

MODOC COUNTY ASSESSMENT PRACTICES SURVEY

MARCH 2008

CALIFORNIA STATE BOARD OF EQUALIZATION

BETTY T. YEE, SAN FRANCISCO

FIRST DISTRICT

BILL LEONARD, ONTARIO/SACRAMENTO

SECOND DISTRICT

MICHELLE STEEL, ROLLING HILLS ESTATES

THIRD DISTRICT

JUDY CHU, PH.D., LOS ANGELES

FOURTH DISTRICT

JOHN CHIANG

STATE CONTROLLER

RAMON J. HIRSIG, EXECUTIVE DIRECTOR





STATE BOARD OF EQUALIZATION
PROPERTY AND SPECIAL TAXES DEPARTMENT
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0062
916 324-5827 • FAX 916 323-5689
www.boe.ca.gov

BETTY T. YEE
First District, San Francisco

BILL LEONARD
Second District, Ontario/Sacramento

MICHELLE STEEL
Third District, Rolling Hills Estates

JUDY CHU, Ph.D.
Fourth District, Los Angeles

JOHN CHIANG
State Controller

March 26, 2008

TO COUNTY ASSESSORS:

MODOC COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2008/022

RAMON J. HIRSIG
Executive Director

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

The Honorable Cheryl Budmark, Modoc County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Modoc County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the Board's County Property Tax Division from July through August 2006. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Both the retiring assessor, the Honorable Josephine Johnson, and the current assessor, the Honorable Cheryl Budmark, and their staff, gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

TABLE OF CONTENTS

INTRODUCTION..... 1

SCOPE OF ASSESSMENT PRACTICES SURVEYS..... 2

EXECUTIVE SUMMARY 3

RESULTS OF 2003 SURVEY 5

OVERVIEW OF MODOC COUNTY 6

ADMINISTRATION 8

 BUDGET AND STAFFING 8

 STATE-COUNTY PROPERTY TAX ADMINISTRATION PROGRAM 8

 APPRAISER CERTIFICATION..... 9

 ASSESSMENT APPEALS..... 9

 DISASTER RELIEF..... 10

 ASSESSMENT ROLL CHANGES..... 11

 LOW-VALUE PROPERTY EXEMPTION 13

 EXEMPTIONS 13

 RACEHORSE ADMINISTRATIVE TAX..... 16

ASSESSMENT OF REAL PROPERTY..... 17

 CHANGE IN OWNERSHIP..... 17

 NEW CONSTRUCTION..... 20

 DECLINES IN VALUE 21

 CALIFORNIA LAND CONSERVATION ACT PROPERTIES 23

 TAXABLE GOVERNMENT-OWNED PROPERTIES 26

 TIMBERLAND PRODUCTION ZONE PROPERTIES 27

 TAXABLE POSSESSORY INTERESTS..... 28

 RESTRICTED HISTORICAL PROPERTIES..... 30

 LEASEHOLD IMPROVEMENTS 32

 WATER COMPANY PROPERTIES 33

 MINERAL PROPERTIES 34

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES..... 36

 AUDIT PROGRAM 36

 BUSINESS PROPERTY STATEMENT PROGRAM..... 38

 BUSINESS EQUIPMENT VALUATION 39

 LEASED EQUIPMENT 40

 MANUFACTURED HOMES 41

 AIRCRAFT 41

 VESSELS..... 43

 ANIMALS..... 44

APPENDIXES 45

 A. COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP..... 45

 B. RELEVANT STATUTES AND REGULATIONS..... 46

ASSESSOR'S RESPONSE TO BOARD'S FINDINGS..... 53

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 funding level, 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 (Board) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the Board's findings in its current survey of the Modoc County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the Board, and the Senate and Assembly; and to the Modoc 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 Cheryl Budmark, Modoc County Assessor, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the Board determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.²

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

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

² All rule references are to sections of the California Code of Regulations, Title 18, Public Revenues.

EXECUTIVE SUMMARY

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

In our 2003 Modoc County Assessment Practices Survey, we made eight recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented six of the recommended changes; one recommendation no longer applies because of a change in Board guidance. The remaining recommendation, which was not implemented, is repeated in this report.

