

HUMBOLDT COUNTY ASSESSMENT PRACTICES SURVEY

APRIL 2014

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No. 2014/020

April 18, 2014

TO COUNTY ASSESSORS:

**HUMBOLDT COUNTY
ASSESSMENT PRACTICES SURVEY**

A copy of the Humboldt County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Mari Wilson, Humboldt County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Humboldt County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from July through August 2012. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Ms. Wilson and her staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:dcl
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest derives from state law that annually guarantees California schools a minimum amount of funding; to the extent that property tax revenues fall short of providing this minimum amount of funding, the State must make up the difference from the general fund.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Humboldt County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly; and to the Humboldt County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Mari Wilson, Humboldt County Assessor, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys* at page 2) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Humboldt County Assessor's Office included reviews of the assessor's records, interviews with the assessor and her staff, and contact with officials in other public agencies in Humboldt County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2011-12 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

Government Code section 15643 requires the BOE to repeat or supplement each survey of a county's assessment practices at least once in five years. Our last full survey of Humboldt County was conducted in 2007, and published in 2008. The current survey will serve to supplement the work done during the last survey by: (1) revisiting the issues about which we

¹ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

then made recommendations for improvement, (2) evaluating anew certain major areas of the assessor's operation, and (3) determining, for purposes of Revenue and Taxation Code section 75.60, whether Humboldt County continues to be eligible to recover the costs associated with administering supplemental assessments.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office.

Many of our recommendations concern portions of programs which are currently effective, but need improvement. In many instances, the assessor is already aware of the need for improvement and is considering changes as time and resources permit.

In the area of administration, we noted that the assessor effectively manages staffing, workload, and assessment appeals. However, we found improvement is needed in the staff property and activities program.

In the area of real property assessment, we found that the assessor has an effective program for mineral property. However, we found improvement is needed in the following programs: change in ownership, new construction, declines in value, Timberland Production Zone property, and taxable possessory interests.

In the area of personal property and fixtures assessment, the assessor has effective programs for business equipment valuation and vessels. However, we noted a need for improvement in the assessor's audit and business property statement programs.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly.

The Humboldt County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2011-12 assessment roll indicated an average assessment ratio of 101.39 percent, and the sum of the absolute differences from the required assessment level was 1.43 percent. Accordingly, the BOE certifies that Humboldt County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

Following is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

RECOMMENDATION 1:	Improve the staff property and activities program by: (1) expanding the written procedures for the assessment of staff-owned property, and (2) ensuring compliance with procedures as stated in the assessor's Conflict of Interest Code.	14
RECOMMENDATION 2:	Improve the change in ownership program by correctly implementing the penalty abatement process in accordance with section 483(b).	21

RECOMMENDATION 3: Improve the LEOP program by: (1) timely reassessing all properties owned by a legal entity undergoing a change in control or ownership, and (2) properly implementing the penalty process in accordance with section 482(b).23

RECOMMENDATION 4: Properly implement the provisions of section 63.1(j) when a certified claim for exclusion is subject to a processing fee.25

RECOMMENDATION 5: Enroll all assessable new construction as of the completion date and issue appropriate supplemental assessments.29

RECOMMENDATION 6: Annually review all decline-in-value properties pursuant to section 51(e).....32

RECOMMENDATION 7: Periodically send questionnaires to all owners of TPZ properties to discover nonexclusive compatible uses.33

RECOMMENDATION 8: Improve the assessment of taxable possessory interests by: (1) using proper methods to develop the income stream to be capitalized when using the direct income approach to value taxable possessory interests, (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (3) reappraising taxable possessory interests with month-to-month tenancies in accordance with section 61(b)(2), (4) obtaining copies of all current lease agreements or permits for taxable possessory interests, (5) issuing supplemental assessments for taxable possessory interests upon a change in ownership or completion of new construction, (6) exempting from property taxation only qualified taxable possessory interests that are in compliance with section 254, and (7) valuing each individual franchise of a multiple-franchise company when valuing cable or video service taxable possessory interests.35

RECOMMENDATION 9: Enroll all escape assessments discovered during an audit.43

RECOMMENDATION 10: Accept only properly signed business property statements (BPS).44

PRIOR SURVEY RECOMMENDATIONS, RESPONSES, AND CURRENT STATUS

Following are the recommendations included in our December 2008 Assessment Practices Survey Report and the assessor's responses to each recommendation. After each recommendation, we report the current status of the assessor's effort to implement the recommendation as noted during our survey fieldwork.

Disaster Relief

RECOMMENDATION 1: Improve the disaster relief program by: (1) obtaining fire reports from all fire protection agencies, and (2) revising the notice for disaster relief assessment to comply with section 170(c).

Assessor's Response:

(1) We concur and will continue to attempt to obtain fire reports from the various fire protection agencies. Our efforts in the past have been less than successful. We will make a more determined effort in the future to get the agencies to respond.

(2) We have implemented a new notification procedure so that taxpayers receive a notice of revised assessment showing the correct appeal process.

Current Status:

The assessor has implemented part 1 of this recommendation and has implemented a procedure to obtain fire reports from the fire protection agencies. The assessor contacts the fire protection agencies on either a quarterly or twice-annually basis via email, and follows up with a reminder notice email if the agency fails to respond.

The assessor has not implemented part 2 of this recommendation. The assessor continues to use BOE-67-B, *Notice of Supplemental Assessment*, to notify taxpayers of a reassessment due to a disaster or calamity. This notice is not appropriate for disaster relief notification, since it does not properly address the appeals process for calamity reassessments.

Assessment Roll Changes

RECOMMENDATION 2: Conform the *Notice of Enrollment of Escape Assessment* to the provisions of section 534.

Assessor's Response:

We partially concur. We have been correctly noticing real property escapes. We have changed our procedure so that we are now correctly noticing escapes of business property.

Current Status:

The assessor has implemented this recommendation and is currently using Board-prescribed form BOE-66-A, *Notice of Enrollment of Escape Assessment*, to notice taxpayers of an assessment roll change.

Change in Ownership

RECOMMENDATION 3: Maintain a public transfer list as required by section 408.1(b).

Assessor's Response:

We concur and have changed our transfer list to fully comply with the requirements of section 408.1(b).

Current Status:

We found that the assessor has implemented this recommendation and maintains a public transfer list that complies with the requirements of section 408.1.

Declines in Value

RECOMMENDATION 4: Improve the decline-in-value program by: (1) annually reviewing and assessing all properties experiencing a decline in value as required by section 51(e), and (2) updating the decline-in-value notice to meet statutory requirements.

Assessor's Response:

(1) We agree that we were not reviewing all decline-in-value properties annually. We recognize the importance of this annual review and have improved our decline-in-value monitoring program to accomplish this.

(2) We concur and have changed our procedure to comply.

Current Status:

We found that the assessor has implemented part 2 of the recommendation by modifying their value notice. The current value notice displays the factored base year value, the proposed current assessed value, and informs the property owner of their rights to file an assessment appeal. For part 1 of the recommendation, we found that the assessor has not fully implemented this part of the recommendation. The assessor is not annually reviewing and assessing all properties experiencing a decline in value as required by section 51(e).

California Land Conservation Act Properties

RECOMMENDATION 5: Deduct an applicable amount for irrigation system improvements in the valuation of California Land Conservation Act properties.

Assessor's Response:

We concur and will implement.

Current Status:

We found that the assessor has not implemented this recommendation. When calculating the net income to be capitalized, the assessor does not deduct an improvement charge from the gross income for any irrigation system improvements that may be on the property.

Timberland Production Zone Properties

RECOMMENDATION 6: Send a questionnaire to all owners of Timberland Production Zone properties to discover compatible, nonexclusive uses.

Assessor's Response:

We agree. Humboldt County has over 7,000 TPZ parcels. We will comply as time and resources allow.

Current Status:

We found that the assessor has not implemented this recommendation.

Taxable Possessory Interests

RECOMMENDATION 7: Periodically review all taxable possessory interests with stated terms of possession for declines in value.

Assessor's Response:

We have an active and effective possessory interest appraisal program. We continue to believe that the anticipated term of possession is a valid consideration in the process of determining value.

Current Status:

We found that the assessor has not implemented this recommendation.

Water Company Properties

RECOMMENDATION 8: Improve the water company property program by: (1) obtaining relevant assessment information to properly appraise all water company properties, and (2) assessing the real property of regulated private water companies at the lesser of current market value or factored base year value.

Assessor's Response:

We concur with both (1) and (2) and will implement as time and budgetary constraints allow.

Current Status:

The assessor has not implemented this recommendation. We found the assessor does not obtain all relevant assessment information to properly appraise water company properties. In addition, we found the assessor does not assess the real property of regulated private water companies at the lesser of current market value or factored base year value.

Mineral Properties

RECOMMENDATION 9: Apply Rule 469 to mining properties.

Assessor's Response:

We concur and are working to develop a procedure to implement this recommendation.

Current Status:

We found that the assessor has implemented this recommendation.

Manufactured Homes

RECOMMENDATION 10: Assess manufactured homes at the lesser of factored base year value or current market value as required by section 5813.

Assessor's Response:

A new module in our software system will help us to implement this recommendation. It is worth noting that the typical mobile home sale shows that we are not overvaluing the mobile homes in Humboldt County.

Current Status:

This recommendation has not been implemented. We found that while the assessor will review a manufactured home for a decline in value upon receiving a request from the property owner, the assessor does not have a program in place to periodically review manufactured home assessments for possible declines in value.

