LAKE COUNTY
ASSOCIATION PRACTICES SURVEY

SEPTEMBER 2016

CALIFORNIA STATE BOARD OF EQUALIZATION

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DAVID J. GAU, EXECUTIVE DIRECTOR
September 8, 2016

TO COUNTY ASSESSORS:

LAKE COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Lake 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 specific counties to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Richard Ford, Lake County Assessor/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 Lake County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from September through October 2014. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The former Lake County Assessor/Recorder, Mr. Douglas W. Wacker, and his staff gave their complete cooperation during the survey fieldwork. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK:decl
Enclosure
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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of selected county assessors' offices. This report reflects the BOE's findings in its current survey of the Lake County Assessor/Recorder's Office.¹

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

¹ This review covers only the assessment functions of the office.
OBJECTIVE

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

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

SCOPE AND METHODOLOGY

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

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

This survey examined the assessment practices of the Lake County Assessor's Office for the 2014-15 assessment roll. 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.

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

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2 Government Code section 15642.
3 Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

We conducted reviews of the following areas:

- **Administration**

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

- **Assessment of Real Property**

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

- **Assessment of Personal Property and Fixtures**

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

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

In the area of administration, the assessor is effectively managing assessment appeals, disaster relief, and exemptions. However, we made a recommendation for improvement in the workload program.

In the area of real property assessment, the assessor has effective programs for new construction, declines in value, and mineral property. However, we made recommendations for improvement in the change in ownership, CLCA property, and taxable possessory interest programs.

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

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

We found no significant assessment problems as defined in Rule 371. Since Lake County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Lake County continues to be eligible for recovery of costs associated with administering supplemental assessments.
OVERVIEW OF LAKE COUNTY

Lake County is located in northwestern California, has 1,256.46 square miles of land area, and a population of 63,860. Lake County is bounded on the northwest by Mendocino County, on the northeast by Glenn County, on the east by Colusa and Yolo Counties, on the south by Napa County, and on the southwest by Sonoma County.

Lake County has two incorporated cities: Clearlake and Lakeport; Lakeport is the county seat. Created May 20, 1861, Lake County derived its name from the many lakes in the area, most prominently Clear Lake.
FINDINGS AND RECOMMENDATIONS

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

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

RECOMMENDATION 1: Timely report required statistical information to the BOE pursuant to section 407. .................................................................8

RECOMMENDATION 2: Improve the effectiveness of Change of Ownership Statements by correctly implementing the penalty process in accordance with section 482(a). ................................................9

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RECOMMENDATION 7: Obtain a signed waiver of the statute of limitations when an audit will not be conducted in a timely manner. .................16

RECOMMENDATION 8: Improve the quality of the audit program by: (1) using an audit checklist for every audit; (2) citing code sections within the audit workpapers; and (3) modifying the taxpayer's appeal rights language in the no-change audit form letter. .............................................................17
RECOMMENDATION 9: Improve the business property statement program by: (1) accepting only completed business property statements; (2) accepting only business property statements with authorized signatures as provided in Rule 172; and (3) valuing taxable business property in accordance with section 501 when a taxpayer fails to file a business property statement or files late. ........................................19

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ADMINISTRATION

Workload

Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. To accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property. In addition, the assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.4

During our review, we found an area in need of improvement in the assessor's workload program.

RECOMMENDATION 1: Timely report required statistical information to the BOE pursuant to section 407.

For each year in this past five-year survey cycle, the assessor did not return the annual requested data for the BOE publication A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices. However, in late 2014, the assessor's office returned the reports for fiscal years 2011-12, 2012-13, and 2013-14.

Section 407 provides that the assessor shall transmit a statistical statement to the BOE annually, on the second Monday in July, supplying any statistical information that the BOE may require, and shall supply from time to time any other information required by the BOE.

By not reporting statistics to the BOE annually as required, the assessor is not in compliance with current statute.

4 For a general description of the scope of our review of this topic, please refer to the document entitled Budget and Staffing, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/budget-staffing_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.
ASSessment of Real Property

change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of a change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of the change in ownership.5

We reviewed the assessor's application of the penalty process and found an area in need of improvement.

Recommendation 2: Improve the effectiveness of Change of Ownership Statements by correctly implementing the penalty process in accordance with section 482(a).

It is currently the policy of the assessor not to apply a penalty if the BOE-502-AH, Change in Ownership Statement (COS), is not returned or not returned timely.

Section 482(a) provides that if a person or legal entity required to file a statement described in section 480 fails to do so within 90 days from the date of a written request by the assessor, a specific penalty is applied. When the property owner fails to return the COS timely, the assessor should notify the property owner of the penalty being applied and inform them of the abatement process as described in section 483(a).

