

MENDOCINO COUNTY ASSESSMENT PRACTICES SURVEY

MARCH 2017

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2017/012

March 30, 2017

TO COUNTY ASSESSORS:

**MENDOCINO COUNTY
ASSESSMENT PRACTICES SURVEY**

A copy of the Mendocino County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in specified counties to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Susan M. Ranochak, Mendocino 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 Mendocino County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Ms. Ranochak and her staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK:dcl
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of specified county assessors' offices. This report reflects the BOE's findings in its current survey of the Mendocino County Assessor-Clerk-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 Mendocino County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Susan M. Ranochak, Mendocino County Assessor-Clerk-Recorder, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

OBJECTIVE

The survey shall "...show the extent to which assessment practices are consistent with or differ from state law and regulations."² The primary objective of a survey is to ensure the assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

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

SCOPE AND METHODOLOGY

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

Pursuant to Revenue and Taxation Code³ section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county.

This survey included an assessment sample of the 2014-15 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments.⁴

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.

⁴ For a detailed description of the scope of this program, please refer to the document entitled *Assessment Sampling Program*, available on the BOE's website at <http://www.boe.ca.gov/Assessors/pdf/assessmentsamplingprogram.pdf>.

Our survey methodology for the Mendocino County Assessor-Clerk-Recorder's Office included reviews of the assessor's records, interviews with the assessor and her staff, and contact with officials in other public agencies in Mendocino County that provided information relevant to the property tax assessment program.

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

We conducted reviews of the following areas:

- Administration

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

- Assessment of Real Property

We reviewed the assessor's program for assessing real property. Specific areas reviewed include property having experienced a change in ownership, new construction assessments, and properties experiencing a decline in value. We also reviewed supplemental assessments 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, and manufactured homes assessments, aircraft assessments, and vessels assessments.

EXECUTIVE SUMMARY

We examined the assessment practices of the Mendocino 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 staffing and assessment appeals. However, we made recommendations for improvement related to workload, and in the disaster relief and exemptions programs.

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

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

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

The Mendocino County assessment roll meets the requirements for assessment quality as established by section 75.60. Our sample of the 2014-15 assessment roll indicated an average assessment ratio of 98.66 percent, and the sum of the absolute differences from the required assessment level was 2.05 percent. Accordingly, the BOE certifies that Mendocino County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

OVERVIEW OF MENDOCINO COUNTY

Mendocino County is located approximately 90 miles north of San Francisco. With a population of 87,192 at the time of the survey, the county encompasses 3,506.34 square miles of land area. Mendocino County is bounded on the north by Humboldt and Trinity Counties, on the east by Lake, Glenn, and Tehama Counties, on the south by Sonoma County, and on the west by the Pacific Ocean.



One of California's original 27 counties created in 1850, Mendocino County has four incorporated cities: Fort Bragg, Point Arena, Ukiah, and Willits. The county seat, Ukiah, was created February 18, 1850.

Mendocino County's local assessment roll value ranks 36th among the 58 California counties for the 2014-2015 assessment year.⁵

During the period reviewed, the Governor had proclaimed disasters due to drought in all 58 counties in January 2014.⁶ In Mendocino County and other counties, the Governor proclaimed disasters due to rainstorms and a tsunami in March 2011, and due to winter storms in December 2014. As a result, those governor-proclaimed disasters that caused physical damage in Mendocino County may have rendered assessed properties eligible for property tax relief.

⁵ From the BOE Annual Report, Table 7, Assessed Value of County-Assessed Property Subject to General Property Taxes, inclusive of the Homeowners' Exemption, by Class of Property and by County, sorting the net total assessed value from highest to lowest.

⁶ From the *Chronological List of Governor-Proclaimed Disasters for Property Tax Purposes*, available on BOE's website at www.boe.ca.gov/proptaxes/pdf/Disasterlist.pdf.

FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the Mendocino 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:	Report complete statistics as requested by the BOE pursuant to section 407.	8
RECOMMENDATION 2:	Request that the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170.	9
RECOMMENDATION 3:	Properly notify claimants when the welfare exemption is partially denied due to late filing.	10
RECOMMENDATION 4:	Improve the new construction program by: (1) obtaining copies of permits from the Mendocino County Health and Human Services Agency, Environmental Health Division; (2) properly identifying property attributes for estimating the full cash value of real property; (3) classifying wells as land pursuant to Rule 124; and (4) enrolling all assessable new construction.	11
RECOMMENDATION 5:	Issue all supplemental assessments according to statutory guidelines.	13
RECOMMENDATION 6:	Revise CLCA assessment procedures by: (1) annually calculating restricted values for CLCA properties as required by section 423; and (2) applying the valuation method prescribed by section 423.3 in accordance with the ordinance passed by the board of supervisors.....	14
RECOMMENDATION 7:	Improve the taxable possessory interests assessment program by: (1) obtaining copies of leases for all taxable possessory interests; and (2) consistently deducting allowable expenses from gross income when valuing taxable possessory interests.	16

RECOMMENDATION 8: Improve the mineral property assessment program by: (1) identifying and enrolling all mineral properties in the county; (2) establishing base year value for mineral rights using proved reserves as specified in Rule 469; and (3) collecting production data to deplete the base year value of property each year in accordance with Rule 469.17

RECOMMENDATION 9: Develop and implement written procedures to improve the audit program and monitor the program to ensure compliance with sections 469, 531.9, and 534, and Rule 305.3.19

RECOMMENDATION 10: Apply the proper inflation factor as required by section 51.23

RECOMMENDATION 11: Assess manufactured homes at the lesser of the full cash value or the factored base year value.24

RECOMMENDATION 12: Properly reassess the ownership interest in resident-owned mobilehome parks upon a change in ownership.24

RECOMMENDATION 13: Improve the aircraft assessment program by: (1) applying adjustments to the average retail price in the manner outlined in AH 577; and (2) using the correct sales tax rate for the assessment year.25

RECOMMENDATION 14: Apply a 10 percent penalty for failing to file a *Vessel Property Statement*.26

RECOMMENDATION 15: Assess all low-value vessels unless the board of supervisors authorizes a low-value property exemption.27

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.⁷

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

RECOMMENDATION 1: Report complete statistics as requested by the BOE pursuant to section 407.

