

# BUTTE COUNTY ASSESSMENT PRACTICES SURVEY

**JULY 2016**

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## CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2016/025

July 13, 2016

TO COUNTY ASSESSORS:

**BUTTE COUNTY  
ASSESSMENT PRACTICES SURVEY**

A copy of the Butte 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 Diane Brown, Butte 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 Butte 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 2014. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Former Assessor Fred Holland and his staff gave their complete cooperation during the survey field work. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee  
Deputy Director  
Property Tax Department

DRK: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 selected county assessors' offices. This report reflects the BOE's findings in its current survey of the Butte 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 Butte 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 Diane Brown, Butte County Assessor, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendixes.

## **OBJECTIVE**

The survey shall "...show the extent to which assessment practices are consistent with or differ from state law and regulations."<sup>1</sup> The primary objective of a survey is to ensure the assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

The objective of the survey program is to promote statewide uniformity and consistency in property tax assessment, review each county's property assessment practices and procedures once every five years, and publish an assessment practices survey report. Every assessor is required to identify and assess all properties located within the county—unless specifically exempt—and maintain a database or "roll" of the properties and their assessed values. If the assessor's roll meets state requirements, the county is allowed to recapture some administrative costs.

## **SCOPE AND METHODOLOGY**

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.

Pursuant to Revenue and Taxation Code<sup>2</sup> 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.

This survey included an assessment sampling of the 2013-14 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

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<sup>1</sup> Government Code section 15642.

<sup>2</sup> 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.

disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments.<sup>3</sup>

Our survey methodology of the Butte County Assessor's Office included reviews of the assessor's records, interviews with the former assessor and his staff, and contacts with officials in other public agencies in Butte County who provided information relevant to the property tax assessment program.

For a detailed description of the scope of our review of county assessment practices, please refer to the document entitled *Scope of Assessment Practices Surveys*, available on the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/Scopemaster.pdf>. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

We conducted reviews of the following areas:

- Administration

We reviewed the assessor's administrative policies and procedures that affect both the real property and business property assessment programs. Specific areas reviewed include the assessor's budget and staffing, workload, staff property and activities, assessment appeals, and exemptions.

- Assessment of Real Property

We reviewed the assessor's program for assessing real property. Specific areas reviewed include properties having experienced a change in ownership, new construction assessments, properties experiencing a decline in value, and certain properties subject to special assessment procedures, such as California Land Conservation Act (CLCA) property, taxable possessory interests, and mineral property.

- Assessment of Personal Property and Fixtures

We reviewed the assessor's program for assessing personal property and fixtures. Specific areas reviewed include conducting audits, processing business property statements, business equipment valuation, manufactured home assessments, and vessel assessments.

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<sup>3</sup> For a detailed description of the scope of this program, please refer to the document entitled *Assessment Sampling Program*, available on the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/assessmentsamplingprogram.pdf>. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

## **EXECUTIVE SUMMARY**

We examined the assessment practices of the Butte County Assessor's Office for the 2013-14 assessment roll. 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.

In the area of administration, the assessor adequately handles the budget and staffing, workload, assessment appeals, and exemptions programs, and properly addresses staff property and activities.

In the area of real property assessment, the assessor has effective programs for California Land Conservation Act (CLCA) properties and declines in value. However, we recommend the assessor make improvements in the change in ownership and new construction programs, as well as in the assessment of taxable possessory interests and mineral properties.

In the area of personal property and fixtures, the assessor has an effective program for the valuation of vessels. However, improvements are needed in the audit and the business property statement programs, as well as in the valuation of business equipment and manufactured homes.

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

The Butte County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2013-14 assessment roll indicated an average assessment ratio of 100.67 percent, and the sum of the absolute differences from the required assessment level was 0.90 percent. Accordingly, the BOE certifies that Butte County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

## **OVERVIEW OF BUTTE COUNTY**

Butte County is located in northern California, has 1,636.46 square miles of land area, and a population of 222,090.

Butte County has five incorporated cities: Biggs, Chico, Gridley, Oroville (County Seat), and Paradise. Butte County is bounded on the north by Tehama County, on the west by Glenn and Colusa Counties, on the south by Sutter and Yuba Counties, and on the east by Plumas and Sierra Counties.



Butte County was one of California's original 27 counties founded on February 18, 1850. The county is named for the Sutter Buttes, a prominent geographical landmark rising out of the floor of the Sacramento Valley. Butte County is home to one of the most extensive water development programs in the United States. Oroville Dam, a keystone facility of the State Water Project and its largest reservoir, is the world's highest earth filled embankment, which has developed a multi-purpose lake with a shoreline of 167 miles.

## FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the Butte County assessment roll meets the requirements for assessment quality established by section 75.60. This report does not provide a detailed description of all areas reviewed; it addresses only the deficiencies discovered.

Following is a list of the formal recommendations contained in this report.

**RECOMMENDATION 1:** Update the section 408.1 transfer list on the 30<sup>th</sup> day of each calendar quarter, pursuant to section 408.1(b). .....8

**RECOMMENDATION 2:** Reassess all property with a full cash value in excess of the \$1,000,000 reassessment exclusion limit specified in section 63.1 .....9

**RECOMMENDATION 3:** Obtain permit data related to water wells and septic systems. ....10

**RECOMMENDATION 4:** Improve the taxable possessory interest program by: (1) obtaining copies of all current lease agreements or permits for taxable possessory interests; (2) properly calculating supplemental assessments for newly created taxable possessory interests; (3) reappraising all taxable possessory interests as required by section 61(b); (4) adding the present worth of unpaid future contract rents to the sale price of a taxable possessory interest; (5) recognizing lessor expenses when valuing taxable possessory interests by the income approach; and (6) assessing all taxable possessory interests. ....11

**RECOMMENDATION 5:** Capitalize the future maintenance fee payments to the BLM and add to the sales value per acre to arrive at the assessable value. ....14

**RECOMMENDATION 6:** Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469. ....14

**RECOMMENDATION 7:** Timely audit the books and records of professions, trades, and businesses and perform the minimum number of audits pursuant to section 469. ....16