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

The assessor is doing a satisfactory job in managing many portions of the administration program, including budget and staffing, appraiser certification, disaster relief, assessment appeals, and exemptions. The Modoc County assessment roll value has increased 26.4 percent between fiscal years 2002-03 and 2006-07 while staffing levels have remained constant over the same period. Nevertheless, in some areas there are procedures that we feel should be revised, and we make recommendations to help improve these portions of the assessment program.

In the area of administration, we noted the assessor does not reference proper code sections when making roll corrections.

In the area of real property assessment, the assessor has effective programs for managing the major portions of the program, i.e., change in ownership, new construction, and leasehold improvements. There are, however, procedures for assessing special use properties that we believe should be revised. We make recommendations to help improve these portions of the program.

The two areas of most concern are in the valuation of taxable government-owned property and California Land Conservation Act (CLCA) properties. The assessor establishes the base year value of pre-1975 taxable government-owned properties incorrectly. In regards to the assessor's newly implemented CLCA program, the assessor incorrectly determines the base year value for homesites and does not process supplemental assessments for the unrestricted portion of these properties when a change in ownership occurs. The assessor also incorrectly uses an agricultural land rent when valuing commercial compatible uses of CLCA properties.

Overall, the business property staff is doing an excellent job. The assessor is current in her mandatory audits, properly classifies equipment, and her assessment of business and personal property, and leased equipment is very good. The recommendations made to improve the assessor's business and personal property program are relatively minor.

Despite the few problems noted above, most properties and property types are assessed correctly. We noted the Modoc County Assessor has made use of modern computer technology to improve her office functions. These innovations include upgrading the system to have greater communication capability between county departments and providing each appraiser with laptop computers that can access the assessor's network and the Internet.

The appraisers use digital cameras for their pictures, which are accessible through the assessor's imaging system, and the appraisers also draw their building diagrams using computer software. The assessor's maps are no longer "pen and ink," but are now drawn using computer drafting technology.

We found no significant assessment problems as defined in Rule 371. Since Modoc 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, Modoc County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Cite proper authority when initiating roll changes to notify the auditor-controller when to apply penalties and interest for escape assessments.12

RECOMMENDATION 2: Annually review the lower of the factored base year value or the current market value of real property as required by section 51(a).....22

RECOMMENDATION 3: Improve the valuation of CLCA properties by: (1) correctly determining base year values for homesites, (2) correctly determining supplemental assessments for unrestricted portions of CLCA land, and (3) valuing compatible commercial uses using an economic commercial rent.25

RECOMMENDATION 4: Correctly establish the 1975 base year value for taxable government-owned lands acquired before 1975.....27

RECOMMENDATION 5: Revise assessment practices for restricted historical properties by: (1) considering only property income and expenses in the capitalization process, (2) weighting the amortization component of the capitalization rate to reflect the ratio of the improvement value to total property value, and (3) assessing new construction located on historical properties.31

RECOMMENDATION 6: Use supportable minimum percent good factors.40

RECOMMENDATION 7: Assess all vessels at market value.43

RESULTS OF 2003 SURVEY

Declines in Value

We recommended the assessor annually enroll the lower of the factored base year value or current market value of real property as required by section 51(a). The assessor has not implemented this recommendation; it is repeated in this report.

Timberland Production Zone (TPZ) Properties

We recommended the assessor send annual questionnaires to owners of TPZ land requesting information about compatible uses. The assessor has implemented this recommendation.

Taxable Possessory Interests

We recommended the assessor review all private uses of fairground property for the existence of taxable possessory interests. We also recommended the assessor revalue taxable possessory interests at the end of the anticipated terms of possession used to establish their base year values, and issue supplemental assessments for changes in ownership of taxable possessory interests. The assessor has implemented all three of these recommendations.

Vessels

We recommended the assessor add sales tax as a component of market value when appraising vessels. The assessor has implemented this recommendation.

Business Property Statement Processing

We recommended the assessor accept only completed business property statements. Since there is no statutory requirement that the assessor return incomplete business property statements, we will not repeat this recommendation. We also recommended the assessor value all business property unless statutorily exempt. The assessor has implemented this recommendation.