The assessor's current practice of not applying penalties to property owners who fail to file a COS by the filing deadline is contrary to statute and results in unequal treatment of taxpayers. The assessor should put a tracking system in place to monitor the date a COS is sent and the date the COS is returned to determine whether the COS is filed timely.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and any entities under its ownership control. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and, hence, either do or do not constitute a change in ownership of the real property owned by the entity. Discovery of these types of

5 For a detailed description of the scope of our review of this topic, please refer to the document entitled Change in Ownership, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.
changes in ownership is difficult for assessors, because ordinarily there is no recorded document evidencing a transfer of an ownership interest in a legal entity.

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

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

We reviewed records involving legal entities having experienced a change in control or ownership. We found some areas that need improvement.

**RECOMMENDATION 3:** Improve the LEOP program by developing and implementing new procedures for processing LEOP notices of change in control and ownership.

The assessor does not maintain written procedures for processing LEOP changes in control and ownership. Without clearly defined written procedures, uniformity and consistency in processing the monthly LEOP reports is difficult to achieve. Consequently, we found areas of concern regarding the assessor's LEOP program.

- The assessor does not reassess all properties owned by a legal entity having undergone a change in control when notified of the change in control through the BOE's Legal Entity Ownership Program.

Section 64(c)(1) provides that when a legal entity acquires controlling interest of another legal entity by obtaining more than 50 percent of the voting stock or a majority ownership interest in that legal entity, there is a change in ownership of the real property owned by the legal entity being acquired. Section 64(d) provides that a change in ownership occurs when cumulatively more than 50 percent of the original co-owners' interest in the legal entity is transferred through one or more transactions, and the property that was previously excluded under section 62(a) shall be reappraised.
By not reassessing properties owned by legal entities identified as having undergone a change in control or ownership, the assessor may be enrolling incorrect assessments for those properties.

- The assessor does not apply penalties as required by section 482(b) if a BOE-100-B was not filed timely. It is the assessor's policy not to apply penalties to late filings.

Sections 480.1(a) and 480.2(a) state that whenever there is a change in control or ownership of any corporation, partnership, limited liability company, or other legal entity, a signed BOE-100-B shall be filed with the BOE at its office in Sacramento within 90 days from the date of the change in control or ownership. Section 482(b) states that if a person or legal entity required to file a BOE-100-B fails to do so within 90 days from the earlier of (1) the date of the change in control or ownership of the legal entity or (2) the date of a written request from the BOE, a specific penalty shall be added to the assessment made on the roll.

The BOE provides the assessor a report titled, *Entities Indicating a Change in Control or Change in Ownership – By County*. The report lists legal entities that have undergone a change in control or ownership and identifies due dates and actual filing dates of the BOE-100-B for each entity. Additionally, a copy of the envelope bearing the postmark accompanies BOE-100-Bs as evidence of the filing date included in the report.

By failing to apply the penalty for late filing, the assessor is not in compliance with section 482(b).

To assist the assessor in properly assessing real property as a result of changes in control and ownership, we recommend the assessor develop and implement written procedures for processing LEOP reports issued monthly by the BOE. Implementing procedures for processing changes in control and ownership should eliminate recurrences of the problems we discovered.

**California Land Conservation Act Property**

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses such as hunting rights and communications facilities). Such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value.6

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We reviewed several CLCA assessments and found the assessor has an efficient and well-organized program in place to value these properties. However, we found two areas where improvement is needed.

**RECOMMENDATION 4:** Improve the CLCA assessment program by: (1) using an appropriate income stream for capitalizing restricted tree and vine income and (2) allowing for a return on the investment in irrigation wells to remain as income attributable to the land being capitalized.

**Use an appropriate income stream for capitalizing restricted tree and vine income.**

We found the assessor uses a straight-line declining income premise when appraising vineyards and orchards in all stages of production.

The Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), describes the procedure for capitalizing tree and vine income. The appropriate method depends primarily on the shape of the anticipated income stream. All living improvements have a similar life cycle and this cycle is composed of three periods or stages of production: (1) a period of development when production (income stream) initiates and rises; (2) a period of maturity when production remains relatively stable; and (3) a period of decline when production drops as the improvements near the end of their economic lives. It is important to capitalize the appropriate income stream, and to ensure that the income stream varies in accordance with the stage of production or life cycle of the crop.

By not recognizing the stage of production of a property, the assessor is incorrectly valuing vineyards and orchards as they move through their life cycle.

**Allow for a return on the investment in irrigation wells to remain as income attributable to the land being capitalized.**

In the valuation process of CLCA properties, the assessor correctly deducts a charge for the return of the well value from the income attributable to the real property. However, the assessor also deducts a charge for the return on the investment in a well attributable to the income, which is an incorrect procedure.

