

DEL NORTE COUNTY ASSESSMENT PRACTICES SURVEY

JANUARY 2012

CALIFORNIA STATE BOARD OF EQUALIZATION

BETTY T. YEE, SAN FRANCISCO

SEN. GEORGE RUNNER (RET.), LANCASTER

MICHELLE STEEL, ROLLING HILLS ESTATES

JEROME E. HORTON, LOS ANGELES

JOHN CHIANG

FIRST DISTRICT

SECOND DISTRICT

THIRD DISTRICT

FOURTH DISTRICT

STATE CONTROLLER

KRISTINE CAZADD, EXECUTIVE DIRECTOR





STATE BOARD OF EQUALIZATION
PROPERTY AND SPECIAL TAXES DEPARTMENT
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064
916 274-3350 • FAX 916 285-0134
www.boe.ca.gov

BETTY T. YEE
First District, San Francisco

SEN. GEORGE RUNNER (RET.)
Second District, Lancaster

MICHELLE STEEL
Third District, Rolling Hills Estates

JEROME E. HORTON
Fourth District, Los Angeles

JOHN CHIANG
State Controller

KRISTINE CAZADD
Executive Director

January 27, 2012

TO COUNTY ASSESSORS:

DEL NORTE COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2012/006

A copy of the Del Norte 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 Louise Wilson, Del Norte 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 Del Norte County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from February through March 2010. 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:ps
Enclosure

TABLE OF CONTENTS

INTRODUCTION.....	1
SCOPE OF ASSESSMENT PRACTICES SURVEYS	2
EXECUTIVE SUMMARY	3
OVERVIEW OF DEL NORTE COUNTY.....	6
ADMINISTRATION	7
BUDGET AND STAFFING	7
WORKLOAD	7
APPRAISER CERTIFICATION.....	9
STAFF PROPERTY PROCEDURES	10
ASSESSMENT APPEALS.....	10
DISASTER RELIEF.....	12
EXEMPTIONS	14
ASSESSMENT FORMS.....	19
ASSESSMENT OF REAL PROPERTY	20
CHANGE IN OWNERSHIP.....	20
NEW CONSTRUCTION	27
DECLINES IN VALUE	30
TAXABLE POSSESSORY INTERESTS	32
LEASEHOLD IMPROVEMENTS	33
MINERAL PROPERTY	36
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES.....	38
AUDIT PROGRAM	38
BUSINESS PROPERTY STATEMENT PROGRAM.....	39
BUSINESS EQUIPMENT VALUATION	41
MANUFACTURED HOMES	42
APPENDIXES	45
A. COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP	45
B. ASSESSMENT SAMPLING PROGRAM.....	46
C. RELEVANT STATUTES AND REGULATIONS.....	49
ASSESSOR'S RESPONSE TO BOARD'S FINDINGS	56

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 Del Norte 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 State Legislature; and to the Del Norte County Board of Supervisors and Grand Jury. 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 Louise Wilson, Del Norte 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 Del Norte 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 Del Norte County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2009-10 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.

¹ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

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

The assessor is doing a satisfactory job handling most administrative areas, such as staffing, workload, appraiser certification, staff property procedures, and assessment appeals. However, we made recommendations for improvement of the disaster relief, exemptions, and assessment forms programs.

In the area of real property assessment, we noted deficiencies in the change in ownership, new construction, declines-in-value, taxable possessory interests, leasehold improvements, and mineral property programs.

In the assessment of personal property and fixtures, the assessor has effective programs for conducting audits, processing business property statements, and valuing business equipment. However, improvement is needed in the manufactured homes assessment program.

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

The Del Norte County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2009-10 assessment roll indicated an average assessment ratio of 99.13 percent, and the sum of the absolute differences from the required assessment level was 1.56 percent. Accordingly, the BOE certifies that Del Norte 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 they appear in the text.

- RECOMMENDATION 1:** Improve the disaster relief program by: (1) revising the disaster relief application to comply with section 170(a), (2) granting disaster relief only upon receipt of a complete and timely filed application, and (3) including the correct appeals filing period in the notice of proposed reassessment.....13

RECOMMENDATION 2: Improve the welfare exemption program by:
(1) prorating the exemption for low-income housing properties, (2) ensuring all exemption claims indicate the date the claim was received or postmarked, and
(3) exempting only those areas of veterans' organization properties used exclusively for exempt purposes.16

RECOMMENDATION 3: Apply penalties to the amount over the basic exemption when a low-income disabled veterans' exemption claim is filed late.....18

RECOMMENDATION 4: Improve the maintenance of assessment forms by using the most recent property tax forms.19

RECOMMENDATION 5: Improve the change in ownership program by: (1) correctly implementing the penalty process in accordance with section 482(a), (2) properly notifying taxpayers of any penalty added in compliance with section 482(f), and (3) notifying taxpayers of the penalty abatement process in compliance with section 483(a).22

RECOMMENDATION 6: Improve the new construction program by: (1) classifying wells as land, (2) revising the form letter sent by the assessor requesting new construction costs from the property owner, and (3) granting new construction exclusions for claims for disabled access improvements only upon compliance with section 74.6.29

RECOMMENDATION 7: Improve the declines in value program by revising the assessor's *Prop 8 (decline in value)* information request letter.32

RECOMMENDATION 8: Improve the taxable possessory interest program by: (1) assessing all taxable possessory interests located at the fairgrounds, and (2) valuing taxable possessory interests based on net income to the lessor.33

RECOMMENDATION 9: Improve the assessment of leasehold improvements by: (1) forwarding copies of Schedule B and the supplemental schedule to the real property division and (2) consistently documenting the investigation of leasehold improvements on the appraisal record.....35

- RECOMMENDATION 10:** Improve the mineral property appraisal process by:
(1) identifying and appraising the real property mineral rights associated with sand and gravel extraction properties, (2) determining the current market value of mineral properties each year as required by Rule 469, and (3) using the Bureau of Land Management list to identify all unpatented mining claims in the county.....36
- RECOMMENDATION 11:** Improve the manufactured home assessment program by:
(1) using the correct version of AH 531 for the valuation of manufactured homes, and (2) supporting adjustments for obsolescence.....43

OVERVIEW OF DEL NORTE COUNTY

Located in the most northwestern corner of California on the Pacific Coast, Del Norte County is bounded on the north by the state of Oregon, on the east by Siskiyou County, on the south by Humboldt County, and on the west by the Pacific Ocean. Del Norte County lies 366 miles north of San Francisco, via Highway 101. Crescent City is the only incorporated city in the county and it is the county seat.

Del Norte is the abbreviated Spanish nickname for "the land of the north." Founded in 1857, Del Norte County encompasses a total area of 1,230 square miles, of which 1,008 square miles is land and 222 square miles is water. As of 2009, the population estimate for Del Norte County was 29,114.

The following table displays information pertinent to the 2009-10 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$702,768,724
	Improvements	\$1,012,960,875
	Personal Property and Fixtures	\$67,884,580
	Total Secured	\$1,783,614,179
Unsecured Roll	Land	\$6,416,406
	Improvements	\$4,543,060
	Personal Property and Fixtures	\$31,443,138
	Total Unsecured	\$42,402,604
Exemptions²		(\$87,237,379)
	Total Assessment Roll	\$1,738,779,404

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

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2009-10	\$1,738,779,000	3.1%	-2.4%
2008-09	\$1,686,352,000	2.9%	4.7%
2007-08	\$1,638,273,000	11.7%	9.6%
2006-07	\$1,466,769,000	10.4%	12.3%
2005-06	\$1,328,970,000	8.8%	11.1%

² The Homeowners' Exemption value is not included in the exemption value noted in this table.

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, appraiser certification, staff property procedures, assessment appeals, disaster relief, exemptions, and assessment forms.

Budget and Staffing

To enable the assessor to perform her duties, the county board of supervisors annually funds the assessor's office through the county's general fund. The allotted funds are provided so the assessor can produce a timely assessment roll, administer legally permissible exemptions, develop and maintain a set of current maps delineating property ownership, defend assessments as required before an appellate body, and provide information and services to the public as needed.

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

ROLL YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2009-10	\$703,028	-3.15%	8
2008-09	\$725,876	0.50%	9
2007-08	\$722,281	4.92%	10
2006-07	\$688,390	-0.10%	9
2005-06	\$689,081	--	9

The Del Norte County Assessor's Office has 8 full-time budgeted staff positions. This includes the assessor, 3 real property appraisers, 1 auditor-appraiser, and 3 support staff. For the 2009-10 roll year, staff was reduced by 1 office technician.