During the survey, the assessor explained that the outdated computer program does not allow for them to provide certain requested statistics.

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 accurate and complete statistics to the BOE, the assessor may be incorrectly estimating their own statistics, which may keep her from making accurate decisions in regards to staff, workload, and the budget needed to complete the roll in a timely and efficient manner. The assessor may also be unable to give stakeholders a complete and accurate picture of the functioning of the office.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The relief is available to any assessee whose property suffers damage of \$10,000 or more.⁸

We found disaster relief applications are date-stamped to verify timely filing. Administrative staff takes care of the spreadsheet tracking, data entry, and the sending of notices, applications, and letters. After a disaster relief application is received by administrative staff, it is given to the appraiser who works the specific area in which the property is located. Each appraiser does the

⁷ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Workload*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/workload_general.pdf.

⁸ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Disaster Relief*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/disaster_general.pdf.

valuation part of the disaster relief claim process and then it is returned to administrative staff for data entry and the sending of a notice to the taxpayers informing them of the proposed reassessment. The notice states the amount of the proposed reassessment and advises that the assessee may appeal the reassessment within six months of the mailing of the notice. This is consistent with the requirements of section 170(c).

We found an area in need of improvement.

RECOMMENDATION 2: Request that the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170.

The Mendocino County Board of Supervisors adopted the current disaster relief Ordinance No. 2098 in 1978. However, this ordinance contains limitations and filing dates that do not accurately reflect multiple provisions in section 170.

Section 170 has been amended extensively since 1978. Ordinance No. 2098 provides that the property must have lost at least \$5,000 of its full cash value because of a misfortune or calamity; section 170(b) requires that the property must have lost \$10,000 or more of its full cash value. Ordinance No. 2098 provides that the property owner may apply for reassessment of such property within 60 days of the misfortune or calamity, and that the property owner shall file the completed application within 30 days of having received an application for reassessment by the assessor; section 170(a) provides a filing period of the time specified in the ordinance or within 12 months of the misfortune or calamity, whichever is later. The filing period does not begin with the date the assessor sends an application to the taxpayer. Ordinance No. 2098 also states that the applicant may appeal the proposed reassessment to the local board of equalization within 14 days of the date of mailing the notice; section 170(c) states that the applicant may appeal the proposed reassessment within six months of the date of mailing the notice.

Since the board of supervisors has not revised the ordinance since 1978, it is not in conformity with subsequent legislative changes made to section 170. Without the appropriate revisions to Ordinance No. 2098, the assessor's administration of the disaster relief program will continue to be in conflict with the authority granted by the board of supervisors.

Exemptions

Article XIII, section 1 of the California Constitution sets forth the general principle that all property is taxable unless otherwise provided. Section 3 of article XIII authorizes exemption of certain types of property from property taxation and section 4 authorizes the Legislature to exempt certain other types of property from property taxation.⁹

Our review of the assessor's exemptions program only involved welfare exemptions.

We reviewed a variety of welfare exemption claims, including fully exempt claims, late filings, hospital filings, first-time filings, annual filings, and the different type of forms used. We also

⁹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Exemptions*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/exemptions_general.pdf.

inspected claims for low-income housing property, including properties owned by a limited partnership holding a Supplemental Clearance Certificate. Files reviewed indicated that submission of all the proper documentation by the claimant was required prior to granting the exemption.

The welfare exemption program in the county is properly administered and staff has a good understanding of the exemption. However, we found one area where the assessor did not properly notify taxpayers of their rights when the exemption claim was partially denied due to late filing.

RECOMMENDATION 3: Properly notify claimants when the welfare exemption is partially denied due to late filing.

During our review, we noted the assessor does not provide a written notice to claimants when the exemption is partially denied due to late filing.

Section 254.5(c)(2) provides that the assessor must notify claimants in writing when it is determined that the claimant's property is ineligible for the welfare exemption. Further, Letter To Assessors No. 2014/058 states when the assessor denies the welfare exemption for any portion of the property or if the reason is due to late filing, the assessor must notify the claimant in writing of the finding. The notice should be dated and identify the reason for the denial, or partial denial, and the fiscal year to which it pertains. In addition, it should contain the required language stating that the claimant may seek a refund of property taxes paid by filing a claim for refund with the county board of supervisors, and that if the claim for refund is denied, the claimant may file a refund action in superior court.

By not notifying the claimants that their property is only partially exempt, the assessor is not providing the proper notification to the claimant as required by statute.

ASSESSMENT OF REAL PROPERTY

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.¹⁰

We reviewed a number of the assessor's records with new construction activity and found most assessment records were adequately documented and new construction appropriately valued. Supplemental assessments were created and issued based on the date of completion for the new construction activity. However, we found several areas where improvement is needed.

RECOMMENDATION 4: Improve the new construction program by: (1) obtaining copies of permits from the Mendocino County Health and Human Services Agency, Environmental Health Division; (2) properly identifying property attributes for estimating the full cash value of real property; (3) classifying wells as land pursuant to Rule 124; and (4) enrolling all assessable new construction.

Obtain copies of permits from the Mendocino County Health and Human Services Agency, Environmental Health Division.

The assessor does not solicit or receive permits from the Environmental Health Division, which issues permits for underground storage tanks, water wells, and septic systems. Section 72 requires county or city agencies to furnish copies of building permits to the assessor. To ensure the assessor discovers all qualifying new construction, a copy of every approved building permit must be received. Well and septic system permits can indicate further development and assist the assessor in discovering additional new construction that might otherwise go undetected. By not obtaining these permits, the assessor may be missing potential new construction, resulting in escaped assessments.

Properly identify property attributes for estimating the full cash value of real property.