OVERVIEW OF MODOC COUNTY

Located in the northeast corner of California, Modoc County shares common borders with the state of Oregon to the north and the state of Nevada to the east. Siskiyou County borders Modoc County on the west and Shasta and Lassen Counties on the south. The county is about 300 miles northeast of Sacramento. Alturas, the county seat, is the only incorporated city in the county. Modoc County's population is approximately 9,500; approximately 3,000 people reside in Alturas.³ The county encompasses about 2,777,600 acres, or 4,340 square miles.

The county has 12 unincorporated communities. Government is one of the county's largest employers, owing to the fact that approximately 66 percent of the county's 2.8 million acres are publicly owned. The county has 662,900 acres in farm production generating over \$77 million annually. These revenues are derived principally from field crops (\$32 million) and livestock production (\$18 million). Modoc County was created by the Legislature in 1874 from the eastern section of Siskiyou County.⁴

³ United States Department of Commerce, Bureau of Census.

⁴ California State Association of Counties, Counties Close-up, www.csac.counties.org.

The following table displays information pertinent to the 2006-07 assessment roll as provided by the assessor:

	PROPERTY TYPE	ASSESSMENTS	ENROLLED VALUE
Secured Roll	Residential	4,289	\$224,110,401
	Commercial/Industrial	687	\$68,068,075
	Agricultural	2,978	\$266,203,564
	Manufactured Homes	545	\$14,704,848
	Other Secured	19,545	\$210,770,283
	Total Secured	28,044	\$783,857,171
Unsecured Roll	Personal Property & Fixtures	544	\$12,223,299
	Total Assessment Roll	28,588	\$796,080,470

The next table illustrates the growth in assessed values for recent years as reported in the Board's annual reports:⁵

ROLL YEAR	ROLL VALUE	INCREASE	STATEWIDE INCREASE
2006-07	\$793,307,000	9.3%	12.3%
2005-06	\$725,738,000	7.3%	11.1%
2004-05	\$676,538,000	4.8%	8.3%
2003-04	\$645,557,000	2.8%	7.3%
2002-03	\$627,745,000		

⁵ State Board of Equalization Annual Report, Table 7.

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, the State-County Property Tax Administration Program (PTAP), appraiser certification, assessment appeals, disaster relief, assessment roll changes, exemptions, and the racehorse administrative tax.

Budget and Staffing

As shown in the following table, in recent years the assessor's office has benefited from increased budget levels. PTAP funds are separate from the gross budget.

BUDGET YEAR	GROSS BUDGET ⁶	CHANGE	PERMANENT STAFF	PTAP FUNDS RECEIVED ⁷	PTAP STAFF
2006-07	\$467,215	5.48%	8	N/A	0
2005-06	\$442,927	0%	8	N/A	0
2004-05	\$442,924	12.24%	8	\$24,022	0
2003-04	\$394,607	9.03%	8	\$24,022	0
2002-03	\$361,933	N/A	8	N/A	0

Modoc County has a staff of eight full-time employees. This includes the assessor, an administrative assistant, two real property appraisers, one auditor-appraiser, two office specialists, and one systems technician/drafter. At the time of conducting this survey, there were two part-time auditor-appraisers assisting the assessor's office in keeping the mandatory audit program current.

We reviewed staff property records and office procedures to determine if the assessor maintains the integrity of the assessment roll for property owned by staff. Although there is no formal written policy, it has long been the practice in the Modoc County Assessor's Office that no staff member may prepare or influence the assessment of his or her own property. We reviewed the appraisal and business property files for all parcels or accounts owned by current staff of the assessor's office. In every instance, the most recent valuation of the property had been prepared by a certified employee other than the staff member who owned the property.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration

⁶ County of Modoc Budget Unit Financing Uses Detail.

⁷ State-County Property Tax Administration Program funding has been suspended, beginning with the 2005-06 California State Budget.

Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.⁸ This program expired June 30, 2001, and was replaced with the Property Tax Administration Grant Program, which was available to counties for fiscal years 2002-03 through 2006-07.⁹ The grant program operates in essentially the same manner as the loan program except that if a county does not meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

If an eligible county elects to participate, the county submits a resolution as described in section 95.35 to the State Department of Finance. The resolution provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

For most counties, the resolution provides that verification of performance is provided to the State Department of Finance by the county auditor-controller.

Modoc County first participated in PTAP in 2003-04, and, at the time of our fieldwork, was one of the few counties in California to still have PTAP funds available. For contract year 2004-05, the assessor received a grant of \$24,022. The county's required base funding and staffing levels for the assessor's office are \$252,112 and 8 positions, respectively. The Modoc County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for loan repayment for each year under contract.

The assessor has effectively used PTAP funds for mandatory and nonmandatory audits, and has set aside money to have an outside consultant conduct an appraisal of a geothermal power plant. The assessor also has used some funds to develop a new CLCA program with the help of Glenn County.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the Board. There are a total of four certified appraisers on staff, including the assessor; two hold advanced certificates. We found that the assessor and her staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor currently uses one contract appraiser; however, this appraiser is also an employee of another county, and therefore, the provisions of section 674 regarding fees and confidentiality of assessment information do not apply.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct

⁸ Chapter 914, Statutes of 1995, in effect October 16, 1995.

⁹ State-County Property Tax Administration Program funding has been suspended for two years, beginning with the 2005-06 California State Budget.

and procedures of local boards of equalization or appointed boards and the manner of their creation. As authorized by Government Code section 15606, the Board has adopted Rules 301 through 326 to regulate the assessment appeal process.

The Modoc County Board of Supervisors sits as the local board of equalization. The following table illustrates the assessment appeals workload for recent years:

APPEALS	FISCAL YEAR				
	2005-06	2004-05	2003-04	2002-03	2001-02
Total Appeals:					
Applications Received	2	5	2	9	2
Carried Over	4	0	0	0	0
Total	6	5	2	9	2
Resolution:					
Hearing-upheld		0	0	1	0
Withdrawn		1	2	0	2
Other*		0	0	8	0
Total resolved		1	2	9	2
Carried over to next year	Pending	4	0	0	0

*Includes appeals denied by the board of supervisors for applicants' failure to appear.

All applications for assessment appeals are filed with the clerk of the board of supervisors, who reviews the applications before forwarding date-stamped copies of the applications to the assessor. The appraiser, who is responsible for the area in which the property under appeal is located, prepares and presents the assessor's opinion at the hearing. The assessor also attends each hearing.

There were no appeal hearings scheduled during our review period. However, we found evidence in the property files that the assessor prepares adequate appraisals of the properties under appeal. All appeals filed within the past five years have been heard within the required two-year time frame. Accordingly, we conclude that the assessor is properly administering the assessment appeals program.

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 property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under section 170, assessees must make a written application to the assessor requesting reassessment. Alternatively, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment.

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

The assessor discovers calamities through building permits, newspaper articles, taxpayer notification, and field investigation. The assessor processes an average of five disaster relief claims a year. We reviewed the records of six damaged properties and found the assessor had noted the disaster on the property records and lowered the assessed values of these properties when appropriate. The assessor handled each case properly and appropriately processed mid-year tax relief for the property owners.

The following table shows the number of disaster relief claims processed for the most recent assessment rolls:

ROLL YEAR	CLAIMS
2005-06	9
2004-05	5
2003-04	4
2002-03	3
2001-02	4

We found no problems with the assessor's disaster relief program.

Assessment Roll Changes

Each year the assessor must complete the local assessment roll and deliver it to the auditor by July 1. Once the roll is delivered to the auditor, any correction that would decrease the amount of the unpaid taxes requires the consent of the board of supervisors. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

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

The following table shows the number of roll changes processed over recent years:

ROLL YEAR	SECURED ROLL CHANGES	UNSECURED ROLL CHANGES
2005-06	260	1
2004-05	174	44
2003-04	245	46
2002-03	178	45
2001-02	145	45

Roll changes may be initiated by any staff member for properties within his or her area of responsibility and expertise. Audit staff initiate roll corrections for business and personal property valuation and appraisal staff initiate roll corrections for real property. Clerical staff may initiate roll changes that do not involve judgmental adjustments of property value, such as changes necessitated by clerical reasons for homeowners', veterans', or welfare exemptions.