Pursuant to Rule 124(b)(1), wells are classified as land. The recommended procedure is to deduct a charge for the return of the well value from the income attributable to the real property and deduct a charge for well maintenance if applicable. The assessor should not deduct a charge for a return on the investment in a well since this income should remain as income attributable to land to be capitalized.

By deducting a charge for a return on the well in the capitalization process, the assessor is undervaluing restricted properties with irrigation wells that contribute to the income being capitalized.
**Taxable Possessory Interests**

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.7

We reviewed a number of taxable possessory interest records and found one area in need of improvement.

**RECOMMENDATION 5:** Assess all taxable possessory interests located at the fairgrounds.

We obtained a schedule of commercial exhibitors and food concessions at the Lake County fairgrounds that appear to constitute a taxable possessory interest. Our review of taxable possessory interests at the Lake County fairgrounds confirms the assessor is not properly assessing all uses at the fairgrounds.

Section 107 and Rule 20 define the requirements for a taxable possessory interest. Briefly stated, these requirements are that the right of possession be independent, durable, exclusive, and provide a private benefit. The repeated use of the fairground facilities by the same person or entity over a number of years should be investigated to see whether or not it constitutes a possessory interest. Since Lake County does not have an ordinance exempting low-value fairground possessory interests under section 155.20, the assessor should enroll all possessory interests at the fairground.

Failure to assess all possessory interests located at the fairgrounds may result in escaped assessments and lost revenue to the county.

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

Audit Program

County assessors are required to annually conduct a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.8

After the 2011-12 roll year, the assessor lost his only experienced auditor-appraiser. According to the assessor, the auditor-appraiser hired to replace this person was not able to conduct any audits during the 2012-13 and 2013-14 assessment years. The assessor's auditor-appraiser position has been vacant since the close of the 2013-14 roll. Although the assessor is actively recruiting for an auditor-appraiser, it is unlikely that a newly appointed auditor-appraiser will have enough time during the current 2014-15 roll year to conduct any audits.

RECOMMENDATION 6: Improve the audit program by: (1) auditing the books and records of professions, trades, and businesses pursuant to section 469; (2) modifying the audit selection procedure to correctly determine the pool of taxpayers with the largest assessments as defined by Rule 192; and (3) ensuring the retention of workpapers from conducted audits.

Audit the books and records of professions, trades, and businesses pursuant to section 469.

We were not able to substantiate the number of audits conducted for roll years 2009-10, 2010-11, and 2011-12. The assessor did not conduct any audits for roll years 2012-13 and 2013-14. Furthermore, the assessor has not scheduled any audits for the current 2014-15 roll year. Based on recent and current audit production, the assessor has failed to meet the minimum number of audits required to be conducted as defined by section 469.

Section 469 provides that the assessor shall annually conduct a significant number of audits of the books and records of taxpayers engaged in a profession, trade, or business who own, claim, possess, or control locally assessable trade fixtures and business tangible personal property. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the statute requires the assessor to conduct seven audits per year.

An effective audit program verifies the reporting of various business property accounts, from small to large, and helps prevent potential errors or escape assessments. An audit program is an

8 For a detailed description of the scope of our review of this topic, please refer to the document entitled Audit Program, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at http://www.boe.ca.gov/proptaxes/apscont.htm.
essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Furthermore, experience shows that the further removed the audit is from the year being audited the more difficult it is to obtain the records necessary to substantiate accurate reporting. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately a well-managed assessment program.

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

**Modify the audit selection procedure to correctly determine the pool of taxpayers with the largest assessments as defined by Rule 192.**

When comparing the assessor's list of conducted audits for 2011-12 roll year to the pool of taxpayers with the largest assessments, we found that of the 12 audits listed as conducted, only one audit was conducted from the pool of taxpayers with the largest assessments. The assessor's current practice causes him to make audit selections that do not comport with the audit selection criteria outlined in Rule 192.

Section 469 requires the assessor to rank all taxpayers annually in the county in descending order by their total locally assessed value of both trade fixtures and business tangible personal property. Rule 192(a)(6) states that the "taxpayers with largest assessments" means taxpayers that have the largest assessments of locally assessable trade fixtures and business tangible personal property in the county for the applicable year of audit selection.

The assessor cannot be in compliance with section 469 and Rule 192 without first accurately identifying the pool of taxpayers with the largest assessments. By failing to comply with section 469 and Rule 192, the assessor risks not auditing taxpayers with the largest assessments for the current year and subsequently allowing taxable property to escape assessment permanently.

**Ensure the retention of workpapers from completed audits.**

When attempting to substantiate the assessor's list of completed audits for the 2010-11 roll year, we found four instances where the assessor was not able to locate the audit workpapers.