We found that the chief appraiser discards permit information for active solar energy systems rather than making a copy of the permit and including it in the property file or noting it in the

¹⁰ For a detailed description of the scope of our review of this topic, please refer to the document entitled *New Construction*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/newconstruction_general.pdf.

assessment system. While the assessor says an active solar energy system that was excluded from new construction assessment is picked up when the appraiser does a site inspection for reassessment due to a change in ownership, the system may not be picked up when a property is reviewed for a potential decline in value.

Section 75.10 provides that the assessor must appraise new construction at its full cash value as of the date of completion. However, under section 70(c) and sections 73 through 74.7, certain types of construction may be temporarily excluded from assessment as new construction. Even though certain additions to existing buildings, such as some solar energy systems, may be excluded from the definition of "new construction," such exclusions do not extend through a subsequent reassessment prompted by a change in ownership of the real property or when estimating a current fair market value for decline in value purposes.

Thus, it is critical that the assessor's property records be current and well documented. Further, proper identification of the subject property is crucial for the appraisal process as well as for selection of comparable properties that have recently sold in the application of the comparative sales approach to value.

Classify wells as land pursuant to Rule 124.

It is the assessor's policy to classify wells as improvements. Rule 124 provides that wells are land. By not attributing any value to the land for value added by the new construction of water wells, the assessor is underassessing the land and overassessing the improvements. This may also result in incorrect special assessments.

Enroll all assessable new construction.

We found the assessor is incorrectly exempting completed new construction with a value below \$1,000.

The minute order passed by the board of supervisors to enact the provisions of section 155.20 states "in accordance with the request of the Treasurer-Tax Collector, those properties with full value of \$1,000 or less are exempt from property taxes for the fiscal year 1992-93 and for succeeding years because the cost of collecting them exceeds the amount of tax which would be collected." At first glance, the minute order appears to be consistent with the statutory provisions of section 155.20. However, section 155.20(e)(1) provides that a county board of supervisors does not have the authority to exempt new construction from property taxation, unless the new total base year value of the property, including the new construction, is \$10,000 or less. Therefore, low-value new construction should be valued and enrolled when the total base year value, including the new construction, is more than \$1,000.

The assessor's practice of not enrolling completed new construction with a value less than \$1,000 is contrary to section 155.20 and may result in lost tax revenue.

Supplemental Assessments

Sections 75 through 75.80 mandate that the assessor enroll supplemental assessments for changes in ownership and the completion of new construction. A supplemental assessment is an

assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completion of new construction occurs between January 1 and May 31, then two supplemental assessments will result from the same event: one for the remainder of the current fiscal year, and another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.¹¹

We reviewed a number of parcels subject to supplemental assessments and noted that the assessment prorations, tax bill amounts, time periods, and ownership tracking were done appropriately. However, we did find an area where improvement is needed.

RECOMMENDATION 5: Issue all supplemental assessments according to statutory guidelines.

We found the assessor does not properly issue supplemental assessments on business fixtures, tenant improvements, taxable possessory interests, and manufactured homes. When business fixtures or tenant improvements are discovered, they are enrolled on the lien date following the date of the reported change in ownership or new construction. Change in ownership and completed new construction for taxable possessory interests are entered on the roll as of the event date, but no supplemental assessment is enrolled. In addition, upon a change in ownership for a manufactured home, we found the assessor does not consistently issue supplemental assessments.

Sections 75 through 75.80 cover the Legislature's intent to promote increased equity among taxpayers by enrolling and making adjustments to assessments resulting from changes in assessed value due to changes in ownership and completion of new construction at the time they occur by directing the assessor to enroll supplemental assessments as of the event dates. Various sections address the issuance of supplemental assessments for fixtures (sections 75.5 and 75.15), tenant improvements (section 75.11), taxable possessory interests (sections 75.5 and 75.11), and manufactured homes (sections 75.5 and 75.11).

The assessor's practice is contrary to statute. By not properly issuing supplemental assessments, the assessor is not treating taxpayers equally and may be causing a loss in revenue.

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 CLCA 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

¹¹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Supplemental Assessments*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/suppassessments_general.pdf.

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.¹²

Mendocino County has approximately 464,873 acres of land restricted under the Williamson Act. There are 662 contracts in active status while 71 contracts are in different stages of nonrenewal. The total assessed value of land and improvements under Williamson Act contract is \$486,320,854.

The bulk of the agricultural production and revenue in Mendocino County is from wine grapes. The county reported over \$222.6 million in gross production value for all agricultural commodities in 2013, which was a slight increase over the 2012 production value. Timber was the second highest producer, ranking Mendocino County fifth in the state, and reflecting roughly 7 percent of the state's total timber production. Pear production was also instrumental in the increase of agricultural commodity production in 2013.

We reviewed several CLCA properties and found the assessor's procedures comply with most applicable statutes. However, we did find areas that are out of compliance.

RECOMMENDATION 6: Revise CLCA assessment procedures by: (1) annually calculating restricted values for CLCA properties as required by section 423; and (2) applying the valuation method prescribed by section 423.3 in accordance with the ordinance passed by the board of supervisors.

Annually calculate restricted values for CLCA properties as required by section 423.

Although the team of appraisers responsible for the valuation of agricultural land is working on a system to efficiently revalue all CLCA property on an annual basis, the current practice falls short of this goal. We found several instances where the assessor did not annually determine a new CLCA restricted value for the property. Instead, the prior year's roll value was carried over and enrolled.

The basic appraisal method applicable to the valuation of open-space land subject to an enforceable restriction is the statutorily prescribed income approach in section 423. Subdivisions (a), (b), and (c) of section 423 prescribe the method of valuation. Section 423(d) provides that the taxable value on the lien date may not exceed the lowest of: (1) the current restricted value (determined via the prescribed income method for open-space properties), (2) the current fair market value calculated pursuant to section 110, or (3) the factored base year value, as if unrestricted, calculated pursuant to section 110.1.

By not annually calculating the restricted value for the restricted portion of CLCA properties, the assessor cannot make the three-way comparison that is necessary to correctly assess such property pursuant to section 423. This practice may lead to incorrect assessments of CLCA properties.