Workload

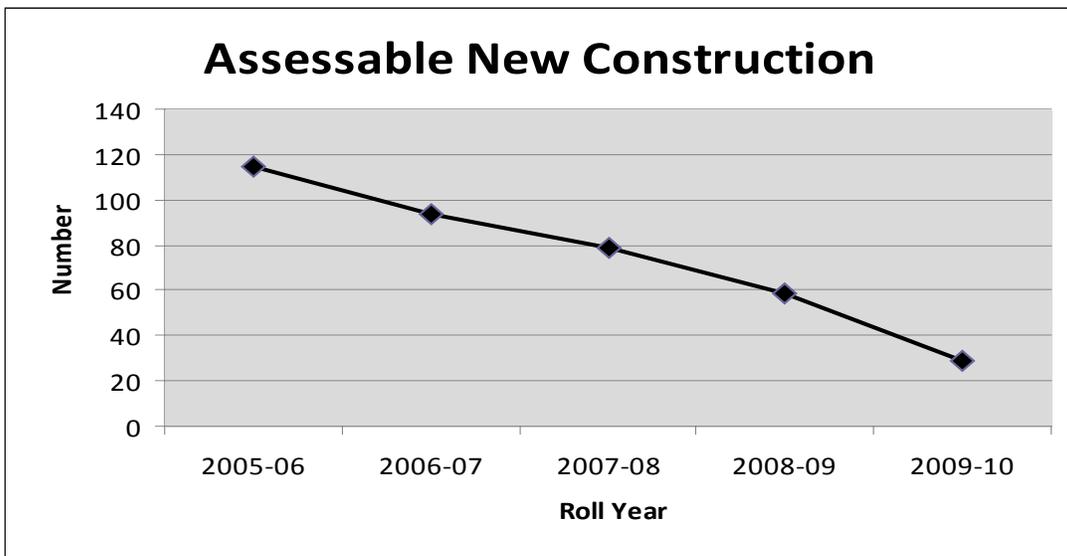
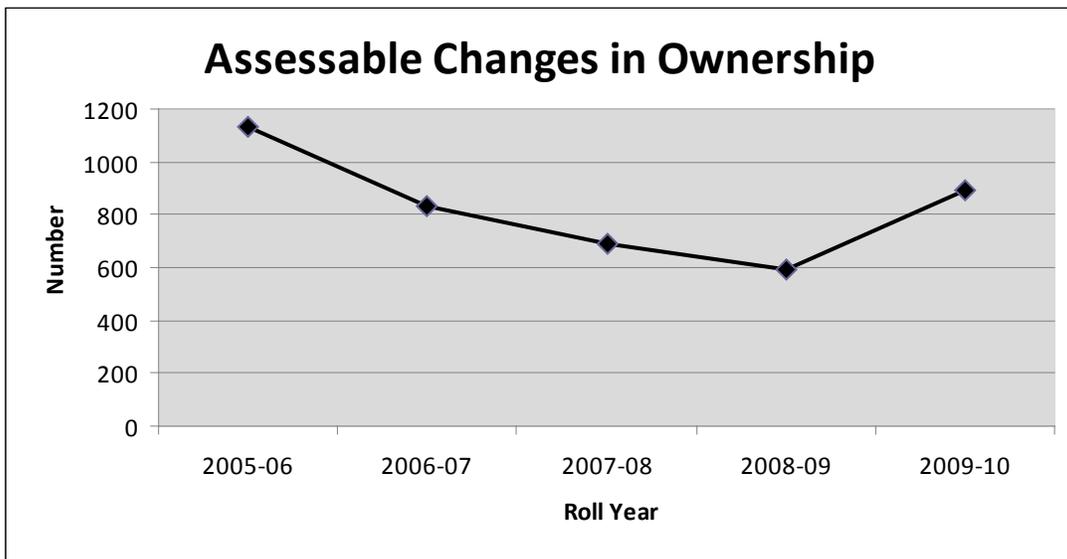
Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, the assessor reviews recorded documents and building permits to discover assessable 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.

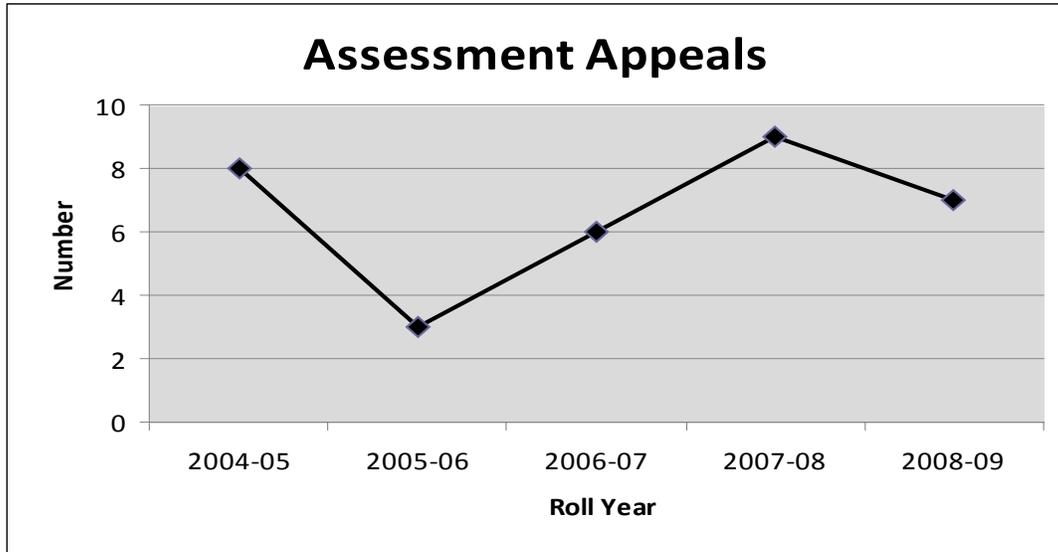
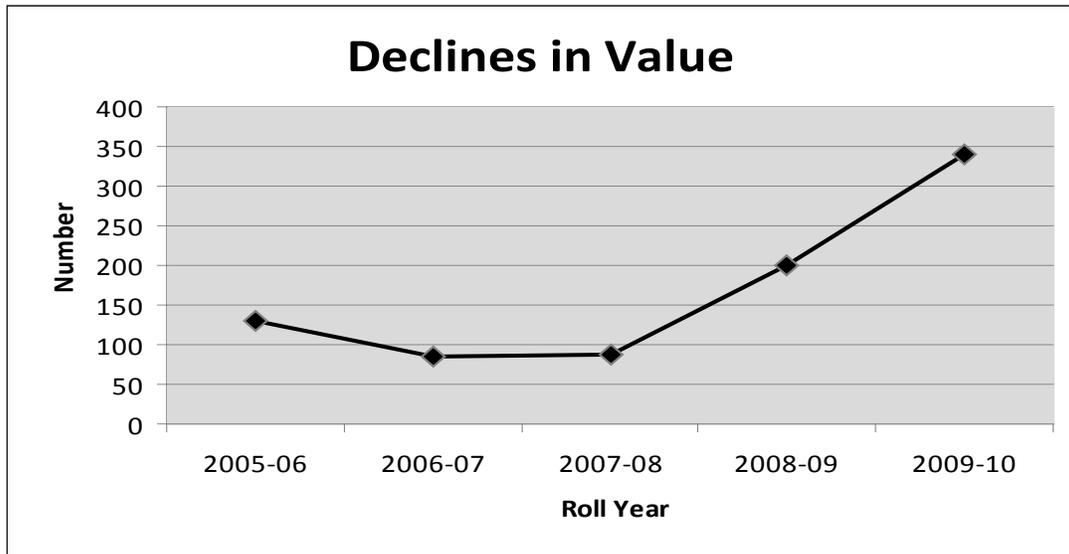
As shown in the prior tables, the total roll value has increased each of the past five years, while the gross budget has fluctuated, most recently decreasing for the 2009-10 roll year. The assessor's workload triggered by changes in ownership had been declining for three consecutive years before increasing significantly for the 2009-10 roll year. In addition, the assessor's workload consisting of assessable new construction has been decreasing over the last four years.

The following graphs illustrate these changes:



The decrease in workload for assessable new construction has been offset by significant workload increases in the number of decline-in-value assessments, while the number of assessment appeals filed has fluctuated over recent years.

The following graphs illustrate these changes:



Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless they hold a valid appraiser's certificate issued by the BOE. There are a total of five certified appraisers on staff, including the assessor; three hold advanced appraiser's certificates. We found that the assessor and her staff possess the required appraiser's certificates.

Additionally, we found that the auditor-appraiser performing audits meets the requirements referenced in section 670(d). The assessor does not use contract appraisers.

In Del Norte County, the assessor oversees the training and certification program for appraisers and tracks individual appraisal education continuously, along with reviewing BOE annual reports. Appraisers are encouraged to take the necessary courses to obtain their advanced certification as soon as possible to minimize their individual training requirements and minimize the county's training expense. Del Norte County does not give any financial incentive to obtain an advanced certificate.

According to the BOE report on training hours for certified staff in Del Norte County, no appraisers were deficient as of June 30, 2009. We commend the assessor for ensuring her certified appraisers meet their continuing education requirements.

Staff Property Procedures

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, which requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity.

Staff are not allowed to value property in which they have an ownership interest. Appraisal duties are defined by geographical area. Should an appraiser acquire property within their assigned area, the assessor assigns the appraisal to another appraiser. When complete, the appraisal is returned to the assessor for review before enrollment.

We reviewed the assessor's properties and additional staff-owned properties at random. In every instance, the most recent valuation of the property had been prepared by a certified employee other than the employee who owned the property. We found no problems with the assessor's valuation of staff-owned properties.

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 by the same taxpayer.

In Del Norte County, the five elected members of the board of supervisors sit as the local board of equalization for assessment appeals. There are no hearing officers.

The regular filing period for appeals in Del Norte County is July 2 through November 30. Assessment appeals applications are filed with the clerk. The clerk confirms applications are complete and timely filed, and forwards copies to the assessor's office.

The assigned appraiser discusses the nature of the dispute with the applicant, performs a physical inspection of the property if there are alleged condition issues, and determines value using market data. If the applicant agrees to a stipulated value, the assessor sends a letter to the applicant for their review and signature. Approximately 21 percent of appeals in Del Norte County are resolved through the stipulation process. All stipulated values are presented to the appeals board for approval. If no agreement can be reached, the clerk schedules the appeal for hearing. The assigned appraiser prepares and presents the assessment appeals defense before the appeals board. The assessor or a deputy attends every hearing. We reviewed copies of appeals packets from prior hearings and found them to be well organized.

The assessor and chief appraiser track the progress of assessment appeals to ensure all appeals are resolved timely. No appeal filed in the last five years has gone unresolved for more than two years without a timely filed extension.

