

GLENN COUNTY ASSESSMENT PRACTICES SURVEY

FEBRUARY 2005

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February 11, 2005

TO COUNTY ASSESSORS:

GLENN COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2005/011

A copy of the Glenn 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 Vince T. Minto, Glenn County Assessor-Clerk-Recorder, 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 Glenn County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from June through July 2003. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Minto 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.

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:jm
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 comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

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 of (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Glenn 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, the Senate and Assembly, and the Glenn County 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 Vince T. Minto, Glenn County Assessor-Clerk-Recorder,¹ elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

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*) 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.

¹ This report covers only the assessment functions of this office.

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 Code² section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Glenn County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Glenn County that provided information relevant to the property tax assessment program. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by rule 371.³

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

³ All rule references are to sections of California Code of Regulations Title 18, Public Revenues.

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.

In our 2000 Glenn County Assessment Practices Survey, we made 27 recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor fully implemented 17 of the recommended changes; three prior recommendations no longer apply; and seven recommendations not fully implemented are repeated in this report.

In the area of administration, we noted several positive aspects:

- The assessor has participated in the State-County Property Tax Administration Program every year since its inception, enabling him to avoid backlogs in all areas of his assessment program.
- The assessor and his appraisal staff possess the appraiser's certificates required by section 670.
- The assessor has effective and thorough programs for exemptions, racehorses, and assessment appeals.

Several administrative components of the assessor's programs need improvement:

- The assessor employs a contract auditor-appraiser who has an inactive BOE certification and has not completed any training since August 1993. In addition, the contract does not meet the requirements of section 674.
- The current disaster relief ordinance does not conform to section 170. The assessor uses an outdated disaster relief application and notice of reassessment and the disaster relief is not prorated pursuant to section 170(e).
- Escaped assessments are enrolled before the 10 days allowed by section 531.8. In addition, the assessor fails to cite proper authority when initiating roll changes.
- The assessor inconsistently applies the county's low-value property exemption to both real and personal property.
- The assessor does not use BOE-prescribed forms in a manner consistent with statute and regulation.

In the area of real property assessment, the assessor has effective programs for the enrollment of leasehold improvements and declines in value. However, we noted the following deficiencies:

- The assessor still does not report approved section 69.5 claims to the BOE.
- The assessor does not place a notation on the assessment roll identifying each Timberland Production Zone (TPZ) parcel.
- The assessor still does not review uses of the fairgrounds to discover taxable possessory interests. In addition, the assessor does not appraise possessory interests using the stated term of possession required by rule 21.
- The assessor does not appraise water company properties at the lower of their factored base year value or their full cash value.

The assessor has effective programs for the discovery of taxable personal property, processing business property statements, and valuing leased equipment. There were no problems with the mandatory or nonmandatory audit programs, the valuation of leased equipment, or with the assessment of animals. However, we noted the following deficiencies in his business property program:

- The assessor does not use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended when valuing older machinery and equipment.
- The assessor does not properly classify fixtures and inappropriately classifies manufactured homes as improvements.
- The assessor still does not follow BOE guidelines when assessing general aircraft.
- The assessor continues to annually reduce the assessment of pleasure vessels by a fixed depreciation amount without market evidence and does not include sales tax as a component of market value when appraising vessels.

Despite the problems noted above, we found that most properties and property types are assessed correctly. We found no significant assessment problems as defined in rule 371. Accordingly, pursuant to section 75.60, Glenn County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Ensure contract appraisers have current BOE certification and training hours.....10

RECOMMENDATION 2: Revise appraisal contracts to comply with the requirements of section 674.....11

RECOMMENDATION 3: Revise disaster relief procedures by: (1) requesting that the board of supervisors revise the disaster relief ordinance to conform to section 170, (2) revising the application for disaster relief, (3) conforming the notice of disaster relief reassessment to the requirements of section 170(c), and (4) prorating disaster relief in accordance with section 170(e).....12

RECOMMENDATION 4: Revise the assessment roll change program by: (1) enrolling escaped assessments only when the requirements of section 531.8 are met, and (2) citing the proper statutory authority when initiating assessment roll changes.14

RECOMMENDATION 5: Properly apply the low-value property exemption.15

RECOMMENDATION 6: Revise the use of assessment forms by: (1) using only approved rearranged BOE-prescribed forms, and (2) using current versions of BOE-prescribed forms19

RECOMMENDATION 7: File quarterly reports with the BOE as required by section 69.5(b)(7).....22

RECOMMENDATION 8: Place a notation on the assessment roll identifying each TPZ parcel.....27

RECOMMENDATION 9: Revise possessory interest assessment procedures by: (1) assessing all taxable possessory interests at the county fairgrounds, and (2) annually determining the market value of a possessory interest based on the stated term of possession as required by rule 2128

RECOMMENDATION 10: Assess the real property of private water companies at the lower of factored base year value or current market value.....30

RECOMMENDATION 11: Revise business property valuation procedures by: (1) using Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended, and (2) classifying fixed machinery and equipment as fixtures.34

RECOMMENDATION 12: Classify manufactured homes as personal property.36

RECOMMENDATION 13: Follow the BOE guidelines in assessing aircraft as required by section 5363.....37

RECOMMENDATION 14: Revise vessel assessments by: (1) assessing pleasure vessels annually at market value, and (2) including sales tax as a component of market value when appraising vessels.....38

RESULTS OF 2000 SURVEY

Disaster Relief

We recommended the assessor revise the application for disaster relief. The assessor made the corrections to the disaster relief application as recommended; however, due to legislative amendments made in 2002 to section 170, additional changes are needed. In addition, we recommended that the assessor revise his disaster relief assessment procedures. While the assessor has made progress in this area, additional revisions are still needed.

Exemptions

We recommended the assessor perform field reviews of property receiving the religious exemption. The assessor has implemented this recommendation.

Change in Ownership

We recommended the assessor report claims for transfer of base year value to the BOE every quarter as required by section 69.5. The assessor has not implemented this recommendation.

New Construction

We recommended the assessor improve record documentation for properties experiencing assessable new construction. The assessor has implemented this recommendation.

Declines in Value

We recommended the assessor document annual decline-in-value assessment reviews. The assessor has implemented this recommendation.

California Land Conservation Act (CLCA) Properties

We recommended the assessor exclude homesites from restricted value calculations of CLCA properties. The assessor has implemented this recommendation. In addition, we recommended that the assessor include all compatible use income in the appraisal of CLCA properties. The assessor has not implemented this recommendation. However, we did not discover any escaped compatible uses and do not repeat this recommendation.

Timberland Production Zone (TPZ) Properties

We recommended the assessor send compatible use income questionnaires to TPZ property owners. The assessor has not implemented this recommendation. However, we did not discover any escaped compatible uses and do not repeat this recommendation.

Possessory Interests

We recommended that the assessor increase documentation of possessory interest appraisals and reappraise a possessory interest only upon a change in ownership or expiration of the reasonably anticipated term of possession. The assessor has implemented these recommendations. In addition, we recommended the assessor assess taxable interests in fairground facilities. The assessor has not implemented this recommendation.

Manufactured Homes

We recommended the assessor (1) classify all manufactured homes as personal property, (2) consider values listed in recognized manufactured home value guides, and (3) document lien date adjustments of manufactured home values. The assessor has implemented the second and third of these recommendations; however, the assessor is still classifying manufactured homes as improvements.

Audit Program

We recommended the assessor complete all mandatory audits as required by section 469, develop a comprehensive audit log, obtain signed waivers of limitations when mandatory audits will not be completed within the required time period, and require a situs inspection of mandatory audit accounts. We also recommended the assessor adopt minimum audit standards, review supplies as part of every audit, and restore the auditor-appraiser position. The assessor has implemented each of these seven recommendations.

Equipment Classification and Valuation Factors

We recommended that the assessor properly classify fixed machinery and equipment as fixtures. The assessor still does not allocate any reported costs to fixed equipment, and we repeat this recommendation. We also recommended the assessor assess bank and financial fixtures at the lower of the current market value or factored base year value. We found during our fieldwork for this report the assessor investigates costs reported by property owners and determines the proper classification of the equipment by a field inspection. This may result in the equipment being reclassified from fixture to structural improvement, in which case the assessor adds the item to the improvements assessment adjusted by the article XIII A inflation factor. The assessor's investigation results in more accurate assessments; hence, we do not repeat our recommendation.