¹² For a detailed description of the scope of our review of this topic, please refer to the document entitled *California Land Conservation Act (CLCA) Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/clca_general.pdf.

Apply the valuation method prescribed by section 423.3 in accordance with the ordinance passed by the board of supervisors.

We found that although the board of supervisors has adopted an ordinance allowing consideration of values pursuant to section 423.3, the assessor does not calculate and consider this value when reconciling to taxable values for CLCA properties.

Section 423.3 provides that the taxable value of a CLCA property shall not exceed a specified percentage of the property's factored base year value. The specified percentage depends on the quality of the land being used for agricultural production as provided in the statute.

Not determining values under section 423.3, and therefore not considering such values when reconciling to taxable values for CLCA properties, may result in overassessments.

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.¹³

The assessor enrolled 450 taxable possessory interests on the 2014-15 assessment roll totaling \$9,993,778. These possessory interests are located on property owned by 20 public agencies.

The majority of taxable possessory interests in Mendocino County are private interests at airports, docks or marinas, and fairgrounds. Other types of taxable possessory interests in the county include cable television franchises, cabins on US Forest Service lands, grazing interests, and other private uses of various public and governmental agency owned properties across the county. The assessor enrolls taxable possessory interests on the unsecured roll. The assessor's computer inquiry screen identifies taxable possessory interests by a specific assessment number.

We reviewed a number of taxable possessory interest records. The stated term of possession is typically used as the reasonably anticipated term of possession. For taxable possessory interests lacking a stated term of possession, the assessor estimates a reasonably anticipated term of possession based on the history and relationship between the public agency and the tenant. In addition, we found the assessor has been improving the taxable possessory interests program by considering expenses for some taxable possessory interests in Mendocino County as they are being revalued for a change in ownership or reviewed for other reasons. We did, however, find areas where additional updating or improvements are needed.

¹³ 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.

RECOMMENDATION 7: Improve the taxable possessory interests assessment program by: (1) obtaining copies of leases for all taxable possessory interests; and (2) consistently deducting allowable expenses from gross income when valuing taxable possessory interests.

Obtain copies of leases for all taxable possessory interests.

We discovered taxable possessory interest files that do not include copies of current leases. In lieu of the leases, the assessor primarily relies on historical information, information obtained from the applicable public agency, and information received from the various individual taxable possessory interest assesseees.

Rule 21 describes the various approaches to value and how to determine the term of possession for the valuation of taxable possessory interests. Rule 21(d)(1) explains that the stated term of possession is deemed to be the reasonably anticipated term of possession except in certain situations. Rule 21(e)(3)(C) explains how to determine the net operating income for capitalization purposes.

These steps in the valuation process cannot be completed if the contract conveying the taxable possessory interest is not reviewed. For example, the assessor may have information relating to the initial lease term, but may not know of any renewal options contained in the lease or the allocation of operating expenses between the public owner and possessor. In addition, the assessor will not know whether the term of possession is stated in the lease, or if the term of possession is month to month. Further, without the lease, the assessor may not correctly determine the ownership of improvements, if any, constructed by the tenant on public land.

A review of the lease is necessary in order to determine the proper valuation variables. By not obtaining copies of current leases, the assessor may lack the proper information to accurately value taxable possessory interests.

Consistently deduct allowable expenses from gross income when valuing taxable possessory interests.

We found in a number of cases where, when valuing taxable possessory interests by the income approach, the assessor capitalized the gross economic rent without making any deductions for management and other operating expenses incurred by the public lessor.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent. Rule 21(e)(3)(c) provides that the income to be capitalized in the valuation of a taxable possessory interest is the "net return" (as defined in subsection (c) of Rule 8) attributable to the taxable possessory interest.

A public owner will incur at least some management expense with each taxable possessory interest. Some lease agreements may require the public owner to pay for insurance, maintenance, or utilities. By not recognizing these allowable expenses and subtracting them from the gross

income to be capitalized, the assessor may be overstating the value of these taxable possessory interests.

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.¹⁴

There are over 20 mining properties located in Mendocino County. Most of these have not been identified as such on the assessor's tax roll. As part of the survey process, the BOE collected data from the Mendocino County Planning Department of mining properties registered under the Surface Mining And Reclamation Act (SMARA). The data collected shows that there is significantly more sand and gravel production in the county than what is indicated by data in the assessor's files.

Significant changes need to be made to the assessor's mineral appraisal program to comply with Rule 469.

RECOMMENDATION 8: Improve the mineral property assessment program by:
(1) identifying and enrolling all mineral properties in the county; (2) establishing base year value for mineral rights using proved reserves as specified in Rule 469; and
(3) collecting production data to deplete the base year value of property each year in accordance with Rule 469.

Identify and enroll all mineral properties in the county.

The assessor has failed to identify certain mineral properties and thus the mineral rights values have either escaped assessment or if a sale price included a component for the mineral rights, it has not been properly adjusted to account for depletion of the mineral interest. The assessor is required to identify and enroll all real property in the county. Minerals are defined as real property under section 104(b). Failure to identify and assess property understates the total tax roll for a county.

Establish base year values for mineral rights using proved reserves as specified by Rule 469.

Recent mineral property sales have been identified in the county. However, the sale price was enrolled as the base year value with no determination of an allocated mineral rights value. Subsequent lien date values reflect only the indexed base year value of the sale. No adjustments for depletion have been made to the base year value as required by Rule 469(e)(2)(A)(4). Failure

¹⁴ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Mineral Property*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mineralprop_general.pdf.

to adjust the base year value of mineral properties to account for depletion can result in overassessment of the property.

Collect production data to deplete the base year value of property each year in accordance with Rule 469.

Annual statements should be sent to all mineral property owners to aid in the assessment of the property. At some time in the past, the assessor stopped collecting this data. The county planning department only collects production information from the property owner. To conduct an appraisal of the property, additional information needs to be collected by the assessor. Annual reports are to be filed by all mineral property owners on forms 560-A, 560-B, or 560-C. The BOE has reviewed each form and identified information needed by the assessor to conduct an appraisal of the property. Information requested includes data on sales revenue and operating costs. Each year the assessor should conduct a review of the property value depleting the adjusted base year mineral rights value to account for production in the past year as well as other changes to reserves.