All roll changes are submitted to the administrative assistant, who inputs the data for changes and forwards this information to the county counsel for approval. After approval by the county counsel or the passage of ten days, whichever occurs first, the assessor forwards all data to the auditor. Two copies are maintained in the assessor's files.

In the case of an escaped assessment, a *Notice of Proposed Escape Assessment* is sent to the assessee notifying him or her that there may be additional taxable value that escaped assessment. This notice meets the requirements of section 531.8. Effective May 16, 2006, the Modoc County Board of Supervisors passed Resolution 06-17. In accordance with section 534(c)(3), this resolution provides that receipt of the tax bill by the assessee shall suffice as notice of the right to appeal the assessment as required by section 1605(c).

We reviewed documentation for several recent assessment roll changes and found them to be well documented and enrolled timely. However, we did find one problem with roll corrections.

RECOMMENDATION 1: Cite proper authority when initiating roll changes to notify the auditor-controller when to apply penalties and interest for escape assessments.

The assessor does not cite proper statutory authority when initiating roll changes.

Section 506 imposes interest on certain types of escape assessments. Those types of escape assessments requiring the addition of interest under section 506 include the following: (1) failure to file a required property statement (sections 531 and 441); (2) incorrectly allowed exemptions (section 531.1); (3) failure to report the cost of personal property where the assessor has required a statement (section 531.3); (4) inaccurate reporting on the property statement or form (section 531.4); (5) incorrectly allowed business inventory exemption (section 531.5); and (6) incorrectly allowed homeowners' property tax exemption (section 531.6).

In addition, section 531 provides that escape assessments resulting from an owner's failure to file a property statement pursuant to section 441 shall be subject to the penalties imposed by section 463. In order to apply penalties and interest, the assessor must notify the auditor-controller. This notification takes the form of citing the proper statutory provisions on a roll correction form.

When the assessor cites to the improper statutory authorities, the auditor-controller will incorrectly follow the assessor's direction, resulting in the incorrect application of penalties and interest.

Because the assessor's practice does not meet statutory requirements, which results in incorrect assessments and lost tax revenue, we recommend that the assessor properly cite authority when initiating roll changes for escape assessments.

Low-Value Property Exemption

Section 155.20 authorizes a county board of supervisors to exempt all real property with a base year value, and personal property with a full value, so low that the total taxes, special assessments, and applicable subventions on the property would be less than the assessment and collection costs if the property were not exempt.

Section 155.20(b)(1) provides that a county board of supervisors shall not exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain taxable possessory interests. A board of supervisors must adopt a low-value property exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

In 2005 the Modoc County Board of Supervisors adopted Resolution 05-52. This resolution incorporates the provisions of section 155.20 and authorizes the assessor to exempt certain low-value taxable possessory interests commencing with the 2006-07 assessment roll and continuing indefinitely.

We found no problems with the administration of the low-value property exemption program.

Exemptions

Church and Religious Exemptions

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

Article XIII, section 4(b) authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

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

In Modoc County, institutional exemption claims are processed by the assessor's administrative assistant. This staff member relies on several resources for guidance in processing exemptions: Assessors' Handbook Section 267, *Welfare, Church and Religious Exemptions* (October 2004), advisory Letters To Assessors issued by the Board that deal with exemption issues, and training materials received during a Board-sponsored welfare exemption workshop.

Field inspections of properties for which a church, religious, or welfare exemption is claimed are conducted by the appraiser assigned to the area in which the exempt property is located. When a partial exemption is granted, the appraiser documents the appraisal file with calculations of exempt and nonexempt portions of the property. The administrative assistant manually updates exempt amounts for each roll before entering the exemption in the computer system.

