EL DORADO COUNTY
ASSESSMENT PRACTICES SURVEY

AUGUST 2017

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August 9, 2017

TO COUNTY ASSESSORS:

EL DORADO COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the El Dorado 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 specified counties 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 Karl Weiland, El Dorado 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 El Dorado County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from July through August 2015. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Weiland and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

Sincerely,

/s/ Diane Yasui for

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK:del
Enclosure
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INTRODUCTION

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

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

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

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

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

SCOPE AND METHODOLOGY

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

Pursuant to Revenue and Taxation Code\(^2\) section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team – based on objective standards defined in regulation – that there are no significant assessment problems in the county.

This survey included an assessment sample of the 2014-15 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and

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\(^1\) Government Code section 15642.

\(^2\) Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.
disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments.

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


We conducted reviews of the following areas:

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

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

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

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

We examined the assessment practices of the El Dorado County Assessor's Office for the 2014-15 assessment roll. This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit – the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

In the area of administration, the assessor is effectively managing programs for staffing, workload, assessment appeals, disaster relief, and exemptions programs.

In the area of real property assessment, the assessor has effective programs for new construction, California Land Conservation Act (CLCA) property, and mineral property. However, we made recommendations for improvement in the programs related to change in ownership, declines in value, taxable possessory interests, and timeshares.

In the area of personal property and fixtures assessment, the assessor has effective programs for business equipment valuation and the assessment of manufactured homes. However, we made recommendations for improvement in the audit, business property statement, and vessel valuation programs.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly, and that the overall quality of the assessment roll meets state standards.

The El Dorado County assessment roll meets the requirements for assessment quality as established by section 75.60. Our sample of the 2014-15 assessment roll indicated an average assessment ratio of 99.51 percent, and the sum of the absolute differences from the required assessment level was 0.72 percent. Accordingly, the BOE certifies that El Dorado County is eligible to receive reimbursement of costs associated with administering supplemental assessments.
OVERVIEW OF EL DORADO COUNTY

El Dorado County is located in mid-California and lies within California's Gold Rush Country. At the time of this survey, El Dorado County had an estimated population of 183,087. Encompassing 1,708 square miles of land area, the county is bounded on the north by Placer County, on the south by Alpine and Amador Counties, to the west by Sacramento County, and to the east by the state of Nevada.

Established in 1850 as one of the original California counties, El Dorado County has two incorporated cities: the county seat, Placerville, and South Lake Tahoe.

El Dorado County's local assessment roll value ranks 27th among the 58 California counties for the 2014-2015 assessment year.4

During the periods reviewed under this assessment practices survey, the Governor had proclaimed a disaster in El Dorado County and other counties due to wildfires in August and September 2014, disasters due to wildfires in all 58 California counties in June and July 2015, and disasters due to drought in all 58 counties in January 2014.5 As a result, those-governor proclaimed disasters that caused physical damage to assessed properties in El Dorado County may have rendered them eligible for property tax relief.

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4 From the BOE Annual Report, Table 7, Assessed Value of County-Assessed Property Subject to General Property Taxes, inclusive of the Homeowners' Exemption, by Class of Property and by County, sorting the net total assessed value from highest to lowest.
FINDINGS AND RECOMMENDATIONS

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

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

RECOMMENDATION 1: Apply section 482 penalty for failure to file completed Change of Ownership Statements within 90 days of written request.................................................................8

RECOMMENDATION 2: Improve the LEOP program by: (1) reassessing all properties owned by a legal entity undergoing a change in control, and (2) applying appropriate penalties as required by section 482(b) if BOE-100-B, Statement of Change in Control and Ownership of Legal Entities, is not filed timely. ..................................................................................9

RECOMMENDATION 3: Annually review commercial and timeshare properties with taxable values that are less than their factored base year value as required by section 51(e). ........................................10

RECOMMENDATION 4: Improve the taxable possessory interest program by: (1) not revaluing taxable possessory interests due to a renewal or extension during the reasonably anticipated term of possession, (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value and enrolling the values consistently, (3) issuing supplemental assessments for changes in ownership or new construction of qualifying possessory interests on the unsecured roll, and (4) adding the present worth of unpaid rents to the nominal sale price as required by Rule 21.................................................................12

RECOMMENDATION 5: Improve the timeshare assessment program by: (1) establishing written procedures for the processing of timeshares, (2) assessing personal property at market value in timeshare units held by the developer, and (3) reassessing timeshare projects when the cumulative interest and value transferred meet the requirements of section 65.1. ..................................................................................14

RECOMMENDATION 6: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469. .........................16
RECOMMENDATION 7: Value taxable business property in accordance with section 501 when a taxpayer fails to file a business property statement or files late. ..................................................................17

RECOMMENDATION 8: Improve the vessels program by: (1) using market derived factors to value vessels, and (2) including sales tax as a component of market value when appraising vessels. ...............18
ASSESSMENT OF REAL PROPERTY

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of a change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.6

Penalties

When a transfer document is received without a BOE 502-A, Preliminary Change of Ownership Report (PCOR), a BOE-502-AH, Change in Ownership Statement (COS), is mailed to the taxpayer. The county has not adopted an ordinance pursuant to section 483(b) allowing the assessor to abate penalties automatically. We reviewed the assessor's application of the penalty process and found an area in need of improvement.

