements for apportioning and allocating supplemental property tax revenue.

Supplemental property tax revenues enable counties to tax a property retroactively for the period when a change in ownership or completion of new construction occurred.

#### Recommendation

We recommend that the county:

- Review RTC section 75.60 and update its procedures to correctly implement the applicable statute;
- Recalculate its supplemental apportionment factors for FY 2023-24;
- Redistribute supplemental property tax revenue using amounts from the corrected worksheets for FY 2017-18, FY 2018-19, and FY 2020-21 through FY 2023-24; and
- Make monetary adjustments to all affected jurisdictions if amounts are material.

#### **FINDING 3— Unitary and operating nonunitary apportionment and allocation**

During our testing of the county's process for unitary and operating nonunitary apportionment and allocation, we found that the county's unitary and operating nonunitary apportionment and allocation calculations were incorrect. The county made the following errors:

- For FY 2019-20 and FY 2022-23, the county incorrectly calculated unitary factors by not using prior-year factors when it did not have excess of 102 percent unitary revenues.
- For FY 2023-24, the county used the incorrect unitary factors from FY 2022-23 as its prior-year factors.
- For FY 2019-20, FY 2020-21, FY 2022-23, and FY 2023-24, the county used incorrect prior-year adjusted AB 8 factors to calculate the excess unitary factors.
- For FY 2018-19 and FY 2021-22, the county incorrectly used prior-year unitary factors instead of using the current-year unitary factors when allocating unitary pipeline revenues.

- For FY 2023-24, the county incorrectly used the FY 2020-21 unitary factors instead of using the current-year unitary factors.

The errors occurred because the county did not correctly implement the applicable statute. This error resulted in a misallocation of unitary and operating nonunitary revenue to all affected taxing jurisdictions. The errors begin in FY 2018-19 and caused misallocation of unitary and operating nonunitary revenue in all subsequent years. We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation.

RTC section 100 provides the legal requirements for apportioning and allocating unitary and operating nonunitary property tax revenues.

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

RTC section 723 defines unitary properties as properties “that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or QE properties) and on which the California State Board of Equalization “may use the principle of unit valuation.”

RTC section 723.1 defines operating nonunitary properties as properties “that the assessee and its regulatory agency consider to be operating as a unit,” but the California State Board of Equalization considers “not part of the unit in the primary function of the assessee.”

#### Recommendation

We recommend that the county:

- Review RTC section 100 and update its procedures to correctly implement the applicable statute;
- Recalculate the unitary and operating nonunitary apportionment and allocation factors for FY 2018-19 through FY 2023-24; and
- Make monetary adjustments to all affected jurisdictions if amounts are material.

#### **FINDING 4— Unitary regulated railway apportionment and allocation**

During our testing of the county’s process for unitary regulated railway apportionment and allocation, we found that the county’s unitary regulated railway apportionment and allocation calculations were incorrect. The county made the following errors:

- For FY 2019-20, the county incorrectly calculated unitary railway factors by not using prior-year factors when it did not have excess of 102 percent unitary railway revenues.

- For FY 2020-21 the county used the incorrect unitary railway factors from FY 2019-20 as its prior-year factors.
- For FY 2017-18, FY 2022-23, and FY 2023-24, the county used incorrect excess unitary railway factors.

The errors occurred because the county did not correctly implement the applicable statute.

This error resulted in a misallocation of unitary regulated railway revenue to all affected taxing jurisdictions. The errors begin in FY 2017-18 and caused misallocations of unitary regulated revenue in all subsequent years. We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation.

RTC section 100.11 provides the legal requirements for apportioning and allocating unitary regulated railway property tax revenues.

As defined in RTC section 100.11, unitary regulated railway properties are railway facilities that meet the following criteria:

- The original cost of the completed facility (including land, but not including track and track materials) was at least \$100,000,000; and
- The facility was completely constructed and placed in service after January 1, 2007.

RTC section 723 defines unitary properties as those properties “that are operated as a unit in the primary function of the assessee” (i.e., public utilities, railroads, or QE properties) and on which the California State Board of Equalization “may use the principle of unit valuation.”

#### Recommendation

We recommend that the county:

- Review RTC sections 100.11(a)(1)(B) and 100.11(a)(2)(C), and update its procedures to correctly implement the applicable statutes;
- Recalculate the unitary regulated railway apportionment and allocation factors for FY 2017-18 through FY 2023-24; and
- Make monetary adjustments to all affected jurisdictions if amounts are material.