The following table sets forth the assessor's appeals workload for recent years:

ASSESSMENT ROLL	2008-09	2007-08	2006-07	2005-06	2004-05
Appeals Filed	7	9	6	3	8
Appeals Carried Over From Prior Year	1	1	0	0	0
Total Appeals Workload	8	10	6	3	8
Resolution:					
Withdrawn	2	5	0	0	0
Stipulation	0	2	1	1	3
Appeals Reduced	0	1	0	0	0
Appeals Upheld	2	1	1	1	4
Appeals Increased	0	0	0	0	0
Other Determination*	3	0	3	1	1
Total Resolved	7	9	5	3	8
To Be Carried Over**	1	1	1	0	0

* 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.

Overall, the assessment appeals program is properly administered and well managed.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The relief is available to any assessee whose property suffers damage exceeding \$10,000 (without fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under section 170, assesseees must make a written application to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment. Alternatively, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage reductions in current market value and reduce the assessed values by those percentages.

The Del Norte County Board of Supervisors last updated the county's disaster relief ordinance on January 27, 2009. The ordinance is consistent with the requirements of section 170. The ordinance does not grant the assessor the authority to initiate disaster relief reassessment without an application from an assessee.

Calamities are discovered through fire reports, newspaper articles, building permits issued for repairs, field canvassing, and taxpayer-initiated contact. The application form is available at the assessor's front counter and is mailed to assessee upon discovery of a calamity.

The assessor processes less than ten disaster relief applications per year. In our review of disaster relief records, we found the disaster relief applications are date stamped to verify timely filing. In addition, the minimum \$10,000 worth of damage is documented using taxpayer statements, contractors' repair bids, insurance company statements, field inspections by staff, and fire department estimates. The assessor notes the disaster information on the records, calculates the value reductions, and lowers the assessed values of properties that qualify for relief.

In general, the assessor's disaster relief program is effective. However, we did find three areas in which the assessor can improve the disaster relief program.

RECOMMENDATION 1: Improve the disaster relief program by: (1) revising the disaster relief application to comply with section 170(a), (2) granting disaster relief only upon receipt of a complete and timely filed application, and (3) including the correct appeals filing period in the notice of proposed reassessment.

Revise the disaster relief application to comply with section 170(a).

The assessor's application for disaster relief does not request information regarding the condition and value of the property immediately after the damage. Section 170(a) provides that an application request must report the condition and value of the property immediately after the damage or destruction. This required information will assist the assessor in determining whether the property owner is eligible for tax relief following a misfortune or calamity, as well as the amount of relief to provide.

Grant disaster relief only upon receipt of a complete and timely filed application.

During our review, we found one written application for reassessment of property damaged by misfortune or calamity. The assessor stated she has granted disaster relief without a written application in most cases.

Section 170(a) and the Del Norte County disaster relief ordinance both specify that an application for tax relief, executed under penalty of perjury, must be filed with the assessor. While section 170(a) provides that a board of supervisors may specify in its ordinance the assessor has the authority to initiate the reassessment without an application, the Del Norte County disaster relief ordinance does not include such a provision. Additionally, section 170(l) provides that if the assessor does not have the general authority provided under subdivision (a) and determines a property has suffered a calamity for which no application has been received,

the assessor may, with the approval of the board of supervisors, reassess the property. However, without the board of supervisor's approval, the assessor is not in compliance with either the statute or the county disaster relief ordinance.

Include the correct appeals filing period in the notice of proposed reassessment.

The notice currently used by the assessor to notify taxpayers of disaster relief reassessments is the same notice used to notify the taxpayers of reassessments due to changes in ownership and new construction. This *Notice of Supplemental Assessment* states the deadline to file a formal appeal is 60 days from the date printed on the notice or the postmark date for the notice, whichever is later.

Section 170(c) provides that the notice must state that taxpayers may appeal the proposed reassessment within six months of the date of mailing the notice. Failure to properly notify taxpayers of their assessment appeal rights may lead taxpayers to believe they have missed the deadline to file an appeal when in fact they may have an additional four months in which to file.

Exemptions

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

County assessors administer the church and religious exemptions. The church exemption, including the church parking exemption, requires an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, the religious exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

While no church exemption claims have been filed in Del Norte County, the assessor did process 48 religious exemption claims for the 2009-10 assessment roll. A number of these properties were reviewed for this survey.

The records for organizations and properties receiving the religious exemption were well documented, notices were mailed on an annual basis, and the assessor either called or performed field inspections for claimants not returning the notice. The exemption files reflect the attention

paid to the program. They contain a comprehensive history and provide details on the administration of the exemption.

The following table sets forth religious exemption data for recent years:

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE
2009-10	48	\$15,151,426
2008-09	36	\$12,398,342
2007-08	44	\$12,999,658
2006-07	46	\$12,695,245
2005-06	50	\$13,163,640

We found the religious exemption portion of the assessor's exemptions program to be well administered and well maintained.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital, or charitable purposes by organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships, which have a qualified organization as the managing general partner, that own and operate low-income housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE or a valid SCC issued by the BOE if the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner. The assessor may, however, deny an exemption claim based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The assessor processed 50 welfare exemption claims for the 2009-10 assessment roll. The following table illustrates welfare exemption data for recent years:

ROLL YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2009-10	50	\$58,702,920
2008-09	49	\$61,314,596
2007-08	41	\$46,156,557
2006-07	47	\$44,977,543
2005-06	44	\$42,447,362

When a first-filing for a welfare exemption claim is received, the auditor-appraiser reviews the claim as well as associated documents and ensures that the organization has a valid OCC (and SCC if applicable) from the BOE. A file is created and a real property appraiser conducts a field check to verify that the use and operation of the property adhere to the requirements of section 214. Field inspection notes are made on the property appraisal record and returned to the auditor-appraiser who makes further notes in the property's exemption claim file. The claimant is apprised of any possible issues. The auditor-appraiser then implements any necessary roll corrections. The use of extensive notes on the property appraisal records and exemption files provide a valuable history for the exemptions and appraisal staff, as well as current and future claimants and property owners.

Although the welfare exemption program is generally well run, there are areas where improvements can be made.

RECOMMENDATION 2: Improve the welfare exemption program by:
 (1) prorating the exemption for low-income housing properties, (2) ensuring all exemption claims indicate the date the claim was received or postmarked, and
 (3) exempting only those areas of veterans' organization properties used exclusively for exempt purposes.

Prorate the exemption for low-income housing properties.

We found low-income housing properties that only qualified for partial exemption are receiving a 100 percent exemption on the roll. Section 214(g)(1) provides that property used exclusively for rental housing and related facilities, and that is owned and operated by limited partnerships in which the managing general partner is an eligible nonprofit corporation, shall be entitled to a partial exemption equal to that percentage of the value of the property that the portion of the property serving lower-income households represents of the total property. By not applying a proration based on qualifying units, the assessor is granting a larger exemption than the claimant is entitled.

Ensure all exemption claims indicate the date the claim was received or postmarked.

We found the assessor does not track or note the date of receipt of claims for the low-income housing exemption. Recording the date received and retaining late-postmarked envelopes for claims are essential exemption procedures. The lack of a date-received stamp or postmark makes the application of late filing penalties unsupportable.

Exempt only those areas of veterans' organization properties used exclusively for exempt purposes.

Our review indicates a veterans' organization property has been entirely exempt despite its use for nonexempt activity.

Section 215.1 allows the exemption of veterans' organization property used exclusively for exempt purposes. The exemption should only be extended to that portion of property used exclusively for exempt activity. The adjutant's office used for counseling, for example, could be considered for exemption. Non-exempt activity includes areas used for fraternal purposes, bar areas, food service areas available to the public, game areas, and the locker room.

The assessor should perform a field inspection of the property and note those areas used for exempt activity versus areas used for non-qualifying purposes. The appropriate proration may then be applied to the exemption of land and improvements. The business property statement associated with the property should also be reviewed to ensure exemptions are only applied to the value of items used exclusively for exempt purposes.

Exemption of non-qualifying areas is contrary to statute and provides an unfair advantage over compliant exempt properties, as well as for-profit venues.

Homeowners' and Disabled Veterans' Exemptions

The homeowners' exemption is authorized by article XIII, section 3(k) of the California Constitution. This constitutional provision, implemented by section 218, exempts \$7,000 of the full value of a dwelling when occupied by an owner as a principal place of residence.

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the value of a dwelling when occupied as a principal place of residence by a qualified disabled veteran (or the veteran's unmarried surviving spouse). The property must be owned by the veteran, the veteran's spouse, or the veteran and the veteran's spouse jointly. The amount of exemption is \$100,000 or, for qualifying low-income veterans, \$150,000. Both of these amounts are adjusted annually by a cost of living index.

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as their principal place of residence as of the lien date, or the property is otherwise ineligible.

The disabled veterans' exemption at the \$100,000 basis requires a one-time filing, while the low-income exemption at the \$150,000 level requires annual filings to ensure the claimant continues to meet the household low-income restriction.

The assessor processed 4,597 homeowners' exemption claims and 134 disabled veterans' exemption claims for the 2009-10 assessment roll.

The following table illustrates homeowners' and disabled veterans' exemption data for recent years:

ROLL YEAR	HOMEOWNERS' EXEMPTIONS	EXEMPTED VALUE	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2009-10	4,597	\$31,690,309	134	\$12,117,249
2008-09	4,616	\$31,795,437	130	\$11,475,319
2007-08	4,633	\$31,865,172	128	\$10,686,228
2006-07	4,680	\$32,145,073	125	\$9,941,883
2005-06	4,690	\$32,206,198	115	\$8,948,117

The homeowners' and disabled veterans' exemption program is administered by the chief of administration. A first-filing claim and the required accompanying documentation are reviewed for compliance with section 205.5. Roll corrections granting the exemption are appropriately prorated from the effective date of disability or death and property acquisition or move-in date. The exemption is also appropriately terminated upon the sale or transfer of the property to an ineligible party. The assessor is diligent in her review of claims and qualifying dates, and prompt in granting an exemption to a qualifying veteran or surviving spouse. We found one area in need of improvement.