**RECOMMENDATION 8:** Request a waiver of the statute of limitations when an audit will not be completed in a timely manner. ....17

**RECOMMENDATION 9:** Use a comprehensive audit checklist as a standard component of all audits. ....18

**RECOMMENDATION 10:** Improve the audit program by: (1) properly enrolling all escape assessments and overassessments discovered during the course of an audit; and (2) informing taxpayers of their right to appeal as required by Rule 305.3.....18

**RECOMMENDATION 11:** Improve the business property statement program by: (1) accepting only properly signed business property statements; and (2) furnishing property statements and report forms to every person required by law or requested by the assessor to file in accordance with Rule 171(f). .....20

**RECOMMENDATION 12:** Conduct an audit or field review when property owners fail to file a BPS for three or more consecutive years. ....21

**RECOMMENDATION 13:** Value business related personal property and fixtures for apartments with market supported data.....22

**RECOMMENDATION 14:** Improve the manufactured home assessment program by: (1) assessing manufactured homes at the lesser of the factored base year value or the current market value, as required by section 5813; and (2) ensuring no value attributable to the site is included in the value to be enrolled when using the comparative sales approach to value manufactured homes. ....23

## ASSESSMENT OF REAL PROPERTY

### ***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 a 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 the change in ownership.<sup>4</sup>

### Section 408.1 Transfer Lists

Pursuant to section 408.1(a), the assessor shall maintain a list of transfers of any interest in property, other than an undivided interest, within the county, which have occurred within the preceding two-year period. Section 408.1(e) states the provisions of section 408.1(a) shall not apply to any county with a population under 50,000 people, as determined by the 1970 federal decennial census. Based on the population of Butte County in 1970, the assessor is required to maintain a transfer list. We discovered the assessor gives computer access to the transfer list to taxpayers in the front lobby of the assessor's office. The assessor's transfer list provides the data required by section 408.1(c), but we found the data is not updated in a timely manner.

**RECOMMENDATION 1:** Update the section 408.1 transfer list on the 30<sup>th</sup> day of each calendar quarter, pursuant to section 408.1(b).

We discovered the assessor only updates the transfer list annually, after the close of each assessment roll. Section 408.1(b) requires the transfer list to be updated on the 30th day of each calendar quarter to include all such transactions that were recorded in the preceding quarter. Without updating the transfer list as required by 408.1(b), the public does not have timely access to all the information that must be made available.

### 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. Certain transfers from grandparents to their grandchildren are also excluded.

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

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<sup>4</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Change in Ownership*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/cio\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. Even if an assessor opts not to report quarterly to the BOE, however, 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.

We reviewed several section 63.1 claim forms and found them to be properly processed. We also reviewed the assessments of several properties in the county included as the most recent transactions on the BOE's *Report of Transferors Exceeding \$1,000,000* for both the first quarter of 2013 and the first quarter of 2014. Overall, we found the processing of section 63.1 exclusions to be well managed. However, we found an area in need of improvement.

**RECOMMENDATION 2:** Reassess all property with a full cash value in excess of the \$1,000,000 reassessment exclusion limit specified in section 63.1.<sup>5</sup>

We found the assessor does not timely reassess all property whose value exceeds the \$1,000,000 reassessment exclusion limit for real property other than the principal residence. In our review of the first quarter of 2014 and the first quarter of 2013 BOE *Report of Transferors Exceeding \$1,000,000*, we found a number of properties with total transfer amounts above the reassessment exclusion limit, having transfer dates from 1995 through 2012, that had not yet been reassessed.

The assessor's practice of not timely processing these reassessments leads to incorrect assessments and contributes to a backlog of appraisal work. In addition, the practice treats taxpayers unequally, in that some are reassessed timely while others, whose reassessment is delayed, receive tax bills for multiple years when past assessment rolls are corrected.

### ***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.<sup>6</sup>

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<sup>5</sup> "Full cash value" as defined in section 2 of article XIII A of the California Constitution and Section 110.1, with any adjustments authorized by those sections.

<sup>6</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *New Construction*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/newconstruction\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/newconstruction_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

We reviewed several property record files involving recent new construction and found the assessor's program for discovering and assessing new construction to be generally well administered. The assessor's property records were well documented and showed construction in progress assessed as of the lien date, completed new construction assessed as of the date of completion, and supplemental assessments issued as of the date of completion, when appropriate. However, we found an area in need of improvement.

**RECOMMENDATION 3:** Obtain permit data related to water wells and septic systems.

We found the assessor does not obtain building permit information for wells and septic systems. The assessor told us that they have requested the information from the Department of Public Health, but the requests have been denied. However, we found that permit data is available online through the Department of Developmental Services' website and can be accessed by the public. Using this source of permit information, we found a number of new wells that escaped assessment.

It is the duty of the assessor to inventory and assess all taxable property within the assessor's jurisdiction. Section 71 requires the assessor to determine the new base year value for the portion of any taxable real property that has been newly constructed. Section 72 requires county or city agencies to furnish copies of building permits to the assessor. A permit for a well can be issued without obtaining a structure permit. This may happen when the owner intends to build at a later date and has not applied for a permit to build a structure. This may also occur when the owner of a vacant parcel has a well drilled as an added enticement when selling the parcel; the presence of the well indicates that there is water on the property and is one cost the buyer will not have to incur after purchase. Owners of agricultural properties will often drill water wells as insurance against reductions in water allocations from irrigation districts and drought. These agricultural wells are often drilled and capped and may remain unused for a number of years before being needed.

To ensure that all qualifying new construction is assessed, the assessor must receive a copy of every approved building permit. Although these permits may be considered less important when compared to the permits for the construction of structures, they may serve notice that some kind construction activity is taking place. These permits may signal that other related construction activity is occurring or may soon begin. By not obtaining well and septic system permit information, the assessor may be allowing new construction to escape assessment.

### ***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.<sup>7</sup>

In Butte County, the assessor enrolled 273 taxable possessory interests for the 2013-14 assessment roll, with a total value of \$56,028,645.

In our review of the assessor's program for the discovery and assessment of taxable possessory interests, we found several areas in need of improvement.