Aircraft

We recommended that the assessor make adjustments for aircraft condition only where appropriate. The assessor has implemented this recommendation. We made two additional recommendations; (1) that he assess aircraft consistent with BOE recommendations and (2) that he comply with section 220.5(c) when granting historical aircraft exemptions. The assessor has not implemented either of these two recommendations; however, we do not repeat the second recommendation since recent legislation has eliminated the requirement for the aircraft owner's appearance before the assessor's designee or a notary public.

OVERVIEW OF GLENN COUNTY

Glenn County lies in the northern third of the state. Glenn County is bordered by the counties of Tehama to the north, Butte to the east, Colusa to the south, and Lake to the west. This agricultural county was chartered in 1891 and agriculture remains the key to Glenn County's economy. Its major commodities are rice, almonds, milk products, prunes (dried plums), and livestock. Agriculture-related industries employ 28 percent of the work force in Glenn County.

Willows is the county seat. Governed by a five-member board of supervisors, Glenn County has a population of 26,950.

The following table displays information pertinent to the 2003-04 assessment roll:

PROPERTY TYPE		NUMBER OF ASSESSMENTS	ENROLLED VALUE
Secured Roll	Residential	7,189	\$567,948,389
	Commercial/Industrial	863	\$160,442,117
	Rural	5,279	\$788,892,654
	Other Secured	4,561	\$27,599,167
	Total Secured	17,892	\$1,544,882,327
Unsecured Roll	Personal Property & Fixtures	1,773	\$71,204,863
	Total Assessment Roll	19,665	\$1,616,087,190

The next table illustrates the growth in assessed values during the past five years.

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2003-04	\$1,616,087,190	5.27%	4.9%
2002-03	\$1,530,873,886	0.74%	2.8%
2001-02	\$1,519,607,434	3.20%	1.3%
2000-01	\$1,470,945,372	3.94%	0.7%
1999-00	\$1,412,951,421		

ADMINISTRATION

This portion 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. We examined the assessor's budget and workload, the State-County Property Tax Administration Program (PTAP), appraiser certification, standards and quality control, assessment appeals, disaster relief, assessment roll changes, low-value property exemption, exemptions, racehorse tax returns, and assessment forms. We also reviewed how the assessor prepares for and presents assessment appeals.

Budget and Staffing

The assessor's office has a staff of nine regular employees, which includes the assistant assessor, executive assistant, three senior real property appraisers, and four assessment technicians. This staffing level has remained constant over the past five years. In addition, at the time of our survey field the assessor employed a contract consultant for the assessment of natural gas properties and a part-time contract auditor-appraiser to perform mandatory audits. Both positions were funded through the PTAP program.

The assessor's budget has grown by nearly 20 percent from 1999-00 to the 2003-04 roll year, enabling the assessor to maintain his staff of nine employees. The following table shows final budgets for the last four years. These budget figures include loan funds provided through the PTAP.

BUDGET YEAR	GROSS BUDGET ⁴	PERCENT CHANGE		PTAP FUNDS RECEIVED
2003-04	\$840,468	6.3%	Decrease	\$59,197
2002-03	\$896,927	24.9%	Increase	\$59,197
2001-02	\$717,641	10.4%	Increase	\$59,197
2000-01	\$649,849	7.8%	Decrease	\$59,197
1999-00	\$704,770			\$59,197

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Loan Program (PTAP). This program provided state-funded loans to eligible counties for the improvement of property tax administration. This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance

⁴ Source Document: "Office of Assessor Final Budget Report."

criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

Glenn County has participated in the PTAP since April 1, 1996. For contract year 2002-03, the assessor received a grant of \$59,197. The county's required base funding and staffing levels for the assessor's office are \$434,553 and 10 positions, respectively. The Glenn County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for loan repayment for every year under contract.

Glenn County utilizes this additional funding to hire a part-time auditor-appraiser to complete mandatory and nonmandatory audits (although his contract will not be renewed for the 2005-06 roll year), to purchase new computer equipment and software, and to provide training on the new equipment. The PTAP monies are also used to pay any necessary overtime needed to complete the local roll and to maintain the contract with the gas and mineral consultant. All expenditures are designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax system.

Appraiser Certification

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. The five appraisers (including the assessor) have valid appraisers' certificates, as do the mineral consultant and the part time auditor-appraiser.

In our prior survey report, we recommended that the assessor restore the auditor-appraiser position, which had been abolished. We found that the assessor has implemented this recommendation by contracting part time with an auditor-appraiser to perform the required mandatory audits.

RECOMMENDATION 1: Ensure contract appraisers have current BOE certification and training hours.

Currently, Glenn County has two contract appraisers. One contract appraiser is responsible for oil, gas, and mineral properties, and the other, a retired auditor-appraiser, is responsible for performing mandatory audits. According to the BOE's training and certification records, the contract auditor-appraiser's certification is inactive and he has not taken any training since entering into a contract with Glenn County.

To comply with section 670 and ensure that the appraisal staff is well informed about current property tax law, it is necessary that each appraiser and auditor-appraiser have a current certificate and that they remain current in their training. The BOE has advised assessors that contract appraisers working for assessors are subject to the same BOE certification requirements as appraisers employed on the assessor's staff. Sections 670 and 671, as well as rules 282 and 283, set forth minimum educational and experience requirements needed to perform the duties of an appraiser or auditor-appraiser because property tax law is continually changing. Failing to keep abreast of these changes may result in improper assessments.

Section 674 provides that all contracts for the performance of appraisal work for assessors by any person who is not an employee of the state, any county, or any city meet specific requirements.

RECOMMENDATION 2: Revise appraisal contracts to comply with the requirements of section 674.

Section 674 requires that contracts between the county and non-employee appraisers contain conforming language regarding the confidentiality of assessee information and records as provided in sections 408, 451, and 481. The contract between Glenn County and the contract auditor-appraiser does not contain language concerning the confidentiality of assessee information and records.

Failure to comply with these specific statutory provisions may result in the improper disclosure or misuse of confidential information and records.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeal boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted rules 301 through 326 to regulate the functioning of the assessment appeal process.

Currently, the local board of supervisors sits as the local board of equalization. Assessment appeal hearings are held during regularly scheduled meetings of the board of supervisors.

Applications are received by the clerk of the assessment appeals board, reviewed and verified, and copies are forwarded to the assessor's office. After review, the assistant assessor contacts the applicants by telephone. If the applicants decide to withdraw their appeals or agree to stipulated values, the assistant assessor drafts a response and respective letters are sent for their signatures. Upon receipt of a signed letter, the assessor forwards the letter to the assessment appeals board for approval. If no agreement can be reached, the deputy clerk of the board of supervisors schedules a hearing.

The assistant assessor tracks the progress of assessment appeals. All appeals filed in Glenn County in the last five years have been resolved within two years. On average, seven appeals were filed annually from 1998-99 through 2002-03.

The following table shows the breakdown of appeal findings over the last five years:

Fiscal Year	Total Appeals	Appeals Board Decisions					
		Open	Withdrawn	Stipulated	Reduced	Upheld	Increased
2002-03	5	5					
2001-02	11	0	4	5	0	2	0
2000-01	9	0	2	4	0	3	0
1999-00	3	0	3	0	0	0	0
1998-99	6	0	5	1	0	0	0

Over the most recent five-year period, about 38 percent of the appeals involved commercial/industrial property, 15 percent involved residential properties, and the remaining 47 percent involved a mixture of other property types.

Overall, the assessor's assessment appeal program is well administered. The staff handling appeals are experienced and well prepared. We found no problems with the assessor's assessment appeals program.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to assessees whose properties have been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any misfortune or calamity, to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to a misfortune or calamity that was caused by the suspension or restriction of the right to enter upon a possessory interest in state or federal government-owned land.

RECOMMENDATION 3: Revise disaster relief procedures by: (1) requesting that the board of supervisors revise the disaster relief ordinance to conform to section 170, (2) revising the application for disaster relief, (3) conforming the notice of disaster relief reassessment to the requirements of section 170(c), and (4) prorating disaster relief in accordance with section 170(e).