RECOMMENDATION 3: Apply penalties to the amount over the basic exemption when a low-income disabled veterans' exemption claim is filed late.

A review of low-income disabled veterans' exemptions indicated late-filing penalties were calculated on the entire exemption rather than the amount over the basic exemption.

Once claimed, the basic disabled veterans' exemption does not require annual filing; however, the low-income provision of the exemption does require annual filing. Section 276(b) states that penalties for late-filing of the low-income disabled veterans' exemption are to be calculated on the amount exceeding the basic exemption.

By calculating the late-filing penalty on the entire exemption rather than the amount in excess of the basic exemption, the assessor is imposing a greater penalty than is provided for in section 276(b).

Assessment Forms

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.⁴ Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties. However, such forms may not be used as substitutes for Board-prescribed forms, and no penalty may be imposed upon a property owner for failure to file a county-developed form or questionnaire.

To enforce the use of prescribed forms, the BOE annually requires assessors to specify in writing the forms they will use in the succeeding assessment year. Assessors are also required to submit to the BOE copies of the final prints of all prescribed forms they intend to use.

Our review revealed an area where improvement can be made regarding assessment forms.

RECOMMENDATION 4: Improve the maintenance of assessment forms by using the most recent property tax forms.

The assessor does not utilize current property tax forms. A review of all property tax forms used by the assessor revealed a version of BOE-60-AH, *Claim of Person(s) at Least 55 Years of Age for Transfer of Base Year Value to Replacement Dwelling*, that is two years out-of-date, and a version of BOE-67-A, *Notice of Supplemental Assessment*, that is one revision behind.

To ensure changes in the law are implemented timely and uniformly across the state, assessors are required to adopt and use BOE-prototype forms pursuant to Government Code section 15606(d). The assessor should follow the forms approval process guidelines released annually, as well as adopt the current form revisions as they are released. Using outdated versions of forms could mislead taxpayers and create confusion about current procedures and filing requirements.

⁴ Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

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 property subject to California Land Conservation Act contracts and taxable possessory interests.

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 establish a base year value for real property upon a 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 documents recorded at the county recorder's office. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, to accompany documents submitted for recordation upon the transfer of 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.

The following table shows the total number of transfer documents received and the total number of reappraisable events in Del Norte County in recent years. Increases and decreases in market values and an increase in foreclosures and resales are reflected in the fluctuation of numbers over the past few years.

ROLL YEAR	TRANSFER DOCUMENTS RECEIVED	REAPPRAISABLE EVENTS
2009-10	4,599	895
2008-09	5,221	591
2007-08	5,999	690
2006-07	7,436	830
2005-06	7,499	1,129

The recorder does not initially screen recorded documents to determine which to send to the assessor. All recorded documents are scanned into a shared computer program and sent electronically from the recorder's office to the assessor's office. The map drafting transfer technician sorts through the list of recorded documents about once a week. PCORs are placed in a box at the recorder's office and picked up by assessor's staff twice a week.

The transfer technician filters all recorded documents, entering parcel numbers into the shared computer program for those documents relating to functions of the assessor and deleting the rest. The legal description is verified, the PCOR is matched to the recorded document, and the assessor's automated assessment system is reviewed to determine ownership and how title is held. Each PCOR is coded with red pencil to indicate how title was held previously, how title is held after the transfer, if the transfer was reappraisable, and the percentage of ownership that transferred. The transfer technician will also note on the PCOR any changes to the homeowners' exemption and if any exclusion forms have been sent to the property owner. After the PCOR has been coded, transfer information is entered into both computer systems, and the PCOR is routed to an appraiser for valuation. Once the valuation process is complete, the appraiser routes the PCOR back to the transfer technician to be scanned into the shared computer program.

The assessor also discovers potential changes in ownership through change of address requests and correspondence from transferors, transferees, attorneys, or family members. For deaths occurring within the county, discovery of potential changes in ownership is also obtained through monthly reports received from the county recorder. For changes in ownership resulting from the death of a property owner, the assessor properly uses the date of death as the event date.

We examined several recorded documents and found the assessor conducts a proper and thorough review for reappraisable events.

Leases

The transfer technician initially processes all long-term and short-term lease transactions. Discovery of lease transactions is typically through recorded and unrecorded documents, taxpayer correspondence, and notation on the PCOR or COS. The assessor attempts to obtain copies of all long-term leases. Once lease documents have been processed by the transfer technician and determined to generate reappraisable events, the information is sent to an appraiser or auditor-appraiser for valuation.

We reviewed files involving leases and found all were properly handled in accordance with section 61(c).

Penalties

Upon deed recordation, if a PCOR is not filed with the recorded document or is incomplete, the transfer technician notifies the administration chief (chief) who sends BOE-502-AH, *Change in Ownership Statement* (COS), to the property owner to obtain transfer information. To track COSs, the chief keeps a copy of each COS with the due date in a folder and also notes the due date of each COS on an electronic calendar. The property owner has 30 days to respond to the first request. If after 30 days there has been no response, a copy of the first notice is sent and an additional 30 days is given to respond. If after the additional 30 days there has been no response, the chief determines the amount of the penalty based on the new value determined by appraisal staff, writes the amount of the penalty on the copy of the COS, and notifies the tax auditor of the penalty amount. The county has not adopted an ordinance pursuant to section 483(b) allowing the assessor to automatically abate penalties as provided in this section.

RECOMMENDATION 5: Improve the change in ownership program by: (1) correctly implementing the penalty process in accordance with section 482(a), (2) properly notifying taxpayers of any penalty added in compliance with section 482(f), and (3) notifying taxpayers of the penalty abatement process in compliance with section 483(a).

Correctly implement the penalty process in accordance with section 482(a).

It is the assessor's practice to send multiple requests for submission of a COS, allowing the property owner about 60 days to provide the requested information. Thereafter, it is several months more before the assessor notifies the taxpayer they are applying penalties for failure to file the COS.

Section 482(a) provides that if a person or legal entity required to file a statement described in section 480 fails to do so within 45 days from the date of a written request by the assessor, a penalty of either: (1) one hundred dollars (\$100), or (2) 10 percent of the taxes applicable to the new base year value reflecting the change in ownership of the real property or manufactured home, whichever is greater, but not to exceed two thousand five hundred dollars (\$2,500), shall be added to the assessment made on the roll. The assessor should allow the property owner only 45 days to return a completed COS before implementing the penalty process for failure to file as described in section 482(a).

The information contained in a properly completed COS assists the assessor's staff in making an accurate assessment. By allowing the property owner more time to file the requested COS than described in section 482(a), the assessor is not in compliance with the statute.

Properly notify taxpayers of any penalty added in compliance with section 482(f).

Property owners are not properly notified of the penalty added to either the secured or unsecured roll. The assessor does not have a separate notice of penalty to mail to property owners. The

assessor notifies a property owner of a potential penalty by highlighting the penalty language on the "Important Notice" on the COS the second time it is sent.

Section 482(f) states, in part, "notice of any penalty added to either the secured or unsecured roll... shall be mailed by the assessor to the transferee..." If the property owner fails to respond to the COS within 45 days, the new value should be determined, the penalty should be applied, and the penalty letter should be sent.

Without notification of an added penalty, the abatement process is circumvented. Proper application and notification of a penalty will allow the assessor to be in compliance with statutory provisions.

Notify taxpayers of the penalty abatement process in compliance with section 483(a).

The assessor does not provide information about the penalty abatement process to property owners subject to a penalty under section 482(a).

The county board of supervisors has not passed an ordinance allowing the assessor to automatically abate penalties as provided in section 483(b). Therefore, the provisions of section 483(a) apply, and state that if the assessee establishes to the satisfaction of the county board of supervisors that the failure to file the COS within the timeframe required by section 482(a) was due to reasonable cause, and the assessee has filed the statement with the assessor, the board of supervisors may order the penalty abated provided a written application for abatement of the penalty has been filed with the board of supervisors no later than 60 days after the date on which the assessee was notified of the penalty.

To inform affected taxpayers of their rights following the imposition of penalties under section 482(a), the assessor should provide those taxpayers with information outlining the penalty abatement process.

Transfer Lists

Pursuant to section 408.1(a), the assessor shall maintain a list of transfers of any interest in property, other than undivided interests, within the county, which have occurred within the preceding two-year period. Section 408.1(e) provides that the provisions of this section shall not apply to any county with a population of under 50,000 people, as determined by the 1970 federal decennial census. Based on the population of Del Norte County in 1970, the assessor is not required to maintain a transfer list. However, as a service to the public, the assessor maintains computers in the lobby that provide transfer and ownership information on individual properties. The BOE confirmed confidentiality provisions are observed.

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 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 of an 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 64(d). A change in ownership statement must be filed with the BOE within 45 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 penalty if a person or legal entity required to file a statement under 480.1 and 480.2 does not do so within 45 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. 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.

The assessor processes very few transfers of legal entities. Monthly reports received from the BOE are reviewed, and any transfers are processed by the transfer technician. The transfer technician confirms whether companies listed on the reports held real property within the county on the date of change in control or change in ownership. For changes in control, the transfer technician identifies all the entity's real property to be reassessed as a result of the change in control by running a name or parcel search to identify all properties with the same ownership. Parcels to be reassessed are routed to an appraiser for valuation. The county also discovers potential changes in control or ownership of legal entities from information on business property statements and self-reporting by the entity. If a change in control not listed on a LEOP report is discovered, the county does not notify the BOE's LEOP section. During the survey, we suggested the assessor use BOE-100-BR, *County Assessor Legal Entity Transfer Referral*.