**RECOMMENDATION 4:** Improve the taxable possessory interest program by: (1) obtaining copies of all current lease agreements or permits for taxable possessory interests; (2) properly calculating supplemental assessments for newly created taxable possessory interests; (3) reappraising all taxable possessory interests as required by section 61(b); (4) adding the present worth of unpaid future contract rents to the sale price of a taxable possessory interest; (5) recognizing lessor expenses when valuing taxable possessory interests by the income approach; and (6) assessing all taxable possessory interests.

**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 to ensure that the taxable possessory interest under assessment is properly identified and its terms are fully understood. Instead, the assessor primarily relies on tenant lists, historical information, or miscellaneous information obtained from the public agencies. This information frequently does not provide all the information needed to make accurate assessments.

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; reading the contract to gain a full understanding of the interest to be valued is the only way to make an informed and accurate assessment. For example, the assessor may have 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. In addition, without reading the contract, the assessor may make an incorrect assumption as to whether existing improvements are owned by the lessee or the lessor.

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<sup>7</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Taxable Possessory Interests*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/tpi\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/tpi_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

By not obtaining copies of current leases or permits, the assessor may lack information that would alter the term or expenses used, if otherwise known, to accurately value the taxable possessory interest.

**Properly calculate supplemental assessments on newly created taxable possessory interests.**

We discovered several taxable possessory interests where the assessor improperly calculated the supplemental assessment by offsetting the fair market value against the prior value on the regular roll.

Section 61(b) provides the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides there shall be a supplemental assessment following a change in ownership or completed new construction. According to Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests (AH 510)*, when a supplemental assessment is issued due to a change in ownership, the supplemental assessment amount for the newly created 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 properly calculate supplemental assessments is contrary to statute and causes unequal treatment of taxpayers.

**Reappraise all taxable possessory interests as required by section 61(b).**

We found a taxable possessory interest where the assessor failed to reappraise the interest at the end of the anticipated term of possession. This taxable possessory interest escaped reassessment when the property changed ownership. The value escaping assessment is considerable and warrants this recommendation.

Section 61(b) provides that a change in ownership includes, but is not limited to, the creation, renewal, extension, or assignment of a taxable possessory interest in tax exempt real property. Section 61(b)(2) provides that any renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used to value that interest causes a change in ownership at the end of that term; at that time a new base year value, based on a new reasonably anticipated term of possession, shall be established for the taxable possessory interest.

To assist with the discovery of taxable possessory interests with expired terms, the assessor should establish a tracking system to forewarn that a reappraisal is coming due. Failure to revalue taxable possessory interests at the end of the anticipated term of possession for a renewal or extension of an agreement, or due to an assignment of an interest, is contrary to statute and results in unequal treatment of taxpayers.

**Add the present worth of unpaid future contract rents to the sale price of a taxable possessory interest.**

Upon the sale of certain taxable possessory interests associated with privately owned cabins on United States Forest Service land, the assessor enrolled the sale price of the cabin as market value. The present value of unpaid future contract rent for the term of possession was not added to the reported sale price.

The direct method of the comparative sales approach is one of the generally accepted methods for valuing a taxable possessory interest and is described in Rule 21(e)(1)(A). In this method, an important adjustment to the reported sale price is the addition of the present value of the unpaid future contract rent over the remaining term of possession.

When determining the value of a taxable possessory interest, appraisers must include the total consideration paid for the taxable possessory interest. To reach that amount, the appraiser must include future sums the purchaser has an obligation to pay. If this adjustment is not made, the value will reflect only the buyer's equity value in the taxable possessory interest and not the full consideration paid for the taxable possessory interest, resulting in an underassessment.

### **Recognize lessor expenses when valuing taxable possessory interests by the income approach.**

The assessor typically determines the fair market value of a taxable possessory interest using the direct income approach. We found that the assessor is not consistent in making deductions from the gross rent for management and other operating expenses incurred by the public lessor.

Allowed expenses paid by the public owner should be deducted from the estimated economic rent, as stated in AH 510. 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 subsection (c) of Rule 8) attributable to the taxable possessory interest.

A public owner will incur at least some management expense with each taxable possessory interest. Certain lease agreements may require the public owner to pay insurance, maintenance, or utility expenses. By not recognizing these allowable expenses and subtracting them from the gross income to be capitalized, the assessor may be overstating the value of these taxable possessory interests.

### **Assess all taxable possessory interests.**

We discovered the assessor is not assessing all qualifying taxable possessory interests at the two county fairgrounds. The assessor requests data from the fairgrounds using the BOE-502-P, *Possessory Interests Annual Usage Report*. Although the assessor has recently obtained rental information for the carnival at the Butte County Fair, this taxable possessory interest has yet to be assessed. We found at least one other interest at the fairground that should have been assessed because the assessed value would also exceed the \$50,000 threshold designated in the low-value property exemption ordinance.

Section 107 and Rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are that the right of possession be independent, exclusive, durable, and provide a private benefit. The carnival interest appears to meet these tests.

Failure to assess all potential taxable possessory interests result in escaped 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.<sup>8</sup>

Mineral properties in Butte County include unpatented mining claims, hard mineral production, and natural gas production. There are no high temperature geothermal properties located in Butte County. The assistant assessor performs the Butte County mineral properties appraisals.

### Unpatented Mining Claims

There are approximately 100 unpatented mining claims located in the county. Most of these are placer claims. Assessed value is based on past sales of mineral interests. No consideration is given to value of future maintenance fees to be paid to the Bureau of Land Management (BLM). The assessor assumes that the mineral interest will be held indefinitely – no anticipated term of possession is used. Most of the claims have little or no actual production. If it is determined that a claim has begun production of a claimable mineral the taxpayer is then requested to file the appropriate form with the assessor.

**RECOMMENDATION 5:** Capitalize the future maintenance fee payments to the BLM and add to the sales value per acre to arrive at the assessable value.