Revise the disaster relief ordinance to conform to section 170.

Glenn County's disaster relief ordinance does not reflect current provisions of section 170. Effective January 1, 2002, section 170 was significantly revised in several respects:

- The board of supervisors may specify in the local ordinance that the assessor may initiate reassessment of property damaged or destroyed within the preceding 12 months;
- Where the assessor does not have the general authority to initiate reassessment, he or she may reassess a particular property after obtaining approval of the board of supervisors;
- The property owner now has 12 months or the period established by local ordinance whichever is longer, to file a claim for reassessment;
- The damage threshold has been raised to \$10,000;
- The property owner now has six months to file an application for appeal of a damage-adjusted value;
- The assessor may now notify owners of properties damaged within the preceding 12 months that they may file a claim, and the owner has 60 days to file the application after receipt.

The Glenn County ordinance has no time frame for the filing of an application for reassessment due to a calamity and continues to cite a damage threshold of \$5,000.

Failure to update the county's disaster relief ordinance prevents the assessor from having the authority to implement the changes to section 170 noted above.

Revise the application for disaster relief.

The assessor's application for disaster relief contains the incorrect filing period of 30 days from receipt of the application, an incorrect damage threshold of \$5,000, and fails to request the condition and value of the property immediately after the damage and the dollar amount of the damage.

Section 170(a) provides that the application should be submitted within the time period specified in the ordinance or within 12 months of the misfortune, whichever is later. It must also request the condition and value of the property, if any, immediately after the damage or destruction and the dollar amount of damage. The application must be executed under penalty of perjury.

Conform the notice of disaster relief assessment to the requirements of section 170(c).

We found the notice currently used by the assessor to notify taxpayers of disaster relief reassessments is the supplemental assessment notice used to notify assesseees of reassessments due to changes of ownership and new construction. This *Notice of Supplemental Assessment* provides that the filing period to file a formal appeal is within 60 days from the date of mailing printed on the notice or the postmark date for the tax bill, whichever is later.

Section 170(c) provides that a claimant has six months to file an appeal protesting a disaster relief reassessment. The filing period on the assessor's notice does not conform to the law. In addition, the assessor may be misleading the taxpayer. Claimants may fail to appeal a disaster relief reassessment if they believe they have missed the 60-day deadline, when in fact, they have an additional four months in which to file.

Prorate disaster relief in accordance with section 170(e).

We found that the assessor incorrectly prorates the amount of tax relief. He prorates the relief from the month after the occurrence of the calamity rather than the month of the occurrence of the calamity.

Section 170(e) requires the assessor to prorate the value of property as reassessed in its damaged or destroyed condition. This proration must be based upon the number of months in the fiscal year after the damage or destruction, including the month in which the damage was incurred.

The assessor's failure to correctly prorate disaster relief results in applicants not receiving the full relief to which they are entitled.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessment roll may not be changed except as authorized by statute. All assessment roll changes are based on specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed on the original roll, for any reason. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

The assessor processed 238 roll corrections and escape assessments during 2002-03. We reviewed a sampling of these and found two problems.

RECOMMENDATION 4: Revise the assessment roll change program by: (1) enrolling escaped assessments only when the requirements of section 531.8 are met, and (2) citing the proper statutory authority when initiating assessment roll changes.

Enroll escaped assessments only when the requirements of section 531.8 are met.

Once escaped assessments are prepared, a NOTICE OF PROPOSED ESCAPE ASSESSMENT is mailed to the property owner and the roll changes are sent directly to the County Department of Finance for enrollment on the same day. Using this process, roll changes are enrolled immediately after notice is sent to the property owner.

Section 531.8 provides that an escape assessment cannot be enrolled until 10 days after the assessor has mailed or otherwise delivered the assessee a NOTICE OF PROPOSED ESCAPE ASSESSMENT. By enrolling escaped assessments immediately, the taxpayer is not given time to respond to the NOTICE OF PROPOSED ESCAPED ASSESSMENT and request an informal review of the assessment.

Cite the proper authority when initiating assessment roll changes.

The assessor does not cite the proper statutory authority when initiating roll changes which results in the failure of the auditor-controller to apply the section 506 interest to escaped and arbitrary assessments. We found that interest is not being charged on escaped business property assessments as required by section 506.

Certain types of escaped assessments are subject to the interest imposed by section 506, which provides that any assessments made pursuant to section 501 shall be subject to interest. In addition, section 531 provides that escaped assessments resulting from an owner's failure to file a property statement pursuant to section 441 shall be subject to penalty and interest imposed by sections 463 and 506. Upon discovery of property escaping assessment, the assessor must immediately add the escaped assessment and any applicable penalty to the current roll or the roll being prepared in the current assessment year. In order to ensure interest is applied, the assessor must notify the auditor-controller. The auditor-controller applies the section 506 interest. The assessor's current practice can result in incorrect assessments and lost tax revenue.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value, and personal property with a full value, so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the assessment and collection costs. Section 155.20(b)(1) provides that the county board of supervisors has no authority to exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. The board of supervisors must adopt any such exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

The Glenn County Board of Supervisors adopted Resolution No. 99-13, incorporating the provisions of section 155.20 and 75.55. This resolution allows for an exemption of an assessment of up to \$2,000 that applies to personal property, real property, and supplemental assessment of new construction.

RECOMMENDATION 5: Properly apply the low-value property exemption.

The assessor applies the low-value exemption to certain property types, but not to all as specified by Glenn County's resolution. No exemption is allowed for real property. All real property values are enrolled, including those of \$2,000 and less on both the regular roll and supplemental roll. Some personal property values are enrolled and others are not. Vessels with a value less than \$2,000 and new to Glenn County after the adoption of the low-value property exemption

resolution are not enrolled. Vessels already enrolled at the time of the adoption of the resolution remain on the roll until their assessed values fall below \$400.

Business personal property is reviewed on an individual basis. Personal property with a value less than \$2,000 is enrolled only if there is a potential for additional personal property in the future. Businesses with personal property less than \$2,000 and likely to remain so are not enrolled.

The resolution provides that all real and personal property with a base year value of \$2,000 or less shall be exempt from property taxation and new construction with a value of \$2,000 or less shall be exempt from supplemental assessment. As the resolution and section 155.20 provide, the board of supervisors has authorized the assessor to exempt low-value property.

Current procedures result in unequal treatment of low-value property and improper application of the low-value resolution.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f) of the California Constitution. This provision, implemented by section 206 of the Revenue and Taxation Code, exempts from property taxation buildings, land on which they are situated, and equipment used exclusively for religious worship, whether such property is owned by the church or leased to it. Property that is reasonably and necessarily required for church parking is exempt under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for church-owned property as well as leased property meeting the requirements in section 206.1.

Article XIII, section 4(b) authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by corporations or other entities that meet the following requirements: (1) are organized and operated for those purposes, (2) are non-profit, and (3) no part of whose net earnings inures to the benefit of any private shareholder or individual. The Legislature has acted upon such authorization by enacting the religious exemption in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

The assessor administers the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. However, the religious exemption requires a one-time filing by the claimant. Once granted, the exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

In Glenn County, there are no church exemptions. All churches that previously filed the church exemption now file the religious exemption claim.

The following table shows religious exemption claim data for the last five years:

ROLL YEAR	NUMBER OF PROPERTIES	EXEMPTED VALUE
2003-04	66	\$11,858,753
2002-03	64	\$11,542,457
2001-02	64	\$11,394,783
2000-01	63	\$10,999,792
1999-00	62	\$10,686,322

In our 2000 survey, we recommended that the assessor perform field reviews of property for which the religious exemption was claimed. The assessor has implemented that recommendation. Currently, as the area appraiser performs field inspections, care is taken to ensure that only property eligible for the religious exemption receives the religious exemption.

Welfare Exemption

The welfare exemption from local property taxes is available for property of organizations formed and operated exclusively for qualifying purposes (religious, hospital, scientific, or charitable), which use its property exclusively for those purposes. 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. Effective January 1, 2004, the BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and issues *Organizational Clearance Certificates* to qualified nonprofit organizations. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and approves or denies exemption claims without review by the BOE.