Retention of audit workpapers is an important element of the assessor's audit program. Retention of audit workpapers is the primary means for substantiating the completion of an audit and in verifying that the assessor's audit program is compliant with the minimum number of audits required under section 469. In addition, the preservation of audit workpapers is critical in accumulating historical information relevant to the taxpayer's subject property. The information contained in the workpapers can assist the assessor and the taxpayer in identifying many issues that affect the assessment of the taxpayer's property. It provides the basis for which future decisions can be made regarding the assessment of the subject property.
By not ensuring the retention of workpapers from completed audits, the assessor not only risks noncompliance with section 469, but also risks losing the knowledge and data gained from the critical analysis provided by audit work.

Statute of Limitations

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

RECOMMENDATION 7: Request a signed waiver of the statute of limitations when an audit will not be conducted in a timely manner.

The assessor has not requested signed waivers of the statute of limitations from taxpayers when he anticipated an audit will not be conducted in a timely manner.

Section 532 provides that, when the assessor discovers property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot conduct 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 escape assessment, correction, or claim for refund. Seeking these waivers is a standard procedure in a well-managed audit program.

A signed waiver allows the assessor to enroll an escape assessment if a reporting deficiency is found and can protect the taxpayer during the audit process should an overassessment be discovered. By failing to obtain signed waivers, the assessor may allow taxable property to escape assessment permanently.

Audit Quality

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

We reviewed audits for audit quality to ensure the assessees have been properly assessed and the assessor adhered to an acceptable quality standard. We reviewed the roll correction process to ensure audits resulting in escape assessments were enrolled for each year in which an escape assessment took place. We also reviewed the assessor's notification procedure to ensure that
taxpayers were properly notified of escapes and of their rights to appeal. We found the assessor's audit program to be deficient and identified areas in need of improvement.

RECOMMENDATION 8: Improve the quality of the audit program by: (1) using an audit checklist for every audit; (2) citing code sections within the audit workpapers; and (3) modifying the taxpayer's appeal rights language in the no-change audit form letter.

Use an audit checklist for every audit.

We found that the assessor does not make use of an audit checklist.

An audit checklist can serve to remind auditor-appraisers of the various issues to research and procedures to follow during an audit. Checklists also provide reviewers, taxpayers, and other auditor-appraisers with an outline of the areas investigated during the course of the audit. Because a comprehensive checklist provides brief detail information on the scope of the audit, use of a comprehensive checklist allows the auditor-appraiser to concentrate discussion in the audit narrative to specific issues of concern and makes for a more easily understood audit.

By not using a checklist, the assessor risks missing audit work that should be conducted, and risks producing audit work for which the scope is difficult to determine.

Cite code sections within the audit workpapers.

We found that the assessor correctly cites the Revenue and Taxation Code (R&TC) section when notifying the taxpayer of escaped assessments; nevertheless, we noticed that the assessor does not include any references to the R&TC section within the audit workpapers.

Normally, assessors will cite the appropriate R&TC section in the audit workpapers whether in the audit narrative, the audit checklist, or in the audit summary. Oftentimes assessors will cite the appropriate R&TC section more than once in different parts of the audit workpapers. For example, citation of the appropriate R&TC section may be placed in the audit summary and in the audit narrative. Referencing the appropriate R&TC section in the audit workpapers is an important component in establishing the reasons for the assessor's findings, whether the findings result in escaped assessments or overassessments, and whether the resulting escaped assessments or overassessments are the result of assessor error or taxpayer error. Citing the appropriate R&TC section facilitates discussion in the narrative and allows the assessor to articulate his findings accurately. Moreover, citing the R&TC section within the audit workpapers provides the reviewer a clear understanding of audit conclusions and allows for a more complete and easily understood audit. In addition, well-documented audit findings that include citation of the R&TC section can better be understood by other users of the audit workpapers such as the taxpayer and other audit staff.

By not citing the R&TC section within the audit workpapers, the assessor risks the possibility of not adequately memorializing the reasons for audit findings and risks the possibility of inadequate review of audit findings. In addition, the assessor risks citing an incorrect R&TC section on the notice and the roll correction given that the current practice provides for no
Modify the taxpayer's appeal rights language in the no-change audit form letter.

We found that the assessor's no-change audit form letter contains misleading language regarding the taxpayer's appeal rights.

Generally, audits result in "no change" in one of two ways. First, an audit may result in no change when the reported information used in the valuation is consistent with that verified during the audit. Second, an audit may result in a no change when escape assessments are offset by overassessments within the same audit year. In the first instance, no property escaped assessment and the taxpayer has no appeal rights under Rule 305.3(a). In the second instance, property escaped assessment and the taxpayer has appeal rights under Rule 305.3(a).

Rule 305.3(a) provides that if the result of an audit discloses property subject to an escape assessment for any year covered by the audit, then, pursuant to section 1605, an application may be filed for review, equalization, and adjustment of the original assessment of all property of the assessee at the location of the profession, trade, or business for that year, except any property that had previously been equalized for the year in question. However, the taxpayer does not have appeal rights when the audit does not provide evidence of escape assessment.