Unpatented mining claims are possessory interests and the determination of their assessable value is governed by Rule 21(e)(1)(A). The present value of future unpaid rent, or in the case of mining claims the future maintenance fees, are to be added to the sales price of the subject property or the comparable taxable possessory interest. The assessor does not currently add this value to the sales price. This results in an underassessment of the unpatented mining claims.

### Mining Property

**RECOMMENDATION 6:** Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.

In accordance with article XIII A, all real property receives a base year value and, on each lien date, the taxable value of the real property unit is the lesser of its adjusted base year value or current market value. Section 105 defines fixtures as a type of improvement and, hence, as real property.

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<sup>8</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Mineral Property*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/mineralprop\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/mineralprop_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

For most properties, fixtures are treated as a separate appraisal unit for the purpose of determining a decline in value. Mineral properties, however, are treated differently. Rule 469(e)(2)(C) specifically defines the appraisal unit of a mineral property to include land, improvements including fixtures, and reserves. The assessor should use this unit for the purpose of measuring a possible decline in value. While not all of the mining properties located in the county have fixtures located on the property, for those that do, the entire appraisal unit should be reviewed for declines in value.

Failure to properly determine the decline in value of a mineral property using the entire mineral property appraisal unit could result in an underassessment of the fixtures and equipment or an overassessment of the mineral rights.

## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

### **Audit Program**

County assessors are required to annually conduct 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.<sup>9</sup>

In Butte County, the audits are the responsibility of the supervising auditor–appraiser and two auditor-appraisers.

Rule 192 prescribes the computations to establish the minimum required audit production and provides the basis for the audit selection process. According to Letters To Assessors No. 2009/049, the statute requires the Butte County Assessor to complete 41 audits per year. We found that while the assessor did not conduct the minimum number of audits required under the provisions of section 469, resources were allocated for conducting audits for other counties under the California Counties Cooperative Audit Services Exchange (CCCASE) program.

**RECOMMENDATION 7:** Timely audit the books and records of professions, trades, and businesses and perform the minimum number of audits pursuant to section 469.

We found that the assessor did not conduct the minimum number of 41 audits required under the provisions of section 469 for each of the years we reviewed. The number of audits completed were 29, 34, 25, 34, and 32, for the years 2013-14, 2012-13, 2011-12, 2010-11, and 2009-10, respectively. In addition, we found several taxpayers within the pool of taxpayers with largest assessments that were not timely audited within a four-year period.

An effective audit program verifies the reporting of various business property accounts, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Furthermore, experience shows that when audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately, a well-managed assessment program.

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<sup>9</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Audit Program*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/auditprogram\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

By failing to conduct a significant number of audits in a timely manner each year, the assessor is not in compliance with section 469 and risks the possibility of allowing taxable property to permanently escape assessment.

### 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.

Due to staffing and resource limitations in recent years, the assessor does not regularly request waivers of the statute of limitations from taxpayers when it is anticipated that an audit will not be completed in a timely manner.

**RECOMMENDATION 8:** Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.

The assessor has not sought waivers of the statute of limitations on all scheduled audits that were not anticipated to be completed within the statutory period defined by section 532. The assessor only secures waivers for accounts under the CCCASE program and occasionally, as time permits, for taxpayers with the largest assessments.

Section 532 provides that when the assessor discovers 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, the assessor may request, pursuant to section 532.1, an agreement from the taxpayer to waive the statute of limitations, extending the time for making an escape assessment, correction, or claim for refund.

A mutually agreed-to waiver of the statute of limitations protects the taxpayer during the audit process should an overassessment be discovered and allows the assessor to enroll an escape assessment if a reporting deficiency is found. By failing to request taxpayers' mutual agreement to waivers of the statute of limitations, the assessor unnecessarily risks allowing taxable property to escape assessment should the statute of limitations expire prior to the completion of the audit.

### 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 audits and found the assessor verifies leased equipment, accounts for supplies, and properly classifies equipment during the audit process. However, we found areas that need improvement.

**RECOMMENDATION 9:** Use a comprehensive audit checklist as a standard component of all audits.

During our review of audit samples, we found frequent examples where we could not determine the scope of the assessor's audit investigations because an audit checklist was not completed or was only partially completed.

An audit checklist can serve to remind auditor–appraisers of the various issues to research and procedures to follow during an audit. It may also provide an outline of topics and pertinent issues covered in the audit. Furthermore, it serves as a useful research tool when preparing for subsequent audits of the same entity. Most important, without a comprehensive audit checklist, it is difficult for a reviewer to know what topics were covered during the course of the audit and whether the findings are sufficiently supported.

## Audit Results

Section 469(c)(1) provides that upon completion of an audit, the county assessor is required to notify the assessee, in writing, of the audit findings with respect to the data that would alter any previously enrolled assessment. Rule 191 further states, assessee shall be given an opportunity to make written and/or oral response thereto, and written comments shall become part of the audit report. Additionally, section 408(e)(1) permits the assessee to inspect all information, documents, and records, including an auditor's narration and workpapers.

We reviewed the assessor's practices regarding the conveyance of audit results to the assessee and found other areas within the audit program that are in need of improvement.

**RECOMMENDATION 10:** Improve the audit program by: (1) properly enrolling all escape assessments and overassessments discovered during the course of an audit; and (2) informing taxpayers of their right to appeal as required by Rule 305.3.

## **Properly enroll all escape assessments and overassessments discovered during the course of an audit.**<sup>10</sup>

We found that the assessor typically does not enroll escape assessments and overassessments if the amount of the assessment is less than \$2,000. Further, in multiple-year audits, the assessor's current practice is to make no assessment roll changes when the net results of all differences, from all audit years totaled, are under \$2,000.

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<sup>10</sup> We also found this issue in our review of the assessor's valuation program in Real Property Assessment. The assessor is not processing escape assessments that are less than \$2,000 in value for real property, contrary to section 531.

Audit differences cannot be offset across multiple years. Section 531 requires that if any property belonging on the local roll escapes assessment, the assessor shall enroll the property on discovery at its value on the lien date for the year in which it escaped assessment. When incorrect assessments are discovered for multiple years as a result of an audit, section 533 requires that tax refunds be an offset against proposed tax liabilities, including accumulated penalties and interest. The statute provides only for an offset of tax refunds with tax liabilities from different years, not for an offset of the underassessments with the overassessments. Offsetting the refunds with the tax liabilities is the responsibility of the county auditor-controller, not the assessor.