The assessor may not grant a welfare exemption for an organization's property unless the organization holds a valid *Organizational Clearance Certificate* issued by the BOE. The assessor may deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's *Organizational Clearance Certificate* issued by the BOE.

The following table shows welfare exemption claim data for the last five years:

ROLL YEAR	NUMBER OF PROPERTIES	EXEMPTED VALUE
2003-04	19	\$8,203,550
2002-03	17	\$11,648,038
2001-02	18	\$12,554,159
2000-01	19	\$12,372,530
1999-00	20	\$12,344,724

In Glenn County, an office technician II processes all exemption claims. We found the assessor's exemption program in compliance with the law. Exemption claims are processed timely and the program is well administered. We have no recommendations in this area.

Racehorse Tax Returns

Racehorses domiciled in California are subject to an annual tax in lieu of ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by rules 1045 and 1046. Rule 1045(a)(2) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax.

Racehorses within the state are registered with the California Horse Racing Board (CHRB). The term racehorse means each live horse, including a stallion, mare, gelding, ridgeling, colt, filly, or foal, that is or will be eligible to participate in a horseracing contest in California where pari-mutuel racing is permitted. Racehorse also includes any horse that may produce foals that will be eligible to participate in a horseracing contest.

The assessor uses telephone directories to identify racehorse owners in his county. We confirmed that information obtained by the assessor is accurate by contacting CHRB to identify racehorse owners in the county who may be required to file either Form BOE-571-J, *Annual Racehorse Tax Return*, or Form BOE-571-J1, *Annual Report of Boarded Racehorses*.

The assessor has identified one racehorse domiciled in Glenn County. We reviewed his procedures relative to taxing racehorses and found that the assessor consistently receives a copy of the racehorse tax return from the tax collector. The annual racehorse tax program is correctly administered.

Assessment Forms

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. For the 2003 lien date, the BOE prescribed 78 forms for use by county assessors and one form for use by the county's assessment appeals board. Generally, the assessor has the option to change the appearance of a prescribed form but cannot add to, change, or delete the specific language on the form. The assessor may also rearrange a form provided the assessor submits that form for BOE approval.

Assessors may also use locally developed forms and questionnaires to assist them in their assessment duties. However, such forms may not be used as substitutes for BOE-prescribed forms that are required to be used, and no penalty may be imposed upon a property owner for failure to file such a form or questionnaire.

The BOE annually sends three checklists to assessors for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists which forms they will use in the succeeding assessment year, and return the property statements and miscellaneous forms checklists by October 15 and the exemption forms checklist by December 1. By February 10, assessors are also required to submit to the BOE the final prints of all forms they will use.

We found a few problems with the assessor's forms.

RECOMMENDATION 6: Revise the use of assessment forms by: (1) using only approved rearranged BOE-prescribed forms, and (2) using current versions of BOE-prescribed forms.

Use only approved rearranged BOE-prescribed forms.

The assessor uses four unapproved rearranged BOE-prescribed forms. The assessor may rearrange BOE-prescribed forms, but he may not add or delete any part of the form. The Glenn County Assessor has materially altered four forms and continues to use them, even after being notified by the BOE that these forms were not approved.

This practice is contrary to both regulation and statute. Pursuant to Government Code section 15606 the Board shall prescribe and enforce the use all forms for the assessment of property for taxation. Using altered forms that are not approved by the BOE may lead to incorrect property tax law being conveyed to taxpayers and/or erroneous assessments.

Use current versions of BOE-prescribed forms.

The assessor uses outdated versions of two mineral property statements which are BOE-prescribed forms. The BOE timely sent the current 2001 version to all assessors for their use in the 2002-03 assessment year and later.

Pursuant to Government Code section 15606, the BOE shall prescribe and enforce the use all forms for the assessment of property for taxation. Using outdated forms may lead to incorrect application of the underlying property tax law and cause erroneous assessments.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following 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 land subject to California Land Conservation Act contracts, taxable government-owned land, and Timberland Production Zone.

Unless there is a change in ownership or new construction, article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation.

As of July 2003, the assessor's staff assigned to perform the duties of the real property program consisted of seven employees, including the assistant assessor, three senior appraisers, and three assessment technicians. The assistant assessor is also responsible for the assessment of manufactured homes – which is discussed in the *Assessment of Personal Property and Fixtures* section of this report.

The workload of the appraisal staff is organized by geographic area. Each appraiser has access to a computerized sales database and worksheets that are customized by property type.

Change of Ownership

Section 50 requires the assessor to establish a base year value for real property upon a 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 change in ownership for reappraisal purposes.

Document Processing

The assessor's primary means of discovering properties that have changed ownership is review of deeds and other documents recorded at the county recorder's office. The number of documents received from the recorder has remained relatively stable over the last three years, averaging about 1,850 annually. About 40 percent of these documents result in reappraisals.

Approximately 98 percent of transfer documents are accompanied by Form BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*. The assessor mails Form BOE-502-AH,

Change of Ownership Statement (COS), to the grantee when a PCOR is not received. The assessor reports that nearly 100 percent the COS's are returned

The transfer analyst reviews each recorded document and forwards those indicating a change of ownership to an assessment technician for exemption review and data entry. Property records and a copy of the PCOR or COS are then forwarded to the appraiser assigned to the geographic area where the property is located. We randomly selected a group of recorded documents and followed them through the review process to enrollment on the assessor's computerized tax roll. The transfer of ownership for each of these recorded documents was handled correctly and reflected conformance with statutory requirements.

Section 408.1 Transfer List

Section 408.1 requires a county assessor in a county that had a population of 50,000 or more in the 1970 federal decennial census to maintain a list of real property transfers that have occurred in the county within the prior two years. Glenn County had a population total of 17,321 in 1970 and therefore does not maintain a transfer list available for public inspection.

Legal Entity Ownership Transfers (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides a detailed interpretation (with example) of section 64 changes in ownership or control and applicable exclusions. Discovery of such a change in ownership is difficult because ordinarily there is no recorded notice of the transfer.

The BOE's LEOP unit investigates and verifies changes in control and ownership reported by legal entities and transmits to each county a listing, with corresponding property schedules, of the entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide detailed information pertaining to the counties in which they have property, the assessor's parcel number, or how many parcels they own. The LEOP unit advises assessors to thoroughly research each named entity's holdings to determine that all affected parcels are identified and properly appraised.

We reviewed a number of properties on the BOE's most recent LEOP report. We found that the assessor correctly processes LEOP notices and effectively identifies and processes changes in ownership resulting from corporate changes in control.

Section 69.5 Base Year Value Transfers

Section 69.5 provides property tax relief for qualifying senior citizens and severely disabled persons by allowing them to transfer the base year value of their residence to another residence of equal or lesser value in the same county. In addition, its benefits may apply to transfers of properties located in different counties, provided an ordinance accepting such transfers is passed by the board of supervisors of the county and of the replacement residence. Glenn County does not have an intercounty transfer ordinance.

RECOMMENDATION 7: File quarterly reports with the BOE as required by section 69.5(b)(7).

This is a repeat recommendation from the prior survey. In order to prevent duplication of claims, section 69.5(b)(7) requires the assessor to file quarterly reports listing base year value transfers with the BOE. We found that the assessor has not filed such quarterly reports with the BOE since 1990. The assessor's failure to furnish this information to the BOE means that BOE's database is not complete, which could result in base year value transfers being improperly granted in other counties.

New Construction

Section 71 requires the assessor to determine the full cash value of newly constructed real property as of its date of completion, or on each lien date while construction is in progress. When the assessor appraises completed new construction at full cash value, a new base year value is created for the newly constructed portion. Rules 463 and 463.5 attempt to clarify the statutory provisions of sections 70 and 71, and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

Some types of construction are excluded from the definition of new construction. These include normal maintenance and repair, additions of fire sprinkler systems to an existing building, modifications to make an existing residence or structure more accessible to a severely and permanently disabled person, specified seismic retrofitting, and earthquake hazard mitigation.

Building permits are the most common means of discovering assessable new construction. The assessor's office receives copies of all permits and plans, where available, from all four issuing agencies, which are the City of Willows, the City of Orland, the Glenn County Building Department, and the Glenn County Department of Environmental Health. Other discovery methods include newspaper articles, business property statements, aerial photographs, and field inspections.