RECOMMENDATION 1: Apply section 482 penalty for failure to file completed Change of Ownership Statements within 90 days of written request.

We found the assessor fails to assess the mandatory section 482(a) penalty when a COS is not returned within the specified 90 days of written request mailed by the assessor.

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 90 days from the date a written request by the assessor is mailed, a specific penalty is applied. When the property owner fails to return a COS or return the COS timely, the assessor should notify the property owner of the penalty being applied and inform them of the abatement process as described in section 483(a).

The information contained in a properly completed COS is important because it assists the assessor in making an accurate assessment of a property. The COS information may also alert the assessor of a potential exclusion. The assessor should establish a tracking system to more closely monitor whether the requested COS is returned, and if returned, whether it is filed timely. The assessor's current practice of not applying penalties to property owners who fail to file a COS by the filing deadline is contrary to statute.

6 For a detailed description of the scope of our review of this topic, please refer to the document entitled Change in Ownership, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.
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 interest in a legal entity.

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

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

We found areas in the LEOP program that need improvement.

RECOMMENDATION 2: Improve the LEOP program by: (1) reassessing all properties owned by a legal entity undergoing a change in control, and (2) applying appropriate penalties as required by section 482(b) if BOE-100-B, Statement of Change in Control and Ownership of Legal Entities, is not filed timely.

Reassess all properties owned by a legal entity undergoing a change in control.

We found properties owned by legal entities having undergone a change in control that had not been reassessed even though BOE's LEOP section notified the assessor of the change.

Section 64(c)(1) provides that when a legal entity or any other person obtains control through direct or indirect ownership or control of more than 50 percent of the voting stock of any corporation, or obtains a majority ownership interest in any partnership, limited liability company, or other legal entity through the purchase or transfer of corporate stock, partnership, or limited liability company interest, the purchase or transfer of that stock or interest shall be a
change of ownership of the real property owned by the legal entity in which the controlling interest was obtained.

By not reassessing properties owned by legal entities identified as having undergone a change in control, the assessor may be enrolling incorrect assessments for those properties.

**Apply appropriate penalties as required by section 482(b) if BOE-100-B, Statement of Change in Control and Ownership of Legal Entities, is not filed timely.**

We found that the assessor is not applying the penalties required by section 482(b) when BOE-100-Bs are filed late.

Sections 480.1(a) and 480.2(a) require the filing of a signed BOE-100-B whenever a legal entity has undergone a change in control or ownership. Section 482(b) states that if a legal entity required to file a BOE-100-B fails to do so within 90 days from the earlier of (1) the date of the change in control or the change in ownership or (2) the date of a written request by the BOE, whichever occurs earlier, a specific penalty shall be applied.

The BOE provides the assessor with several reports, as well as copies of BOE-100-Bs, indicating whether a penalty applies. The assessor should review these reports and the BOE-100-Bs to identify entities with late-filings and apply penalties accordingly. By failing to apply the required section 482(b) penalty, the assessor is not following statutory requirements.

**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.7

We reviewed a number of residential decline-in-value assessments and found the property records were documented with the current lower assessed market value and the FBYV appropriately. However, we found an area in need of improvement.

**RECOMMENDATION 3:** Annually review commercial and timeshare properties with taxable values that are less than their factored base year value as required by section 51(e).

We found that the assessor is not annually reviewing all commercial and timeshare properties in decline-in-value status in accordance with section 51(e).

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

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

**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.\(^8\)

The assessor enrolled 287 taxable possessory interests totaling $19,540,131 on the unsecured roll. There are 1,360 taxable possessory interests enrolled on the secured roll with a total assessed value of $96,706,982.

We reviewed a number of taxable possessory interest records. All of the appraisal records we examined contained a copy of the lease for the interests being assessed. Our examination also revealed that the assessor deducts operating expenses from the gross income before converting the income stream into a value, uses contract terms or estimated terms of possession and develops capitalization rates consistent with Rule 8. Our review of taxable possessory interests at the El Dorado County fairgrounds confirms the assessor is properly assessing and exempting uses at the fairgrounds.

Overall, the possessory interest assessment program is well managed and thorough. There are, however, areas in which the possessory interest program could be improved.

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8 For a detailed description of the scope of our review of this topic, please refer to the document entitled *Taxable Possessory Interests*, available on the BOE's website at [http://www.boe.ca.gov/Assessors/pdf/tpi_general.pdf](http://www.boe.ca.gov/Assessors/pdf/tpi_general.pdf). Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at [http://www.boe.ca.gov/proptaxes/apscont.htm](http://www.boe.ca.gov/proptaxes/apscont.htm).
RECOMMENDATION 4: Improve the taxable possessory interest program by:
(1) not revaluing taxable possessory interests due to a renewal or extension during the reasonably anticipated term of possession, (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value and enrolling the values consistently, (3) issuing supplemental assessments for changes in ownership or new construction of qualifying possessory interests on the unsecured roll, and (4) adding the present worth of unpaid rents to the nominal sale price as required by Rule 21.