When the audit results in both over and underassessment for any year under audit, but the conclusion of the audit results in no change to the assessment, the assessor correctly provides appeal rights in his "no change" audit letter. However, in cases where the audit does not disclose an escape assessment, the assessor should remove language advising taxpayers of their appeal rights. By providing language advising taxpayers of their appeal rights in the "no change" audit letter in cases where the audit does not disclose an escape assessment, the assessor misleads the taxpayer into believing appeal rights exist.

Business Property Statement Program

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of $100,000 or more annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program.9

We reviewed the assessor's practices and files relevant to the BPS program to ensure that the assessor complies with statutory guidelines. We reviewed a sampling of BPSs to verify that the assessor uses Board-prescribed forms; utilizes certified staff for processing BPSs; ensures that BPSs are properly filled out; ensures appropriate penalties are applied; ensures that real property

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and business property staff coordinate assessment of trade fixtures, leasehold improvements, and structures; and adheres to an appropriate record retention policy.

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

While the assessor's BPS program is generally managed well, we did find several areas in need of improvement.

**RECOMMENDATION 9:**

Improve the business property statement program by:

1. Accepting only completed business property statements;
2. Accepting only business property statements with authorized signatures as provided in Rule 172;
3. Valuing taxable business property in accordance with section 501 when a taxpayer fails to file a business property statement or files late.

**Accept only completed business property statements.**

We found that the assessor accepted a number of BPSs where the taxpayer failed to complete important parts of the BPS, such as change of ownership information in Part I(g) of BOE-571-L and the address indicating the location of the property. We also found that the assessor does not return incomplete BPSs in cases where the taxpayer fails to provide historical cost information.

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 BPS with the assessor; and any other person must file a BPS if requested by the assessor. These BPSs cover a wide variety of property types, including commercial, industrial, agricultural, boats, and certificated aircraft. Section 442 requires that the BPS shall show all taxable property owned, claimed, possessed, controlled, or managed by the person filing it and required to be reported thereon.

Without Part I(g) of the BPS being completed, the assessor may be unaware of any changes in ownership that may have occurred. Lacking complete historical cost information likely will result in the assessor incorrectly estimating the fair market value of the assessees's business property. Furthermore, the inability to obtain the situs address of the assessees's business property may prevent the assessor from assigning the correct tax rate area to the assessees's assessment.

We recommend that the assessor accept only completed BPSs. Incomplete BPSs, together with a letter detailing the deficiency, should be returned to the assessee for proper completion.

**Accept only business property statements with authorized signatures as provided in Rule 172.**

We found several BPSs that were not signed by a qualified or authorized person. Of these, none had the assessees's written authorization on file with the assessor.
Rule 172 requires Board-prescribed BPSs and mineral production reports to be signed by the assessees, a partner, a duly appointed fiduciary, or an authorized agent. BPSs filed on behalf of a corporate assessees must be signed by an officer, an employee, or an agent authorized by the board of directors to sign on behalf of the corporation. When a BPS is signed by an agent who is not a member of the bar, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary, the assessees's written authorization allowing that agent to sign the BPS on behalf of the assessees must be filed with the assessor. An unsigned BPS or a BPS signed by an unauthorized agent does not constitute a valid filing. Rule 172(d) prohibits the assessor from knowingly accepting any signed BPS that is not executed in accordance with the requirements of this section.

Written authorization calls attention to the fact that corporate assessees are liable for any consequences of reporting errors by an employee or agent. It also assures that the assessor may rely upon that statement. By requiring such written authorization, the assessor will ensure that the BPS was the taxpayer's official response.

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

Our review included verifying the assessor's procedures for processing late and nonfiled BPSs. We found that when the business owner fails to file a BPS, the assessor applies a predetermined escalation rate of 10 percent to the previous year's enrollment inclusive of any previously applied penalties. A 10 percent penalty is then applied to this escalated assessment.

Section 441(b) provides that a penalty shall apply if a BPS is not filed by May 7. If an assesse does not file a BPS by May 7, section 501 provides that the assessor shall estimate a value based on available information and add a 10 percent penalty to that estimated value. By escalating the previous year's enrollment by a predetermined rate, the assessor is enrolling an arbitrarily determined value with no supporting basis. Any estimated assessment should be supported by available information in conformance with section 501.

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

Business Equipment Valuation

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.¹⁰

The Lake County assessor annually updates valuation factor tables using guidelines, percent good factors, index factors, and specific valuation factors contained in Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581), as well as guidelines published in the California Assessors' Association (CAA) annual position paper, *Business Assessment Factors*. The factors are coded for industrial or commercial use and average service life. The assessor maintains special codes for certain market derived valuation factors contained in AH 581. Each business account is assigned a valuation schedule that contains factors specific to the type of property held by each business.