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.¹⁵

Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letters To Assessors No. 2009/049, the statute requires the assessor to conduct 22 audits per year.

We found areas in the audit program where improvements are needed.

RECOMMENDATION 9: Develop and implement written procedures to improve the audit program and monitor the program to ensure compliance with sections 469, 531.9, and 534, and Rule 305.3.

The assessor does not have written procedures in place to manage the audit program and to assist staff with conducting the audit function. An effective audit program verifies the reporting of a significant number of business property accounts, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Without clearly defined written procedures, uniformity and consistency in performing audits is difficult to achieve. Assessors' Handbook Section 506, *Property Tax Audits and Audit Program* (AH 506) offers guidance on each of the following procedures and practices.

- Conduct the minimum number of audits of professions, trades, and businesses pursuant to section 469.

We found the assessor only completed 14 of the required audits for roll year 2011-12 and 21 of the required audits for roll year 2013-14.

Section 469(a) provides 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.

¹⁵ 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.

- Use a comprehensive audit checklist as a standard component of all audits.

During our review of audit records, we found instances where we could not determine the scope of the assessor's audit investigations because the records did not include 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 an outline of the areas investigated during the course of the audit. Furthermore, it serves as a useful research tool when preparing for subsequent audits of the same entity. Most important, without a comprehensive audit checklist, it is difficult for a reviewer to know what topics were covered during the course of the audit and whether the findings are sufficiently supported.

- Document when a situs inspection is performed as part of a standard component of the audit process.

During our review, we frequently found we could not determine if a situs inspection had been performed by the auditor.

A situs inspection is an essential component of any audit. It should be a standard procedure, especially for audits involving large commercial and industrial operations, or in situations involving excess capacity, functional obsolescence, idle plants, and other unusual circumstances. A physical inspection can be a pivotal step in reaching an informed value conclusion. The auditor-appraiser risks missing assets that have dropped from the books and may not gain a full appreciation of the overall condition of the taxable property without a physical inspection of the property.

While it may be the assessor's policy to perform a situs inspection as part of the audit process, it is not always clearly noted in the file that a situs inspection was performed. By not documenting the situs inspection on the audit checklist, or notating a valid reason as to why a situs inspection was not performed, it is unclear whether a situs inspection was included as part of the audit process; this could compromise the perceived accuracy and quality of the audit.

- Submit completed audits to an appropriate reviewer.

During our review of audit samples, we found audits completed by the senior auditor-appraiser are not submitted to the assessor for review.

Reviews of completed audits are conducted to ensure technical and legal correctness. Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, states the audit report, audit findings, and all working papers are reviewed to ensure that proper audit procedures have been performed and the findings are supported by evidence and substantiating documents. A review is a fundamental component of the audit process; without an appropriate review, it can be difficult to determine if proper audit procedures were followed and if findings are sufficiently supported.

- Inform taxpayers of audit results.

In a multiple-year audit, there are often underassessments resulting in tax liabilities and overassessments resulting in tax refunds. During our review of audit records, we found the assessor does not inform the taxpayer when the audit resulted in a net overassessment for one particular year within an audit period. We also found that the assessor's current practice is to make no assessment roll changes when the net differences are under \$1,000.

According to section 469(c)(4), if an audit for any particular tax year discloses that the property was incorrectly valued or misclassified for any cause, to the extent that this error caused the property to be assessed at a higher value than the assessor would have entered on the roll had the incorrect valuation or misclassification not occurred, then the assessor shall notify the taxpayer of the amount of the excess valuation or misclassification.

The assessor's practice is contrary to section 469(c)(4). When taxpayers are not informed of their audit results, specifically regarding an overassessment, they have no knowledge that they may be entitled to a refund.

- Enroll all escape assessments discovered during an audit.

We found the assessor does not enroll low-value escape assessments found during an audit when the audit resulted in a net escape for one particular year within an audit period. We found it is the assessor's policy not to enroll net escape assessments of \$1,000 or less, even though the assessor does not have an ordinance in place giving her this authority.

Section 531.9 permits a county board of supervisors to adopt an ordinance to prohibit an assessor from making escape assessments where the amount of taxes due is less than the cost of assessing and collecting them. The ordinance will not apply to an escape assessment if the amount of taxes due exceeds \$50. Mendocino County currently has no such ordinance. While the assessor's practice may be expedient, the assessor does not have the authority to exempt low-value escaped property discovered by audit.

- Send a *Notice of Enrollment of Escape Assessment* as required by section 534.

The assessor does not properly notify taxpayers of the enrollment of an escape assessment. A county-developed letter is sent to inform taxpayers of proposed changes. However, once enrolled, a *Notice of Enrollment of Escape Assessment* is not sent; instead, a tax statement is provided to the taxpayers.

Before an escape assessment can be enrolled, taxpayers must first receive a *Notice of Proposed Escape Assessment*. According to section 531.8, no escape assessment shall be enrolled before ten days after the assessor has mailed or otherwise delivered to the affected taxpayer a *Notice of Proposed Escape Assessment*. Once the minimum ten-day delay period prior to enrollment of the escape assessment has passed, the assessor may enroll the escape assessment. Moreover, section 534 states that no assessment shall be effective until the assessee has been notified of the escape assessment personally or by mail.

Section 534(c) states that a *Notice of Enrollment of Escape Assessment* must include the following information: (1) the date of mailing, (2) information regarding the assessee's right to an informal review and the right to appeal the assessment, and (3) that the assessment appeal must be filed within 60 days of the date of mailing printed on the notice or the postmark date, whichever is later. Furthermore, section 534(d)(2) expressly provides that the *Notice of Proposed Escape Assessment* required by section 531.8 does not satisfy the *Notice of Enrollment of Escaped Assessment* requirements of section 534.