Do not revalue taxable possessory interests due to a renewal or extension during the reasonably anticipated term of possession.

Taxable possessory interests without a stated term of possession are being revalued annually with no evidence of a change in ownership or new construction and regardless of the reasonably anticipated term of possession used in the initial valuation. For example, the assessor may use a reasonably anticipated term of possession of five years to value a typical month-to-month lease, but then revalues the taxable possessory interest before the end of that anticipated term.

Section 61 defines a change in ownership as the creation, renewal, extension or assignment of a taxable possessory interest in tax exempt real property. Section 61(b)(2) provides the assessor shall at the end of the initial term of possession used by the assessor, establish a new base year value, based on a new reasonably anticipated term of possession. Section 61(b)(2) also provides that the renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used to value the interest does not result in a change in ownership until the end of the reasonably anticipated term of possession.

Revaluing taxable possessory interests prior to the end of their anticipated term may result in inaccurate assessments.

Periodically review all taxable possessory interests with stated terms of possession for declines in value and enroll the values consistently.

We reviewed several taxable possessory interest files indicating a stated term of possession. Some files contained a spreadsheet showing declining values for the term. The declining values were enrolled according to the spreadsheet for a year or two, and then in subsequent years the enrolled value was either indexed by the BOE-announced inflation factor or a new declining value spreadsheet was created using a new term of possession. In the latter case, our review found no evidence supporting the new term or that would justify using a term other than the original stated term of possession, such as a change in ownership or the creation of an agreement or mutual understanding between the public owners and private lessees.

Rule 21(d)(1) provides the stated term of possession shall be deemed to be the reasonably anticipated term of possession unless there is clear and convincing evidence the public owner
and private possessor have reached a mutual understanding or agreement such that the reasonably anticipated term of possession is shorter or longer than the stated term of possession. Rule 21(a)(6) defines the stated term of possession for a taxable possessory interest as the remaining period of possession as of a specific date as stated in the lease, agreement, or permit, including any options to renew or extend the specified period of possession. Therefore, the stated term of possession of a taxable possessory interest declines each year, which may or may not have a material effect on the market value of the taxable possessory interest. For this reason, the assessor must estimate the market value of a possessory interest on the lien date based on the remaining term of the contract, compare this value with the factored base year value, and enroll the lower of the two values.

Although the assessor is not required to reappraise all properties each year, the assessor should periodically review the assessments of all taxable possessory interests with stated terms of possession to ensure declines in value are consistently recognized. Failure to do so may result in overassessments.

**Issue supplemental assessments for changes in ownership or new construction of qualifying taxable possessory interests on the unsecured roll.**

Most types of taxable possessory interests in El Dorado County are enrolled on the unsecured roll. Due to computer system limitations, the assessor is unable to issue supplemental assessments for changes in ownership or new construction involving interests on the unsecured roll. However, taxable possessory interests in cabins on U.S. Forest Service land are enrolled on the secured roll; therefore, supplemental assessments are issued for changes in ownership or new construction of these taxable possessory interests.

Section 75.14 provides that all property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessments. However, an exception is created under section 75.5 which excludes newly created taxable possessory interests, established by month-to-month agreements, having a full cash value of fifty thousand dollars ($50,000) or less.

The assessor's practice of not issuing supplemental assessments on qualifying taxable possessory interests is contrary to statute and results in inequitable taxation and a loss of revenue to the county.

**Add the present worth of unpaid rents to the nominal sale price as required by Rule 21.**

The assessor enrolls the sale price of privately owned cabins on U. S. Forest Service land as the total base year value for the cabin and the possessory interest and then allocates the value between land and improvements. He does not make an adjustment to the sale price for unexpired contract rents assumed by the buyer of the property. The assessor believes buyers are essentially paying fee value for the land on which the cabins are located.

Absent a current or updated study showing that sales prices reflect, as the assessor asserts, the fee values of the lands on which the cabins are located, the assessor should add to each sales price the present worth of any unpaid future contract rents as provided in Rule 21, subdivision (e)(1)(A).
Timeshares

A timeshare estate is a right of occupancy in a timeshare project that is coupled with an estate in real property. A timeshare project is one in which a purchaser receives a right to the recurrent, exclusive use or occupancy of a unit of real property for a specified time interval that has been or will be allotted from the occupancy or use periods into which the project has been divided. When purchased, a timeshare typically includes nonassessable personal property (furniture, linens, kitchenware, and household items) and nonassessable non-real-property items. Examples of non-real-property items include vacation exchange rights, club memberships, and prepaid expenses such as maintenance fees.9

There are 11 timeshare projects in El Dorado County. The assessor enrolled 39,090 individual timeshare interests with a total assessed value of $206,378,918 on the 2015-16 roll, and 11 underlying (developer) interests with a total assessed value of $28,513,848. One real property appraiser in the South Lake Tahoe office is responsible for the assessment of all timeshare interests in the county.

There are a limited number of timeshare projects in El Dorado County with remaining timeshare interests in the developer's inventory. The assessor's policy has been to calculate the value of the developer's interest by first determining an average base year value for each timeshare unit and then dividing the project's total cost for land and improvement values by the total number of units. Each year as timeshare units are sold, the base year value of the developer's interest is reduced by the base year value of the total number of timeshare units to be sold.