OVERVIEW OF HUMBOLDT COUNTY

Humboldt County is located in northwest California, approximately 200 miles north of San Francisco. The county encompasses 4,052 square miles, of which 3,568 square miles is land and 484 square miles is water. Approximately 80 percent of the county is forestlands, protected redwoods, and recreation areas. Humboldt County is bordered by Del Norte County to the north, Siskiyou County to the northeast, Trinity County to the east, Mendocino County to the south, and the Pacific Ocean to the west.

Humboldt County was incorporated in 1853. There are seven incorporated cities in Humboldt County: Eureka, Arcata, Fortuna, Rio Dell, Ferndale, Blue Lake, and Trinidad. Eureka is the county seat. As of the 2010 census, the population of Humboldt County was 134,623, which is an increase of about 6 percent from 2000.



The following table displays information pertinent to the 2011-12 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$4,262,833,495
	Improvements	\$6,458,266,691
	Fixtures	\$151,366,291
	Personal Property	\$284,247,678
	Total Secured	\$11,156,714,155
Unsecured Roll	Land	\$14,878,055
	Improvements	\$79,437,985
	Fixtures	\$93,245,423
	Personal Property	\$288,322,524
	Total Unsecured	\$475,883,987
Exemptions²		(\$517,187,305)
	Total Assessment Roll	\$11,115,410,837

The next table summarizes the change in assessed values over recent years:³

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2011-12	\$11,115,411,000	1.0%	0.1%
2010-11	\$11,002,845,000	0.4%	-1.9%
2009-10	\$10,962,012,000	3.7%	-2.4%
2008-09	\$10,566,233,000	6.2%	4.7%
2007-08	\$9,946,323,000	8.0%	9.6%

² The value of the Homeowners' Exemption is excluded from the exemptions total.

³ State Board of Equalization Annual Report, Table 7.

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, workload, staff property and activities, and assessment appeals.

Budget and Staffing

The following table shows the assessor's budget and staffing for recent years:

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2011-12	\$2,096,204	-4.7%	32
2010-11	\$2,200,471	-3.3%	32
2009-10	\$2,276,201	-6.0%	32
2008-09	\$2,421,330	11.5%	32
2007-08	\$2,171,417	3.2%	32

The number of assessor's staff has remained stable over the last five years. Currently, the budgeted permanent positions include the assessor, assistant assessor, chief appraiser, 1 supervising appraiser, 6 senior appraisers, 4 appraisers, 2 senior auditor-appraisers, 1 auditor-appraiser, 3 appraisal technicians, 1 cadastral drafting technician, 1 property transfer supervisor, 2 property transfer assistants, 1 supervising assessment technician, 6 assessment technicians, and 1 executive secretary.

Workload

Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property. In addition, the assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.

In addition, for most real property, the assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, the assessor must review the assessment of the property to determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

As shown in prior tables, the total roll value has increased each of the past five years, while the gross budget has decreased three of past five years. During this same time period, the assessor's workload has been changing. The number of reappraisable transfers due to changes in ownership has increased two of the past four years, most recently reflecting an increase. The number of new construction assessments and the number of assessment appeals filed has been fluctuating over the past four years, showing an increase one year and then a decrease the next year. The number of decline-in-value assessments has increased significantly each of the past four years.

These trends are shown in the following table:

WORKLOAD DESCRIPTION	2011-12	2010-11	2009-10	2008-09	2007-08
Reappraisable Transfers	2,620	2,287	2,372	3,193	2,468
New Construction Assessments	966	931	1,036	884	1,300
Decline-In-Value Assessments	2,545	1,883	1,179	623	172
Assessment Appeals Filed	74	78	74	147	84

Staff Property and Activities

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties and conflicts of interest. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from being involved in the assessment of property in which they have an ownership interest and to prevent conflicts of interest.

The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, Statement of Economic Interests (Form 700), which requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity.

In Humboldt County, the assessor, assistant assessor, chief appraiser, executive secretary, supervisors, appraisers, and auditor-appraisers in the assessor's office are required to submit Form 700 by April 1 each year, while all other staff are required to submit to the assessor a *Statement of Financial Interest* by June 30 each year. The forms are maintained by the assessor's executive secretary. Upon our review, we found that all staff submitted the appropriate forms for 2011 as required by the assessor. Additionally, we found that the assessor certifies to the BOE that she and her staff have complied with the requirements of section 672 by disclosing their financial interests.

The assessor has a conflict of interest code included in the office procedures manual. All employees in the assessor's office have signed an acknowledgement that they have read and accepted the conflict of interest code. This code addresses conflicts of interest, statements of economic/financial interests, and the assessment of staff-owned property. These procedures include the requirements and process for submitting statements of economic/financial interests, a description of what constitutes a conflict of interest, and provisions relating to the assessment of

property in which the assessor's staff holds an interest. Also included in the conflict of interest code is the stipulation that if the assessor or the attorney general finds that an employee has violated the conflict of interest code, such violation shall be grounds for dismissal of the employee by the assessor.

We reviewed the assessor's conflict of interest code and related practices in the assessor's office, and found that the assessor's procedures could be improved by being expanded to more fully address the assessment of staff-owned property. We also reviewed staff statements of economic/financial interests and conflicts of interest, as well as the property records for staff-owned properties. We found that the assessor and her staff comply with most of the provisions of the conflict of interest code. We have the following recommendation for the assessor's staff property and activities program.

RECOMMENDATION 1: Improve the staff property and activities program by: (1) expanding the written procedures for the assessment of staff-owned property, and (2) ensuring compliance with procedures as stated in the assessor's Conflict of Interest Code.

Expand the written procedures for the assessment of staff-owned property.

We found that the assessor's procedures for managing the risks related to the assessment of staff-owned property are brief and should be expanded to provide a more acceptable level of oversight. More specifically, there are no written procedures that require staff-owned property assessments to go through a review and approval process by an upper level staff member prior to the assessment being enrolled. In addition, the assessor's written procedures do not address tracking and documenting staff-owned property activities. Further, the written procedures do not include the consequences for noncompliance of the assessor's staff-owned property procedures.

Letter To Assessors (LTA) No. 2008/058 was issued as a guide to assist assessors in establishing procedures relative to the assessment of staff-owned property. The procedures for the assessment of staff-owned property need not be lengthy or complicated, but should be formalized in a written format and provided to all staff. The procedures adopted by the assessor should:

- Clearly define the assessor's policies and procedures,
- Establish staff's responsibilities,
- Create a file or listing of all staff-owned property in the county,
- Contain well-defined review procedures, and
- Accurately track and document all events with potential assessment implications.

An expansion of the assessor's existing procedures for staff-owned property that includes these bulleted practices is recommended. It would also be a good business practice for the assessor to develop and/or incorporate the use of a form for staff to document all events and activities related to real and personal property that they own within the county subject to taxation. A sample form used for this purpose is included in LTA No. 2008/058, *Employee Property Activity Report*. Further development of the written procedures in these areas will help ensure that staff is aware of and follows office policy.

Ensure compliance with procedures as stated in the assessor's Conflict of Interest Code.

We found that the assessor does not comply with the Conflict of Interest Code stated in the assessor's *Employee Procedures Manual*. The assessor does not enforce the requirement that staff classified as "extra help" submit a statement of economic/financial interest. In addition, the assessor does not enforce the requirement that "extra help" or contract appraisers sign a statement acknowledging they have read and accept the assessor's conflict of interest policy.

The assessor's Conflict of Interest Code requires all employees, except those required to submit Form 700, to annually file on June 30 a statement of financial interest with the assessor. Additionally, this code specifies that the Conflict of Interest Statement applies to all employees in the assessor's office, and that upon being hired, all employees shall read the statement, and sign and date the form.

In addition to the assessor's established procedures, LTA No. 77/138 and LTA No. 96/34 provide that an outside specialist hired to assist the county assessor in valuing properties becomes an "employee" and must be certified as an appraiser by the BOE, must file a financial disclosure statement, and is bound by any conflict of interest policies. The BOE also opined that contract appraisers are subject to the same constitutional and statutory requirements as other employees of the county assessor, including, but not limited to, confidentiality and conflict of interest provisions.

Thus, the assessor should require all employees of the assessor's office, including staff designated as "extra help" and specialized contracted appraisers, to submit all statements as required in the assessor's Conflict of Interest Code. Enforcing these requirements should be consistent and will clearly inform all staff of the assessor's policies and procedures.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the Board has adopted Rules 301 through 326 to regulate the assessment appeals process.

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

Humboldt County has one assessment appeals board (AAB). The AAB consists of three members and two alternate members appointed by the board of supervisors. The county does not have hearing officers. Pursuant to section 1624.01, all members of the AAB have successfully completed the required training as provided in section 1624.02. In Humboldt County, the filing period for assessment appeals is July 2 through November 30.

Assessment appeal applications are submitted directly to the clerk. The deputy clerk date stamps the application, determines if the application is complete, and assigns the application an assessment appeal number. If an application is incomplete, the deputy clerk returns the incomplete application to the applicant, requesting the missing information. BOE-305-AH, *Application for Changed Assessment*, is available at the clerk's office and on the county's website. The clerk will send out applications to taxpayers per telephone or mail requests. Applicants may fax their applications to the clerk; however, the application is not considered valid until the clerk receives the original signed application before the November 30 filing deadline. Currently, the clerk does not accept electronically filed applications for changed assessments.