Section 534(c)(3) provides that receipt of a tax bill by an assessee shall suffice as notice under section 534 only for those counties in which the board of supervisors has adopted a resolution in accordance with the provisions of section 1605(c). Mendocino County currently has not adopted such a resolution. To assist in meeting the requirements of section 534, the BOE provides a *Notice of Enrollment of Escape Assessment* (BOE-66-A and BOE-66-B) for use by assessors.

The assessor's practice of not sending a *Notice of Enrollment of Escape Assessment* as required by section 534 fails to inform taxpayers of the right to an informal review of the escape assessment and the right to file an appeal contesting the escape assessment.

- Inform taxpayers of their right to appeal the results of an audit.

We found the assessor does not inform taxpayers of their right to appeal if the audit discloses property subject to an escape assessment for any year of the audit as required by Rule 305.3.

Rule 305.3 provides that if the result of an audit discloses property subject to an escape assessment for any year covered by the audit, 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 has previously been equalized for the year in question. In addition, Rule 305.3(d)(2) provides that the taxpayer must be informed of their appeal rights, regardless of whether or not an escape is actually enrolled, if the audit discloses property subject to an escape assessment. When taxpayers are not advised of their appeal rights in relation to an audit finding, they have no knowledge of their entitlement to equalization on the entire property for the year of such escape.

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 valuation factor.¹⁶

We reviewed the assessor's factor tables and found the Board-recommended cost index and depreciation tables to be correctly compiled. In addition, we tested a sampling of the assessor's

¹⁶ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Business Equipment Valuation*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/businessequipval_general.pdf.

value calculations for mobile agricultural and construction equipment and found the appropriate tables were applied in the prescribed manner. However, we found one area in need of improvement.

RECOMMENDATION 10: Apply the proper inflation factor as required by section 51.

We found the assessor does not use the correct inflation factor when determining the factored base year value of structural improvements enrolled on the unsecured roll. The assessor uses a factor that only goes to one-hundredth of 1 percent, rather than one that goes to the one-thousandth of 1 percent. The assessor's explanation is that the assessment system allows for no more than four digits to the right of the decimal point.

Section 51(a)(1) provides that the taxable value of real property shall be its base year value, compounded annually since the base year by an inflation factor. Section 51(a)(1)(C) provides the inflation factor shall be the percentage change, rounded to the nearest one-thousandth of 1 percent, from October of the prior fiscal year to October of the current fiscal year in the California Consumer Price Index for all items, as determined by the California Department of Industrial Relations. Annually, the BOE performs these calculations and distributes the inflation factor to all assessors via a Letter To Assessors.

By applying an incorrectly rounded inflation factor, the assessor is enrolling incorrect assessments and is not following statutory guidelines.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code section 18007, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.¹⁷

In Mendocino County, there are 1,062 manufactured homes in 70 mobilehome parks, including two resident-owned mobilehome parks. The 2014-15 assessment roll values of these homes total approximately \$43,500,000.

We reviewed several manufactured home assessments, including transfers, supplemental assessments, accessories, and assessments related to manufactured homes on permanent foundations. The assessor correctly values manufactured homes using a recognized value guide. However, we found an area in need of improvement.

¹⁷ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Manufactured Homes*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/mhomes_general.pdf.

RECOMMENDATION 11: Assess manufactured homes at the lesser of the full cash value or the factored base year value.

We found the assessor does not enroll either the factored base year value or the full cash value. Instead, the assessor enrolls the current market value of the manufactured home upon a change in ownership where it remains static. For subsequent assessment rolls, assessed values are not reviewed or factored forward.

Section 5813 provides that the taxable value of a manufactured home shall be the lesser of its factored base year value or its full cash value as of the lien date, considering reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value. Periodic review of manufactured homes ensures declines in value are recognized and properties are properly valued. Manufactured homes typically decline in value each year. Although the assessor is not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of manufactured homes to ensure declines in value of manufactured homes are recognized accurately and consistently.

The assessor's practice of not enrolling the lesser of the full cash value or the factored base year value may have resulted in incorrect assessments for the manufactured homes situated in mobilehome parks in the county.

Resident-Owned Mobilehome Park

There are currently two resident-owned mobilehome parks (ROP) in Mendocino County. We reviewed several ROP assessments and found an area in need of improvement.

RECOMMENDATION 12: Properly reassess the ownership interest in resident-owned mobilehome parks upon a change in ownership.

Upon the sale of a manufactured home in a ROP, the assessor properly reassesses the manufactured home and accessories. However, the assessor does not consistently reassess the interest in the park, if any, that transferred with the sale of the manufactured home. In addition, we found that when the assessor does reassess the interest in the park, the assessor does not subtract the value attributed to the pro rata portion that changed ownership from the factored base year value of the park.

Once a transfer of a mobilehome park has been excluded from a change in ownership pursuant to one of the provisions of section 62.1, subsequent transfers of individual ownership interests are not excluded from change in ownership and are subject to reappraisal. Section 62.1(b)(1) provides that the transfer of an ownership interest in the entity that acquired the park is a change in ownership of "a pro rata portion of the real property of the park." Section 62.1(b)(2) defines "pro rata portion of the real property" as the total real property of the park multiplied by the fractional interest in the park that is conveyed by the transferred share of stock or other ownership interest.

By not subtracting the value attributed to the pro rata portion that changed ownership from the factored base year value of the park, the assessor is not in compliance with statute, resulting in a double assessment for the interests in the park that have changed ownership.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business, but that are not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards.¹⁸

We reviewed several general aircraft records for valuation methodology and the application of failure to file penalties pursuant to section 5367. We found that the assessor's steps in valuing aircraft do not conform to Assessors' Handbook Section 577, *Assessment of General Aircraft* (AH 577), and that the assessor has applied the wrong sales tax for assessment years 2013 and 2014.

RECOMMENDATION 13: Improve the aircraft assessment program by: (1) applying adjustments to the average retail price in the manner outlined in AH 577; and (2) using the correct sales tax rate for the assessment year.

Apply adjustments to the average retail price in the manner outlined in AH 577.