The following table presents the number of properties and the amount of assessed value exempted under the church and religious exemptions for recent roll years:

ROLL YEAR	CHURCH	EXEMPTED VALUE	RELIGIOUS	EXEMPTED VALUE
2006-07	1	\$13,498	28	\$4,043,467
2005-06	1	\$13,234	29	\$3,970,438
2004-05	1	\$12,975	31	\$4,033,230
2003-04	1	\$12,738	31	\$3,913,931
2002-03	1	\$12,489	31	\$3,809,004

If a claimant for the religious exemption fails to return the annual religious exemption termination notice, the assessor attempts to contact the claimant by telephone or schedules a field inspection to verify continued eligibility for the religious exemption.

The assessor grants only a partial exemption when a portion of a claimed property is used for purposes not within the scope of the religious exemption. The assessor correctly applies section 270 penalties for late-filed claims.

Overall, the assessor maintains an effective program for administering the church and religious exemptions.

Welfare Exemption

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the Board and county assessors. The Board is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing the *Organizational Clearance Certificate* (OCC) to qualified organizations. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the Board. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding that the Board issued an OCC to the claimant.

The following table summarizes the welfare exemptions granted on the local assessment roll for recent years:

ROLL YEAR	WELFARE	EXEMPTED VALUE
2006-07	22	\$5,417,953
2005-06	23	\$5,302,636
2004-05	24	\$5,007,639
2003-04	23	\$4,914,339
2002-03	22	\$4,897,805

We reviewed a variety of welfare exemption claims filed by various charitable or religious organizations and found the assessor requires an OCC from each claimant, applies late-filing penalties when appropriate, and correctly allocates exempt and taxable areas of properties receiving partial exemptions.

We found no problems with the assessor's welfare exemption program.

Racehorse Administrative Tax

Racehorses domiciled in California are subject to an annual tax in lieu of ad valorem property tax. Sections 5701 through 5790 govern the administration of this tax. Specific procedures and forms are prescribed by Rules 1045 and 1046. Rule 1045(c)(1) requires the assessor to furnish Board-prescribed forms to racehorse owners for reporting the in-lieu tax.

Our review of the assessor's racehorse program shows that the assessor is in compliance with these statutory requirements. The assessor annually sends to known racehorse owners Form BOE-571-J, *Annual Racehorse Tax Return*, prior to the December 15 deadline with instructions to the owners to return the completed form to the county tax collector's office.

The tax collector's office processes and collects the taxes due from the racehorse owners. After processing, the annual racehorse tax returns are returned to the assessor's office, where they are retained for the statutory period.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts, taxable government-owned property, and property in Timberland Production Zones.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, adjusted annually for inflation by a factor not to exceed 2 percent.

Change in Ownership

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

Document Processing

For the 2006-07 roll the Modoc County Assessor received approximately 3,655 recorded documents resulting in 1,737 changes in ownership. The office specialist reviews all recorded documents; the office specialist retains and reviews all documents pertaining to transfers to determine if the recorded documents result in re-assessable events. Approximately 90 percent of the deeds received from the recorder include Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR). PCORs are available from the assessor, recorder, and local title companies. The recorder charges \$20 when a deed is recorded without a PCOR.

When the assessor's office receives deeds without a PCOR, the office specialist sends the taxpayer Form BOE-502-AH, *Change of Ownership Statement* (COS), along with a letter requesting a response from the taxpayer within 45 days. This letter serves as notice to the assessee that failure of the assessee to respond will result in a penalty of \$100 or 10 percent of the taxes applicable, whichever is greater. Such practice has resulted in a return rate of almost 100 percent. On the rare occasion that a COS is not returned, the penalty is applied by the treasurer-tax collector to the grantee's tax bill.

The recorder's office ensures that assessor's parcel numbers are noted on all deeds or instruments of conveyance for real property. On a daily basis, the recorder's office uploads all recorded documents to the assessor's system. PCORs are hand-delivered to the assessor's property transfer section.

The following table shows the total recorded documents and those resulting in a change in ownership for recent years:

ROLL YEAR	DOCUMENTS PROCESSED	RESULTING CHANGES IN OWNERSHIP	PARCELS CHANGING OWNERSHIP
2006-07	3,655	1,737	2,100
2005-06	3,859	2,054	2,542
2004-05	4,823	2,689	3,269
2003-04	4,153	2,287	2,774
2002-03	3,346	1,663	2,164

The drafter reviews all documents during the initial stages of document processing. Deeds are separated into appraisable and non-appraisable events. Reappraisal events are forwarded electronically to the appraisal staff. Appraisal records are delivered to the appraisal staff for processing.