Once an application is received, a copy of the application is forwarded to the assessor; the original stays in the possession of the clerk. Prior to the hearing, the deputy clerk sends each applicant a notice informing them of the date and time of the hearing they are scheduled to attend. Attached to the notice is a form asking the applicant whether they will be present for the scheduled hearing or if they would like to withdraw their application. The clerk works with the assessor to ensure that no assessment appeal is held for more than two years without an extension or waiver being filed.

The following table summarizes the assessment appeals workload for recent years:

YEAR	2011-12	2010-11	2009-10	2008-09	2007-08
Appeals Filed	74	78	74	147	84
Appeals Carried Over From Prior Year	31 ⁴	46	94	37	12
Total Appeals Workload	105	124	168	184	96
Resolution:					
Withdrawn	20	31	66	20	15
Stipulation	13	17	15	16	6
Appeals Reduced	0	5	1	4	9
Appeals Upheld	3	1	6	1	7
Appeals Increased	0	0	0	0	0
Other Determination*	14	25	34	49	22
Total Resolved	50	79	122	90	59
To Be Carried Over**	55	45	46	94	37

* Note: Includes, but not limited to late-filed appeals, applicants' failure to appear and board denied applications.

**Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

In the assessor's office, the assistant assessor receives the copies of the assessment appeals applications from the clerk. The assistant assessor reviews each assessment appeal application before assigning it to the appropriate appraiser. Assessment appeals filed for real property assessments are typically assigned to the appraiser of the area, while business personal property appeals are assigned to either an auditor-appraiser or the assistant assessor. The assistant assessor tracks the progress of the appeals in an effort to resolve all appeals within the two-year time period. No appeal filed in the last five years has gone unresolved for more than two years without a timely filed extension.

Once an assessment appeal is assigned to the appropriate appraiser, the appraiser makes contact with the property owner in order to obtain any necessary information about the property and to determine the basis for the applicant's request for a reduction in value. The appraiser reviews this information, along with any other relevant market data, and determines the fair market value of the property. This value is then reviewed and approved by either the supervising appraiser or chief appraiser.

If the applicant decides to withdraw their application, the applicant is advised to submit a request in writing to the clerk. If a reduction is warranted and the applicant agrees to a stipulated value, a

⁴ The assessor incorrectly reported the number of "Appeals Carried Over From Prior Year" in *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for 2011-12. The assessor reported 31; however, the number should be 45, as indicated by the number "To Be Carried Over" from 2010-11, based on the numbers reported by the assessor.

stipulation is prepared and sent to the applicant for a signature before it is submitted to the AAB for approval. If an agreement cannot be reached, the appeal is scheduled for hearing.

During the survey, we were not able to attend an assessment appeals hearing. However, we reviewed the assessor's assessment appeals program and found it to be properly administered. We have no recommendations for this program.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as Timberland Production Zone property, taxable possessory interests, and mineral property.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed 2 percent.

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of change in ownership.

Document Processing

The assessor's primary source of discovering properties that have changed ownership is through the analysis of deeds and other recorded documents from the recorder's office. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), to accompany documents submitted for recording that transfer ownership of real property. If a transfer document is received without a PCOR, the recorder's office will apply a \$20 charge to the recording fee. PCORs are available at both the assessor's and recorder's offices, as well as on the assessor's website. Humboldt County has a local ordinance that requires the assessor's parcel number (APN) be included on all recorded documents involving real property.

The recorder's office scans all of the recorded documents from each day's recordings and electronically transfers them to the assessor's office. A property transfer assistant reviews all recorded documents and culls those documents not associated with assessor's office functions. The recorder's office hand delivers the original PCORs to the assessor's office on a daily basis, and the PCORs are then scanned and retained by the assessor.

The following table sets forth the total number of recorded documents received and the total number of reappraisable transfers processed in Humboldt County in recent years:

YEAR	RECORDED DOCUMENTS RECEIVED	REAPPRAISABLE TRANSFERS
2011-12	6,728	2,620
2010-11	N/A	2,287
2009-10	5,553	2,372
2008-09	3,484	3,193
2007-08	N/A	2,468

Property transfer assistants review each document and corresponding PCOR, verifying that the name of the grantor, the legal description, and the APN being transferred are correct. If further documentation is needed or the property owner may qualify for an exclusion, the property transfer assistant sends any necessary correspondence to the property owner. The property transfer assistant determines the percentage of interest being transferred, whether the transfer results in a reappraisable event, and updates any necessary information in the computer system. For those transfers resulting in a reappraisable event, the property record file is then forwarded to the appraisal section for valuation.

We reviewed several recorded documents and found that the assessor conducts a proper and thorough review of documents experiencing a change in ownership.

Penalties

When the assessor receives a recorded document without a PCOR or the PCOR is incomplete, a property transfer assistant sends the property owner a BOE-502-AH, *Change in Ownership Statement* (COS), along with a letter requesting that the COS be completed and returned within 90 days. The property transfer assistant monitors the COS requests through a tracking log spreadsheet. If the COS is not returned within 90 days, the property transfer assistant sends the property record to an appraiser for valuation and the penalty process is applied. The county has adopted a resolution pursuant to section 483(b), which allows the assessor to automatically abate penalties if the COS is returned to the assessor within 60 days from the date of the notice of penalty.

We found an area in need of improvement when processing penalties for failure to file the COS.

RECOMMENDATION 2: Improve the change in ownership program by correctly implementing the penalty abatement process in accordance with section 483(b).

When a property owner fails to file a requested COS within 90 days,⁵ the assessor sends the property owner a notice of penalty form letter, along with an additional COS, to inform the property owner a penalty is being applied to the property due to failure to file the COS. This form instructs the property owner that a penalty has been issued, but if the property owner would like to appeal the penalty, they should contact the Humboldt County Assessment Appeals Board within 60 days of the date of the notice. Another notice of penalty form letter advises the property owner to complete and return the enclosed COS to the Humboldt County Assessor's Office and contact the Humboldt County Assessment Appeals Board within 60 days of the date of the notice. Both of these procedures would be incorrect, since Humboldt County has a resolution in place that gives the assessor the authority to automatically abate the penalties as provided for in section 483(b).

Section 483(b) states that the penalty provided for in section 482(a) shall be abated if the assessee files the COS with the assessor no later than 60 days after the date on which the assessee was notified of the penalty. The assessee is not required to contact the assessment appeals board to appeal the penalty or provide any other written document to have the penalty abated. Under the terms of section 483(b), the assessor must abate the penalty as long as the property owner returns the completed COS to the assessor within 60 days of the notice of penalty.

The assessor's current practice of requiring the property owner to contact the assessment appeals board to request to have a penalty abated when the property owner fails to file a COS timely is not in accordance with section 483(b) and may cause the property owner to pay penalties they are not required to pay.

Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The public is able to view this information at the public counter in the assessor's office. Pursuant to section 408.1(b), the transfer list is updated quarterly and it is divided into geographical areas by APN. Pursuant to section 408.1(c), the transfer list contains the transferor, transferee, APN, address of the property, date of recording, recording reference number, and consideration paid. The assessor observes the confidentiality provisions of section 481, which preclude the disclosure of information on a PCOR or COS.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and any entities under its ownership

⁵ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended section 482(a) to allow property owners 90 days rather than 45 days to return a completed COS when requested by the assessor before penalties are applicable. At the time of our survey and at the time of implementation of the procedure, statute allowed property owners 90 days to return the completed COS before penalties were applicable.

control. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and, hence, either do or do not constitute a change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors, because ordinarily there is no recorded document evidencing a transfer of an ownership interest in a legal entity.

To assist assessors, the BOE's LEOP section gathers and disseminates information regarding changes in control and ownership of legal entities that hold an interest in California real property. On a monthly basis, LEOP transmits to each county assessor a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, because the property affected is self-reported by the person or entity filing information with the BOE, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE.⁶ The BOE advises county assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

In Humboldt County, the assessor discovers changes in control or ownership of legal entities by reviewing monthly LEOP reports from the BOE, business property statements, recorded documents, regional business journals, local newspapers, and the internet.

When the assessor receives the monthly LEOP reports, the property transfer supervisor reviews the reports for the effective dates and for any changes that have occurred. All parcels located within Humboldt County are identified and reviewed. A name search is also performed to ensure that all of the entity's real property is identified and reassessed.

We reviewed several properties owned by legal entities undergoing changes in control or ownership and found areas in need of improvement.

⁶ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.

RECOMMENDATION 3: Improve the LEOP program by: (1) timely reassessing all properties owned by a legal entity undergoing a change in control or ownership, and (2) properly implementing the penalty process in accordance with section 482(b).

Timely reassess all properties owned by a legal entity undergoing a change in control or ownership.

We found several parcels that were not reassessed, even though the assessor was notified of a change in control or ownership for those legal entities through the BOE's LEOP program.

Section 64(c)(1) provides that when a legal entity acquires controlling interest of another legal entity by obtaining more than 50 percent of the voting stock or a majority ownership interest in that legal entity, there is a change in ownership of the real property owned by the legal entity being acquired.

By not reassessing properties owned by legal entities identified as having undergone a change in control or ownership, the assessor may be enrolling incorrect assessments for those properties. In addition, by not timely reassessing these properties, if the properties go unprocessed for four years or more, the assessor may lose revenue for the years beyond the statute of limitations for levying supplemental and escape assessments.