We found areas in the assessment of timeshares in need of improvement.

RECOMMENDATION 5: Improve the timeshare assessment program by:
(1) establishing written procedures for the processing of timeshares, (2) assessing personal property at market value in timeshare units held by the developer, and (3) reassessing timeshare projects when the cumulative interest and value transferred meet the requirements of section 65.1.

Establish written procedures for the processing of timeshares.

The assessor currently has no written procedures for the processing of timeshare properties. Furthermore, within the periods included in our review of the timeshare assessment program, there had been a change in personnel assigned to timeshare assessments in the assessor's office. As a result, during our review of timeshare properties, the current staff responsible for valuations were not familiar with how timeshares had been valued previously and were able to provide only limited information on current practices. Without written procedures, uniformity and consistency

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in processing timeshare assessments are difficult to achieve. The program would benefit from the development of detailed procedures for the assessment of these properties.

**Assess personal property at market value in timeshare units held by the developer.**

The assessor does not assess any of the personal property in the timeshare project. Some personal property is still held in the developer's timeshare inventory, while some is located in units that are either rented to others by the timeshare owners or by the developer.

Section 201 provides that unless exempt, all property is taxable. Section 224 and Rule 134 exempt from taxation only those household furnishings and personal effects not held or used in connection with a trade, profession, or business. Since household furnishings in timeshare units that are rented are used in a business, they are taxable.

The assessor's current practice results in taxable personal property escaping assessment.

**Reassess timeshare projects when the cumulative interest and value transferred meet the requirements of section 65.1.**

We found that the assessor does not track transfers of timeshares to determine whether cumulative transfers in any one assessment year meet the percentage interest and value requirements of section 65.1.

Section 65.1(a) provides that a change in ownership of an interest with a market value of less than 5 percent of the total property value shall not be reappraised if the value transferred is less than $10,000. However, these transfers are cumulative within each assessment year. Therefore, the assessor must track and reassess any interest that equals or exceeds 5 percent of the total property value and the total interest transferred to determine whether or not the total value exceeds $10,000 at the end of each assessment year.

The assessor's failure to review changes in ownership of timeshare estates in accordance with the provisions of section 65.1 results in incorrect assessments of timeshare estate projects.
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Audit Program

County assessors are required to annually conduct a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with 50 percent of the audits to be selected from a pool of those taxpayers with the largest assessments.10

We reviewed audits conducted by the assessor to ensure the taxpayer has been properly assessed, and the assessor's audit review process to ensure audits adhered to an acceptable quality standard. We also reviewed the roll correction process to ensure audits resulting in escape assessments were enrolled for each year in which an escape assessment took place, as well as the assessor's notification procedure to ensure that taxpayers of escaped assessments were properly notified of escapes and of their rights to appeal.

Overall, we found the assessor's audit program to be well managed. However, we found an area in need of improvement.

RECOMMENDATION 6: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

For each of the assessment years under the scope of the survey, 2010-2011, 2011-2012, 2012-2013, 2013-2014, and 2014-2015, the assessor completed a total of 26, 16, 27, 29, and 20 audits, respectively. Section 469 requires the assessor to audit 22 assesses per year, with 11 of those from the pool of largest business property owners, those taxpayers that have the largest assessments of locally assessable trade fixtures and business tangible personal property in the county.

An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or for correcting noncompliant reporting practices. Furthermore, experience shows that the further removed the audit is from the year being audited the more difficult it is to obtain the records necessary to substantiate accurate reporting. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately a well-managed assessment program.

10 For a detailed description of the scope of our review of this topic, please refer to the document entitled Audit Program, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.
By failing to conduct a significant number of audits in a timely manner, the assessor is not in compliance with section 469 and, as a result, may allow incorrect assessments of taxable business property to become permanent.

**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.¹¹

We reviewed the assessor's practices and files relevant to the BPS program to ensure that the assessor complies with statutory guidelines. We reviewed a sampling of BPSs to verify that the assessor uses Board-prescribed forms, utilizes certified staff for processing BPSs, ensures that BPSs are properly completed, that appropriate penalties are applied, that real property and business property staff coordinate the assessments of trade fixtures, leasehold improvements, and structures, and that the assessor requires adherence to an appropriate record retention policy.

We found the assessor date stamps incoming BPSs and appropriately adds a 10 percent penalty to assessments when BPSs are submitted after the deadline. The assessor remedies unsigned BPSs by returning the original for action by the property owner. The assessor's business and real property divisions coordinate efforts to properly classify improvements as fixtures or structures. We also found the assessor to have an appropriate record retention practice.

While the assessor's BPS program is generally managed well, we found an area in need of improvement.

**RECOMMENDATION 7:** Value taxable business property in accordance with section 501 when a taxpayer fails to file a business property statement or files late.

Our review included verifying the assessor's procedures for processing late and non-filed BPSs. We found that when the business owner fails to file a BPS, the assessor uses the previous year's reported costs data to estimate an assessment and then applies a 10 percent penalty as provided by section 463. However, in cases when the taxpayer fails to file a BPS for two or more consecutive years, we found that the assessor incorrectly escalates the values by applying a 10 percent penalty to the previous year's enrollment inclusive of any previously applied penalties.