Furthermore, escape assessments for low values must be enrolled unless a county ordinance has been adopted under section 531.9. The provisions of section 531.9 allow a county board of supervisors, by ordinance, to prohibit the assessor from making escape assessments of appraisal units where the amount of taxes due is less than the cost of assessing and collecting the tax. However, the Butte County Board of Supervisors has not adopted such an ordinance. As a result, escape assessments for low values must be enrolled. While the assessor's practice of not enrolling the escape assessment may be expedient, the assessor does not have the authority to exempt low-value escaped property discovered by audit.

With regard to overassessments, section 5096(g) requires the refund of taxes paid on an assessment in excess of the value of the property, as determined in an audit. Additionally, according to section 469(c)(4), if an audit for any particular tax year discloses that the property was incorrectly valued or misclassified for any cause, to the extent that this error caused the property to be assessed at a higher value than the assessor would have entered on the roll had the incorrect valuation or misclassification not occurred, then the assessor shall notify the taxpayer of the amount of the excess valuation or misclassification, and the fact that a claim for cancellation or refund may be filed with the county.

The current unauthorized minimum enrollment policy fails to meet the assessor's obligation to assess all property subject to taxation. Additionally, by netting audit results for multiple years into the most recent year of the audit, the assessor is not in compliance with statute and causes unequal treatment of taxpayers. Finally, when the assessor fails to notify the taxpayer of the audit results, where an overassessment was determined, the taxpayer remains unaware of their entitlement to a refund.

### **Inform taxpayers of their right to appeal as required by Rule 305.3.**

In Butte County, the assessor does not notify taxpayers of their right to appeal when the audit results in no change to previously enrolled assessments. A no change audit may include offsets of overassessments against underassessments for any given year under review. In instances for a given year where an underassessment is not enrolled because the property subject to an escape assessment is offset against an overassessment, a county-developed no change letter, which does not inform the taxpayer of their appeal rights, is sent to the taxpayer. We found the assessor only informs taxpayers of their right to appeal when the audit findings result in a net underassessment - leading to an escape assessment.

Section 469 generally provides that the assessor shall provide the taxpayer with the results of an audit in writing. In implementing section 469, Rule 305.3(d)(2) provides that the taxpayer must be informed of their appeal rights, regardless of whether or not an escape assessment is actually enrolled, if the audit discloses property subject to an escape assessment. When taxpayers are not advised of their appeal rights in relation to a net overassessment or a "no change" audit finding, they have no knowledge of their entitlement to equalization on the entire property for the year of such escape, regardless of whether the assessor actually enrolls an escape assessment.

### **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.<sup>11</sup>

The Butte County Assessor's staff includes three auditor-appraisers serving under the direction of the supervising auditor-appraiser. In Butte County, all submitted BPSs are processed by the auditor-appraisers.

We reviewed all major aspects of the assessor's BPS program, including processing procedures, use of Board-prescribed forms, real property division coordination, and record storage and retention. Many aspects of the BPS program are well administered. However, we found two areas in need of improvement.

**RECOMMENDATION 11:** Improve the business property statement program by: (1) accepting only properly signed business property statements; and (2) furnishing property statements and report forms to every person required by law or requested by the assessor to file in accordance with Rule 171(f).

#### **Accept only properly signed business property statements.**

We found instances where the assessor has been accepting stamped signatures on property statements from authorized agents. The assessor's procedures state: "We have been accepting authorized agents that have a stamped signature" and "We are accepting the ag statements that are not signed on the front page as long as they have signed the equipment list."

According to Rule 172, property statements and mineral production report forms prescribed by the Board and filed with the assessor or the BOE shall be signed by the assessee, a partner, a duly appointed fiduciary, or an authorized agent. Section 441 provides that the property statement shall be declared to be true under the penalty of perjury. It is important to require an

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<sup>11</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Property Statement Program*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/businesspropstatement\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/businesspropstatement_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

officer or authorized agent to be responsible for the completeness and accuracy of the annual property statement by signing the declaration.

A property statement or a mineral production report that is not properly signed does not constitute a valid filing. Therefore, under the provisions of section 463, a penalty for failure to file shall be applicable to improperly signed property statements. Another result of the assessor's incorrect practice is that no one attests to the authenticity of the facts reported on the statement or acknowledges any associated penalty for failure to comply with the filing requirements.

**Furnish property statements and report forms to every person required by law or requested by the assessor to file in accordance with Rule 171(f).**

We found that the assessor does not send property statements to any owners of apartments.

Rule 171(f) requires the assessor to furnish property statements and report forms, either by mail or electronically, to every person required by law or requested by the assessor to file a property statement or report form. Because section 441 requires each person owning taxable personal property with an aggregate cost of \$100,000 or more to file a signed property statement annually with the assessor, all owners of apartment houses with personal property acquisition costs of \$100,000 or more should be receiving property statements annually from the assessor.

Assessable landlord-owned personal property in apartment complexes includes, but is not limited to, refrigerators, freestanding electrical stoves, exercise equipment, pool equipment, laundry equipment, maintenance equipment, office furniture, draperies, and common area furniture (refer to the Business Equipment Valuation recommendation below). By not utilizing all discovery methods available to the assessor, like sending apartment property statements, there may be assessable business property that escapes assessment.

**Filing Procedures**

Our review included verifying the assessor's procedures for processing late and non-filed statements. We found one area in need of improvement.

**RECOMMENDATION 12:** Conduct an audit or field review when property owners fail to file a BPS for three or more consecutive years.

We found no evidence to indicate if non-filers were contacted or audited to collect accurate assessment information. Additionally, we found that there is not a written procedure that sets formal limits on the number of consecutive years a business property owner may fail to file a BPS before the assessor's auditor-appraiser staff either visits the location of the taxable property to appraise it or conducts an audit of the business to value it.