Properly implement the penalty process in accordance with section 482(b).

It is the assessor's current practice not to apply penalties when a legal entity fails to timely file BOE-100-B due to a change in control or ownership in accordance with section 482(b).

Section 482(b) states that if a legal entity required to file a statement described in section 480.1 or 480.2 fails to do so within 90 days from the earlier of (1) the date of the change in control or the change in ownership of the legal entity, or (2) the date of a written request by the BOE, a specific penalty shall be applied.⁷

The assessor's current practice of not applying penalties to properties owned by legal entities who fail to file a COS or fail to file a COS by the deadline is contrary to statute and results in an unequal treatment of taxpayers.

Change in Ownership Exclusions – Section 63.1

Section 63.1 generally excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first \$1 million of other real property between parents and children. Section 63.1 also excludes qualifying purchases or transfers from grandparents to their grandchildren.

⁷ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier. At the time of our survey, it was 90 days.

To enforce the \$1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. However, if an assessor opts not to report quarterly to the BOE, the assessor must track such transfers internally to be in compliance with section 63.1.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any transferors who have exceeded their \$1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's website.

The following table sets forth section 63.1 claims filed and granted in recent years:

YEAR	SECTION 63.1 CLAIMS FILED	SECTION 63.1 CLAIMS GRANTED
2011-12	554	522
2010-11 ⁸	364	407
2009-10	421	390
2008-09	465	463
2007-08	587	N/A

If a PCOR or COS indicates a transfer may be between a parent(s) and child(ren) or from grandparent(s) to grandchild(ren), the assessor is proactive in notifying taxpayers of a possible change in ownership exclusion. The assessor sends interested parties a claim form, along with a form letter explaining the exclusion; the claim form is tracked using a spreadsheet. If there is no response within two weeks, a second claim form is sent. The assessor allows the taxpayer an additional 60 days to respond before processing the transfer for a reassessment. Humboldt County has an ordinance in place allowing the assessor to charge a \$175 processing fee if a transferee fails to return a certified claim for exclusion pursuant to section 63.1(j)(2) after two written responses.

An assessment technician reviews all section 63.1 applications and determines if the exclusion will be granted or denied. If a claim is denied, the taxpayer is notified in writing of the reason for the denial.

The assessor submits quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives a *Report of Transferors Exceeding \$1,000,000* from the BOE, the report is reviewed to determine if property in Humboldt County has exceeded the limit. If multiple properties transfer,

⁸ For year 2010-11, it is noted that the assessor reported a higher number of section 63.1 claims being granted (407) than were actually filed (364) for that same year. According to the assessor, this could be due to the fact that claims may be filed in one year, but not granted until the following year.

the assessor allows the property owner or representative to determine which properties to exclude and which to reassess. If parcels exceeding the limit are in counties other than Humboldt County, the assessor contacts the property owner to determine how they would like to have the excess allocated and which properties to reassess.

Pursuant to section 63.1(i), the assessor protects confidential information furnished on claim forms by keeping all claim forms in a secure file not accessible to the public.

We reviewed several section 63.1 claim forms and found an area in need of improvement.

RECOMMENDATION 4: Properly implement the provisions of section 63.1(j) when a certified claim for exclusion is subject to a processing fee.

Humboldt County has passed and adopted an ordinance allowing the assessor to charge a \$175 processing fee if a transferee fails to return a certified claim for exclusion pursuant to section 63.1(j)(2). However, the assessor's procedures only allow the taxpayer two weeks to respond to the first notice before the second notice is sent. The second notice does not clearly inform the transferee that a one-time processing fee will be charged if the claim for exclusion is received after 60 days from the date of the second notice.

Section 63.1(j)(1) states that if the assessor notifies the transferee in writing of a potential eligibility for exclusion from change in ownership, a certified claim for exclusion shall be filed within 45 days of the date of the notice. If the transferee fails to file within 45 days, the assessor may send a second notice allowing the transferee 60 days from the date of the second notice to file the certified claim for exclusion. The second notice shall indicate whether a certified claim for exclusion that is not filed within 60 days will be subject to a processing fee as provided for in section 63.1(j)(2).

Section 63.1(j)(2) states that if a certified claim for exclusion is not filed within 60 days of the date of the second notice and the transferee subsequently files a claim after the 60 days and qualifies for the exclusion, the assessor may, upon authorization by the county board of supervisors, require the transferee to pay a one-time processing fee. The assessor shall collect the fee at the time the claim is submitted, and shall reimburse the fee to the transferee if the claim is determined to be ineligible. The fee shall not exceed the amount of the actual and reasonable costs incurred by the assessor for reassessment work done due to the transferee's failure to file the claim for exclusion or \$175, whichever is less.

Since the county's ordinance allows the assessor to charge a processing fee for section 63.1 claims for exclusion pursuant to section 63.1(j)(2), the assessor is required to send the first notice allowing 45 days for the exclusion to be filed before a second notice is sent clearly stating that the taxpayer will be charged a \$175 processing fee if the claim is received after 60 days from the date of the second notice. By not allowing the taxpayer the correct number of days to file the claim and by not notifying the taxpayer of a processing fee, the assessor is not in compliance with statute and the taxpayer is not being properly notified of all potential fees associated with filing the claim late.

Change in Ownership Exclusions – Section 69.5

Section 69.5 generally allows persons 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. A county board of supervisors may provide by ordinance that base year values may be transferred from properties located outside the county.

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Humboldt County does not accept base year value transfers from other counties. Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's website.

The following table sets forth section 69.5 claims filed and granted in recent years:

YEAR	SECTION 69.5 CLAIMS FILED	SECTION 69.5 CLAIMS GRANTED
2011-12	16	12
2010-11	22	13
2009-10	13	9
2008-09	26	11
2007-08	27	N/A

If a PCOR or COS indicates that a transfer may involve a base year value exclusion, the assessor sends interested parties a claim form, along with a letter explaining the exclusion. A property transfer assistant reviews all submitted claims, and an appraiser determines the fair market value of both the replacement and original properties. If a claim is denied, the assessor informs the taxpayer by sending a denial letter from the chief appraiser.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. When the assessor's office receives a *Duplicate SSN Report* from the BOE, the report is reviewed to determine if any claims made in Humboldt County are subject to reassessment due to a duplicate filing in another county.

Pursuant to section 69.5(n), the assessor protects confidential information furnished on the claim forms by keeping them in a secure file not accessible to the public.

We reviewed several section 69.5 claim forms and found them to be properly handled.

Valuation

Once a transfer has been determined to be a reappraisable event, the information is sent to an appraiser for valuation. Every reappraisable transfer is reviewed to confirm that the reported purchase price reflects market value; the purchase price is not automatically enrolled. Residential properties experiencing a change in ownership are valued using the comparative sales approach, while commercial properties are also valued using the comparative sales approach, with secondary consideration given to the income approach. If the property is unique, the cost approach may be considered, as well. Field inspections are conducted on all commercial and industrial properties, while residential properties are field inspected at the discretion of the appraiser.

We reviewed several property records having recently experienced a change in ownership. We found that the assessor's office is following proper procedures for valuation and has an efficient valuation program in place for reappraising properties having undergone a change in ownership.

Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements, including sewers, sidewalks, lighting, and water lines. Such public improvements generally enhance the land value of privately owned real property. Land directly benefiting from such improvements is pledged as security for payment of the construction loan. The improvement bond is a lien that runs with the land and binds the owner and all successors in interest in accordance with the 1911 or 1915 Bond Acts.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration paid for a property exclusive of the lien amount. An assessor can overcome this presumption by a preponderance of evidence that all or a portion of the value of those improvements is not reflected in that consideration.

Humboldt County has 3,753 parcels encumbered by improvement bonds. The assessor does not maintain a bond study or regression analysis. It is the assessor's policy not to add any amount for improvement bonds unless market evidence indicates otherwise. This is consistent with the requirements of section 110(b).

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

Rules 463 and 463.500 clarify the statutory provisions of sections 70 and 71, and the Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 70(c) and (d), and sections 73 through 74.7 address these exclusions.

Discovery

In Humboldt County, the assessor's primary means of discovering new construction is through reviewing building permits. The assessor receives building permits from nine permit-issuing agencies: County of Humboldt Planning & Building Department, City of Eureka Building Department, City of Fortuna Building Division, City of Rio Dell Building Department, City of Blue Lake Building Division, City of Ferndale Building Division, City of Trinidad Building Department, City of Arcata Building Division, and County of Humboldt Department of Health & Human Services Division of Environmental Health. Other methods used to discover new construction include newspaper articles, business property statements, and field canvassing.

The following table shows the building permits received and the number of new construction assessments processed in recent years:

YEAR	BUILDING PERMITS	NEW CONSTRUCTION ASSESSMENTS
2011-12	3,006	966
2010-11	2,951	931
2009-10	2,776	1,036
2008-09	2,762	884
2007-08	3,526	1,300

Permit Processing

The assessor receives permits from each of the nine permit-issuing agencies. Copies of the permits are typically received by fax or through inter-office mail, while appraisers pick up the building plans from the individual agencies. All permits received are screened by either the chief appraiser or supervising appraiser in order to determine which permits represent assessable new construction. Assessment technicians enter the permits that are deemed to be assessable new construction into the computer database. These permits show as work to be completed in the appropriate appraiser's work queue, and the hard-copy of the permit is filed in the property record file. All other permits not deemed to be assessable new construction are held in a file for one year before being discarded.