We found that, to accommodate value adjustments for sales tax and the Board-prescribed average condition adjustment, the assessor has combined the two adjustments creating a net percentage adjustment to apply to the *Bluebook* value. Then other adjustments are made to that adjusted value.

The AH 577 provides valuation guidelines for the use of the *Bluebook* value guide in the comparative sales approach. The assessor should first adjust the indicated *Bluebook* value by 10 percent to reflect an overall average condition, and subsequently adjust the value to reflect additional condition adjustments and adjustments for engine hours, airframe time, and avionics. The addition of sales tax should be the last step in this process, and the appropriate sales tax rate should be applied to the final adjusted value.

In conclusion, the assessor's general aircraft valuation methodology produces values that are inconsistent with values otherwise derived by following the guidelines prescribed in AH 577.

¹⁸ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Aircraft*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/aircraft_general.pdf.

Use the correct sales tax for the assessment year.

The assessor did not use the correct sales tax rate when assessing aircraft for assessment years 2013 and 2014. The sales tax rate for both 2013 and 2014 was 8.125 percent, but the assessor used a lesser rate of 7.75 percent.

Rule 10(b) and Letter To Assessors No. 97/03 provide that, for assessment purposes, cost is the full economic cost. Full economic cost includes all market costs, both direct and indirect, including sales or use tax. This principle has been confirmed in the courts. Where price is the basis of value, sales/use tax, freight, and installation costs are elements of that value and should be included in the estimate of market value.

The assessor's practice understates the market value of general aircraft, which in turn can lead to a potential loss of tax revenue.

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.¹⁹

The assessor mails the county-developed questionnaire, *Vessel Owner's Report*, to the registered owners of all vessels newly enrolled in the county, as well as for those subject to a change in ownership. In addition, the assessor annually sends a *Notice of Vessel Assessment* requesting any change in mailing address, situs, or ownership. Further, BOE-576-D, *Vessel Property Statement*, is used to annually solicit information from registered vessel owners for commercial vessels and for vessels with an aggregate cost of \$100,000 or more. We found that some owners of vessels having an aggregate cost of \$100,000 or more do not file an annual vessel property statement and no penalty is assessed.

RECOMMENDATION 14: Apply a 10 percent penalty for failing to file a *Vessel Property Statement*.

In Mendocino County, there are four vessels with a cost of \$100,000 or more. We found that when a vessel owner fails to file form BOE-576-D, the assessor does not apply the statutorily mandated 10 percent penalty.

Section 441(a) provides that each person owning taxable personal property, other than a manufactured home, having an aggregate cost of \$100,000 or more for any assessment year shall file a signed property statement with the assessor. Additionally, section 463 specifically requires the assessor to add a 10 percent penalty to the assessed value when a taxpayer fails to file a property statement or files that statement after the statutory deadline.

¹⁹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Vessels*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/vessels_general.pdf.

The assessor's practice is contrary to statutes. The application of the penalty, when prescribed, encourages a taxpayer's compliance with the obligation to file a property statement pursuant to section 441.

Valuation

We reviewed several vessel assessments and found the assessor correctly adds a sales tax component of value, makes adjustments for vessel condition, motor and motor condition, accessories, deducts for trailers when appropriate, and properly applies the BOE annual vessel valuation factors. However, we found the assessor improperly exempts vessels with a value of less than \$1,000.

RECOMMENDATION 15: Assess all low-value vessels unless the board of supervisors authorizes a low-value property exemption.

We found the assessor does not enroll vessels with a value of less than \$1,000 without an ordinance in place authorizing this practice. 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 cash value so low that, if not exempt, the total amount collected in taxes, would amount to less than the cost of assessing and collecting them. In addition, section 228 exempts vessels with a market value of \$400 or less. The assessor's practice improperly exempts the assessment of vessels with values from \$401 to \$1,000 without authority.

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2014-15 assessment roll:²⁰

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$4,493,387,677
	Improvements	\$5,467,140,702
	Fixtures	\$1,862,121
	Personal Property	\$241,352,636
	Total Secured	\$10,203,743,136
Unsecured Roll	Land	\$8,292,233
	Improvements	\$57,330,293
	Fixtures	\$1,896,884
	Personal Property	\$299,368,454
	Total Unsecured	\$366,887,864
Exemptions²¹		(\$338,583,918)
	Total Assessment Roll	\$10,232,047,082

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:²²

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2014-15	\$10,232,047,000	1.7%	6.2%
2013-14	\$10,058,241,000	1.5%	4.3%
2012-13	\$9,907,837,000	-0.7%	1.4%
2011-12	\$9,978,836,000	-0.6%	0.1%
2010-11	\$10,036,313,000	-1.1%	-1.9%

²⁰ Statistics provided by BOE-822, *Report of Assessed Values by City*, Mendocino County.

²¹ The value of the Homeowners' Exemption is excluded from the exemptions total.

²² Roll Values and Statewide changes are from the California State Board of Equalization Annual Reports, Table 7.

Table 3: Gross Budget and Staffing

The assessor's budget has grown from \$1,486,952 in 2010-11 to \$1,606,608 in 2014-15.

At the time of this survey, Mendocino County total budgeted staff was 20 including the assessor. Staff includes 8 real property appraisers including a supervising appraiser, 3 business property auditor-appraisers, 1 mapping coordinator, 1 assessment information supervisor, and 6 support staff.

The following table shows the assessor's budget and staffing over recent years²³:

BUDGET YEAR			
2014-15	\$1,606,608	1.7%	20
2013-14	\$1,579,383	4.2%	19
2012-13	\$1,515,736	-0.9%	19
2011-12	\$1,529,104	2.8%	19
2010-11	\$1,486,952	N/A	19

Table 4: Assessment Appeals

The following table shows the assessment appeals filed in recent years:²⁴

YEAR	ASSESSMENT APPEALS FILED
2014-15	67
2013-14	71
2012-13	158
2011-12	93
2010-11	76

²³ Statistics provided by the assessor's office.

²⁴ Statistics provided by the assessor's office.