Section 501 requires the assessor to estimate, based on information in the possession of the assessor, the value of business property belonging to anyone who does not comply with the reporting requirements. However, when allowing estimated assessments to continue for several years without any new information, the values become increasingly susceptible to error. This practice can lead to inaccurate assessments and the permanent loss of tax revenue due to the

expiration of the statute of limitations. Therefore, estimated assessments should be limited to three consecutive roll years.

### ***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.<sup>12</sup>

The Butte County assessor annually updates valuation factor tables using guidelines, percent good factors, index factors, and specific valuation factors published in Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors*, as well as guidelines published in the California Assessors' Association (CAA) annual position paper, *Business Assessment Factors*.

Generally, we found the valuation of business equipment to be appropriately implemented. However, we found an area in need of improvement.

**RECOMMENDATION 13:** Value business related personal property and fixtures for apartments with market supported data.

The assessor is using an unsupported percent good factor for personal property owned by the apartment property owner. In addition, once a value is enrolled, the assessor does not perform subsequent appraisals of the personal property, which typically should occur annually. In Butte County, once an apartment building sells, the real property appraiser determines the value for real and personal property. An unsupported 70 percent good factor is applied to the cost of the personal property, and the resulting value estimate remains unchanged on the roll until the property sells again.

Landlord-owned personal property in apartment complexes used in the course of business is taxable. Such personal property includes, but is not limited to, refrigerators, freestanding electrical stoves, exercise equipment, pool equipment, laundry equipment, maintenance equipment, office furniture, draperies, and common area furniture. Information supplied on the annual BOE-571-R, *Apartment House Property Statement*, should be the starting point for the assessment of apartment personal property. Because the historical information on the property statement will reflect variations in the age, quality, and quantity of personal property from one apartment property to the next, using this information to develop a current value estimate will be more accurate and more equitable than using a fixed amount per apartment unit or an arbitrary value allocation.

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<sup>12</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Equipment Valuation*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/businessequipval\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/businessequipval_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

The assessor's current valuation practice for the personal property in apartments may lead to incorrect assessments and unequal treatment of taxpayers.

### **Manufactured Homes**

A "manufactured home" is defined in Health and Safety Code section 18007, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.<sup>13</sup>

Generally, the assessor's manufactured home program is in compliance with property tax law and the assessor is proactive in following market trends in Butte County. However, we discovered areas where improvement is needed.

**RECOMMENDATION 14:** Improve the manufactured home assessment program by: (1) assessing manufactured homes at the lesser of the factored base year value or the current market value, as required by section 5813; and (2) ensuring no value attributable to the site is included in the value to be enrolled when using the comparative sales approach to value manufactured homes.

#### **Assess manufactured homes at the lesser of the factored base year value or the current market value, as required by section 5813.**

We found that upon a change in ownership of a manufactured home classified as personal property, the assessor enrolls the sales price. The assessor refers to this value as a "static base." For subsequent annual assessments, the assessor incorrectly allows that static value to remain unchanged, not reviewing the assessment for a decline in value. Further, the assessor does not apply the annual inflation factor to correctly calculate the factored base year value.

Section 5813 provides that the taxable value of a manufactured home shall be the lesser of its factored base year value or its full cash value as of the lien date. The base year value is compounded annually since the base year by the inflation factor described in section 51. The full cash value is the value defined in section 5803, considering reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value. Periodic review of manufactured homes assessments ensures declines in value are recognized and properties are properly valued. Manufactured homes typically decline in value each year. Although the assessor is not required to reappraise all properties each year, the assessor should

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<sup>13</sup> For a detailed description of the scope of our review of this topic, please refer to the document entitled *Manufactured Homes*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/mhomes\\_general.pdf](http://www.boe.ca.gov/Assessors/pdf/mhomes_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

develop a program to periodically review the assessments of manufactured homes to ensure declines in value of manufactured homes are recognized accurately and consistently.

By not reviewing manufactured home assessments for declines in value and by not adjusting properly the factored base year value, the assessor may be enrolling incorrect assessments.

**Ensure no value attributable to the site is included in the value to be enrolled when using the comparative sales approach to value manufactured homes.**

We found the assessor places most weight on the sale price of the subject, or comparable sales data, when valuing manufactured homes due to a change in ownership. Although the assessor considers cost guides pursuant to section 401.5, when the cost data indicates a value significantly lower than the sale prices, the assessor does not take any additional steps to ensure the value indicated by the sales data excludes any value attributable to the site.

Section 5803(b) prohibits the inclusion of site value in manufactured home assessments and requires the assessor to take into consideration cost data issued pursuant to section 401.5 or sales prices listed in recognized value guides for manufactured homes. Because the owners of manufactured homes on rented or leased land do not own the land on which the manufactured home is located, the value to be enrolled should not include any value attributable to the particular site where the manufactured home is located. In addition, Assessors' Handbook Section 531, *Residential Building Costs*, cautions that the effect of site value upon the sales price must be extracted from each sale before the sale can be used as a comparable. Thus, where the assessor determines the value of the manufactured home, based on comparable sales data, is significantly more than the value indicated by cost guides, the assessor should acknowledge that the value indicated by comparable sales may in fact include value attributable to the site, and re-evaluate the data to ensure the difference is not due to site influence.

By failing to exclude any value attributable to the site from the sales data used to value the property, the assessor risks overassessing manufactured homes.

## APPENDIX A: STATISTICAL DATA

**Table 1: Assessment Roll**

The following table displays information pertinent to the 2013-14 assessment roll:<sup>14</sup>

	PROPERTY TYPE	ENROLLED VALUE
<b>Secured Roll</b>	Land	\$6,279,006,418
	Improvements	\$11,223,896,229
	Personal Property	\$560,449,047
	Total Secured	\$18,063,351,694
<b>Unsecured Roll</b>	Land	\$26,637,564
	Improvements	\$489,823,570
	Personal Property	\$455,547,175
	Total Unsecured	\$972,008,309
<b>Exemptions<sup>15</sup></b>		(\$1,076,899,412)
	<b>Total Assessment Roll</b>	\$17,958,460,591

**Table 2: Change in Assessed Values**

The next table summarizes the change in assessed values over recent years:<sup>16</sup>

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2013-14	\$17,958,461,000	1.6%	4.3%
2012-13	\$17,677,035,000	-1.4%	1.4%
2011-12	\$17,931,344,000	-1.6%	0.1%
2010-11	\$18,230,472,000	-1.9%	-1.9%
2009-10	\$18,585,066,000	-0.4%	-2.4%

<sup>14</sup> Roll values are from BOE 822 Report.