Data for unpermitted new construction is entered into the computer system upon discovery. The escaped new construction is valued and enrolled as of the date of completion, whenever possible. The assessor attempts to determine the date of completion through field inspections, information from the property owner, or newspaper articles. If the appraiser is unable to determine the date of

completion, the unpermitted new construction is enrolled as of the date of discovery. The assessor enrolls supplemental assessments, as allowed by law, for unpermitted new construction when discovered.

Construction in Progress (CIP)

On each lien date, section 71 requires the assessor to enroll CIP at its fair market value. The assessor values new construction by estimating the full value of new construction as of the date of completion. For CIP, the appraiser must determine the completion status of new construction on each lien date and estimate the fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the CIP at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned. We reviewed several property records and found that the assessor is correctly valuing CIP.

Valuation

Appraisers value new construction at its full value as of the date of completion. An appraiser confirms completion of new construction through field inspections, information provided by the permit-issuing agencies, or information from the property owner.

Appraisers typically value residential new construction using the comparative sales and/or cost approaches. The income approach, as well as the comparative sales and/or cost approaches, are used to value new construction for commercial, industrial, and agricultural properties. The assessor uses a variety of sources to develop a cost indicator of value for new construction. These sources include Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), local costs, and *Marshall Valuation Service*. The assessor does not utilize new construction cost questionnaires.

The assessor's property records were well documented, showing construction in progress assessed as of the lien date, completed new construction assessed as of the date of completion, and supplemental assessments being issued as of the date of completion, when appropriate. In addition, we found that the assessor is properly administering exclusions from new construction assessment by making sure the claimant meets the qualifications for the exclusion and has filed the necessary required documents before the exclusion is granted. However, we found an area in need of improvement when valuing new construction.

RECOMMENDATION 5: Enroll all assessable new construction as of the completion date and issue appropriate supplemental assessments.

We found that for new construction with a value of \$2,000 or less, the assessor does not enroll the new construction as of the completion date. Instead, the assessor enrolls completed new construction with a value of \$2,000 or less as of the lien date following the completion date of the new construction. In addition, the assessor does not issue a supplemental assessment for this new construction.

Humboldt County has a low-value resolution passed and adopted by the board of supervisors, which exempts from taxation all real property having a base year value of \$2,000 or less and all personal property having a full value of \$2,000 or less. The ordinance further states that these exemptions provided do not apply to new construction of \$2,000 or less unless the new base year value of the property, including the new construction, is \$2,000 or less. The county's resolution is in compliance with section 155.20(e)(1). In addition, the county has a resolution passed and adopted by the board of supervisors, which allows the cancelling of all supplemental tax bills in Humboldt County that are in the amount of \$9.99 or less. This resolution is in compliance with section 75.55(a). However, the assessor is not following the provisions of the county's resolutions.

Section 75.10 states that whenever new construction is completed, the assessor shall appraise the new construction at its full cash value on the date the new construction is completed.

Section 75.11 allows for a supplemental assessment to be placed on the supplemental roll for the completed new construction. Section 75.55(a) provides that a county board of supervisors may, by ordinance, provide for the cancellation of any supplemental tax bill in which the amount of taxes to be billed is less than the cost of assessing and collecting them. The county has adopted such a resolution; however, it only includes supplemental tax bills that are \$9.99 or less. With values of \$2,000 or less being enrolled as of the lien date, some of this new construction would have supplemental tax bills of more than \$9.99, for which the county does not have the authority to cancel. The assessor should be enrolling the new construction as of the date of completion and issuing a supplemental assessment. If the supplemental tax bill is determined to be \$9.99 or less, then the auditor would cancel the supplemental tax bill in accordance with the county's resolution.

By not enrolling new construction as of the date of completion and issuing the appropriate supplemental tax bills, the assessor may be incorrectly allowing some taxpayers to avoid supplemental assessment, causing an unequal treatment of taxpayers.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value (FBYV) or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its FBYV on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its FBYV, then the assessor must enroll the FBYV.

The following table shows the number of decline-in-value assessments in Humboldt County in recent years:

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2011-12	2,545
2010-11	1,883
2009-10	1,179
2008-09	623
2007-08	172

The assessor does not have a formal program in place for recognizing properties experiencing a decline in value. However, discovery and valuation of properties with declines in value are high priority for the assessor. The assessor has been proactive in discovering and adjusting the assessments of properties affected by declines in value. The assessor's primary means of discovering properties experiencing a decline in value is through taxpayer requests for an informal review and by appraisers' knowledge of market conditions in their assigned geographic areas. The assessor provides information to taxpayers explaining the decline-in-value assessment review process, and this information can be found on the assessor's website and in a pamphlet that is available at the assessor's public counter.

Property owners may request an informal review of their assessment by completing and submitting BOE-305-A, *Informal Assessment Review*, to the assessor. This form is available to the public on the assessor's website and at the public counter in the assessor's office. If a property owner requests an informal review of their assessment by telephone, the assessor will mail the property owner an *Informal Assessment Review* to complete and return. Applications can be submitted by mail, fax, or in person. Applications submitted for an informal review are received by an appraisal technician, who tracks the progress of each request to ensure that they are completed in a timely manner. If it appears that an informal request for review may not be processed and completed by the deadline to timely file an assessment appeal, the assessor will send a letter informing the property owner of their appeal rights.

Each appraiser is responsible for reviewing informal requests for reviews for properties located within their assigned geographical areas. When the appraiser reviews residential properties for potential declines in value, reliance is placed on the comparative sales approach to determine current market value. Appraisers maintain their own spreadsheets with comparable sales that are used to determine the market value of the property under review. Based on extracted comparable sales, the market value as of the lien date is determined. A copy of the valuation worksheet is kept in the appraisal file of each property record, showing the comparable sales used, the adjustments made, and the indicated current market value. When the appraiser reviews commercial properties for potential declines in value, both the comparative sales and income approaches are used, whenever possible, to determine current market value. The appraiser then compares the property's current market value to its FBV and enrolls the lower of the two values for the lien date. The assessor then notifies the property owner of the results of the informal review by letter.

Once a property is determined to be in decline-in-value status, the property is assigned a taxability code of "800" or "801." The assignment of this taxability code identifies the property as being in decline-in-value status, which suspends the application of the annual inflation factor and identifies the property for annual review. In addition, properties in decline-in-value status have a goldenrod sheet of paper attached to the outside of the appraisal file to visually designate the property as being in decline-in-value status. All decline-in-value properties are filed separately from the other property records and are sorted by assessor's parcel number (APN). For each subsequent lien date the property is in decline in value, the goldenrod is updated with the date the property was reviewed and the indicated market value for the lien date.

We reviewed a number of appraisal records for residential and commercial properties in decline-in-value status, and found that the assessor properly assigned each parcel with an "800" or "801" taxability code, performed a market analysis for each property to determine the current full cash value, suspended the application of the annual inflationary factor, and notified taxpayers of any change to their assessed values. However, we found an area in the assessor's decline in value program that is in need of improvement.

RECOMMENDATION 6: Annually review all decline-in-value properties pursuant to section 51(e).

We found that for properties already in decline-in-value status, the assessor does not consistently perform annual reviews for each of these properties in accordance with section 51(e). We found some properties being reviewed annually, and some properties not being reviewed for several years.

Section 51(e) provides that the assessor is not required to annually reappraise all assessable property to determine if the property qualifies for a decline-in-value reduction. However, for each lien date after the first lien date for which the taxable value of the property is reduced, the value of that property must be annually reappraised at its full cash value until its full cash value exceeds its FBV.

By not annually reviewing all properties in decline-in-value status, the assessor is not in compliance with statute and may be enrolling incorrect assessments for the lien date.

Timberland Production Zone Property

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The annual value of a TPZ property is determined by its appropriate per-acre site value (section 434.5) plus the lower of the current market value or the factored base year value of any compatible, nonexclusive uses of the property (section 435).

The special valuation methods for TPZ lands do not apply to structures on TPZ lands or to reasonable sites for such structures. In other words, structures and the sites directly related to those structures are assessed similar to all other real property.

For the 2011-12 roll year, Humboldt County had 7,467 TPZ parcels encompassing 1,016,830 acres, with a total assessed value of \$135,463,510. All land zoned TPZ is

appropriately identified on the assessment roll with the notation "TPZ," in conformance with section 433.

The assessor values all TPZ properties pursuant to the timberland value schedule approved annually by the BOE. This schedule determines per-acre values by region and timber site classification. Appraisers are responsible for valuing the TPZ properties located within their assigned geographic areas. In Humboldt County, 419,412 acres of the total TPZ properties are classified as the "Redwood Region" and the remaining 597,418 acres of the TPZ properties are classified as the "Whitewood Region." There are no TPZ properties classified as "Pine-Mixed Conifer Region" in Humboldt County. TPZ properties are valued using the five different site classifications. Our review of several TPZ properties shows that the assessor follows the BOE's timberland value schedule correctly and updates the information annually.

Homesites, residences, and other structures on TPZ land are not restricted or subject to TPZ restrictions. In accordance with the provisions of article XIII A, they are valued at their factored base year value or current market value, whichever is less. We reviewed several TPZ properties with homesites, residences, and structures and found that these properties were valued correctly. In addition, we reviewed several recent sales of TPZ properties and found that the assessor correctly did not revalue the restricted portion of the property included in the sale, but did note the proper base year value on the property record. Any nonrestricted land and improvements included in the sale were revalued at current market value as of the date of the sale, and supplemental assessments were correctly issued.