Table 5: Exemptions – Welfare

The following table shows welfare exemption data for recent years:²⁵

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2014-15	501	\$275,478,213
2013-14	499	\$237,161,875
2012-13	489	\$220,879,574
2011-12	466	\$211,365,599
2010-11	449	\$204,638,735

Table 6: Change in Ownership

The following table shows the total number of reappraisable transfers due to changes in ownership processed in recent years:²⁶

YEAR	
2014-15	2,319
2013-14	2,263
2012-13	2,358
2011-12	2,182
2010-11	2,204

²⁵ Statistics provided by BOE-802, *Report on Exemptions*.

²⁶ Statistics provided by the assessor's office.

Table 7: New Construction

The following table sets forth the number of new construction permits received in recent years:²⁷

YEAR	NUMBER OF PERMITS RECEIVED
2014-15	821
2013-14	810
2012-13	842
2011-12	836
2010-11	830

Table 8: Declines in Value

The following table sets forth the number of decline-in-value assessments in recent years:²⁸

YEAR	
2014-15	6,848
2013-14	N/A
2012-13	6,385
2011-12	N/A
2010-11	N/A

²⁷ Statistics provided by the assessor's office.

²⁸ Statistics provided by the assessor's office.

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Mendocino County

Chief

David Yeung

Survey Program Director:

Diane Yasui

Manager, Property Tax

Survey Team Supervisor:

Sally Boeck

Supervisor, Property Tax

Survey Team Leader:

Andrew Austin

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Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Teresa Nguyen

Business Taxes Specialist I

Gary Coates

Associate Property Appraiser

Lee Coleman

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Eric Santana

Assistant Property Appraiser

Paula Montez

Associate Property Auditor-Appraiser

Nancy Le

Assistant Property Auditor-Appraiser

Dany Lunetta

Associate Governmental Program Analyst

APPENDIX C: RELEVANT STATUTES AND REGULATIONS

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

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



SUSAN M. RANOCHAK
ASSESSOR
COUNTY CLERK-RECORDER
REGISTRAR OF VOTERS

COMMISSIONER OF
CIVIL MARRIAGES

COUNTY OF MENDOCINO

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January 30, 2017

David Yeung
Chief, County-Assessed Property Division
California State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0064

Dear Mr. Yeung:

Pursuant to section 15645 of the Government Code, enclosed please find my written response to the findings and recommendations contained in the January 2017 Mendocino County Assessment Practices Survey. Please include my response in your final report.

In my response you will find that we agree with all recommendations and have already implemented several of them. As time and staffing permits the remainder of the recommendations will be implemented.

I would like to thank your team for their professionalism while conducting this survey. We are appreciative of their recommendations as we continually work towards improving our assessment program.

Finally I would like to thank my staff for their professionalism. Every day they provide excellent customer service and are dedicated to providing fair and accurate assessments to the taxpayers of Mendocino County.

Sincerely,

Susan M. Ranochak
Assessor Clerk-Recorder

Enclosed: 3 Forms

RECOMMENDATION 1: Reporting complete statistics as requested by the BOE pursuant to section 407.

We concur and will complete as time and staffing permit.

RECOMMENDATION 2: Request that the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170.

We concur and will complete as time and staffing permit.

RECOMMENDATION 3: Properly notify claimants when the exemption is partially denied due to late filing.

We concur and will implement this recommendation for 2017.

RECOMMENDATION 4: Improve the new construction program by: (1) obtaining copies of permits from the Mendocino County Health and Human Services Agency, Environmental Health Division; (2) properly identifying property attributes for estimating the full cash value of real property; (3) classifying wells as land pursuant to Rule 124; and (4) enrolling the value of all completed new construction.

We concur and have implemented 2, 3 and 4. We are in the process of implementing 1.

RECOMMENDATION 5: Issue all supplemental assessments according to statutory guidelines.

We concur. Currently we are limited by the constraints of our current property system. We are in the process of implementing a new property system that will allow us to comply fully with this recommendation.

RECOMMENDATION 6: Revise CLCA assessment procedures by: (1) annually calculating restricted values CLCA properties as required by section 423; and (2) applying the valuation method prescribed by section 423.3 in accordance with the ordinance passed by the board of supervisors.

We concur and are in the process of implementing both sections of recommendation 6.

RECOMMENDATION 7: Improve the taxable possessory interest assessment program by: (1) obtaining copies of leases for all taxable possessory interests; and (2) consistently deduction allowable expenses from gross income when valuing taxable possessory interests.

We concur. (1) We make every effort to obtain copies of all leases for taxable possessory interests sometimes to no avail. (2) We have implemented this portion of recommendation 7.

RECOMMENDATION 8: Improve the mineral property assessment program by: (1) identifying and enrolling all mineral properties in the county; (2) establishing base year value for mineral rights using proved reserves as specified in Rule 469; and (3) collecting production data to deplete the base year value of property each year in accordance with Rule 469.

We concur and are in the process of implementing this recommendation.

RECOMMENDATION 9: Develop and implement written procedures to improve the audit program and monitor the program to insure compliance with sections 469, 531.9 and 534, and Rule 305.3.

We concur and are in the process of drafting written procedures for the audit program.

RECOMMENDATION 10: Apply the proper inflation factor as required by section 51.

We concur and have implemented this recommendation.

Recommendation 11: Assess manufactured homes at the lesser of the full cash value or the factored base year value.

We concur and are in the process of implementing this recommendation.

RECOMMENDATION 12: Properly reassess the ownership interest in resident-owned mobile home parks upon a change in ownership.

We concur and have implemented this recommendation.

RECOMMENDATION 13: Improve the aircraft assessment program by: (1) applying adjustments to the average retail price in the manner outline in AH 577; and (2) using the correct sales tax for the assessment year.

We concur and have implemented this recommendation.

RECOMMENDATION 14: Apply a 10 percent penalty for failing to file a Vessel Property Statement.

We concur and have implemented this recommendation.

RECOMMENDATION 15: Assess all low- value vessels unless the board of supervisors authorizes a low-value property exemption.

We concur and are in the process of implementing this recommendation.