Appropriate penalties are applied to any BOE-100-B filings that were not filed timely. If the entity has not filed BOE-100-B by the due date on the LEOP report, a penalty is applied. The chief also reviews the annual non-response list provided by the BOE, determines if the entity owns real property in the county, and applies a penalty if appropriate.

Our review of several records shows the county does a thorough job in reviewing BOE LEOP reports and reassessing all property interests reported on an entity's BOE-100-B filing, as well as other properties held by the entity that may not have been identified on the form.

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.

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. 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 been granted the exclusion for property over their \$1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Applications are available to the public at the assessor's office. The following table represents section 63.1 claims filed and granted in Del Norte County in recent years:

ROLL YEAR	CLAIMS FILED	CLAIMS GRANTED
2009-10	63	59
2008-09	118	107
2007-08	128	122
2006-07	161	128
2005-06	126	98

The transfer technician reviews all section 63.1 applications and determines if the exclusion will be accepted or denied. The assessor does not send a formal letter to notify the property owner of an acceptance or denial of the section 63.1 claim. The change or no change in value of the property is considered the notification.

If a PCOR indicates a transfer may be between parent(s) and child(ren) or from grandparent(s) to grandchild(ren) and a claim form was not submitted, a claim form and cover letter is sent to the taxpayer advising of a possible exclusion from reassessment. Appraisers typically give a property owner three months to respond before the property is reassessed.

The assessor submits quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. Very few claims involving property within the county have exceeded the \$1,000,000 limitation. Claims are not typically tracked unless they involve a large estate. The transfer technician reviews the quarterly *Report of Transfers Exceeding \$1,000,000* from the BOE. For transfers having exceeded the limit, the transfer technician makes contact with other counties and the claimant to determine which properties to exclude and which to reappraise.

Pursuant to section 63.1(i), to protect property owner confidentiality, the assessor keeps all claim forms in a secure area and the information is not accessible to the public.

We reviewed several section 63.1 claim forms, both accepted and denied, and found them to be properly handled.

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.

Applications are available to the public at the assessor's office. If a PCOR indicates a transfer may involve a base year value exclusion, a claim form and cover letter is sent to the taxpayer advising of a possible exclusion from reassessment. As reflected in the table below, the assessor processes very few section 69.5 claims each year:

ROLL YEAR	CLAIMS FILED	CLAIMS GRANTED
2009-10	0	0
2008-09	3	1
2007-08	8	5
2006-07	2	1
2005-06	2	1

Appraisers determine the fair market value of both the replacement and original properties, apply the appropriate value comparison percentage based on the date the replacement property was purchased or construction was completed, and determine if the exclusion will be accepted or denied. The property owner is notified in writing if a claim is denied. Pursuant to section 69.5(n), to protect claimant confidentiality, claim forms are kept in a secured area, and the information is not accessible to the public.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. Although the assessor reviews the quarterly *Duplicate Social Security Report* from the BOE, in the past five years no duplicate claims have been made within the county.

We reviewed several section 69.5 claim forms, both accepted and denied, and found them to be properly handled.

Valuation

Once a change in ownership has been determined to be a reappraisable event, the information is sent to an appraiser for valuation. To confirm that the listed sale price accurately reflects market value, appraisers typically rely on the cost and comparable sales approaches to determine property values of residential and commercial properties. Market value conclusions are documented on the appraisal record, and any supporting documentation is attached to the file.

To assist with valuations, appraisers maintain residential and commercial sales data in shared electronic folders. Data is updated as appraisers process sales. Appraisers conduct field checks of most transferred properties except land sales. Assistance from Internet mapping sources and the county planning department are also utilized.

Our review of several files indicates the assessor properly values changes in ownership, including partial interest transfers and foreclosures, and correctly processes supplemental assessments.

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 Del Norte County, the assessor's primary means of discovering assessable new construction is through reviewing building permits. The assessor receives building permits from three permit-issuing agencies: the Del Norte County Building Department, the Crescent City Building Department, and the California Housing and Community Development Department (HCD). The county provides the assessor with all its permits on a daily basis, while permits from the city are received once a week and permits from HCD are received every two weeks. The assessor also receives notices of completion and building plans from each of the permit-issuing agencies.

Building permits are tracked using a computer application. The assessor reviews building permits to make sure the assessor's parcel number on the permit corresponds with the address

where the work is to be performed. For every building permit issued, the assessor logs the permit number, the date issued, and a brief description of the work to be performed on the property's building record.

The assessor sends a self-reporting questionnaire to most permit applicants. Approximately 75 percent of self-reporting questionnaires are returned.

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

ROLL YEAR	BUILDING PERMITS	NEW ASSESSMENTS
2009-10	560	29
2008-09	889	59
2007-08	924	79
2006-07	907	94
2005-06	1,098	115

The assessor does not have a formal program for discovery of unpermitted new construction. However, she does enroll approximately 15 to 20 items of unpermitted new construction discovered each year through informal means, such as field canvassing, *Multiple Listing Service*, and taxpayer notification. The escaped new construction is enrolled as of the date of completion if the date of completion can be determined. If the date of completion is unknown, the new construction is enrolled as of the lien date or the date of discovery. The assessor enrolls supplemental assessments, as allowed by law, for escaped new construction discovered.

Valuation

The assessor values new construction by estimating the market value of the improvements as of the lien date for construction in progress and as of the date of completion for completed new construction. Appraisers determine the status of new construction from notices of completion prepared by the permit-issuing agencies, information provided by taxpayers, or field reviews. All new construction permits are field reviewed.

The assessor typically uses the cost approach to value new construction. The assessor utilizes the reported cost in conjunction with cost estimates derived using Assessors' Handbook Section 531, *Residential Building Costs*, Assessors' Handbook Section 534, *Rural Building Costs*, and *Marshall Valuation Service*. The unit cost source is documented on the property record. For contractor-built construction, the assessor enrolls the reported cost approximately 90 percent of the time.

For additions, the assessor assigns a percent good to the addition in light of the revised percent good of the entire structure. For separate, entirely new structures, the assessor assigns a 100 percent good rating to the structure. Entrepreneurial profit is added when there is market evidence; however, generally there is not enough data to support the addition of a component for entrepreneurial profit. Appraisers prepare diagrams for all newly constructed buildings based on actual field measurements, which are drawn onto the building record.

The assessor's 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 appropriate supplemental assessments based on the completion date.

Exclusions and Exemptions

In Del Norte County, active solar energy systems are not assessed to the original owner in accordance with section 73, and fire sprinkler systems are exempt only when added to an existing building in accordance with section 74. Underground storage tanks repaired or replaced to comply with environmental regulations are excluded from new construction in accordance with section 70(e). The replacement of a structure damaged or destroyed in the course of remediating environmental contamination of a site is excluded from the definition of new construction only if the property owner provides information in accordance with section 74.7.

Overall, we found the assessor's program for the assessment of new construction to be thorough and the values to be reasonable; however, there are three areas where improvements can be made.

RECOMMENDATION 6: Improve the new construction program by: (1) classifying wells as land, (2) revising the form letter sent by the assessor requesting new construction costs from the property owner, and (3) granting new construction exclusions for claims for disabled access improvements only upon compliance with section 74.6.

Classify wells as land.

It is the assessor's policy to classify wells, casings, pumps, and pressure systems on residential property as structural improvements. Rule 124 provides that wells are land. By not attributing any value to the land for value added by the new construction of domestic water wells, the assessor is underassessing the land and overassessing the improvements.

Revise the form letter sent by the assessor requesting new construction costs from the property owner.

When a building permit indicates a property owner has assessable new construction, the assessor sends a form letter to the property owner requesting costs and other important data associated with the new construction project. According to the form letter, the property owner has "15 days from the date of this letter to respond without penalties as set forth in the Revenue and Taxation Code." This statement is misleading and implies the property owner will be subject to penalties for noncompliance. However, there is nothing in the Revenue and Taxation Code that supports this statement. The assessor does not have the authority to apply a penalty due to failure to respond and, therefore, this language should be removed from the form letter.

Grant new construction exclusions for claims for disabled access improvements only upon compliance with section 74.6.

The assessor excludes construction performed for the purpose of making a building or structure more accessible to, or more usable by, a disabled person without the information required by section 74.6. If the permit description indicates the permit is for a disabled person's access improvements, the assessor does not reassess or request that the property owner file BOE-63-A, *Claim for Disabled Accessibility Construction Exclusion from Assessment*.

For buildings not eligible for the homeowners' exemption, section 74.6 excludes from the term "newly constructed" the construction, installation, removal or modification of any portion or structural component of an existing building or structure to the extent it is made for the purpose of creating a building or structure more accessible to, or more usable by, a disabled person. To qualify for this exclusion the following conditions must be met: the construction must be completed on or after June 7, 1994 to an existing building; the construction must be for the purpose of making the building more accessible to, or more usable by, a disabled person; and the construction must not qualify for the new construction exclusion provided by section 74.3.

To receive the exclusion, the property owner must submit to the assessor the following: notice prior to, or within 30 days of, the completion of the project that they intend to claim the exclusion for improvements making the building or structure more accessible to, or usable by, a disabled person and a statement by the property owner, primary contractor, civil engineer, or architect identifying the portions of the project making the building more accessible to, or usable by, a disabled person. All documents necessary to support the exclusion must be supplied no later than six months after the completion of the project.

Failure to obtain the necessary information required by section 74.6 may result in the assessor excluding new construction that would otherwise be taxable.

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.

Property values in many areas of California have either declined or become stagnant due to unfavorable economic conditions in recent years. As a result, full cash values of properties have fallen below FBYVs, causing assessors throughout the state to enroll lower taxable values. Although Del Norte County is experiencing declining property values, per capita it is faring better than most counties within the state. This is mostly because the county did not overbuild, which would have caused an abundance of inventory. Additionally, the foreclosure rate is one of the lowest in the state.