Overall, the assessor has a thorough and well managed TPZ program. However, we noted an area in need of improvement.

RECOMMENDATION 7: Periodically send questionnaires to all owners of TPZ properties to discover nonexclusive compatible uses.

We found that the assessor currently has no formal procedures in place, such as field reviews of TPZ properties or sending questionnaires to owners of TPZ properties, to discover nonexclusive compatible uses.

Section 435(a) requires the assessor to value timberland according to the site value schedules pursuant to section 434.5 and to value any compatible, nonexclusive uses of the land. Nonexclusive compatible uses may include grazing, hunting, fishing, camping, mining, watershed management, and fish and wildlife habitat.

The value of nonexclusive compatible uses must be determined annually and added to the site class values for the timberland. Not discovering such uses could lead to an underassessment of TPZ properties.

Taxable Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly-owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on

the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

The assessor enrolled 920 taxable possessory interests for the 2011-12 roll year, with a total assessed value of \$23,229,636. These taxable possessory interests are located on property owned by 50 public agencies. The majority of the taxable possessory interests enrolled in Humboldt County are for marina slips and airport hangars. Others include, but are not limited to, interests at county fairgrounds, video franchises, employee housing, grazing permits, and concessions at public schools. Taxable possessory interests are enrolled on the unsecured roll and are identified on the roll by an "860" prefix.

The assessor uses BOE-502-P, *Possessory Interests Annual Usage Report*, as the primary means of discovering taxable possessory interests. These reports are sent annually to all 50 public agencies that have previously reported taxable possessory interests, and to any other public agency hosting events that staff have discovered through local newspapers, signs advertising upcoming events, and Internet searches for activities in the county.

In Humboldt County, two appraisers are responsible for the discovery and assessment of all taxable possessory interests. They are proactive in the discovery process, even visiting those public agencies that are reluctant or slow to provide the requested information in order to review the taxable possessory interest files and collect all necessary data required for the valuation process.

We found that the appraisers maintain organized property records for taxable possessory interests. When the appraisers find a property record lacking sufficient data, the record is updated to include the necessary data, such as the type of usage, the name of the public agency, the fee parcel affiliated with the taxable possessory interest, the initial term of possession, and the remaining term of possession. In addition, the appraisers have developed automated valuation spreadsheets, and they continue to develop other spreadsheets in an effort to maximize the efficiency of tracking and monitoring taxable possessory interests.

While we found that the appraisers have made significant efforts to improve the taxable possessory interests program and are currently revising assessment procedures as part of that effort, we also found areas where additional improvement is needed.

RECOMMENDATION 8: Improve the assessment of taxable possessory interests by: (1) using proper methods to develop the income stream to be capitalized when using the direct income approach to value taxable possessory interests, (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (3) reappraising taxable possessory interests with month-to-month tenancies in accordance with section 61(b)(2), (4) obtaining copies of all current lease agreements or permits for taxable possessory interests, (5) issuing supplemental assessments for taxable possessory interests upon a change in ownership or completion of new construction, (6) exempting from property taxation only qualified taxable possessory interests that are in compliance with section 254, and (7) valuing each individual franchise of a multiple-franchise company when valuing cable or video service taxable possessory interests.

Use proper methods to develop the income stream to be capitalized when using the direct income approach to value taxable possessory interests.

We found that the assessor does not always use economic (market) rent to develop the income stream to be capitalized when determining the value of the taxable possessory interest. In addition, we found that the assessor does not make a deduction from the gross rent for management and other operating expenses incurred by the public owner.

According to Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), the income to be capitalized when valuing a taxable possessory interest is the "net return" to the public owner attributable to the taxable possessory interest, which is "gross return" less "gross outgo." Rule 8(c) defines gross return as any money or money's worth that the taxable property will produce and gross outgo as any outlay of money or money's worth required to develop and maintain the estimated income. Gross outgo is also commonly referred to as allowed expenses.

The income to be capitalized may be based on either rental or operating income; when rental income is used, the income should reflect the estimated economic (market) rent. When estimating the income to be capitalized, allowed expenses paid by the public owner should be deducted from the estimated gross economic rent. Rule 21(e)(3)(C) provides that the income to be capitalized in the valuation of a taxable possessory interest is the "net return" as defined in Rule 8(c).

If rental income is used to determine the income to be capitalized, the appraiser may estimate the economic rent as of the valuation date using any of the following indicators or evidence of market rent:

- The contract rent for the subject taxable possessory interest.
- Contract rents for comparable taxable possessory interests.
- Contract rents for leasehold interests in comparable real property held in fee.
- Contract rents for other comparable interests in real property.

Contract rents should be negotiated in a competitive market involving real property reasonably comparable to the taxable possessory interest being valued in terms of physical attributes, location, legally enforceable restrictions on the property's use, term of possession, and risk of cancellation of the taxable possessory interest by the public owner. In addition, the contract rents should have been negotiated close in time to the valuation date of the subject to better reflect economic rent as of the valuation date.

By not properly developing the income stream to be capitalized to value taxable possessory interests, the assessor may be enrolling incorrect assessments.

Periodically review all taxable possessory interests with stated terms of possession for declines in value.

We reviewed several taxable possessory interests with stated terms of possession. We found several instances where these taxable possessory interests were not reviewed for possible declines in value. Instead, the assessor simply enrolled the factored base year values each year.

Rule 21(d)(1) states, in part, "The stated term of possession shall be deemed the reasonably anticipated term of possession unless it is demonstrated by clear and convincing evidence that the public owner and the private possessor have reached a mutual understanding or agreement, whether or not in writing, such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. If so demonstrated, the term of possession shall be the stated term of possession as modified by the terms of the mutual understanding or agreement."

Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as of a specific date as "...the remaining period of possession as of that date as specified in the lease, agreement, deed, conveyance, permit, or other authorization or instrument that created, extended, or renewed the taxable possessory interest, including any option or options to renew or extend the specified period of possession if it is reasonable to assume that the option or options will be exercised." Therefore, the stated term of possession declines each year. This may or may not have a material effect on the market value of the possessory interest. Thus, absent clear and convincing evidence of a mutual understanding or agreement as to a shorter or longer term of possession, the assessor must estimate the current market value of the taxable possessory interest on lien date based on the remaining stated term of possession, compare this value to the factored base year value, and enroll the lower of the two values.

Although the assessor is not required to reappraise all properties each year, the assessor should develop a program to periodically review assessments of taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized. Failure to periodically review taxable possessory interests for possible declines in value may cause the assessor to overstate the taxable value of a taxable possessory interest.

Reappraise taxable possessory interests with month-to-month tenancies in accordance with section 61(b)(2).

We found that the assessor reappraises some taxable possessory interests with month-to-month contracts (tenancies) prior to the end of the reasonably anticipated term of possession used by the assessor to initially value the taxable possessory interest. For example, we found instances in

which the assessor reappraised the taxable possessory interest on an annual basis, establishing a new base year value each year as if there had been a change in ownership, even though a reasonably anticipated term of possession of five years had been used by the assessor to initially value the taxable possessory interest.

Section 61(b) provides that a change in ownership, as defined in section 60, includes the creation, renewal, extension, or assignment of a taxable possessory interest in tax exempt real property. However, section 61(b)(2) further provides that the renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used to value the interest does not result in a change in ownership until the end of the reasonably anticipated term of possession. At that time, the assessor should establish a new base year value based on a new reasonably anticipated term of possession determined by the assessor.

By not reappraising taxable possessory interests as provided in section 61(b)(2), the assessor may be enrolling incorrect assessments. This practice also results in inconsistent treatment of taxpayers.

Obtain copies of all current lease agreements or permits for taxable possessory interests.

The assessor does not consistently obtain copies of current leases or permits for taxable possessory interests. The assessor primarily relies on tenant lists, historical information, or information obtained from the public agencies.

Rule 21 describes the various approaches to value and how to determine the term of possession for the valuation of taxable possessory interests. Rule 21(d)(1) explains that the stated term of possession for the valuation of taxable possessory interests is deemed to be the reasonably anticipated term of possession except in limited situations. Rule 21(e)(3)(C) explains how to determine the net operating income for capitalization purposes.

These steps in the valuation process cannot be properly completed if the contract conveying the taxable possessory interest is not reviewed. For example, the assessor may have some information relating to the initial lease term, but may not know of any renewal options contained in the lease or the allocation of operating expenses between the public owner and possessor. A review of the lease is necessary in order to determine the proper valuation variables.

By not obtaining copies of current leases or permits, the assessor may lack the proper information to accurately value taxable possessory interests.

Issue supplemental assessments for taxable possessory interests upon a change in ownership or completion of new construction.

Upon a change in ownership or completion of new construction involving a taxable possessory interest, the assessor establishes a new base year value. However, we found that the assessor does not issue supplemental assessments based on these events.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that there shall be a supplemental assessment following a change in ownership or completion of new construction.

AH 510 advises that the supplemental assessment amount for the newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll.

The assessor's failure to issue supplemental assessments is contrary to statute and results in unequal treatment of taxpayers.

Exempt from property taxation only qualified taxable possessory interests that are in compliance with section 254.

We found that the assessor grants the public school exemption for taxable possessory interests of vending facilities located at public schools without obtaining an affidavit from the concessionaire of the vending facility, as required by section 254.