Statistical permit information for the past four fiscal years in this county is shown in the chart below:

FISCAL YEAR	MAINTENANCE PERMITS	ASSESSABLE PERMITS	TOTAL PERMITS
2002-03*	212	621	833
2001-02	411	412	823
2000-01	317	470	787
1999-00	231	446	677

* Note: data for fiscal year 2002-03 covers only a partial year through April 2003.

The assessor's office receives approximately 800 permits each year (averaged over the last four years). These include permits for maintenance of the property such as replacement of roof covering, replacement of water heaters, etc. This type of work is generally not assessable. The percentage of permits that represent assessable new construction varies widely over the same period, with the range from around 50 percent to 75 percent of total permits issued.

If construction is partially complete on the lien date, the construction in progress is valued and enrolled. Once construction is complete, a final value is estimated, enrolled, and supplemental assessments are issued. Although the assessor has a self-reporting program, it is rarely used. In general, staff perform field inspections, which allows them to properly gauge the quality and condition of the new construction, while at the same time providing an opportunity to look for any non-permitted new construction.

When valuing residential new construction, the builder or owner is contacted to obtain actual costs. The actual costs are then compared to those from published cost manuals. When the actual costs are relatively close to those derived from cost manuals, the actual costs are used as market value. If not, the cost indicators from the cost manuals are used.

In our 2000 survey, we recommended that the assessor improve documentation of assessed new construction on his appraisal records. Our current review of property records with new construction showed that the appraisers are indicating the source of those costs used in valuing the property.

Overall, the assessor has an effective new construction assessment program.

Declines in Value

Section 51 requires the assessor to enroll the lesser of either a property's factored base year value or its full cash value. When a property's current market value falls below its factored base year value on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property's value rises above the factored base year value, then the assessor must enroll the factored base year value as the taxable value.

The assessor currently monitors 597 parcels that had decline-in-value assessments on the 2003-04 roll. The assessor discovers properties experiencing declining values through taxpayers' requests for reviews and appraisers' knowledge of the area and tracking market trends in their assigned areas.

The following table shows the volume of decline in value reviews in recent years:

ROLL YEAR	NUMBER
2003-04	597
2002-03	637
2001-02	694
2000-01	702

Each decline-in-value assessment is coded to prevent the computer program from applying the annual inflation factor to the prior year's value. These assessments are reviewed annually by the appraiser responsible for the geographical area. Worksheets kept in each file compare the current market value of the property with the value of the factored base year value, and the lower of the two is enrolled on the appraisal record.

We found the records were well documented and the estimates of current market values are well supported with comparable sales. The assessor has an effective and thorough program of annually reviewing and adjusting real property assessments to reflect declines in value.

California Land Conservation Act Property

Agricultural preserves may be established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965 for the purpose of determining boundaries of areas in which the city or county is willing to enter into contracts with property owners. Property owners in an agricultural preserve who choose to enter into a contract agree to restrict the use of their lands for agriculture and compatible uses in exchange for assessment at a restricted value. Lands under such contracts are valued for property tax purposes by a methodology based upon agricultural income-producing ability, including income derived from compatible uses (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 421 through 430.5 prescribe the guidelines for assessing land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

In Glenn County, there are 1,825 restricted parcels on the 2003-04 assessment year with a total assessed value of \$263,606,505. This includes both CLCA parcels and land assessed as Farmland Security Zone (FSZ) under Farmland Security Act (FSA) contracts, which are more restrictive but provide greater assessment benefits than the regular CLCA contracts.

Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce and subtract the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also

includes income from any compatible uses actually occurring, such as lease payments for oil or gas exploration rights, communication facility sites, and recreational uses such as hunting or fishing. There are no limits placed upon the income to be capitalized unless the contract contains a provision establishing a minimum annual income per acre.

Since the income to be capitalized in the valuation of open-space properties is the net income attributable to the land, the expenses necessary to maintain this income and the portion of the income attributable to improvements must be subtracted from the expected gross income prior to capitalization. The type of expenses deducted, and to some extent the amount of the deductions, will depend upon the composition of the gross income. For example, a gross economic income derived from cash rents will generally require fewer adjustments than a gross income derived from share rents, and, while a management charge is generally applicable to both income streams, this charge will normally be less in cash rental analysis. In addition to the expenses that are incurred for the creation and maintenance of the income, the property owner is entitled to a fair return on the value of the improvements that are necessary to produce the income and the return of (recapture) the value of such improvements.

In Glenn County, economic land rents and expenses are used when processing income into value. The assessor sends out rent and expense questionnaires annually to local property owners requesting information. Of the questionnaires sent, about 55 percent are returned. The information is then plotted on a map to determine economic cash rents by area.

In prior assessment practices surveys, we have recommended the assessor include all compatible use income in the appraisal of CLCA properties. While the assessor has not implemented this recommendation, we did not discover any escaped compatible uses and, therefore, do not repeat this recommendation.

Capitalization Rates

Section 423(b) provides very specific guidance concerning the composition of the capitalization rate to be used in determining CLCA-restricted land values. It requires that the capitalization shall be the sum of the following components:

- An interest component annually determined and announced by the BOE;
- A risk component based on the location and characteristics of the land, the crops to be grown thereon and the provisions of any lease or rental agreement to which the land is subject;
- A component for property taxes; and
- A component for amortization of any investment in perennials over their estimated economic life when the total income from land and perennials other than timber exceeds the yield from other typical crops grown in the area.

The risk rate component varies somewhat throughout Glenn County. The risk rate is determined by the assessor from interviews with growers, processors, and others involved in the agricultural

industries in the county. In addition, the risk rate is adjusted for environmental or location factors. We found the risk rates used in Glenn County to be well documented and reasonable.

Homesites

We recommended, in our prior survey, that homesites be excluded from restricted value calculations of CLCA properties. The assessor has implemented this recommendation.

Taxable Government-Owned Property

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11. Section 11 of article XIII of the California Constitution provides that land, and the improvements thereon, located outside a local government's or local government agency's boundaries are taxable if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable.

Glenn County has one taxable government-owned parcel with a total assessed value of \$24,000. We reviewed the assessment of this property and found the assessment to be in compliance with property tax law.

Timberland Production Zone Property

Land zoned Timberland Production Zone (TPZ) is assessed in accordance with special TPZ site classifications that exclude the value of the standing timber. The assessed value of TPZ land each year must be its appropriate site pursuant to section 434.5 value plus the current market value of any existing, compatible, nonexclusive uses of land (section 435). The special assessment limitations do not apply to structures on TPZ lands or to reasonable site values for such structures. In other words, structures and supporting lands are subject to the same assessment guidelines as other real property. Land zoned as TPZ that is not under a CLCA contract is assessed at the lowest of its appropriate site value, current market value, or factored base year value.

Glenn County has 86 TPZ parcels comprising of 21,908 acres. All TPZ parcels are forested with mixed conifer trees. The total 2002 timber harvest was 3,080,000 board feet, valued at \$772,000.

In our 2000 survey, we recommended the assessor send questionnaires to TPZ property owners requesting compatible use information. While the assessor has not implemented this recommendation, we did not discover any escaped compatible uses and, therefore, do not repeat this recommendation.

Overall, we found that the assessor is conscientious in the assessment of TPZ lands and that site classes and values are correctly computed. However, we found one area where improvement is needed.

RECOMMENDATION 8: Place a notation on the assessment roll identifying each TPZ parcel.

Section 433 requires that when land is zoned as timberland production, a notation of such zoning shall be made on the assessment rolls by the words "Timberland Production Zone" or the initials "TPZ." This notation does not appear on the Glenn County assessment roll.

Title companies and other researchers seeking information at the public counter are at a disadvantage because the assessor's computer system does not include the section 433 caption indicating the taxable status of TPZ properties.

Possessory Interests

A taxable possessory interest (PI) is a possession, or a right to possession, of publicly owned real property, where the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. In the case of privately-owned property, a property tax assessment is based on the fee simple value of the property. In the case of a taxable possessory interest, the assessment is based on the value of the rights actually held by the possessor; the rights retained by the public owner are not taxable.