We reviewed the assessor's valuation procedures as well as the assessor's application of percent good and trend factors to ensure that they were accurate and applied consistently. Samples were analyzed to verify that the assessor was applying the correct factors to various business and equipment types, estimating supplies when not reported, making appropriate trade-level adjustments when necessary, appropriately assessing fixtures, and correctly assessing mobile construction and agricultural accounts.

Overall, the assessor's business equipment valuation program is comprehensive and well managed. However, we found areas in need of improvement:

**RECOMMENDATION 10:** Improve the business property equipment valuation program by: (1) uniformly assessing personal property in apartments, and (2) properly classifying billboards as fixtures.

**Uniformly assess personal property in apartments.**

We found that the assessor fails to consistently apply valuation factors to reported costs when assessing apartment equipment and furniture. We observed assessments involving the application of valuation factors based on 12-year, 10-year, and 8-year life with no reason for the disparate treatment ascertainable from the records. The assessor's inconsistent application of valuation factors creates inequitable valuations for taxpayers in possession of apartment equipment and furniture.

**Properly classify billboards as fixtures.**

We found the assessor incorrectly classifies billboards as personal property. Letters To Assessors No. 2002/078, *Guidelines for the Assessment of Billboard Properties*, states billboards are properly classified as fixtures under Rule 122.5(a)(1), which defines a fixture to include an item of tangible property that is physically or constructively annexed to realty with the intent that it remain annexed indefinitely. Proper classification is an important factor for billboards because special assessments are levied only on real property, which includes fixtures, and personal property is appraised annually at market value and not governed by article XIII A of the California Constitution while fixtures are subject to article XIII A of the California Constitution.

**Vessels**

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by
the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.11

Overall, the assessor's vessel assessment program is well administered; however, we did find an area in need of improvement.

RECOMMENDATION 11: Improve the vessel assessment program by using market derived factors to value vessels.

After an initial vessel assessment is made, the assessor annually applies a 5 percent depreciation factor to all vessels and personal watercraft to calculate current market value. While the practice of using fixed depreciation adjustments simplifies the assessment process, it may or may not reflect market value. In addition, there is no current market study or research supporting the depreciation factor used by the assessor.

According to Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures* (AH 504), the use of valuation factors should be supported by a recognized sampling method. To utilize sampling of current market evidence, assessors must develop and use recognized methods that will be accepted with confidence by the BOE and property owners.

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

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APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2014-15 assessment roll:\textsuperscript{12}

<table>
<thead>
<tr>
<th>PROPERTY TYPE</th>
<th>ENROLLED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secured Roll</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$2,621,892,528</td>
</tr>
<tr>
<td>Improvements</td>
<td>$3,977,109,618</td>
</tr>
<tr>
<td>Fixtures</td>
<td>$9,781,895</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$76,709,322</td>
</tr>
<tr>
<td>Total Secured</td>
<td>$6,685,493,363</td>
</tr>
<tr>
<td>Unsecured Roll</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$6,883,626</td>
</tr>
<tr>
<td>Improvements</td>
<td>$35,925,997</td>
</tr>
<tr>
<td>Fixtures</td>
<td>$18,163,849</td>
</tr>
<tr>
<td>Personal Property</td>
<td>$99,683,959</td>
</tr>
<tr>
<td>Total Unsecured</td>
<td>$160,657,431</td>
</tr>
<tr>
<td>Exemptions\textsuperscript{13}</td>
<td>($225,600,229)</td>
</tr>
<tr>
<td>Total Assessment Roll</td>
<td>$6,620,550,565</td>
</tr>
</tbody>
</table>

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:\textsuperscript{14}

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>TOTAL ROLL VALUE</th>
<th>CHANGE</th>
<th>STATEWIDE CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>$6,620,551,000</td>
<td>-0.4%</td>
<td>6.2%</td>
</tr>
<tr>
<td>2013-14</td>
<td>$6,649,412,000</td>
<td>-0.7%</td>
<td>4.3%</td>
</tr>
<tr>
<td>2012-13</td>
<td>$6,699,019,000</td>
<td>-0.4%</td>
<td>1.4%</td>
</tr>
<tr>
<td>2011-12</td>
<td>$6,725,060,000</td>
<td>-1.3%</td>
<td>0.1%</td>
</tr>
<tr>
<td>2010-11</td>
<td>$6,815,978,000</td>
<td>-1.5%</td>
<td>-1.9%</td>
</tr>
</tbody>
</table>

\textsuperscript{12} Statistics provided by BOE-822, Report of Assessed Values By City, Lake County for year 2014.
\textsuperscript{13} The value of the Homeowners' Exemption is excluded from the exemptions total.
\textsuperscript{14} Statistics provided by State Board of Equalization Annual Report, Table 7.
Table 3: Gross Budget and Staffing

The assessor's budget has fluctuated over the last five years, with a high of $1,096,059 in 2010-11 and a low of $942,346 in 2012-13.