Under article XIII, section 3(d) of the California Constitution, property used exclusively for public schools is exempt from property taxation. Section 254 provides that any person claiming the public schools property tax exemption shall submit to the assessor, annually, an affidavit giving any information required by the BOE. In August 2010, the BOE developed Board-prescribed form BOE-263-B, *Lessees' Exemption Claim*, to be used as the affidavit to claim this property tax exemption.⁹

The assessor's practice of granting the public school exemption for a taxable possessory interest without obtaining a required affidavit is contrary to statute and may result in certain owners of taxable possessory interests being granted an exemption to which they may not be entitled.

Value each individual franchise of a multiple-franchise company when valuing cable or video service taxable possessory interests.

In Humboldt County, there is one cable television company with multiple franchises that provides video services to various areas within the county. The assessor does not value each of these franchises separately. Instead, the assessor determines the present value of the total income from all of the franchises, and then allocates that total value in a proportional manner between all of the franchises. This method of valuation does not take into consideration the terms specified in each individual lease agreement for each of the separate franchises when calculating the income stream to be capitalized.

Section 107.7(a) provides that the methods of valuation to be used to value a cable or video service possessory interest shall include, but are not limited to, the comparable sales method, the income method (including, but not limited to, capitalizing rent), or the cost method.

Section 107.7(b)(1) provides that the preferred method of valuation for cable or video service possessory interests is to capitalize the annual rent, using the appropriate capitalization rate.

Section 107(b)(2) defines the annual rent as that portion of the franchise fee received that is determined to be payment for the cable or video service possessory interest for the actual remaining term of the reasonably anticipated term of the franchise, or the appropriate economic

⁹ Prior to creation of BOE-263-B, as long as the possessor had filed some sort of exemption form annually with the assessor, the exemption was deemed justified.

rent. If the assessor does not use a portion of the franchise fee as the economic rent, the assessment loses its presumption of correctness.

Since each franchise has negotiated different terms as specified in their separate lease agreements, the assessor should calculate the income stream for each franchise separately based on the terms of each agreement, separately capitalize each income stream, and separately determine values with respect to each franchise. The assessor's practice of capitalizing the total income of all of the cable or video service franchises in the county to determine a total possessory interest value and then allocating that value proportionately among the separate franchises is contrary to statute and may result in incorrect assessments.

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.

There are no high temperature geothermal properties located in Humboldt County.

Petroleum Property

In Humboldt County, a mineral consultant appraises all petroleum properties. Property values are down from previous years due to declining production and reduced values for natural gas properties statewide. The total assessed value of petroleum properties in Humboldt County for the 2011-12 roll year was approximately \$17,209,300. We have no recommendations regarding petroleum property assessments located in Humboldt County.

Unpatented Mining Claims

There are approximately 50 unpatented mining claims located in Humboldt County. Over the last several years, the chief appraiser has been working with neighboring counties in an effort to review and update Humboldt County's current procedures for valuing unpatented mining claims. Sales of these types of possessory interest properties are rare and, therefore, the assessor exchanges data with neighboring counties in an effort to increase the amount of available data for sales analysis of these properties. We have no recommendations regarding unpatented mining claims in Humboldt County.

Mining Property

Rule 469 states that mining properties are enrolled at the lower of current market value or the factored base year value. In order to make this determination, mining properties should be reappraised each year. Current market values are also needed to make the proper adjustments to the factored base year value for the addition of new reserves. This is particularly important in Humboldt County, since many of the mining properties are located along rivers that flood on a

periodic basis, transporting new material to the mining property and increasing its reserves. This increase in reserves should be reflected in the property's factored base year value.

In our review of mining properties in Humboldt County, we found that the assessor has implemented procedures to make the proper required adjustments to factored base year values and to compare those values to current market value, enrolling the lower of the two values as required by Rule 469. We have no recommendations regarding mining properties in Humboldt County.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

In this section of the survey report, we review the assessor's audit, business property statement, business equipment valuation, and vessels programs.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

Prior to January 1, 2009, section 469 required county assessors to audit at least once every four years the books and records of any taxpayer engaged in a profession, trade, or business if the taxpayer had assessable trade fixtures and business tangible personal property valued at \$400,000 or more. These statutorily required audits are commonly referred to as mandatory audits. Additionally, a county assessor may audit the books and records of taxpayers with holdings below \$400,000 in value under the authority of section 470. These audits are referred to as nonmandatory audits. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of property taxpayers with personal property holdings subject to the property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

In Humboldt County, the audit responsibility falls upon a senior auditor-appraiser, two auditor-appraisers, and an appraisal technician, who are all under the direction of the assistant assessor. The assistant assessor reviews each audit upon completion.

As previously noted, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete 24 audits per year. The assessor completed 30 audits during the 2010-11 roll year and 28 audits during the 2011-12 roll year. Given recent and current audit production levels, the assessor has exceeded the minimum number of audits required as defined by section 469.

Statute of Limitations

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time period, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

The assessor requests signed waivers of the statute of limitations from taxpayers when she anticipates an audit will not be completed in a timely manner. We reviewed a number of waivers presented to property owners during recent years and found them to be adequately prepared and properly executed.

Audit Quality

An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should include adequate documentation, full value calculations, reconciliation of the fixed assets totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

We sampled numerous completed audits and found they were thoroughly conducted, well documented, and supported by a comprehensive audit narrative and checklist defining the areas of investigation. We found that the assessor verifies leased equipment, accounts for supplies, conducts field inspections, and properly classifies equipment. We also reviewed the assessor's application of roll corrections to reflect audit findings and found that when correcting for multiple-year audit findings, the assessor is enrolling corrections for each year in which the escape assessment took place pursuant to section 531. However, we found that the assessor does not enroll corrections for value changes when audit findings show an annual value change of \$2,000 or less.

RECOMMENDATION 9: Enroll all escape assessments discovered during an audit.

We found that the assessor does not enroll low-value escaped assessments found during an audit. It is the assessor's policy not to enroll escape assessments of \$2,000 or less, even though the assessor does not have an ordinance in place giving her this authority.

Section 531.9 permits a county board of supervisors to adopt an ordinance to prohibit an assessor from making escape assessments where the amount of taxes due is less than the cost of assessing and collecting them. The ordinance may not apply to an escape assessment that results in the amount of taxes due to be in excess of \$50. Humboldt County currently has no such ordinance. The assessor's practice is contrary to statute and causes unequal treatment of taxpayers.

Business Property Statement Program

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the BPS address a variety of property types, including commercial, industrial, agricultural, vessels, and certificated aircraft.

Discovery

The assessor utilizes a wide range of tools for discovering taxable business property. Taxpayer self-reporting and periodic field canvassing are significant means of discovering assessable property. Other means of discovery utilized by the assessor include reviewing city and county business licenses, fictitious business name filings, business directory services, real property appraiser referrals, and landlord reports of tenants. We found that the assessor employs effective methods for discovering business personal property.

General Statement Processing

BPSs are date stamped when received. Statements are reviewed for completeness and timeliness. BPSs are also reviewed for any changes to existing accounts, such as mailing address, ownership or business name, DBA, or situs address. A certified auditor-appraiser prepares and enters all valuation adjustments into the computer system.

We reviewed the BPS program and found that statements sampled evidenced the proper usage of Board-prescribed forms, were completed appropriately, and reflected proper record storage and retention. Coordination between business property and real property staff members was demonstrated through referrals of BPSs being copied and forwarded to real property staff for further review. The assistant assessor oversees all routine processing of statements performed by non-certified staff. The assessor retains property statements for seven years.

Our review also included verifying the assessor's procedures for processing late and non-filed statements. We found that the assessor properly applies the late-filing penalty as required by section 463.

Filing Procedures

Under section 441.5, in lieu of completing the BPS, information required of the taxpayer may be furnished to the assessor as attachments to the BPS provided the attachments are in the format specified by the assessor, and a copy of the actual BPS is signed by the taxpayer, or their authorized agent, and carries appropriate references to the data attached. The assessor allows taxpayers to submit attachments in lieu of completing a BPS, as provided in section 441.5, only if the taxpayer or the taxpayer's assignee submits the signed original BPS. However, we found BPSs that were processed without proper signatures and without obtaining written authorizations from the agents signing the BPSs.

RECOMMENDATION 10: Accept only properly signed business property statements (BPS).

Our review found several BPSs that were not signed by a qualified person and the required assessee's written authorization was not on file with the assessor. In addition, one statement lacked a signature.

According to Rule 172, property statements and mineral production report forms that are Board-prescribed and filed with the assessor or the BOE shall be signed by the assessee, a partner, a duly appointed fiduciary, or an agent. When signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary, the assessee's written authorization allowing the agent or employee to sign the statement on behalf of the assessee must be filed with the assessor. A property statement or a mineral production report that is unsigned does not constitute a valid filing. The penalty imposed by section 463 for failure to file shall be applicable to unsigned property statements. The assessor's practice is contrary to statute.

Business Equipment Valuation

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.

Section 401.5 provides that the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581).

The assessor has a coding system to identify and designate the use of specific valuation tables for business property equipment reported on the business property statement (BPS). These factor tables are developed for use in mass appraisals and are used for converting original cost to estimates of market value for property tax purposes.

