EL DORADO COUNTY

Audit Report

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

July 1, 2013, through June 30, 2019

BETTY T. YEE
California State Controller

December 2019

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California State Controller

December 23, 2019

The Honorable Joe Harn, Auditor-Controller
El Dorado County
360 Fair Lane
Placerville, CA 95667

Dear Mr. Harn:

The State Controller's Office audited the methods employed by El Dorado County to apportion and allocate property tax revenues for the period of July 1, 2013, through June 30, 2019. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found the El Dorado County complied with California statutes for the apportionment and allocation of property tax revenues for the audit period.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/hf

cc: Sally Zutter, Division Manager
Property Tax Division
El Dorado County Auditor-Controller
The Honorable Sue Novasel, Chairperson
El Dorado 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 the methods employed by El Dorado County to apportion and allocate property tax revenues for the period of July 1, 2013, through June 30, 2019.

Our audit found the El Dorado County complied with California statutes for the apportionment and allocation of property tax revenues for the audit period.

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 local government agencies, school districts, and community college 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 (AB) 8, Chapter 282, Statutes of 1979, which established the method of allocating property taxes for fiscal year 1979-80 (base year) and subsequent fiscal years. The methodology is commonly referred to as the AB 8 process or the AB 8 system.

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 government agencies, school districts, and community college districts using prescribed formulas and methods defined in the Revenue and Taxation Code.

The AB 8 process involves several steps, including the transfer of revenues from school and community college districts to local government agencies (AB 8 shift) 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 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 State Board of Equalization (BOE).
- *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 (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.

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.

The audit period was July 1, 2013, through June 30, 2019.

To achieve our objective, we:

- Interviewed key personnel to gain an understanding of the county's process for apportioning and allocating property tax revenues;
- Reviewed the county's written procedures for apportioning and allocating property tax revenues;
- Performed analytical reviews to assess the reasonableness of property tax revenues;
- Judgmentally selected a non-statistical sample of five from approximately 84 taxing jurisdictions within the county for all fiscal years in the audit period (the actual number of taxing jurisdictions, which include the ERAF, can vary from year to year based on jurisdictional changes). Errors found were not projected to the intended (total) population. 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;

- Verified computations used to develop supplemental property tax apportionment factors;
- Verified unitary and operating nonunitary 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 Redevelopment Property Tax Trust Fund deposits;
- Reviewed property tax administration 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 the Sales and Use Tax letter 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; and
- Reviewed BOE jurisdictional change filing logs and their impact on the tax apportionment and allocation system.

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.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow to develop appropriate auditing procedures. We did not evaluate the effectiveness of internal controls relevant to the apportionment and allocation of property tax revenues. We did not audit the county's financial statements.

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. 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.

Conclusion

Our audit found that the county complied with California statutes for the apportionment and allocation of property tax revenues for the audit period.

Follow-up on Prior Audit Findings

Our prior audit report, for the period of July 1, 2006, through June 30, 2013, issued on March 26, 2015, included no findings related to the apportionment and allocation of property tax revenues by the county.

Views of Responsible Officials

We discussed the audit results with county representatives during an exit conference held on October 18, 2019. Sally Zutter, Division Manager, Property Tax Division, El Dorado County Auditor-Controller, agreed with the audit results. On October 18, 2019, Ms. Zutter responded via email that a draft audit report was not necessary and that the audit report could be issued as final (Attachment). The county's emailed response is included as an attachment to this audit report, as required per Government Auditing Standard No. 9.51.

Restricted Use

This audit report is solely for the information and use of El Dorado 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.

JIM L. SPANO, CPA
Chief, Division of Audits

December 23, 2019

Attachment—
County's Response to Exit Conference

Orth, Philip

From:	Sally Zutter <sally.zutter@edcgov.us>
Sent:	Friday, October 18, 2019 4:05 PM
To:	Orth, Philip
Cc:	Joe Harn
Subject:	Re: El Dorado County PTX Audit - Audit Results Confirmation

CAUTION:
This email originated from outside of the organization.
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Mr. Orth's 10/18/2019 email is accurate as stated. The El Dorado County Auditor-Controller agrees that a draft audit report, covering the 2013/14 through 2018/19 tax years, is unnecessary and the audit report can be issued as final.

Thank you.

Sally Zutter, C.P.A.
Accounting Division Manager
Property Tax Division
El Dorado County Auditor-Controller
360 Fair Lane, Placerville, CA 95667
sally.zutter@edcgov.us
Phone (530) 621-5480 Fax (530) 295-2535

On Fri, Oct 18, 2019 at 2:37 PM <POrth@sco.ca.gov> wrote:

Sally,

Our audit found that El Dorado County complied with California statutes for the apportionment and allocation of property tax revenues for the audit period. We discussed the audit results during an exit conference held on October 18, 2019. Sally Zutter, Accounting Division Manager agreed with the audit results. Ms. Zutter further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Per GAO 9.51, GAO increased its requirements with respect to reporting oral comments provided by the audited entity's responsible officials, via email summary. This is to inform the responsible officials email will be shown in the email communication and will become a matter of public record.

Please respond to this email to confirm the accuracy within 10 days of this email. After that time, if a confirmation is not received the State Controller's Office will issue the report as final.

Philip Orth | Auditor

Office of State Controller Betty T. Yee

Division of Audits, Compliance Audits Bureau

3301 C Street, Suite 735

Sacramento, CA 95816 | (916) 324-5308

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