As of the date of our survey, the assessor had 15.6 budgeted permanent positions, of which 2 were vacant. Current staff totals 13.6 and includes the assessor, 1 chief deputy assessor, 1 appraiser II, 4 appraiser I's, 1 cadastral mapping specialist III, and 5.6 support staff.

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

<table>
<thead>
<tr>
<th>BUDGET YEAR</th>
<th>GROSS BUDGET</th>
<th>PERCENT CHANGE</th>
<th>PERMANENT STAFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>$1,024,101</td>
<td>4.0%</td>
<td>15.6</td>
</tr>
<tr>
<td>2013-14</td>
<td>$984,769</td>
<td>4.5%</td>
<td>15.6</td>
</tr>
<tr>
<td>2012-13</td>
<td>$942,346</td>
<td>-9.6%</td>
<td>15.6</td>
</tr>
<tr>
<td>2011-12</td>
<td>$1,042,053</td>
<td>-4.9%</td>
<td>15.6</td>
</tr>
<tr>
<td>2010-11</td>
<td>$1,096,059</td>
<td>-0.4%</td>
<td>15.6</td>
</tr>
</tbody>
</table>

Table 4: Assessment Appeals

The following table shows the number of assessment appeals filed in recent years:

<table>
<thead>
<tr>
<th>YEAR</th>
<th>ASSESSMENT APPEALS FILED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>74</td>
</tr>
<tr>
<td>2013-14</td>
<td>102</td>
</tr>
<tr>
<td>2012-13</td>
<td>242</td>
</tr>
<tr>
<td>2011-12</td>
<td>492</td>
</tr>
<tr>
<td>2010-11</td>
<td>335</td>
</tr>
</tbody>
</table>

Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:\textsuperscript{16}

<table>
<thead>
<tr>
<th>YEAR</th>
<th>WELFARE EXEMPTIONS</th>
<th>EXEMPTED VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>135</td>
<td>$168,417,637</td>
</tr>
<tr>
<td>2013-14</td>
<td>134</td>
<td>$165,881,929</td>
</tr>
<tr>
<td>2012-13</td>
<td>134</td>
<td>$161,706,769</td>
</tr>
<tr>
<td>2011-12</td>
<td>129</td>
<td>$168,194,291</td>
</tr>
<tr>
<td>2010-11</td>
<td>118</td>
<td>$152,149,517</td>
</tr>
</tbody>
</table>

Table 6: Change in Ownership

The following table shows the total number of recorded documents received and the total number of documents resulting in reappraisable events in Lake County in recent years:\textsuperscript{17}

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RECORDED DOCUMENTS</th>
<th>REAPPRAISABLE TRANSFERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>17,055</td>
<td>1,265</td>
</tr>
<tr>
<td>2013-14</td>
<td>17,217</td>
<td>3,189</td>
</tr>
<tr>
<td>2012-13</td>
<td>20,722</td>
<td>3,402</td>
</tr>
<tr>
<td>2011-12</td>
<td>20,301</td>
<td>3,409</td>
</tr>
<tr>
<td>2010-11</td>
<td>19,504</td>
<td>3,369</td>
</tr>
</tbody>
</table>

\textsuperscript{16} Statistics provided by BOE-802, Report on Exemptions.
\textsuperscript{17} Statistics provided by the Assessor's Office.
**Table 7: New Construction**

The following table shows the total number of permits received:\(^{18}\)

<table>
<thead>
<tr>
<th>ROLL YEAR</th>
<th>NUMBER OF PERMITS RECEIVED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>561</td>
</tr>
<tr>
<td>2013-14</td>
<td>824</td>
</tr>
<tr>
<td>2012-13</td>
<td>456</td>
</tr>
<tr>
<td>2011-12</td>
<td>364</td>
</tr>
<tr>
<td>2010-11</td>
<td>393</td>
</tr>
</tbody>
</table>

**Table 8: Declines in Value**

The following table shows the total number of decline-in-value assessments in recent years:\(^{18}\)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DECLINE-IN-VALUE ASSESSMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>10,302</td>
</tr>
<tr>
<td>2013-14</td>
<td>10,474</td>
</tr>
<tr>
<td>2012-13</td>
<td>10,683</td>
</tr>
<tr>
<td>2011-12</td>
<td>10,796</td>
</tr>
<tr>
<td>2010-11</td>
<td>10,692</td>
</tr>
</tbody>
</table>

\(^{18}\) Statistics provided by the Assessor's Office.
APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Lake County