The assessor utilizes, as a guide, Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures* (AH 504). In addition, the assessor has adopted the price indices and percent good factors recommended in AH 581 and in tables developed by the California

Assessors' Association (CAA). The CAA tables parallel the tables published in AH 581, with the exception of specific types of equipment (such as pagers, facsimile equipment, and high tech medical equipment) that the CAA recommends should not be trended.

We reviewed the assessments of a variety of business equipment reported by businesses, such as banks and financial institutions, service stations, grocery stores, propane companies, construction, and agricultural businesses. We found that the assessor correctly applies the CAA factor tables and the Board-recommended cost index, depreciation tables, and valuation factor tables. We have no recommendations for the assessor's business equipment valuation program.

Vessels

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbor masters' reports, and field canvassing.

In Humboldt County, it is the responsibility of a senior auditor-appraiser to process vessel property statements and perform vessel assessment duties. The assessor's primary sources of discovery include reviewing DMV reports, referrals from other counties, information from vessel owners themselves, harbor master reports, and field canvassing twice a year.

The assessor enrolled a total of 2,605 vessels for the 2011-12 roll year, with a total assessed value of \$36,762,213. The following table shows the number and total assessed value of vessels in Humboldt County in recent years:

YEAR	NUMBER OF PLEASURE VESSELS	ASSESSED VALUE	NUMBER OF DOCUMENTED VESSELS	ASSESSED VALUE
2011-12	2,412	\$20,842,126	193	\$15,920,087
2010-11	2,395	\$20,983,247	194	\$16,784,470
2009-10	2,514	\$24,829,810	197	\$17,591,399
2008-09	2,519	\$23,474,499	200	\$18,504,175

The assessor primarily uses the *ABOS Marine Bluebook* and, if needed, the National Automobile Dealers Association *Marine Appraisal Guide* (NADA) to value vessels. If current or reliable information is not available in one of the published value guides, the assessor uses the values of similar vessels from Internet websites to obtain current, comparable sales data. For vessels not new to the county, values are derived using the BOE annual vessel valuation factors. Any departure from BOE factors is supported by the assessor's own vessel valuation study.

The assessor sends BOE-576-D, *Vessel Property Statement*, annually to all registered owners of vessels with a cost of \$100,000 or more, and to registered owners of vessels subject to a change in ownership.

In a sample of vessel property statements reviewed, we found that appropriate valuation methods were employed, including adding sales tax and delivery charges when using one of the value guides. Adjustments for condition and additional equipment were also made. Values for the samples reviewed were found to be reasonable.

Vessels Qualifying for the 96 Percent Exemption

Certain commercial vessels may qualify for a 96 percent exemption if they meet the requirements in section 227. For vessel's owners to qualify for the exemption, they must file BOE-576-E, *Affidavit For 4 Percent Assessment Of Certain Vessels*. If the taxpayer files an affidavit by February 15, a 96 percent exemption may be granted. When filed after February 15, but before August 1, the assessor may still grant a reduced exemption of 76.8 percent (80 percent of the 96 percent exemption). However, no exemption may be granted for those taxpayers filing an affidavit after August 1.

We sampled several partially exempt vessels and found that the exemption forms were sufficiently completed and exemptions were appropriately granted when the qualifications in section 227 were met.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Humboldt County

Chief

Dean Kinnee

Survey Program Director:

Mike Harris

Manager, Property Taxes

Survey Team Supervisor:

Sally Boeck

Supervisor, Property Taxes

Survey Team Leader:

Ronald Louie

Supervisor, Property Taxes

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Gary Coates

Associate Property Appraiser

Robert Marr

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

Paula Montez

Associate Property Auditor-Appraiser

Dany Lunetta

Associate Governmental Program Analyst

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing¹⁰ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The BOE, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The BOE's County-Assessed Properties Division (CAPD) conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)¹¹

From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.

For purposes of analysis, after the sample is drawn, the items are identified and placed into one of the five categories listed below:

Base year properties. Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

¹⁰ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

¹¹ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

Transferred properties. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

New construction. Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

Non-Proposition 13 properties. Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, Timberland Production Zone property, and taxable government-owned property.

Unsecured properties. Those properties on the unsecured roll.

From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, that is, the "unexpanded" sample, to over-represent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

The field investigation objectives are somewhat different in each category, for example:

Base year properties -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? Was there a change in ownership? Was there new construction? Or, was there a decline in value?

Transferred properties -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? Do we concur with the county assessor's new value? Was the base year value trended forward (for the allowed inflation adjustment)? Was there a subsequent ownership change? Was there subsequent new construction? Was there a decline in value?

New construction -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? Do we concur with the value enrolled? Was the base year amount trended forward properly (for the allowed inflation adjustment)? Was there subsequent new construction? Or, was there a decline in value?

Non-Prop 13 properties -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment, do we concur with the amount enrolled?

Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

The results of the sample are then expanded as described above. The expanded results are summarized according to the five assessment categories and by property type and are incorporated into the published assessment practices survey report.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the CAPD. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

(a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.

(b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.

(c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.

(d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.

(e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.

(f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of records; appraisal data not public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located, of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

(a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

(b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report.

The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement or the reasons for not implementing, the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code

75.60. Allocation for administration.

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

(a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.

(b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.

- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
- (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

(c) ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS. If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.

(d) ADDITIONAL SURVEYS. This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

(a) For purposes of Revenue and Taxation Code section 75.60 and Government Code section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the Board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting audits in accordance with Revenue and Taxation Code section 469.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code sections 107 et. seq.

- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code section 75.60 and Government Code section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Humboldt County Assessor's response begins on the next page. The BOE has no comments on the response.



COUNTY ASSESSOR
C O U N T Y O F H U M B O L D T
825 5TH STREET, ROOM 300
EUREKA, CALIFORNIA 95501 PHONE (707) 445-7276
TOLL FREE (866) 240-0485

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MAR 10 2014

County-Assessed Properties Division
State Board of Equalization

February 18, 2014

Mr. Dean R. Kinnee, Chief
County Property Tax Division
State Board of Equalization
Sacramento, CA 94274-0062

Dear Mr. Kinnee,

Pursuant to California Government Code Section 15645, enclosed please find our response to the Humboldt County Assessment Practices Survey and sample of the 2011-2012 Assessment Roll. Please incorporate this response in your final Assessment Practices Survey Report.

We acknowledge the professional and considerate manner in which the Board survey crew conducted themselves while surveying our office, performing the sampling program, and interviewing our staff. We appreciate their constructive comments and suggestions for improvement regarding our operations.

I would also like to acknowledge the hard work, professionalism, and dedication of the staff of the Humboldt County Assessor's Office. We continue to work together to find more efficient ways to do our work and to provide excellent customer service to the taxpayers of Humboldt County.

Sincerely,

Mari A. Wilson
Humboldt County Assessor

Enc.

RECOMMENDATIONS AND RESPONSES

Recommendation 1: Improve the staff property and activities program by: (1) expanding the written procedures for the assessment of staff-owned property, and (2) ensuring compliance with procedures as stated in the assessor's Conflict of Interest Code.

Response: We concur and have implemented this recommendation.

Recommendation 2: Improve the change in ownership program by correctly implementing the penalty abatement process in accordance with section 483(b).

Response: We concur and have implemented this recommendation.

Recommendation 3: Improve the LEOP program by: (1) timely reassessing all properties owned by a legal entity undergoing a change in control or ownership, and (2) properly implementing the penalty process in accordance with section 482(b).

Response: We concur. We have recognized the changes in ownership for the entities not previously reassessed. We are updating our written policies and procedures to comply with this recommendation.

Recommendation 4: Properly implement the provisions of section 63.1(j) when a certified claim for exclusion is subject to a processing fee.

Response: We concur and have implemented this recommendation.

Recommendation 5: Enroll all assessable new construction as of the completion date and issue appropriate supplemental assessments.

Response: We are in the process of requesting that the Board of Supervisors adopt an ordinance exempting supplemental assessments of \$2,000 or less. We believe that when this is accomplished we will be in compliance with this recommendation.

Recommendation 6: Annually review all decline-in-value properties pursuant to section 51(e).

Response: We concur and have implemented this recommendation.

Recommendation 7: Periodically send questionnaires to all owners of TPZ properties to discover nonexclusive compatible uses.

Response: We concur and have started the planning process to be able to comply with this recommendation.

Recommendation 8: Improve the assessment of taxable possessory interests by: (1) using proper methods to develop the income stream to be capitalized when using the direct income approach to value taxable possessory interests, (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (3) reappraising taxable possessory interests with month-to-month tenancies in accordance with section 61(b)(2), (4) obtaining copies of all current lease agreements or permits for taxable possessory interests, (5) issuing supplemental assessments for taxable possessory interests upon a change in ownership or completion of new construction, (6) exempting from property taxation only qualified taxable possessory interests that are in compliance with section 254, (7) valuing each individual franchise of a multiple-franchise company when valuing cable or video service taxable possessory interests.

Response: With the assistance of Board staff our possessory interest assessment program was reworked for the 2013 lien date. We had been using methods previously taught in Board of Equalization training, but have changed our methods to reflect current Board of Equalization instruction.

Recommendation 9: Enroll all escape assessments discovered during an audit.

Response: We are in the process of requesting that the Board of Supervisors adopt an ordinance exempting escape assessments of \$2,000 or less. We believe that when this is accomplished we will be in compliance with this recommendation.

Recommendation 10: Accept only properly signed business property statements (BPS).

Response: We concur. We are updating our written policies and procedures to comply with this recommendation.