#### **FINDING 5— Reimbursement of property tax administrative costs**

During our testing of the county’s process for reimbursing property tax administrative costs, we found that the county:

- Incorrectly used the prior-year actual revenues to calculate the property tax administrative cost factors instead of using the current-year revenues, resulting in incorrect property tax administrative cost factors for all fiscal years;

- Inconsistently chose which revenue totals it used to calculate the property tax administrative cost factors from year to year, resulting in different methodologies being used in different fiscal years; and
- Included VLF adjustments in its calculation of the property tax administrative cost factors for FY 2021-22 and FY 2022-23.

The errors occurred because the county incorrectly implemented the applicable statute.

We could not quantify the total monetary impact due to the cumulative effect of the various errors affecting the computation and allocation.

RTC section 95.3 provides the legal requirements for reimbursing 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.

#### Recommendation

We recommended that the county:

- Review RTC section 95.3 and update its procedures for reimbursing property tax administrative costs;
- Correct the property tax administrative cost factor worksheets from FY 2021-22 onwards to include only the correct current-year revenues; and
- Make monetary adjustments to all affected jurisdictions if the amounts are material.

#### **FINDING 6— Educational Revenue Augmentation Fund adjustments**

During our testing of ERAF adjustments, we found that the county had incorrectly calculated the ERAF shift for the following reasons:

- For FY 2019-20, the county used the FY 2017-18 ERAF base revenues from the “Population ERAF” column of the AB 8 worksheet instead of using the FY 2018-19 ERAF base revenues.
- The county incorrectly calculated ERAF growth by using incorrect assessed values for FY 2023-24.
- The county incorrectly distributed ERAF revenues for FY 2017-18, FY 2018-19, and FY 2020-21 through FY 2023-24. The ERAF revenue distributed by the county did not agree with the county’s calculated amounts.

The errors occurred because the county incorrectly implemented the applicable statutes.

The error resulted in a misallocation of property tax revenues to all taxing jurisdictions in the county. We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation.

RTC sections 96.1 through 96.5 and 97 through 97.3 provide the legal requirements for calculating the ERAF shift amount.

In FY 1992-93 and FY 1993-94, some local agencies were required to shift an amount of property tax revenues to the ERAF using formulas detailed in the Revenue and Taxation Code. The ERAF shift amount has been adjusted for growth every year since FY 1993-94.

#### Recommendation

We recommend that the county:

- Review RTC sections 96.1 through 96.5 and 97 through 97.3, and update its procedures to correctly implement the applicable statute;
- Recalculate the ERAF shift amount for FY 2019-20 and FY 2023-24;
- Redistribute ERAF revenues using amounts from the corrected worksheets for FY 2017-18, FY 2018-19, and FY 2020-21 through FY 2023-24; and
- Make monetary adjustments to all affected jurisdictions if amounts are material.

#### **FINDING 7— Vehicle license fee adjustments**

During our testing of the county's VLF adjustment process, we found that the county had used incorrect current-year secured assessed values in its VLF adjustment calculations for FY 2023-24.

We also found that the county had incorrectly distributed the VLF revenue for FY 2017-18, FY 2020-21, and FY 2023-24. The VLF revenue distributed by the county did not agree with the county's calculated amounts.

The errors occurred because the county incorrectly implemented the applicable statute.

The errors resulted in a misallocation of property tax revenues to the county's general fund, the City of Loyalton, and the ERAF. We could not quantify the monetary impact due to the cumulative effect of the various errors affecting the computation and allocation.

RTC section 97.70 provides the legal requirements for VLF adjustments.

The VLF permanently provided additional property tax revenues to counties and cities in lieu of the discretionary VLF revenues that these agencies previously received.

Recommendation

We recommend that the county:

- Review RTC section 96.5 and update its procedures to correctly implement the applicable statute;
- Recalculate its VLF revenues for FY 2023-24;
- Redistribute VLF revenues using amounts from the corrected worksheets for FY 2017-18, FY 2020-21, and FY 2023-24; and
- Make monetary adjustments to all affected jurisdictions if amounts are material.



## Appendix— Summary of Prior Audit Findings

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The following table shows the implementation status of Sierra County's corrective actions related to the findings contained in our prior audit report dated April 2, 2019.

Prior Audit Finding	Status
Finding 1— VLF Property Tax Compensation Fund (REPEAT)	This repeat audit finding has been dropped.
Finding 2— Computation and Distribution of Property Tax Revenues	Fully implemented
Finding 3— Supplemental Property Tax Administrative Costs	Fully implemented
Finding 4— Sales and Use Tax Adjustments	Fully implemented.

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

**[www.sco.ca.gov](http://www.sco.ca.gov)**