<sup>15</sup> The value of the Homeowners' Exemption is excluded from the exemptions total.

<sup>16</sup> Roll Values and Statewide changes are from the State Board of Equalization Annual Reports, Table 7.

**Table 3: Gross Budget and Staffing**

The assessor's budget has grown from \$3,380,312 in 2009-10 to \$3,517,214 in 2013-14.

As of the date of our survey, the assessor had 41 budgeted permanent positions, of which 3 were vacant. Staff include the assessor, 1 assistant assessor, 1 auditor-appraiser supervisor, 1 appraiser supervisor, 3 principal appraisers, 4 senior property appraisers, 9 appraisers, 2 auditor-appraisers, 1 office supervisor, 2 assessment clerk supervisors, 2 senior assessment clerks, 8 assessment clerks, 1 cadastral drafting technician, 1 information systems analyst, and 1 senior administrative assistant.

The following table shows the assessor's total budget and staffing over recent years:<sup>17</sup>

<b>BUDGET YEAR</b>	<b>GROSS BUDGET</b>	<b>PERCENT CHANGE</b>	<b>PERMANENT STAFF</b>
2013-14	\$3,517,214	-1.1%	41
2012-13	\$3,557,412	0.6%	41
2011-12	\$3,537,289	0.7%	41
2010-11	\$3,512,508	3.9%	41
2009-10	\$3,380,312	-15.3%	38

**Table 4: Assessment Appeals**

The following table shows the assessment appeals workload over recent years:<sup>18</sup>

<b>YEAR</b>	<b>ASSESSMENT APPEALS FILED</b>
2013-14	243
2012-13	526
2011-12	662
2010-11	802
2009-10	909

<sup>17</sup> Gross Budget and staffing numbers retrieved from Table A and Table B of *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

<sup>18</sup> Statistics as reported in *A Report on Budgets, Workloads, and Assessment Appeals Activities*.

**Table 5: Exemptions – Welfare**

The following table shows welfare exemptions data for recent years:<sup>19</sup>

<b>YEAR</b>	<b>WELFARE EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2013-14	388	\$867,978,567
2012-13	347	\$773,731,672
2011-12	346	\$700,078,991
2010-11	321	\$568,290,914
2009-10	337	\$495,900,962

**Table 6: Change in Ownership**

The following table shows the number of reappraisable transfers processed in Butte County in recent years:<sup>20</sup>

<b>YEAR</b>	<b>REAPPRAISABLE TRANSFERS</b>
2013-14	6,022
2012-13	5,611
2011-12	5,496
2010-11	3,342
2009-10	4,249

<sup>19</sup> The data utilized for this table is from the Board of Equalization BOE-802 report.

<sup>20</sup> Statistics as reported in *A Report on Budgets, Workloads, and Assessment Appeals Activities*.

**Table 7: New Construction**

The following table summarizes the total number of new construction assessments in recent years:<sup>21</sup>

<b>YEAR</b>	<b>NEW CONSTRUCTION ASSESSMENTS</b>
2013-14	42
2012-13	468
2011-12	60
2010-11	1,229
2009-10	1,727

**Table 8: Declines In Value**

The following table shows the decline-in-value assessment statistics for recent years:<sup>22</sup>

<b>YEAR</b>	<b>DECLINE-IN-VALUE ASSESSMENTS</b>
2013-14	23,875
2012-13	23,823
2011-12	28,981
2010-11	18,319
2009-10	15,444

<sup>21</sup> Statistics as reported in *A Report on Budgets, Workloads, and Assessment Appeals Activities*.

<sup>22</sup> Statistics as reported in *A Report on Budgets, Workloads, and Assessment Appeals Activities*.

## APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

### **Butte County**

#### *Chief*

David Yeung

#### *Survey Program Director:*

Diane Yasui

Manager, Property Tax

#### *Survey Team Supervisor:*

Sally Boeck

Supervisor, Property Tax

#### *Survey Team Leader:*

Andrew Austin

Supervisor, Property Tax

#### *Survey Team:*

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Teresa Nguyen

Business Taxes Specialist I

Todd Aylward

Associate Property Appraiser

Gary Coates

Associate Property Appraiser

Lee Coleman

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Eric Santana

Assistant Property Appraiser

Paula Montez

Associate Property Auditor-Appraiser

Nancy Le

Assistant Property Auditor-Appraiser

Dany Lunetta

Associate Governmental Program Analyst

Evan Becker

Staff Services Analyst

## APPENDIX C: RELEVANT STATUTES AND REGULATIONS

Reference	
<i>Government Code</i>	
§15640	<b>Survey by board of county assessment procedures.</b>
§15641	<b>Audit of records; appraisal data not public.</b>
§15642	<b>Research by board employees.</b>
§15643	<b>When surveys to be made.</b>
§15644	<b>Recommendations by board.</b>
§15645	<b>Survey report; final survey report; assessor's report.</b>
§15646	<b>Copies of final survey reports to be filed with local officials.</b>
<i>Revenue and Taxation Code</i>	
§75.60	<b>Allocation for administration.</b>
<i>Title 18, California Code of Regulations</i>	
Rule 370	<b>Random selection of counties for representative sampling.</b>
Rule 371	<b>Significant assessment problems.</b>

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



**DIANE BROWN**  
**BUTTE COUNTY ASSESSOR**  
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**OROVILLE CA 95965-3382**  
**Phone: 530-538-7721 Fax: 530-538-7991**

April 15, 2016

**RECEIVED**

APR 21 2016

County-Assessed Properties Division  
State Board of Equalization

Mr. David Yeung, Chief  
County-Assessed Properties Division  
State Board of Equalization  
P. O. Box 942879  
Sacramento, CA 94279-0062

Dear Mr. Yeung,

Pursuant to California Government Code Section 15645, enclosed please find my response to the Butte County Assessment Practices Survey as presented by the State Board of Equalization in April 2016. On behalf of the staff of this office, I want to acknowledge the constructive comments contained in the survey, and I thank you for incorporating this response into your final survey report.