If an assessee does not file a BPS by May 7 pursuant to section 441, section 501 provides that the assessor shall estimate a value based on available information and section 463 provides that a 10 percent penalty shall be added to that estimated value. By compounding the value by

including the prior year's penalties, the assessor is enrolling an arbitrarily determined value with no supporting basis. Any estimated assessment should be supported by available information in conformance with section 501.

The assessor's current calculation methodology likely leads to erroneous value conclusions and leads to improper application of the late or non-filing penalty provided for in section 463.

**Vessels**

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.12

Overall, the assessor's vessel assessment program is well administered. However, we found areas in need of improvement.

**RECOMMENDATION 8:** Improve the vessels program by: (1) using market derived factors to value vessels, and (2) including sales tax as a component of market value when appraising vessels.

**Use market derived factors to value vessels.**

After an initial vessel assessment is made, the assessor annually applies a county depreciation factor to all vessels and personal watercraft. The assessor believes that the county's depreciation table is based on a market study, but was not able to provide any material related to the study and was not sure who authored the study.

According to Assessors' Handbook section 504, *Assessment of Personal Property and Fixtures* (AH 504), the use of valuation factors should be supported by a recognized sampling method. To utilize sampling of current market evidence, assessors must develop and use recognized methods that are supportable.

The assessor may also use the recently developed vessel valuation factors provided by the BOE. To promote uniformity of vessel assessments among counties within California, the BOE developed market derived depreciation tables available for use by assessors since the 2009 lien date. These depreciation factors were developed with the assistance of many county assessors to be used in the mass appraisal of vessels when determining a value for property taxation purposes. By not utilizing a valuation factors or a depreciation schedule supported by market evidence, the assessor risks enrolling incorrect market values for vessels.

---

Include sales tax as a component of market value when appraising vessels.

We found it is the assessor's policy to not make a sales tax adjustment to the stated blue book value of vessels. The assessor believes that the stated blue book value is within a range of values that may be viewed to include sales tax. Vessel guides such as National Automobile Dealers Associate (NADA) are intended for use on a nationwide basis and do not include the sales and use tax in the values listed.

Generally, the addition of sales or use tax to a value estimate is required to approximate the market value to the consumer. Assessors' Handbook section 576, Assessment of Vessels, provides that the addition of taxes, freight, and transportation charges to the listed value of a vessel is consistent with an appraisal approach that gives consideration to the consumer's total cost in arriving at market value. Furthermore, the court case of Xerox Corp. v. Orange County (1977), 66 Cal.App.3d 746, established that under the market value concept, where price is the basis of value, sales tax and freight charges are elements of value. Without including all the elements of value, the assessor's values are understated.
APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2014-15 assessment roll:13

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>ENROLLED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured Roll</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$8,513,574,432</td>
</tr>
<tr>
<td>Improvements</td>
<td>$17,983,652,722</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$185,034,318</td>
</tr>
<tr>
<td>Total Secured</td>
<td>$26,682,261,472</td>
</tr>
<tr>
<td>Unsecured Roll</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$15,709,656</td>
</tr>
<tr>
<td>Improvements</td>
<td>$169,885,927</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$360,436,350</td>
</tr>
<tr>
<td>Total Unsecured</td>
<td>$546,031,933</td>
</tr>
<tr>
<td>Exemptions14</td>
<td>($581,676,616)</td>
</tr>
<tr>
<td>Total Assessment Roll</td>
<td>$26,646,616,789</td>
</tr>
</tbody>
</table>

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:15

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL ROLL VALUE</th>
<th>CHANGE</th>
<th>STATEWIDE CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>$26,646,617,000</td>
<td>4.7%</td>
<td>6.2%</td>
</tr>
<tr>
<td>2013-14</td>
<td>$25,449,636,000</td>
<td>1.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>2012-13</td>
<td>$25,185,868,000</td>
<td>-0.5%</td>
<td>1.4%</td>
</tr>
<tr>
<td>2011-12</td>
<td>$25,302,511,000</td>
<td>-1.5%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2010-11</td>
<td>$25,699,403,000</td>
<td>-6.2%</td>
<td>-1.9%</td>
</tr>
</tbody>
</table>

14 The value of the Homeowners' Exemption is excluded from the exemptions total.
15 Roll Values and Statewide changes are from the State Board of Equalization Annual Report, Table 7.
Table 3: Gross Budget and Staffing


At the time of this survey, El Dorado County budgeted staff total 35.8 with one vacancy, and includes the assessor and assistant assessor, 12 real property appraisers, 3 business property auditor-appraisers, 2 cadastral draftspersons, 1 computer programmer, and 15.8 support staff.