The assessor's primary sources for discovering possessory interests are reports from government agencies, field inspections, and recorded leases and agreements. The assessor annually sends a questionnaire to 17 public agencies requesting a list of tenants with their names, addresses, rent, terms of possession, property descriptions, and dates of possession. The government agencies in this county are typically cooperative and responsive. After the questionnaires are returned, the appraiser reviews the lists, appraises any new possessory interest, makes appropriate remarks on the appraisal record, and forwards the assessment for enrollment on the unsecured roll.

The assessor enrolled 142 separate possessory interest assessments on the 2003-04 roll, totaling \$3,311,312 in taxable value. The majority of these are cabins or grazing rights in the Mendocino National Forest, or hangars at the county-owned airports in Willows and Orland.

In our 2000 survey, we recommended that the assessor reappraise a possessory interest only upon a change in ownership or expiration of the reasonably anticipated term of possession, increase documentation of possessory interest appraisals, and assess all possessory interests at the county fairgrounds. We found that the assessor has complied with the first recommendation. However, we repeat the second and third recommendations.

RECOMMENDATION 9: Revise possessory interest assessment procedures by:
(1) assessing all taxable possessory interests at the county fairgrounds, and (2) annually determining the market value of a possessory interest based on the stated term of possession as required by rule 21.

Assess all taxable possessory interests at the county fairgrounds.

The assessor has not assessed any possessory interests at the fairgrounds. A local promoter is staging dirt track truck racing on consecutive Saturday nights for approximately five months during a calendar year. There are also several recurring events held at the fairgrounds each year that appear to be PIs.

Section 107 and rule 20 define the requirements for a taxable PI. Briefly stated, these requirements are that the right of possession be independent, exclusive, durable, and provide private benefit. The racing events appear to be a taxable possessory interest. The repeated use of the fairground facilities by the same person or entity over a number of years should be investigated to see whether it constitutes a taxable possessory interest.

Annually determine the market value of a possessory interest based on the stated term of possession as required by rule 21.

We found the assessor does not use the stated term of possession when determining the market value of a possessory interest for each lien date. For all possessory interests, including those with a contract, the assessor retained the 2002-03 roll value for the 2003-04 roll with no indexing or review for possible declines in value.

Rule 21 provides that a contract term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee have reached an understanding or agreement that is different than the stated term. Rule 21 also states that the "stated term of possession" for a taxable possessory interest is the remaining period of possession. Thus, the stated term of possession of a possessory interest declines on each lien date, which may have a material effect on the value of the interest. For this reason, the appraiser must estimate the market value of a possessory interest on the lien date (based on a declining term), compare this value with the factored base year value, and enroll the lesser of the two.

Failing to use a declining term when valuing possessory interests may overstate the taxable value of the possessory interest.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the lessee. Leasehold improvements include structure items and fixtures paid for by the lessee. Improvements installed by the tenant or lessee can be secured to the real property or assessed to the tenant 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 a period of time, they may add and remove improvements that may result in a changed use of the property. These changes must, by law, be reviewed and reflected in the property's assessment if they qualify as new construction.

When real property is reported on the business property statement, coordination between the real property and business property staff of the assessor's office is very important. Both an appraiser and an auditor-appraiser should examine the reported cost. They should determine the proper classification of the property to ensure appropriate assessment and avoid escapes and double assessments. The assessor's office 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.

The assessor's office does not have written procedures or forms for the discovery and assessment of leasehold improvements. However, this is a small office with a technician assigned to the processing of business property statements and three senior real property appraisers with extensive experience. This appears to assure proper review of tenant improvements.

Most leasehold improvements are found during review of the annual business property statements and new building permits. Additionally, if any leasehold improvements are found in the course of the appraisers' fieldwork, the appraisers inform the office technician. The coordination and communication among the staff are very good, and we found the assessment process for leasehold improvements to be satisfactory.

Water Company Property

Water company property assessed on the local tax roll may include private water companies, mutual water companies, and portions of government-owned water systems. Each type presents different assessment problems.

We obtained a list of all water supply sources from the California State Department of Health Services' branch of Drinking Water Field Operations, and the California Public Utilities Commission (CPUC). We reviewed the assessments of properties owned by water companies on these lists.

There are three water companies in Glenn County. One is a municipal water system and not assessable. The other two are private water companies that are regulated by the CPUC.

Private water companies are privately owned utilities in business to earn a profit from the sale of water. This type of water company is subject to regulation by the CPUC and must submit annual reports to the CPUC. The CPUC regulates the rates charged by private water companies, limiting profits to a return on the company's unamortized investment in plant and equipment. Because the earning ability of a regulated private water company is tied to this "rate base," as it is known, the current market value of water company properties may be affected by this restriction on earning capacity. The assessor should determine both the current market value and the factored base year value of such property and enroll the lower of the two as the assessed value; however, the Glenn County Assessor does not follow this procedure.

RECOMMENDATION 10: Assess the real property of private water companies at the lower of factored base year value or current market value.

The assessor does not determine the current market value of real property owned by one of the two regulated private water companies in this county. Instead, the assessor enrolls the company's property at its factored base year value.

Section 51(a) requires that real property shall be assessed on each lien date at the lower of its factored base year value or its full cash value as defined in section 110. In addition, Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, discusses the effect of regulation on market value. Because the income of private water companies is regulated, the market value of the real property is generally lower than the factored base year value.

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 July 2003, the assessor's staff assigned to perform the duties of the business property program consisted of one contract auditor-appraiser and one assessment technician. Annually, the assessor's business property staff processes about 3,000 business property statements, performs an estimated 32 audits (both mandatory and nonmandatory), and assesses approximately 104 general aircraft and 400 vessels. Excluding manufactured homes, which are assessed by the real property staff, the total value of personal property and fixtures on the 2003-04 assessment roll was \$71 million.

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 promotes voluntary compliance, discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more for four consecutive years.

As of the 2002-03 fiscal year, the assessor had a total workload of approximately 50 accounts that met section 469 requirements for mandatory audits. These accounts will be audited in the next four years. For fiscal year 2002-03, eight mandatory audits were completed.

Our prior survey recommended the assessor complete all mandatory audits as required by section 469. The assessor has implemented the recommendation, is current on his mandatory audits, and performs audits according to his four-year schedule.

Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer reporting errors, a nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

The nonmandatory audit program provides an opportunity for the assessor to audit problem accounts. In the past year, the assessor completed 29 nonmandatory audits. The assessor maintains an adequate nonmandatory audit program.

The assessor's total audit production for the last three years is summarized in the following table:

FISCAL YEAR	TOTAL AUDITS COMPLETED	ESCAPES	REFUNDS	NET CHANGE
2002-03	37	\$3,030,811	\$838,976	\$2,191,835
2001-02	29	\$3,273,152	\$912,661	\$2,360,491
2000-01	<u>31</u>	<u>\$2,635,133</u>	<u>\$268,761</u>	<u>\$2,366,372</u>
TOTAL	97	\$8,939,096	\$2,020,398	\$6,918,698

Statute of Limitations

Section 532 requires that the assessor enroll an escape assessment discovered during an audit within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

In our 2000 survey, we recommended that the assessor obtain signed waivers of the statutes of limitations when mandatory audits will not be completed on time. Currently, the assessor either completes audits within the statutory time allowed or obtains a waiver of the statute of limitations from the taxpayer if the audit cannot be completed in a timely manner.

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 business property.

In our 2000 survey, we recommended that the assessor adopt minimum audit standards, which he has done. During the course of an audit, the assessor routinely verifies taxpayers records to determine if a change of control (ownership) or new construction has occurred. The assessor also

verifies leased equipment, accounts for supplies, and properly classifies equipment. In all cases that we reviewed, the audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. We found no problems with the assessor's audit program.

Business Property Statement Program

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

For the 2003-04 roll, a total of 2,900 business property statements were processed in Glenn County (vessels and aircraft are reported separately and are not included in this total).

