STANISLAUS COUNTY

Audit Report

APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

July 1, 2020, through June 30, 2024

MALIA M. COHEN

CALIFORNIA STATE CONTROLLER

February 2025

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CALIFORNIA STATE CONTROLLER

February 10, 2025

Mr. Mandip Dhillon, Auditor-Controller
Stanislaus County
1010 10th Street
Modesto, CA 95354

Dear Auditor-Controller Dhillon:

The State Controller's Office audited Stanislaus County's process for apportioning and allocating property tax revenues for the period of July 1, 2020, through June 30, 2024. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found that Stanislaus County did not comply with California statutes for the apportionment and allocation of property tax revenues during the audit period because it incorrectly calculated Vehicle License Fee adjustment amounts.

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. Thank you.

Sincerely,

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

KAT/rs

Copy: Angelica Ramos, Deputy Executive Officer
Stanislaus County
Nathan Amarante, Property Tax Manager
Stanislaus County Auditor-Controller's Office
The Honorable Mani Grewal, Chairperson
Stanislaus County Board of Supervisors
Chris Hill, Principal Program Budget Analyst
Local Government Unit
California Department of Finance

Contents

Audit Report

Summary

The State Controller's Office (SCO) audited Stanislaus 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, 2020, 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 Vehicle License Fee (VLF) adjustment amounts.

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 properties. These revenues are now apportioned and allocated under separate processes.

Other laws 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.

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, 2020, 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 various computations using 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 204 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 redevelopment agency reports and verified computations used to develop the project base amount and the tax increment distributed to the redevelopment agency.
- We reviewed Redevelopment Property Tax Trust Fund deposits.
- 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 (see the Finding).
- 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 VLF adjustment amounts.

This instance of noncompliance is described in the Finding and Recommendation section.

Follow-up on Prior Audit Findings

Our prior audit report, for the period of July 1, 2016, through June 30, 2020, issued on May 26, 2021, disclosed no findings.

Views of Responsible Officials

We issued a draft report on December 11, 2024. The county's representative responded by letter dated December 19, 2024. The county agreed with the audit results. This final audit report includes the county's response as an Attachment.

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.

Original signed by

Kimberly A. Tarvin, CPA
Chief, Division of Audits

February 10, 2025

Schedule— Summary of Misallocations to the Educational Revenue Augmentation Fund July 1, 2020, through June 30, 2024

The following schedule shows the amount due to the ERAF.

Finding	Fiscal Years Affected	Amount Due to the ERAF
VLF adjustments	FY 2021-22 through FY 2023-24	$ 112,418

Finding and Recommendation

FINDING—
Vehicle License Fee adjustments

During our testing of the county's VLF adjustment process, we found that the county excluded annexation values in both the year of the annexation and the year following the annexation. These annexation values are only to be excluded in the year of annexation. This error caused an overpayment of ERAF to cities where annexations occurred from FY 2021-22 through FY 2023-24. The cumulative result of this error was an overpayment of $112,418 from the ERAF to cities where annexations occurred.

Sampled Taxing Jurisdiction	Approximate Amount Due to the ERAF
City of Ceres	$ 15,235
City of Modesto	37,053
City of Newman	4,360
City of Riverbank	52,599
City of Turlock	3,171
Total	$ 112,418

The error occurred because the county misinterpreted the applicable statute. 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 97.70 and update its procedures to exclude annexation assessed values from calculations only in the year of annexation;
- Recalculate VLF adjustment amounts for FY 2021-22 through FY 2023-24; and
- Make monetary adjustments to the affected cities and the ERAF.

County's Response

The county agrees with this finding. The County has recalculated the VLF adjustment amounts for the affected entities and will make monetary adjustments totaling $112,418 for the fiscal year ending June 30, 2025.

Attachment—
Stanislaus County's Response to Draft Audit Report

Stanislaus County

AUDITOR-CONTROLLER
Mandip Dhillon, CPA
AUDITOR-CONTROLLER

Christopher Barnes, CPA
ASSISTANT AUDITOR-CONTROLLER

December 19, 2024

Mrs. Lisa Kurokawa
Chief, Compliance Audits Bureau
Division of Audits, State Controller's Office
Post Office Box 942850
Sacramento, CA 94250

Dear Mrs. Kurokawa:

Stanislaus County concurs with the Vehicle License Fee (VLF) finding and recommendation for fiscal years ending June 30, 2021, through June 30, 2024. Following the State Controller's Office's finding, the County took immediate action. We researched RTC Section 97.70, validated the finding, and independently calculated the required adjustments. Additionally, County staff enhanced the underlying Excel templates by incorporating preventive controls to reduce the likelihood of similar divergences prospectively.

The County will implement adjustments totaling \$112,418 for fiscal years ending June 30, 2022, through June 30, 2024, during the current fiscal year ending June 30, 2025. The Educational Revenue Augmentation Fund (ERAF) revenues will increase, and applicable City VLF revenues will decrease. The adjustments will be split evenly (50/50) over the two primary VLF apportionment periods, with the County replenishing ERAF by \$56,209 in January 2025 and \$56,209 in May 2025. The County remains fully committed to ensuring accuracy and transparency in its financial reporting and tax apportionment processes, with plans to strengthen its fiscal year-end monitoring.

We appreciate the State Controller's Office's collaboration and guidance in promoting financial accuracy and compliance. If you have any questions, please contact Nathan Amarante, CPA, Property Tax Manager, by phone at (209) 525-6526 or via email at amaranten@stancounty.com.

Sincerely,

Mandip Dhillon

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Stanislaus County
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