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

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>GROSS BUDGET</th>
<th>PERCENT CHANGE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>3,562,456</td>
<td>0.4%</td>
<td>35.8</td>
</tr>
<tr>
<td>2013-14</td>
<td>3,549,674</td>
<td>5.5%</td>
<td>35.8</td>
</tr>
<tr>
<td>2012-13</td>
<td>3,365,136</td>
<td>-1.5%</td>
<td>35.8</td>
</tr>
<tr>
<td>2011-12</td>
<td>3,414,934</td>
<td>-11.8%</td>
<td>35.0</td>
</tr>
<tr>
<td>2010-11</td>
<td>3,869,743</td>
<td>8.1%</td>
<td>38.0</td>
</tr>
</tbody>
</table>

Table 4: Assessment Appeals

The following table shows the assessment appeals filed over recent years:

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>ASSESSMENT APPEALS FILED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>83</td>
</tr>
<tr>
<td>2013-14</td>
<td>104</td>
</tr>
<tr>
<td>2012-13</td>
<td>N/A</td>
</tr>
<tr>
<td>2011-12</td>
<td>N/A</td>
</tr>
<tr>
<td>2010-11</td>
<td>N/A</td>
</tr>
</tbody>
</table>

---

16 Budget and staffing information gathered from the county chief administrative office website in the annual Recommended Budget and Workplan for fiscal years 2010-2011 through 2014-2015.

Table 5: Change in Ownership

The following table shows the total number of recorded documents received and the total number of documents resulting in reappraisable events in El Dorado County in recent years.\(^{18}\)

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>TOTAL RECORDED DOCUMENTS RECEIVED</th>
<th>TOTAL RESULTING IN REAPPRAISABLE EVENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>18,234</td>
<td>8,831</td>
</tr>
<tr>
<td>2013-14</td>
<td>19,073</td>
<td>9,149</td>
</tr>
<tr>
<td>2012-13</td>
<td>17,902</td>
<td>9,575</td>
</tr>
<tr>
<td>2011-12</td>
<td>19,013</td>
<td>10,874</td>
</tr>
<tr>
<td>2010-11</td>
<td>17,341</td>
<td>8,616</td>
</tr>
</tbody>
</table>

Table 6: New Construction

The following table shows the total number of permits received and new assessments resulting from the permits in El Dorado County in recent years.\(^{19}\)

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>PERMITS RECEIVED</th>
<th>NEW ASSESSMENTS FROM PERMITS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>8,441</td>
<td>1,535</td>
</tr>
<tr>
<td>2013-14</td>
<td>7,486</td>
<td>1,334</td>
</tr>
<tr>
<td>2012-13</td>
<td>5,991</td>
<td>1,049</td>
</tr>
<tr>
<td>2011-12</td>
<td>5,501</td>
<td>1,396</td>
</tr>
<tr>
<td>2010-11</td>
<td>4,773</td>
<td>1,291</td>
</tr>
</tbody>
</table>

\(^{18}\) Statistics provided by the assessor's office.  
\(^{19}\) Statistics provided by the assessor's office.
Table 7: Declines In Value

The following table shows the total number of decline-in-value assessments in recent years:\(^\text{20}\)

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>DECLINE-IN-VALUE ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>53,487</td>
</tr>
<tr>
<td>2013-14</td>
<td>50,684</td>
</tr>
<tr>
<td>2012-13</td>
<td>N/A</td>
</tr>
<tr>
<td>2011-12</td>
<td>53,097</td>
</tr>
<tr>
<td>2010-11</td>
<td>N/A</td>
</tr>
</tbody>
</table>

\(^{20}\) Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors’ Offices.*
APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION
SURVEY GROUP

El Dorado County

Chief
David Yeung

Survey Program Director:
Diane Yasui  Manager, Property Tax

Survey Team Supervisor:
David Dodson  Supervisor, Property Tax

Survey Team:
Isaac Cruz  Senior Specialist Property Auditor-Appraiser
Michael Ash  Associate Property Appraiser
Jay Price  Associate Property Appraiser
Jennifer Prince  Associate Property Appraiser
Debra Wilson  Associate Property Appraiser
Nancy Le  Associate Property Auditor-Appraiser
Nichole Spence  Associate Property Auditor-Appraiser
Dany Lunetta  Associate Governmental Program Analyst
## APPENDIX C: RELEVANT STATUTES AND REGULATIONS

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

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report. The El Dorado County Assessor's response begins on the next page.

Section 15645 also allows the Board to include in the report comments regarding the assessor's response. Our comments follow the assessor's response.
June 29, 2017

David Yeung, Chief
County Assessed Properties Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0064

Dear Mr. Yeung:

Pursuant to §15645 of the California Government Code, I have prepared and included a response to the 2015 State Board of Equalization Assessment Practices Survey.

I would like to thank David Dodson and his team for the courteous manner in which they performed their duties.

As in surveys past, the results of this survey reflect the professionalism and dedication of the staff in the El Dorado County Assessor’s Office and I thank them for their hard work and commitment.

Sincerely,

Karl Weiland
Assessor
June 29, 2017

EL DORADO COUNTY
RESPONSE TO RECOMMENDATIONS

RECOMMENDATION 1:
(1) Apply section 482 penalty for failure to file completed Changes in Ownership Statements within 90 days of written request.

Response: We concur and will implement procedures in the adoption of the Megabyte property system.