Over the past five years, the county experienced its highest property values in late 2005 and throughout 2006. Property values for the 2006-07 and 2007-08 roll years remained close to the values of late 2005 and 2006. For the 2008-09 and 2009-10 roll years, property values began to

decline notably compared to FBYVs of recent years, causing a significant increase in the number of properties in decline-in-value status. The majority of decline-in-value assessments are residential; however, the county is beginning to see an increase in the number of commercial properties with declines in value, especially hotels and rental properties.

The following table shows the number of decline-in-value properties in recent years:

ROLL YEAR	DECLINES IN VALUE
2009-10	340
2008-09	199
2007-08	88
2006-07	84
2005-06	130

The assessor does not have a formal program to identify decline-in-value properties. Properties that have declined in value are primarily discovered through taxpayer requests and appraisers' knowledge of values. The assessor has also placed advertisements in the local newspaper advising property owners of the free service her office provides in the review of property values.

Property owners may request an informal review of their property value by submitting a "Request for Reappraisal" form available at the assessor's office or by mail. The form asks for supporting documents of the owner's opinion of value if possible, but is not a requirement. The form also provides information on the formal appeals process.

Appraisers attempt to process all requests for reappraisal as they are received. Each appraiser is very familiar with their area and can almost immediately determine if the property value has declined or not. The county does not have many homogeneous tracts. Properties within the few subdivisions are typically reviewed individually and not as a whole. Since the county does have a large number of sales, the assessor does not use a mass appraisal program. Due to the small number of valid improvement comparables within the county, appraisers typically determine the value of a property by the cost approach for the improvement value and the comparable sales approach for the land value. Cost factors are documented on the appraisal record, and comparable sales are either attached to the file or documented on the appraisal record.

Once a decline-in-value property has been processed by an appraiser, the computer record is noted with a code 17 and a brief description of "Prop 8" or "Section 51." A note is placed on the physical appraisal record advising a clerk to send the property owner a notice of the decline in value and to update the spreadsheet for tracking purposes. Letters are sent annually after the initial notice if the property remains in a decline-in-value status.

Decline-in-value properties are tracked on a spreadsheet by each appraiser's work list and in the computer system. Properties are annually reviewed after the first lien date of the reduced taxable value pursuant to section 51(e), and the annual inflation factor is not applied to the property until it is restored to the FBYV. Pursuant to section 619(a), property owners are notified by letter if a property value has been fully or partially restored to the FBYV. In compliance with

section 619(c), the letter indicates the FBV. Language regarding the informal review by the assessor and appeals processes is also outlined in the letter. Copies of all section 51 letters are attached to the physical file.

Overall, the assessor has an effective and well administered decline-in-value program. However, we found one area in need of improvement.

RECOMMENDATION 7: Improve the declines in value program by revising the assessor's *Prop 8 (decline in value)* information request letter.

Once a property is placed on a decline-in-value status, the assessor sends a letter each year to the property owner requesting income and expense information. The letter states, "Without the requested information, the State Board of Equalization requires us to reinstate the factored base year value." This statement is inaccurate and misleading to property owners. The BOE does not require that the assessor reinstate the FBV if the property owner fails to supply income and expense information to the assessor.

Section 51 requires the assessor to enroll the lesser of a property's FBV or its full cash value, as defined in section 110, as of the lien date. While the assessor may request additional information from the taxpayer in order to accurately assess the property, the assessor may not require the property owner to provide this information before allowing for a continued decline in value. The assessor is required to enroll the lesser of the two values as required by section 51, regardless of the property owner providing additional information to show a continued reduction in value.

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 conducts an aggressive taxable possessory interest discovery program by regularly contacting approximately 13 government agencies that own property in Del Norte County. As a result, there were 284 separate taxable possessory interest assessments on the 2009-10 roll, with a total assessed value of \$17,277,920. For the most part, the assessor has a comprehensive program for enrolling taxable possessory interests, and the program is well managed and thorough. However, we did note two areas where improvements can be made.

RECOMMENDATION 8: Improve the taxable possessory interest program by:
(1) assessing all taxable possessory interests located at the fairgrounds, and (2) valuing taxable possessory interests based on net income to the lessor.

Assess all taxable possessory interests located at the fairgrounds.

Annually, the assessor sends the local fairground manager copies of known rental and lease agreements along with a request for copies of any new agreements. Our review indicates the assessor is not obtaining all information available to her.

The Del Norte County Fair, 41st District Agricultural Association, which operates the fairground, rents space to various groups and individuals. We obtained a list of 54 commercial and food vendors, many of which may have taxable possessory interests that are not currently assessed. That is, many of these uses appear to be sufficiently durable, beneficial, exclusive, and independent to warrant assessment as taxable possessory interests.

The county's low-value property exemption ordinance of \$1,000 may not cover many of the smaller taxable possessory interests. To avoid assessing these low-value taxable possessory interests, the assessor may consider requesting the board of supervisors expand the existing low-value property exemption ordinance to exempt certain taxable possessory interests up to \$50,000 in value as allowed under section 155.20(b)(1).

Value taxable possessory interests based on net income to the lessor.

When applying the income approach – direct method, the assessor values taxable possessory interests based on the projected gross income to the lessor rather than on projected net income.

Rule 21(e)(3)(C) and Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, provides that in the direct method of the income approach, it is appropriate for the appraiser to estimate the value of the taxable possessory interest by discounting either (1) the estimated economic rent less allowed expenses paid by the public owner or (2) that portion of the estimated future net operating income attributable to the taxable possessory interest.

A public owner will always incur some management expense with each taxable possessory interest. Some lease agreements may require the lessor to pay for additional items, such as insurance, maintenance, or utilities.

By estimating the fair market value of taxable possessory interests based on gross income rather than net income to the lessor, the assessor is inflating the value indicated by the income approach and is overassessing these properties.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee. Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over time, they may add and/or remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on BOE-571-L, *Business Property Statement (BPS)*, coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and to avoid escape and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

Discovery

The assessor has a few written procedures and policies dealing with the discovery and assessment of leasehold improvements. However, the assessor does not use special forms or documents to communicate information concerning leasehold improvements between the real property and business property divisions. The assessor allocates responsibility for the assessment of leasehold improvements classified as structural improvements to the real property division. The business property division assesses leasehold improvements classified as business fixtures.

The majority of leasehold improvements in the county are discovered by reviewing Schedule B of the BPS, BOE-571-D, *Supplemental Schedule for Reporting Monthly Acquisitions and Disposals of Property Reported on Schedule B of the Business Property Statement* (supplemental schedule), and building permits taken out by tenants. The business property division receives BPSs reporting additions on Schedule B. All costs reported on the BPS are investigated by the business property division. After reviewing the BPS, the business property division refers costs identified by the taxpayer as structural items, land improvements, or land and land development to the real property division. Likewise, the real property division refers building permits issued for business fixtures to the business property division for review.

Valuation

The assessor classifies leasehold improvements as either structural improvements or business fixtures. Structural improvements and business fixtures are assessed at the lower of the factored base year value or the current market value. Business fixtures are valued using the cost approach and are assigned an economic life. Supplemental assessments are applied to structural leasehold improvements on both the secured and unsecured rolls.

Typically, improvements reported by the tenant are assessed to the tenant on the unsecured roll, and improvements installed and paid for by the landlord are assessed to the landlord on the secured roll. Tenant-installed leasehold improvements that are abandoned are subsequently assessed to the landlord on the secured roll.

We reviewed a number of BPSs and real property records with leasehold improvements and determined most leasehold improvements were properly identified and assessed. However, we did recognize two areas where improvements can be made.

RECOMMENDATION 9: Improve the assessment of leasehold improvements by:
(1) forwarding copies of Schedule B and the supplemental schedule to the real property division and
(2) consistently documenting the investigation of leasehold improvements on the appraisal record.

Forward copies of Schedule B and the supplemental schedule to the real property division.

The business property division does not forward copies of Schedule B and the supplemental schedule to the real property division. Instead, the business property division sends an informal message to the real property division with the costs identified by the taxpayer as structural items, land improvements, or land and land development.

Transferring information between the real property and business property divisions within an assessors' office can help to avoid duplicate or escape assessment of leasehold improvements, which may include structural items and fixtures. In the event that the assessee does not correctly classify the improvements, the real property appraiser's review should include consideration of both non-fixture real property items and fixtures. Based on a building permit received earlier in the year, for instance, the real property appraiser may add value to real property, believing those improvements to be structural items. However, the assessee may report the same improvements on the BPS as fixtures. If the real property appraiser does not receive a copy of Schedule B of this statement and review the costs as they were reported, a duplicate assessment may occur.

Consistently document the investigation of leasehold improvements on the appraisal record.

We examined several BPSs where business owners reported costs for both structural improvements and business fixtures. In some cases, there was no documentation in the property records describing the leasehold improvement or indicating how the assessor determined the reported costs were for repair and maintenance, structural improvements, or business fixtures. In other cases, there was no documentation in the property records regarding how the assessor determined whether the landlord or the tenant should be assessed for the leasehold improvements or documentation indicating which parcel, if any, the assessor applied the assessment to for the leasehold improvements.

Record management for accurate tracking of base year values and ownership of leasehold improvements may be complex and tedious, but is extremely important to ensure correct valuation and assessment. Proper notes on appraisal records concerning the establishment of value are an important step in the appraisal process. Appraisal notes should include information regarding the existence of leasehold improvements, a description of the improvements, and the basis for valuation. If the improvements involve more than one account, the appraisal records should indicate in what manner the improvements are assessed (such as to whom, secured or unsecured roll, and assessor's parcel number or business property account number). Notes

regarding the leasehold improvement in both the real property appraisal records and in the business property files will not only help the appraisers and auditor-appraisers who may work on the subject parcel or related business accounts in the future, but will also help to avoid duplicate or escape 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.