Chief:
David Yeung

Survey Program Director:
Diane Yasui Manager, Property Tax

Survey Team Supervisor:
David Dodson Supervisor, Property Taxes

Survey Team:
James McCarthy Senior Petroleum and Mining Appraisal Engineer
Isaac Cruz Senior Specialist Property Auditor-Appraiser
Michael Ash Associate Property Appraiser
Jay Price Associate Property Appraiser
Jennifer Prince Associate Property Appraiser
Cyrus Haze Ghazam Assistant Property Auditor-Appraiser
Dany Lunetta Associate Governmental Program Analyst
## APPENDIX C: RELEVANT STATUTES AND REGULATIONS

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

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

The Lake County Assessor's response begins on the next page. The BOE has no comments on the response.
July 6, 2016

Mr. David Yeung
Chief of County Assessed Properties
State Board of Equalization
P.O. Box 942879
Sacramento, CA 95279

RE: County of Lake Assessment Practices Survey

Dear Mr. Yeung:

Pursuant to Section 15645 of the California Government Code, please accept my written response to the Assessment Practices Survey report. I have written individual responses to each recommendation and they are attached for your review. Please include these responses in your final Assessment Practices Report.

I would like to thank you for the time you have taken to conduct the survey and for the time dedicated with our staff. At a time when the office is dealing with substantial change related to the regrowth of professional knowledge lost due to budget constraints and former retirements, we value the input from the board as they have conducted this survey.

I would personally like to thank the staff of the County of Lake, Assessor’s Office for their hard work to strive for accuracy, even while we deal with the current challenges of the office.

Sincerely,

Richard Ford
Assessor-Recorder
County of Lake, CA
RECOMMENDATION 1:  Timely report required statistical information to the BOE pursuant to section 407.

Response: We concur and necessary steps are being implemented to insure compliance.

RECOMMENDATION 2:  Improve the effectiveness of Change of Ownership Statements by correctly implementing the penalty process in accordance with section 482(a).

Response: We concur with the recommendation and are making steps to implement the recommendation.

RECOMMENDATION 3:  Improve the LEOP program by developing and implementing new procedures for processing LEOP notices of change in control and ownership.

Response: We concur with the recommendation and have implemented the recommendation to date.

RECOMMENDATION 4:  Improve the CLCA assessment program by: (1) using an appropriate income stream for capitalizing restricted tree and vine income and (2) allowing for a return on the investment in irrigation wells to remain as income attributable to the land being capitalized.

Response: We concur with the recommendation and are making steps to implement the recommendation.

RECOMMENDATION 5:  Assess all taxable possessory interests located at the fairgrounds.

Response: We concur with the recommendation and are making steps to implement the recommendation.
RECOMMENDATION 6: Improve the audit program by: (1) auditing the books and records of professions, trades, and businesses pursuant to section 469; (2) modifying the audit selection procedure to correctly determine the pool of taxpayers with the largest assessments as defined by Rule 192; and (3) ensuring the retention of workpapers from conducted audits.

Response: We concur with the recommendation. Due to staffing levels and experience, the audit program has suffered in recent years. We are taking steps to remedy the deficiency and apply the recommendation.

RECOMMENDATION 7: Obtain a signed waiver of the statute of limitations when an audit will not be conducted in a timely manner.

Response: We concur with the recommendation and are taking steps to comply with the recommendation.

RECOMMENDATION 8: Improve the quality of the audit program by: (1) using an audit checklist for every audit; (2) citing code sections within the audit workpapers; and (3) modifying the taxpayer's appeal rights language in the no-change audit form letter.

Response: We concur with the recommendation. Due to staffing levels and experience, the audit program has suffered in recent years. We are taking steps to remedy the deficiency and apply the recommendation.

RECOMMENDATION 9: Improve the business property statement program by: (1) accepting only completed business property statements; (2) accepting only business property statements with authorized signatures as provided in Rule 172; and (3) valuing taxable business property in accordance with section 501 when a taxpayer fails to file a business property statement or files late.

Response: We concur with the recommendation 1 and 2 and have made steps to implement the recommendation. We do not fully concur with recommendation 3. The Auditor-Appraiser staff enrolls properties based on an estimated opinion of market value if the filer has not submitted required and requested information. This opinion is based on any relevant and the best information available. A ten percent penalty is added. In the future we will progress towards clearer documentation of our process.
RECOMMENDATION 10: Improve the business property equipment valuation program by: (1) uniformly assessing personal property in apartments and (2) properly classifying billboards as fixtures.

Response: We concur with the recommendation and have made steps to implement the recommendation.

RECOMMENDATION 11: Improve the vessel assessment program by using market derived factors to value vessels.

Response: We concur with the recommendation and are making steps to implement the recommendation.