RECOMMENDATION 2:
Improve the LEOP program by:
(1) Reassessing all properties owned by a legal entity undergoing a change in control; and
(2) Applying appropriate penalties as required by §482(b) if BOE-100-B Statement of Changes in Control and Ownership of Legal Entities is not timely filed;

Response: 1) We appreciate the survey team’s identification of this administrative oversight and have already implemented corrective procedures. 2) The implementation of the Megabyte property tax system will resolve this problem.

RECOMMENDATION 3:
Annually review commercial and timeshare properties with taxable values that are less than their factored base year value as required by section 51(e)

Response: We concur with the recommendation. Throughout the recession and recovery, we have always implemented an aggressive Prop 8 review process that attempts to maximize fair and impartial assessments in compliance with the statutory requirements while constrained by limited resources.

RECOMMENDATION 4:
Improve the taxable possessory interest program by:
1) Not revaluing taxable possessory interests due to a renewal or extension during the reasonable anticipated term of possession:
2) Periodically reviewing all taxable possessory interests with stated terms of possession for declines in value and enrolling the values consistently
3) Issuing supplemental assessments for changes in ownership or new construction of qualifying interests on the unsecured roll; and
4) Adding the present worth of unpaid rents to the nominal sale price as required by rule 21.

Response: 1) We concur with the recommendation and will implement procedures to insure compliance with the transition to our new property system 2) We concur with the recommendation and will comply. 3) The implementation of the Megabyte Property system, scheduled to go live on July 1, 2018, will resolve this issue. 4) We disagree with the recommendation for the following reasons:
   a. This recommendation is faulty and incomplete; compliance would result in overassessment. The recommendation reads 4) “Adding the present worth of unpaid rents to the nominal sales price as required by rule 21”. What rule 21 actually states under (e)(1)(A) is “In the direct comparison method, the appraiser shall add the following to the sale price of the subject taxable possessory interest, or to the sale price of a comparable taxable possessory interest, to derive an indicator of the fair market value of the subject taxable possessory interest: (i) the present value on the sale date of any unpaid future contract rent for the term of possession, however this section also states…”
unpaid future contract rent in (i) above shall be reduced by any expense necessary to maintain the income from the taxable possessory interest, including any element of "gross outgo" as defined in subsection (c) of rule 8. (emphasis added)

b) There is evidence to support a conclusion that there is no net income to be capitalized. The Congressional Budget Office analysis of H.R.5476, the Cabin Fee Act (CFA) shows a net increase in revenue of $1 million at the end of ten years, an average of $100,000 per year from the approximate 14,000 cabins in the program. This equates to about $7 per cabin per year. Source: http://www.cbo.gov/sites/default/files/113th-congress-2013-2014/costestimate/hr5476.pdf

c) Information has been requested from the Tahoe Basin Management unit of the USFS in an effort to establish if and how much net income is produced by the cabin program in El Dorado County. 2010 congressional testimony from USFS Deputy Chief Joel Holtrop included the following remarks “I also would like to recognize and understand the administrative cost of administering this program. As Representative Hastings said, there are over 14,000 cabin owners, and we recognize that those cabin owners visit the forests many times in a year, and visit the forests with friends and family. So there are maybe as many as five million visitors that are associated with the cabin users. The National Forest System accommodates 175 million visits a year, and the cost of us administering the Cabin User Program is over 5 percent of our recreation budget. In the State of California it is over 15 percent of our recreation budget. And on the El Dorado National Forest alone, it is one third of our recreation budget. The El Dorado is in California.” Source: https://www.gpo.gov/fdsys/pkg/CHRG-111hhrg56090/html/CHRG-111hhrg56090.htm

d) Explicit in this recommendation and by extension Rule 21, is the premise that buyers and sellers of residential cabins in the USFS Recreational Cabin program are incapable of determining the value of property where less than a fee interest in the land is conveyed. Furthermore, this recommendation mandates an arbitrary rebuttal of the nominal sales price without evidence and in contradiction of evidence provided in prior surveys.

e) South Lake Tahoe is a heavily regulated area and the impact of agencies like the Tahoe Regional Planning Authority (TRPA), the California State Conservancy and the Lahontan Regional Water Quality Control Board, along with the complicated market of transferable Development Rights (TDR’s) make valuation difficult under the best of circumstances. Between now and the next survey, the Assessor will collect, classify and document market evidence of this type of property to firmly establish appropriate valuation methods in recognition of the unique market and the constitutional and statutory obligations of the office. In addition, we will obtain revenue and expense information for fees charged under the Cabin Fee Act, which replaced the Cabin Users Fair Fee Act in 2014 in order to determine if any adjustments to the nominal sales price are warranted.

RECOMMENDATION 5: Improve the timeshare assessment program by:
   1) Establishing written procedures for the assessment of timeshares
   2) Assessing personal property at market value in timeshare units held by the developer; and
   3) Reassessing timeshare projects when the cumulative interest and value transferred meets the requirement of §65.1

Response: 1) We concur with the recommendation and have completed established written procedures and incorporated them into our procedures. 2) We concur and will implement this recommendation with the transition to our new property system. 3) We concur and will implement this recommendation with the transition to our new property system.

RECOMMENDATION 6:
   (1) Perform the minimum number of audits of professions, trades and businesses pursuant to section 469

Response: We concur with the recommendation and will comply as time and resources allow.
RECOMMENDATION 7: Value taxable business property in accordance with sections 501 and 463 when a taxpayer fails to file business property statement or files late.