Petroleum, mining, and geothermal properties comprise the three main categories of mineral properties. There are no assessable petroleum or geothermal properties in Del Norte County.

Mining Properties

Mining property mineral rights refer to the rights to explore, develop, and produce minerals, other than oil, gas, and geothermal resources, and the real property associated with these rights. Pursuant to Rule 469, the rights to enter in or upon land for the purpose of exploration, development, or production of minerals are taxable real property interests to the extent they individually or collectively have ascertainable value. "Minerals" means organic and inorganic earth material including rock but excluding oil, gas, and geothermal resources.

Del Norte County has a number of sand and gravel extraction operations and unpatented mining claims. There are several areas to improve the appraisal of mineral properties.

RECOMMENDATION 10: Improve the mineral property appraisal process by:
(1) identifying and appraising the real property mineral rights associated with sand and gravel extraction properties, (2) determining the current market value of mineral properties each year as required by Rule 469, and (3) using the Bureau of Land Management list to identify all unpatented mining claims in the county.

Identify and appraise the real property mineral rights associated with sand and gravel extraction properties.

While reviewing sand and gravel extraction appraisals, it was not possible to identify the real property mineral rights associated with some of the properties. Mineral rights value represents the value associated with the right to explore, develop, and extract mineral commodities. These appraisals have values for improvements and equipment located on-site, but there was no designation for land values that could be associated with the mineral rights and no estimate of reserves. Some of these properties are located in areas where there is annual flooding, which may regenerate the reserves. However, there should be a determination of the initial mineral right

value when the property began production and an analysis of the current market value of the mineral rights to be compared to the adjusted base year value of the mineral rights.

Determine the current market value of mineral properties each year as required by Rule 469.

The assessor has not made any determination of the current market value of mineral rights associated with mining properties as required by Rule 469(e)(2)(A)(2). The current market value of the mineral rights is necessary to determine the value of changed reserves for reasons other than depletion that must be added to the adjusted base year value. Changes in reserves can be due to several reasons. For properties located in stream beds, the spring run-off may cause material to wash down from further upstream. This regeneration may or may not occur every year and proper reserves estimates should be made annually. Other changes to reserves may be the result of changes in operating conditions on the property, such as new restrictions on dredging or changes in the quality of the material being removed from the property.

Use the Bureau of Land Management list to identify all unpatented mining claims in the county.

Unpatented mining claims represent a right to enter on to federally owned land for the purpose of developing and producing certain minerals. Such claims may constitute taxable possessory interests. Claims are filed with the Department of Interior's Bureau of Land Management (BLM) and the county recorder's office. Claims may be held by U.S. citizens, those who have declared intent to become citizens, and corporations. The assessor identifies claims through filings with the recorder's office; however, many of the claims reported on the BLM's database were not assessed by the county. The assessor should cross check recorded claims with the BLM database and resolve discrepancies.

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.

As of April 2010, the assessor's staff assigned to the business property program consisted of one auditor-appraiser. The auditor-appraiser works in conjunction with the real property appraisers in an effort to correctly classify and allocate the real and personal property items that are assessed to businesses.

In this section of the survey report, we review the assessor's programs for conducting audits, processing business property statements, valuing business equipment, and assessing manufactured homes.

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.

As noted above, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. We reviewed the assessor's calculations that establish future audit workloads, as well as recent audit production, and found the assessor will likely meet her newly established production obligation. During the 2008-09 roll year, the assessor completed 12 audits. According to the assessor's calculations, the amended statute requires the assessor to complete seven audits per year hereafter. It appears the assessor will complete the newly defined number of audits required pursuant to 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 waivers of the statute of limitations from taxpayers when she anticipates an audit will not be completed in a timely manner. We reviewed waivers for scheduled audits not completed during the current year and found them to be adequately prepared and well managed.

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 found no significant deficiencies in the assessor's audit program. We sampled several recently completed audits and found that in all cases audits were accurate, well documented, and supported by a comprehensive audit narrative and checklist defining the areas of investigation. Furthermore, we reviewed the assessor's application of roll corrections to reflect audit findings. We found when correcting for multiple-year audit findings, the assessor is enrolling roll corrections for each year in which the escape assessment took place pursuant to section 531.

Overall, the assessor's audit program is effectively managed. We have no recommendations for the audit program.

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.

Workload

The following table displays the assessor's workload of secured and unsecured business property assessments for the 2009-10 assessment roll:

CATEGORY	SECURED		UNSECURED		TOTAL	
	NO.	ASSESSED VALUE	NO.	ASSESSED VALUE	NO.	ASSESSED VALUE
Commercial	527	\$192,729,490	652	\$19,422,473	1,179	\$212,151,963
Industrial	29	\$14,783,948	0	\$0	29	\$14,783,948
Agricultural	797	\$78,881,944	0	\$0	797	\$78,881,944
Vessels	0	\$0	101	\$639,812	101	\$639,812
4% Vessels	0	\$0	14	\$752,810	14	\$752,810
General Aircraft	0	\$0	327	\$2,671,839	327	\$2,671,839
TOTAL	1,353	\$286,395,382	1,094	\$23,486,934	2,447	\$309,882,316

The auditor-appraiser performs all BPS processing functions. We found the auditor-appraiser checks for full disclosure of property based on the taxpayer's prior BPS. She also confirms the reporting of leased equipment.

General Statement Processing

We reviewed the assessor's property statement processing procedures and files to ensure compliance with statutory and regulatory guidelines. A sampling of BPSs were reviewed to verify the use of Board-prescribed forms, processing by certified staff, completeness of the property statements, authorized signatures, application of penalties, and record storage and retention. We found all BPSs sampled evidenced the proper usage of Board-prescribed forms and were properly signed.

BPSs are date-stamped as they are received. The auditor-appraiser reviews the BPSs and enters into the database all changes to owners' names, names under which the businesses are conducted, situs addresses, or mailing addresses. She then prepares the valuation adjustments.

Discovery

The assessor utilizes various tools for discovering assessable business property. Taxpayer self-reporting and periodic field canvassing are significant means of discovery. Other means of discovery utilized by the assessor include reviewing fictitious business name filings, real

property appraiser referrals, and landlord reports of tenants. We found the assessor employs effective methods for discovering assessable business property.

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 that the attachments are in a format as specified by the assessor and a copy of the BPS, as printed by the assessor, is signed by the taxpayer and carries appropriate reference to the data attached. In Del Norte County, the assessor allows taxpayers to submit attachments in lieu of completing BPSs as provided by section 441.5 only if the taxpayer or the taxpayer's assignee submits an original signature on the BPS. We reviewed several BPSs and found the taxpayer or an authorized agent appropriately signed the BPSs even when a rendition was attached to the original. Our review also included verifying the assessor's procedures for processing late-filed and non-filed BPSs. We found that the assessor properly applies the late-filing penalty as required by section 463. Additionally, habitual non-filers are contacted in an attempt to collect accurate assessment information. If no other information is available, the assessor will conduct a field review.

Summary

Overall, the assessor's program for processing BPSs is effectively administered. The procedures in place are well structured and compliant with existing law. We have no recommendations for the business property statement program.

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).

We reviewed a variety of entries for business equipment reported on BPSs for businesses, such as banks and financial institutions, service stations, grocery stores, propane companies, construction companies, and dairy businesses.

The assessor has a coding system to identify and designate the use of specific valuation tables for business property equipment reported on the BPS. These factor tables are developed for use in mass appraisal, and are used for converting original cost to estimates of reproduction cost or replacement cost new.

Application of Board-Recommended Index Factors

The assessor does not have written business equipment valuation procedures; however, she utilizes Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, as a guide. The assessor primarily utilizes AH 581 and California Assessors' Association (CAA) *Business Assessment Factors* to value assessable equipment. We found the assessor uses acceptable methods in the classification and valuation of business equipment. We have no recommendations for this topic.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, 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.

Del Norte County has 736 manufactured homes in 54 mobilehome parks. The 2009-10 assessment roll value of these homes, and related accessories, is approximately \$16,300,000. Additionally, there are 355 manufactured homes not in parks and have a total value, including accessories, of about \$20,200,000 on the 2009-10 assessment roll.

The assessor assigns each locally-assessed manufactured home in a park a fictitious parcel number beginning with the map book in which the park is located and a "700" for the map page. These manufactured homes are classified as personal property and enrolled on the secured roll. Those manufactured homes not situated in a mobilehome park are assigned the parcel number for the underlying land. Homes that were previously manufactured homes, but are now improvements for property tax purposes (as appropriate per Health and Safety Code section 18551), are classified and enrolled as improvements on the secured roll. The assessor also uses various use codes to further describe the manufactured home, the affixation of the homes, and their situs.

The Del Norte County Board of Supervisors passed an ordinance requiring manufactured homes not located in mobilehome parks to be placed on a permanent foundation. There are about 1,000 homes on permanent foundations throughout the county and most meet the requirements of Health and Safety Code section 18551. Their total 2009-10 roll value is approximately \$125,000,000.

The assessment of manufactured homes is assigned to various property appraisers depending on geographic location. Upon receipt of information from the Department of Housing and Community Development (HCD), dealer reports of sale, building permits, mobilehome park operator reports, appraisers, or taxpayers, assessment work for manufactured homes and accessories is forwarded to an appraiser. The appraisers use market sales information, local cost data, and Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), for valuing the manufactured homes. All accessories, such as decking, awnings, and skirting, are included and documented in the cost estimate. Overall condition and age are also considered in the cost

analysis. If the sale price includes value attributable to a site owned by others, the site value is deducted from the sale price and only the value of the home is enrolled.

We reviewed more than 35 property records for this assessment program. We found the assessor processes supplemental assessments appropriately, annually reviews manufactured homes for declines in value, and considers value guides recognized in section 5803 when valuing the homes. However, we found two problem areas.