The survey team conducted the sample and survey with professionalism, courtesy and efficiency and were a pleasure to work with. We sincerely hope this survey had no bearing on Supervisor Sally Boeck's decision to retire. The periodic, independent survey of Assessor's practices provides important information to be considered in enhancing office policies and procedures to provide fair and accurate assessments.

The results of the audit reflect the hard work and dedication of the staff of this office. I am proud of the high level of customer service they consistently strive to attain while achieving the goals of the department.

Sincerely,

Diane Brown  
Butte County Assessor

Enclosure

Butte County Response to April 2016 BOE Post-Conference Draft  
Diane Brown, Assessor  
530-538-4305  
April 15, 2016

Dear Mr. Yeung,

The following responses to recommendations one through fourteen of the above-referenced survey are forwarded to you for your review:

Recommendation 1: Update the section 408.1 transfer list on the 30<sup>th</sup> day of each calendar quarter, pursuant to Section 408.1(b)

Response: We concur. We use a GIS system to track sales for our appraisers and like the interactive system Riverside County is using to allow the public to view the sales on-line. We are working with our GIS department to implement a similar system. Until that is operative, our transfer list is updated at least every quarter.

Recommendation 2: Reassess all property with a full cash value in excess of the \$1,000,000 reassessment exclusion limit specified in Section 63.1.

Response: We agree that improvements can be made to our program and have created a database to track the properties within the county to make sure we are timely reappraising properties that exceed the limit. The properties that are affected by inter-county transfers will be reappraised more timely when we are notified by SBE.

Recommendation 3: Obtain permit data related to water wells and septic systems.

Response: This has been an ongoing problem. We have repeatedly encountered resistance in obtaining permit data from the issuing agency. We have tried several solutions to rectify the problem, but they seem to be only temporary fixes. We have reached out to the department head again and are trying another possible solution. This information is out of our control.

Recommendation 4: Improve the taxable possessory interest program by: (1) obtaining copies of all current lease agreements or permits for taxable possessory interests; (2) properly calculating supplemental assessments for newly created taxable possessory interests; (3) reappraising all taxable possessory interests as required by Section 61(b); (4) adding the present worth of unpaid future contract rents to the sale price of a taxable possessory interest; (5) recognizing lessor expenses when valuing taxable possessory interests by the income approach

Response: (1) We concur and will try harder to obtain lease agreements for the possessory interests where lease agreements are not provided.  
(2) We have changed the way possessory interest supplemental assessments are calculated. Any that BOE staff found that were calculated incorrectly were done in the past and are not done that way any longer.  
(3) We concur and have established a database to track the terms of possession of the possessory interests.  
(4) We concur. There are not very many cabins on Forest Service land and sales happen infrequently in Butte County. There have been only three sales in the last two years.

(5) We deduct 5% for management expenses when using the direct income approach. Although most public owners will state that their expenses are negligible, and deductions for expenses has not been consistent in the past, current policy is to deduct 5% unless we have an indication that the expenses should be something different.

Recommendation 5: Capitalize the future maintenance fee payments to the BLM and add to the sales value per acre to arrive at the assessable value.

Response: We concur and will implement this recommendation as time and staffing allow.

Recommendation 6: Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.

Response: We concur and will implement this recommendation as time and staffing allow.

Recommendation 7: Timely audit the books and records of professions, trades, and businesses and perform the minimum number of audits pursuant to Section 469.

Response: We have been unable to retain qualified Auditor-Appraisal staff to perform the required number of mandatory audits. We agree with the recommendation and will implement it as soon as staffing allows.

Recommendation 8: Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.

Response: We attempt to secure waivers on audits performed for us by other counties in case we are not able to complete them timely. We also attempt to obtain waivers on audits we perform but are not able to complete by the end of the tax year. We attempt to obtain waivers for audits we knew we would do the following year, but the taxpayers always decline. It is not practical for our limited staff to secure waivers for audits that we may not get to the following year.

Recommendation 9: Use a comprehensive audit checklist as a standard component of all audits.

Response: We agree with this recommendation since we are already doing it. Occasionally, an auditor will forget to take a checklist with them, but an audit checklist is part of our audit procedure.

Recommendation 10: Improve the audit program by: (1) properly enrolling all escape assessments and overassessments discovered during the course of an audit; and (2) informing taxpayers of their right to appeal as required by Rule 305.3.

Response: We concur and have started using the proper method.

Recommendation 11: Improve the business property statement program by: (1) accepting only properly signed business property statements; and (2) furnishing property statements and report forms to every person required by law or requested by the assessor to file in accordance with Rule 171(f).

Response: We concur and have stopped accepting stamped signatures on business property statements. See recommendation #13 for answer to property statement issue.

Recommendation 12: Conduct an audit or field review when property owners fail to file a BPS for three or more consecutive years.

Response: We have approximately 2,500 non-filers every year. We do not have the staff to perform the audit work we are mandated to do (see recommendation #8). We do field check the non-filers with non-audit staff to make sure they are still in business as time allows and will attempt to perform audits on the non-filers as staffing allows.

Recommendation 13: Value business related personal property and fixtures for apartments with market Supported data.

Response: There are 2,000 apartment complexes in Butte County, but only 35 of those have more than 75 units. The majority of the complexes in Butte County are 8 units or less, with personal property that contributes little to the assessment. We will begin sending Apartment Property Statements to large complexes over 75 units to obtain market data for personal property.

Recommendation 14: Improve the manufactured home assessment program by: (1) assessing manufactured Homes at the lesser of the factored base year value or the current market value, as required by Section 5813; and (2) ensuring no value attributable to the site is included in value to be enrolled when using the comparative sales approach to value manufactured homes.

Response: We concur and are making changes to our manufactured home assessment program.