Response: We concur and will implement a procedure for this recommendation with the transition to our new property system.

RECOMMENDATION 8: Improve the vessel program by:
(1) Using market value derived factors to value vessels; and
(2) Including sales tax as a component of market value when appraising vessels.

Response: 1) We concur and will implement this recommendation with the transition to our new property system. 2) We have adopted procedures to insure and document compliance.
BOE COMMENTS TO ASSESSOR'S RESPONSE

Recommendation 4, part 4: Improve the taxable possessory interest program by: (4) adding the present worth of unpaid rents to the nominal sale price as required by Rule 21.

Assessor's Response: (4) We disagree with the recommendation for the following reasons:

(a) This recommendation is faulty and incomplete; compliance would result in overassessment. The recommendation reads 4) "Adding the present worth of unpaid rents to the nominal sales price as required by rule 21". What rule 21 actually states under (e)(1)(A) is "In the direct comparison method, the appraiser shall add the following to the sale price of the subject taxable possessory interest, or to the sale price of a comparable taxable possessory interest, to derive an indicator of the fair market value of the subject taxable possessory interest: (i) the present value on the sale date of any unpaid future contract rent for the term of possession, however this section also states… The unpaid future contract rent in (i) above shall be reduced by any expense necessary to maintain the income from the taxable possessory interest, including any element of "gross outgo" as defined in subsection (c) of rule 8. (emphasis added)

(b) There is evidence to support a conclusion that there is no net income to be capitalized. The Congressional Budget Office analysis of H.R.5476, the Cabin Fee Act (CFA) shows a net increase in revenue of $1 million at the end of ten years, an average of $100,000 per year from the approximate 14,000 cabins in the program. This equates to about $7 per cabin per year. Source: [http://www.cbo.gov/sites/default/files/113th-congress-2013-2014/costestimate/hr5476.pdf](http://www.cbo.gov/sites/default/files/113th-congress-2013-2014/costestimate/hr5476.pdf)

(c) Information has been requested from the Tahoe Basin Management unit of the USFS in an effort to establish if and how much net income is produced by the cabin program in El Dorado County. 2010 congressional testimony from USFS Deputy Chief Joel Holtrop included the following remarks "I also would like to recognize and understand the administrative cost of administering this program. As Representative Hastings said, there are over 14,000 cabin owners, and we recognize that those cabin owners visit the forests many times in a year, and visit the forests with friends and family. So there are maybe as many as five million visitors that are associated with the cabin users. The National Forest System accommodates 175 million visits a year, and the cost of us administering the Cabin User Program is over 5 percent of our recreation budget. In the State of California it is over 15 percent of our recreation budget. And on the El Dorado National Forest alone, it is one third of our recreation budget. The El Dorado is in California." Source: [https://www.gpo.gov/fdsys/pkg/CHRG-111hhrg56090/html/CHRG-111hhrg56090.htm](https://www.gpo.gov/fdsys/pkg/CHRG-111hhrg56090/html/CHRG-111hhrg56090.htm)

(d) Explicit in this recommendation and by extension Rule 21, is the premise that buyers and sellers of residential cabins in the USFS Recreational Cabin program are incapable of determining the value of property where less than a fee interest in the land is conveyed. Furthermore, this recommendation mandates an arbitrary rebuttal of the nominal sales price without evidence and in contradiction of evidence provided in prior surveys.
(e) South Lake Tahoe is a heavily regulated area and the impact of agencies like the Tahoe Regional Planning Authority (TRPA), the California State Conservancy and the Lahontan Regional Water Quality Control Board, along with the complicated market of transferable Development Rights (TDR's) make valuation difficult under the best of circumstances. Between now and the next survey, the Assessor will collect, classify and document market evidence of this type of property to firmly establish appropriate valuation methods in recognition of the unique market and the constitutional and statutory obligations of the office. In addition, we will obtain revenue and expense information for fees charged under the Cabin Fee Act, which replaced the Cabin Users Fair Fee Act in 2014 in order to determine if any adjustments to the nominal sales price are warranted.

**BOE Comments to Assessor's Response on Recommendation 4, part 4:**

The assessor used the direct comparison method under Rule 21(e)(1)(A) to value the USFS mountain cabin possessory interests in El Dorado County. That section of the Rule 21 provides that when valuing a possessory interest with this method, the appraiser shall add to the nominal sales price, among other items, the present value of any unpaid future contract rent for the term of possession to arrive at the fair market value of the possessory interest. Rule 21 further provides that the rent be reduced by any expense necessary to maintain the income from the taxable possessory interest. The assessor asserts that when this calculation is made, the gross outgo is great enough to leave no or virtually no future unpaid rent to capitalize into an additive to the sales price.

This portion of the recommendation asserts that the assessor failed to provide any evidence that this calculation was made and not that the calculation arrived at a zero or virtually zero additive. During our review of the possessory interest assessments, there was no evidence in the file to show that this calculation was made for the specific possessory interest or evidence of a study to show that the present value of future unpaid rents was zero for USFS mountain cabin possessory interests.