Processing Procedures

We reviewed the assessor's procedures and practices for the processing of property statements. Taxpayers are allowed to submit attachments in lieu of completing the statements as long as the original statement is signed and attached. Duplicate statements are returned to the taxpayer. The assessor enforces the requirement for the filing of property statements by nonprofit organizations, as well as owners of aircraft and vessels costing more than \$100,000. The section 463 penalty is correctly applied to all late and nonfiled business property statements. Overall, the assessor's business property statement processing procedures are effective.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors' offices use business property valuation factors that are derived by combining cost index factors (trend factors) with percent good factors for the valuation of machinery and equipment. Section 401.5 provides that the BOE shall issue information that will promote uniformity in appraisal practices and in assessed values throughout the state. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

Price index factors measure the trended value of goods over their service lives. The percent good factors are intended to reflect the average loss in value that commercial and industrial equipment will suffer over its service life. The factors are based on averages and represent a reasonable estimate of the annual changes for the majority of business machinery and equipment.

Valuation factors are the product of price index factors and the percent good factors. The proper choice and application of valuation factors to historical cost produces an estimate of market value.

It is important that BOE's valuation factors be used as intended. It is also important that all business property be correctly classified as either personal property or fixtures. We found areas of disagreement with the assessor's practices regarding both factors and classification.

RECOMMENDATION 11: Revise business property valuation procedures by: (1) using Assessors' Handbook Section (AH) 581, *Equipment Index and Percent Good Factors*, as intended, and (2) classifying fixed machinery and equipment as fixtures.

Use Assessors' Handbook Section 581 as intended.

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581 with the exception that specific types of equipment, e.g., pagers, facsimile equipment, and photocopiers, that CAA recommends should not be trended. The percent good factors also parallel the AH 581 factors with the exception that the CAA factors provide a minimum percent good for older equipment.

Because the assessor uses the CAA tables, he employs minimum percent good factors for older equipment. However, beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner. The CAA tables recommend using factors for an age equal to 125 percent of estimated service life as the minimum percent good factor. The assessor has no supporting evidence for using such minimum factors; hence, the assessor's practice does not meet the requirements of section 401.16.

Additionally, the assessor's use of untrended valuation factors for specific types of property, including pager, facsimile equipment, and photocopiers, as recommended by the CAA is not supported by a study. Therefore, the assessor should discontinue the use of minimum percent good factors and untrended valuation factors.

Classify fixed machinery and equipment as fixtures.

The assessor continues to assess machinery and equipment reported on Schedule A of the *Business Property Statement (BPS)*, Form BOE-571-L, as personal property. The assessor does not classify any of the machinery and equipment as fixtures. We noted this problem in the last two surveys and recommended that the assessor allocate the reported costs of machinery and equipment between personalty and fixtures. This has not been done.

Classification is an important element of the local assessment function for several reasons. Principally, it is important because rule 252 requires the assessment roll to show separate values for land, improvements (including fixtures), and/or personal property. It is also significant because of the differences between real property and personal property. Those differences include: (1) only real property is subject to special assessments; (2) personal property is appraised annually at market value; and, (3) according to rule 461(e), fixtures are a separate appraisal unit when measuring declines in value.

For assessment purposes, machinery and equipment costs reported on Schedule A of the BPS may represent either personalty or fixtures, or both. A fixture is an item of tangible property that was originally personalty, but is now classified as realty for property tax purposes. Fixtures become physically annexed to realty, with the intent that they remain annexed indefinitely. The assessor's practice may result in inaccurate assessment of fixed equipment.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issued valuation factors for computer equipment. In AH 581, Table 6: Computer Valuation Factors, the BOE provides valuation factors for use when valuing computer equipment.

We found that the assessor properly values computers using the BOE-recommended factors except for the minimum percent good factors, which are discussed in a separate recommendation elsewhere in this report.

Leased Equipment

The business property staff is responsible for the discovery, valuation, and assessment of leased equipment. In valuing leased equipment, the assessor compares the data reported on the lessors' business property statement with the data reported on the lessees' business property statement to ensure that there are no double or escape assessments. Additionally, as equipment comes off lease, the assessor contacts the lessee to determine if the equipment has taxable situs in the county.

We found that the assessor has an effective program for valuing, assessing, and tracking leased equipment. We have no recommendations in this area.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation. A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in Revenue and Taxation Code sections 5800 through 5842. Most manufactured homes are classified as personal property and enrolled on the secured roll.

The following statistical data shows a five-year history of manufactured home assessments in Glenn County:

ROLL YEAR	NUMBER	ASSESSED VALUE	AVERAGE VALUE
2003-04	286	\$5,063,310	\$17,704
2002-03	278	\$3,986,352	\$14,334
2001-02	271	\$4,045,176	\$14,927
2000-01	269	\$4,507,219	\$16,755
1999-00	260	\$4,102,252	\$15,778

Manufactured homes are treated differently for assessment purposes than other personal property. Manufactured homes are entered on the secured roll with an established base year value that is subject to compounding by inflation factor each year. The property taxes may be paid in two installments, and manufactured homes are subject to supplemental assessments when there is a change in ownership or new construction. The taxable value of a manufactured home is the lesser of its factored base year value or its full cash value on the lien date.

Manufactured homes comprise a relatively small part of the assessor's workload. There are 16 manufactured home parks in Glenn county. The assistant assessor performs most manufactured home appraisals. The assessor's office is notified of manufactured home sales by Department of Housing and Community Development (HCD) reports, building permits, dealer reports of sale, tax clearance certificates, and annual park owner reports.

In general, the assessor has a well-administered manufactured home program. Discovery procedures are good and new construction is assessed properly. In our 2000 survey, we recommended that the assessor (1) classify all manufactured homes as personal property, (2) consider values listed in recognized manufactured home guides when appraising manufactured homes, and (3) maintain documentation when making lien date adjustments of manufactured home values. The assessor has implemented the second and third of these recommendations, however, he has not implemented the first, which is repeated.

RECOMMENDATION 12: Classify manufactured homes as personal property.

The assessor continues to improperly enroll all manufactured homes as improvements.

Section 5801(b)(2) provides that a manufactured home shall not be classified as real property for property taxation purposes. When classified as personal property, manufactured homes may qualify as business inventory, cannot be subject to possessory interest assessments, and cannot be subject to special assessments that apply only to land and improvements. Classification as personal property also allows for the exemption from local taxation of manufactured homes under the provisions of the Soldiers' and Sailors' Civil Relief Act.

Aircraft

General Aircraft

Section 5363 requires the assessor to determine the market value of aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards to be used by the assessor. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternate for aircraft not listed in the *Bluebook*.

For the 2003-04 assessment roll, the assessor enrolled 104 general aircraft with a total valuation of \$2,778,063.

In our 2000 survey, we recommended that the assessor make adjustments for aircraft condition only where appropriate. We found the assessor in now in compliance with this recommendation. Taxpayer-claimed adjustments are accepted subject to audit, very much like the business property statement program.

We also commented on the assessor's incorrect use of the aircraft *Bluebook*. Although the assessor has changed his practice in this area, it is still incorrect.

RECOMMENDATION 13: Follow the BOE guidelines in assessing aircraft as required by section 5363.

In our 2000 survey, we recommended the assessor reduce the indicated *Bluebook* value by 10 percent to reflect an aircraft in average condition. We found that the assessor now makes the 10 percent adjustment; however, he incorrectly adjusts the new list price found in the *Bluebook*, rather than the average retail value as recommended by BOE in its Letter To Assessors 97/03, dated January 10, 1997. In addition, the assessor fails to add a sales tax component to published guide values.

The procedure employed by the assessor produces inaccurate aircraft valuations.

Historical Aircraft

Aircraft of historical significance are exempt from taxation upon meeting certain requirements. Section 220.5 defines "aircraft of historical significance" as any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

The historical aircraft exemption is not automatic. The owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, and pay a filing fee of thirty-five dollars (\$35) upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and, (3) the aircraft was available

for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

For the 2003-04 assessment roll, the assessor enrolled 20 historical aircraft with a total valuation of \$962,948.

In our 2000 survey, we recommended that the assessor comply with section 220.5(c) when granting historical aircraft exemptions. That recommendation addressed the lack of the aircraft owner's signature executed before the assessor's designee or a notary public, as required by section 220.5(c). Because recent legislative amendments to section 220.5 have eliminated this requirement, this recommendation is not repeated in this report.