RECOMMENDATION 11: Improve the manufactured home assessment program by:
(1) using the correct version of AH 531 for the valuation of manufactured homes, and (2) supporting adjustments for obsolescence.

Use the correct version of AH 531 for the valuation of manufactured homes.

The assessor's policy and practice is to use the current version of AH 531 for changes in ownership of manufactured homes, but use the prior year's version of AH 531 for lien date valuations. In reviewing the records of manufactured homes for 2009 declines in value, seven of eight valuations were completed using the 2008 version of AH 531. The costs in the 2008 version are 5 percent higher than the costs in the 2009 version for the same square footage and classification.

AH 531 advises that the building costs are to be used as of the appropriate lien date. For example, in the January 2009 version of AH 531, it states, "This edition of Assessors' Handbook Section 531 (AH 531), *Residential Building Costs*, provides current basic building costs to be used as of January 1, 2009." For lien date 2009 decline-in-value purposes, the assessor used the January 2008 version of AH 531.

The assessor's practice results in inconsistent assessments and may result in overassessments.

Support adjustments for obsolescence.

We found the assessor adds a second adjustment for obsolescence when estimating the current market value of a manufactured home using AH 531. These adjustments vary from an additional depreciation rate of 12 to 57 percent. These adjustments are not explained nor is there any evidence provided to support the adjustment.

Significant adjustments used in the estimation of a value via the cost approach should be explained and documented. AH 531 explains that the depreciation schedule therein is provided as a guide for appraisers, that the effective age of the home should be carefully evaluated, and that an investigation into the condition of the home should be undertaken. The schedule reflects homes in average condition. If, after evaluating the effective age of the manufactured home, it is determined that an additional adjustment for depreciation is needed, the assessor should provide a description of the home and/or the surrounding area to explain why the additional adjustment for physical, functional, or external obsolescence is needed. Additionally, the assessor should include reference to market data that justifies each adjustment. Assessors' Handbook Section 501, *Basic Appraisal* (AH 501) states that depreciation is best verified by sales and income

analyses. The assessor should extract market indicators either from sales or income analyses to reasonably justify the secondary adjustments for depreciation.

The above described market analyses and supporting documentation, as the basis of the opinion of value, should be included on the property record. This procedure is good appraisal practice and will greatly improve the quality of manufactured home assessments.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Del Norte County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Sally Boeck

Supervising Property Appraiser

Survey Team Leader:

Glenn Danley

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Tammy Aguiar

Associate Property Appraiser

Bryan Bagood

Associate Property Appraiser

Brian Salmon

Associate Property Appraiser

Julie Warren

Associate Property Appraiser

Paula Montez

Associate Property Auditor-Appraiser

Paul Stueber

Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁵ 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.)⁶

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.

⁵ 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.

⁶ 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 mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.

- (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 BOARD'S FINDINGS

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

The Del Norte County Assessor's response begins on the next page. The Board has no comments on the response.



COUNTY OF DEL NORTE

OFFICE OF THE ASSESSOR

981 "H" Street, Suite 120
Crescent City, California 95531

Phone (707) 464-7200
Fax (707) 464-3115

September 14, 2011

RECEIVED

SEP 19 2011

County-Assessed Properties Division
State Board of Equalization

Dean R. Kinnee, Chief
County-Assessed Properties Division
State Board of Equalization
P. O. Box 942879
Sacramento, CA 95279-0062

Dear Mr. Kinnee:

In accordance with Section 15645 of the California Government Code, the following report is the Assessor's response to the 2009-10 State Board of Equalization Assessment Practices Survey for Del Norte County.

Most of the recommendations made by the survey team have been implemented at this time. The remaining recommendations will be initiated as workload and time permits.

Del Norte County would like to thank the State Board of Equalization and its staff for the professional and conscientious manner in which the survey was conducted.

Sincerely,

LOUISE WILSON
Assessor
County of Del Norte

DEL NORTE COUNTY
Assessment Practices Survey

RECOMMENDATION 1: **Improve the disaster relief program by (1) revising the disaster relief application to comply with section 170 (a), (2) granting disaster relief only upon receipt of a complete and timely filled application, and (3) including the correct appeals filing period in the notice of proposed reassessment.**

Response: (1) DNCAO concurred in the 2007 Assessment Practices Survey to implement a revision of the application for disaster relief. DNCAO contacted other counties and revised our form to coincide with examples. DNCAO concurs and has revised our revision.

(2) In the past DNCAO has processed known calamities without a proper claim form being submitted. For the 2010-11 tax roll discovered calamity assessments were not processed unless a calamity form was filled out and returned timely. DNCAO recognizes and makes any warranted adjustments on lien date for properties that have not submitted a calamity form.

(3) DNCAO's calamity form states the correct appeals filing period. However, the supplemental notice sent upon enrollment of the calamity value adjustment did not. DNCAO concurs and has made the correction to reflect the correct filing period on the calamity supplemental notification letter.

RECOMMENDATION 2: **Improve the welfare exemption program by: (1) prorating the exemption for low-income housing properties, (2) ensuring all exemption claims indicate the date the claim was received or postmarked, and (3) exempting only those areas of Veterans' organization properties used exclusively for exempt purposes.**

Response: (1) Concur. After a BOE appraiser reviewed all welfare exemptions, it was determined there was one missed proration on an exemption for low-income housing properties. The Auditor-Appraiser corrected the missed proration immediately and the correct exemption amount was enrolled for the 2010-11 roll. The proper proration for low-income housing exemptions has been and will continue to be applied.

(2) Concur. DNCAO has followed proper procedure in date stamping mail received. However, DNCAO has implemented reviewing of all packets (especially those stapled together and submitted as one) to ensure all forms submitted are properly validated with the date received.

(3) Concur. DNCAO is in the process of gathering and correlating information to determine non-exempt usage for the Veterans' organization properties.

- RECOMMENDATION 3:** **Apply penalties to the amount over the basic exemption when a low-income disabled Veterans' exemption claim is filed late.**
- Response: Concur. DNCAO has implemented the correct penalty procedure for a low-income disabled veteran exemption claim filed late.
- RECOMMENDATION 4:** **Improve the maintenance of assessment forms by using the most recent property tax forms.**
- Response: Concur. DNCAO will remain diligent in removing all forms that are not current to ensure all updated (current) forms are the only versions in use.
- RECOMMENDATION 5:** **Improve the change in ownership program by: (1) correctly implementing the penalty process in accordance with section 482 (a), (2) properly notifying taxpayers of any penalty added in compliance with section 482 (f), and (3) notifying taxpayers of the penalty abatement process in compliance with section 483(a).**
- Response: Concur. DNCAO has implemented the penalty process in accordance with section 482 (a) and has corrected our notification to taxpayers of any penalty added in accordance with section 482(f) as well as correcting notification procedures to the taxpayers of the penalty abatement process in accordance with section 483 (f).
- RECOMMENDATION 6:** **Improve the new construction program by: (1) classifying wells as land, (2) revising the form letter sent by the assessor requesting new construction costs from the property owner, and (3) granting new construction exclusions for claims for disabled access improvements only upon compliance with section 74.6**
- Response: (1) Concur. DNCAO classifies all wells as an improvement. As time allows DNCAO will segregate the value between land and improvements.
- (2) Concur. DNCAO has revised new construction letters.
- (3) Concur. DNCAO exempted small projects (such as wood ramps and bathroom remodels) to accommodate disabled access without a formal new construction exclusion. DNCAO will implement sending new construction exclusions for all claims for disabled access improvements in accordance with section 74.6.
- RECOMMENDATION 7:** **Improve the declines in value program by revising the assessor's Prop 8 (decline in value) information request letter.**
- Response: Concur. DNCAO has implemented a uniform Prop 8 (decline in value) request letter.

RECOMMENDATION 8: **Improve the taxable possessory interest program by: (1) assessing all taxable possessory interest located at the fairgrounds, and (2) valuing taxable possessory interests based on net income to the lessor.**

Response: (1) Concur. DNCAO will incorporate visits on- site every year to gather all contract/lease information rather than rely on submitted information provided by the fairgrounds. DNCAO will also pursue a low-value property exemption ordinance to exempt certain taxable fairgrounds possessory interests allowed under section 155.20 (b).

(2) Concur. DNCAO has implemented valuing taxable possessory interests based on net income to the lessor, starting with the 2010-11 roll.

RECOMMENDATION 9: **Improve the assessment of leasehold improvements by: (1) forwarding copies of Schedule B and the supplemental schedule to the real property division and (2) consistently documenting the investigation of leasehold improvements on the appraisal record.**

Response: Concur. The Auditor-Appraiser will replace physically delivering information with forwarding a copy of the Schedule B and supplemental schedule to the appropriate appraiser. The proper documentation procedure will be followed.

RECOMMENDATION 10: **Improve the mineral property appraisal process by: (1) identifying and appraising the real property mineral rights associated with sand and gravel extraction properties, (2) determining the current market value of mineral properties each year as required by Rule 469, and (3) using the Bureau of Land Management list to identify all unpatented mining claims in the county.**

Response: Concur. DNCAO is in the process of identifying and appraising the real property mineral rights associated with sand and gravel extraction properties, as well as determining the current market value of mineral properties as required by Rule 469. DNCAO is in the process of creating a form letter to be sent to the Bureau of Land Management requesting unpatented mining claims information within Del Norte County.

RECOMMENDATION 11: **Improve the manufactured home assessment program by: (1) using the correct version of AH 531 for the valuation of manufactured homes, and (2) supporting adjustments for obsolescence.**

Response: Concur. DNCAO has implemented using the correct version of AH 531 for valuation of manufactured homes. In addition to current field review procedure, DNCAO will implement documentation in regards to supporting adjustments for obsolescence.