Vessels

Assessors in California are required to annually appraise vessels at market value and to assess all vessels with an assessed value above \$400, unless the county has a low-value property exemption. The Glenn County Board of Supervisors has passed a resolution that exempts real and personal property valued at \$2,000 or less. Currently, vessels with a value less than \$2,000 and new to the county are not enrolled. Vessels with values less than \$2,000 that were enrolled at the time of the adoption of the resolution are removed from the tax roll when their assessed values become less than \$400 (see the low-value exemption topic in this report).

For the 2003-04 assessment roll, the assessor enrolled 436 vessels with a total assessed value of \$2,723,105. The primary discovery sources are Department of Motor Vehicle (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves. The assessor uses reported purchase prices and value indicators from the *ABOS Marine Blue Book* to initially value vessels. However, after the initial enrollment, he annually reduces the taxable value by a fixed amount that leads to assessments at other than market value.

RECOMMENDATION 14: Revise vessel assessments by: (1) assessing pleasure vessels annually at market value, and (2) including sales tax as a component of market value when appraising vessels.

Assess pleasure boats annually at market value.

The assessor depreciates pleasure vessels by 5 percent annually after the initial assessment. The assessor is required to assess vessels at market value each year. This could be estimated from selling price or published vessel value guides. A fixed depreciation rate applied to all pleasure vessels, regardless of class or size, does not reflect market value.

According to Assessors' Handbook Section 576, *The Assessment of Vessels* (AH 576),⁵ one way to establish a more equitable market-oriented depreciation rate would be to select sample vessels from new and used groups of five classes of vessels (sailboat, inboard, outboard, inboard-outboard, and personal watercraft). Trends in depreciation for these groups and classes could be determined by comparing published vessel values of the current and previous year.

⁵ AH 576 (February 2002), pages 16-17.

Once trend depreciation rates are computed, they could be applied to all vessels within each class and group to arrive at an estimate of market value.

The assessor's current valuation procedure is inaccurate and may result in over- and underassessment of vessels in Glenn County.

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

The assessor values vessels by referring to the *ABOS Marine Blue Book*. This boat valuation guide is intended for use on a nationwide basis and does not include the sales and use tax in the published values. Although we found that the assessor selects the proper values listed in the *ABOS* value guide, he fails to add a sales tax component.

According to AH 576,⁶ sales tax is a recognized component of market value and should be added to the values listed in the price guide when determining market value. The assessed values of the vessels are understated by the amount of the applicable sales tax because sales tax has been excluded from the vessel appraisals.

Animals

The California Constitution provides that all property is taxable unless specifically exempted by the Constitution or, in the case of personal property, by act of the Legislature. The Revenue and Taxation Code exempts most animals from taxation. Pets are exempted under section 224. Many animals are considered business inventory – as defined by section 129 and rule 133 – and are exempted by section 219.

Glenn County has very few assessable animals. Methods of discovering taxable animals include exchange of information between the assessor and other county assessors, newspaper articles and advertisements, telephone directories, business directories, agricultural property statements, and audits of agricultural property.

We reviewed two files of horses used for breeding purposes. The assessor multiplied the breeding fee times ten to arrive at an estimate of the horses' value, a method also used in other northern California county assessors' offices. The assessor's program is well administered.

⁶ AH 576 (February 2002), p. 13. See also *Xerox Corp v. Orange County* (1977) 66 Cal.App.3d 746.

APPENDIX

A. County Property Tax Division Survey Group

Glenn County

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Peter Gaffney

Supervising Property Appraiser

Survey Team Leader:

Glenn Danley

Senior Specialist Property Appraiser

Survey Team:

Dale Peterson
Mike Shannon
Lloyd Allred
Jody Henning
Nancy James
Ken King
Marilyn Jones

Senior Specialist Property Auditor-Appraiser
Associate Property Auditor-Appraiser
Associate Property Auditor-Appraiser
Associate Property Appraiser
Associate Property Appraiser
Associate Property Appraiser
Tax Technician II

B. 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 also 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 10 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 10 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 10 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 BOE'S FINDINGS

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

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

January 5, 2005

Ms. Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
P O Box 942879, MIC #62
Sacramento, CA 94279-0062

Dear Ms. Stuckey:

Please include my response to the Assessment Practices Survey for Glenn County conducted by the State Board of Equalization staff.

Please extend my thanks to the survey crew for their constructive recommendations and for their courteous manner during their stay here in Glenn County.

Sincerely,

VINCE T. MINTO
Glenn County Assessor/Clerk/Recorder

VTM/sjt
Encl.

RECOMMENDATION 1: Ensure contract appraisers have current BOE certification and training hours;
and

RECOMMENDATION 2: Revise appraisal contracts to comply with the requirements of section 674.

ASSESSOR'S RESPONSE: The Glenn County Assessor's Office for the assessment year 2004-05 has not contracted with any outside contractor to perform property tax audits for this office, nor do we see any need to do so in the future. We agree that if we ever do again contract for such a service that we will include the recommended verbiage.

RECOMMENDATION 3: Revise Disaster Relief procedures by: (1) requesting that the board of supervisors revise the disaster relief ordinance to conform to section 170, (2) revising the application for disaster relief, (3) conforming the notice of disaster relief reassessment to the requirements of section 170(c), and (4) prorating disaster relief in accordance with section 170(e).

ASSESSOR'S RESPONSE: Agree. Revised procedures are presently in place.

RECOMMENDATION 4: Revise Assessment Roll change program by: (1) enrolling escaped assessments only when the requirements of section 531.8 are met, and (2) citing the property statutory authority when initiating assessment roll changes.

ASSESSOR'S RESPONSE: 1. Agree. 2. Agree

RECOMMENDATION 5: Properly apply the low-value property exemption.

ASSESSOR'S RESPONSE: Agree.

RECOMMENDATION 6: Revise the use of assessment forms by: (1) using only approved rearranged BOE-prescribed forms, and (2) using current versions of BOE-prescribed forms.

ASSESSOR'S RESPONSE: 1. Agree. 2. The Glenn County Assessor's Office utilizes the current versions of BOE-prescribed forms. The BOE Survey Team reviewed forms posted in our Master Forms Book, unfortunately due to workload the Master Forms Book had not been updated with the latest BOE-prescribed forms. A review of the actual forms sent during the period the Glenn County Assessor's Office was surveyed would have disclosed that current versions were being utilized.

RECOMMENDATION 7: File quarterly reports with BOE as required by section 69.5(b)(7).

ASSESSOR'S RESPONSE: Agree.

RECOMMENDATION 8: Place a notation on the assessment roll identifying each TPZ parcel.

ASSESSOR'S RESPONSE: Agree, although this will be redundant. The TPZ designation is currently indicated through the Use Code.

RECOMMENDATION 9: Revise Possessory Interest assessment procedures by: (1) assessing all taxable possessory interests at the county fairgrounds, and (2) annually determining the market value of a possessory interest based on the stated term of possession as required by rule 21.

ASSESSOR'S RESPONSE: 1. Agree. 2. Agree.

RECOMMENDATION 10: Assess the real property of private water companies at the lower of factored base year value or current market value.

ASSESSOR'S RESPONSE: Agree.

RECOMMENDATION 11: Revise business property assessment procedures by: (1) using Assessor's Handbook Section 581, Equipment Index and Percent Good Factors, as intended, and (2) classifying fixed machinery and equipment as fixtures.

ASSESSOR'S RESPONSE: 1. We are developing supporting data to justify our use of the CAA tables. It is apparent from our specific experience in Glenn County that our current practices are justifiable. 2. & 3. Agree.

RECOMMENDATION 12: Classify manufactured housing as personal property.

ASSESSOR'S RESPONSE: Currently these manufactured housing units are coded within the assessment roll in a manner to exclude the problems stated in the survey. This allows us to avoid all of the problems that other Assessors Office throughout California have had in classifying them as personal property. But we will review our process, if such a designation would benefit our taxpayers in anyway we will certainly change our procedures.

RECOMMENDATION 13: Follow the BOE guidelines in assessing aircraft as required by section 5363.

ASSESSOR'S RESPONSE: Agree.

RECOMMENDATION 14: Revise vessel assessments by: (1) assessing pleasure vessels annually at market value, and (2) including sales tax as a component of market value when appraising vessels.

ASSESSOR'S RESPONSE: 1. Agree. 2. Agree