Following a change in ownership, existing homeowners' exemptions are coded for deletion and sent to the administrative assistant, who removes the exemption. The office specialist sends out homeowners' exemption applications to new transferees that may qualify.

Section 69.5 Base Year Value Transfer

Section 69.5 allows qualified homeowners 55 years of age or older, and those who are severely and permanently disabled, to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly constructed within the same county. Section 69.5 also allows counties to adopt ordinances to expand these benefits to include intercounty transfers. The Modoc County Board of Supervisors adopted Ordinance No. 289, effective July 5, 1989, to allow transfers of base year value from other counties. That ordinance was repealed, however, on October 5, 2004. Claims in process as of the date of repeal were approved by the assessor.

The following table shows the number of section 69.5 claims processed for recent years:

ROLL YEAR	CLAIMS
2005-06	0
2004-05	6
2003-04	3
2002-03	6

Section 63.1 Exclusion

Section 63.1 excludes from reappraisal certain purchases or transfers between parents and children. Certain transfers from grandparents to grandchildren are also excluded.

Information regarding the provisions of section 63.1 is available at the assessor's public counter and on the assessor's website. The transfer staff also prepares the quarterly reports to the Board as suggested by section 63.1(f).

The following table shows the number of section 63.1 exclusions granted by the assessor in recent years:

ROLL YEAR	CLAIMS
2005-06	211
2004-05	288
2003-04	155

We found that section 63.1 applications are properly processed and that this program fully complies with section 63.1.

Valuation

We examined several changes in ownership processed by the assessor. We found that transfer files were well documented and that various aspects of the program were in compliance, including the application of supplemental assessments, inflation indexing, document processing, and tracking transfers.

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 its subsidiaries. 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 corresponding change in ownership of the real property owned by the entity. Discovery of these types of

changes in ownership is difficult for assessors because ordinarily there is no recorded notice of the real property transfer.

The Board's LEOP unit investigates and verifies changes in control and changes in ownership of legal entities, and transmits to each county a list, with corresponding property schedules, of the entities that have reported a change in control under section 64(c) or change in ownership under section 64(d).

We found that there has been no LEOP activity involving real property in Modoc County during the past five years.

New Construction

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

Rules 463 and 463.500 clarify the statutory provisions of sections 70 and 71, and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 70(c), (d), and (e), and sections 73 through 74.7 address these exclusions.

Discovery

Building permits are the assessor's primary means of discovering assessable new construction. Additional sources of discovery are business property statements, field inspections, and reporting from other taxpayers. The assessor receives all building permits from the two permit-issuing agencies in Modoc County, the county of Modoc and the city of Alturas.

The number of building permits issued by each agency over recent years is summarized in the following table:

ROLL YEAR	COUNTY OF MODOC	CITY OF ALTURAS
2005-06	258	115
2004-05	264	137
2003-04	240	119
2002-03	260	107
2001-02	209	114

Parcel numbers are listed on all building permits and are verified by the assessor's office. Notices of completion and building plans are received from the building department upon request. The administrative assistant eliminates permits that are considered maintenance or replacement; the remainder of the permits are attached to the property record and forwarded to the responsible appraiser. When new construction is noted on Form BOE-571-L, Schedule B, an auditor-appraiser makes a copy of the form and forwards it to one of the real property appraisers.

The real property appraisers send each property owner a self-reporting form. All new construction is inspected. Newly constructed buildings are sketched using computer software.

Valuation

The primary approach to valuing new construction is the cost approach. An estimate of market value of new construction in progress is made on each lien date.

The assessor's new construction program is well managed. We found no problems with the assessor's new construction program.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its factored base year value on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its factored base year value, then the assessor must enroll the factored base year value.

Similar to many other California counties, Modoc County has experienced notable increases in property values in recent years. Consequently, the assessor has removed many properties from decline-in-value status. At the time of conducting this survey, there were 3,415 properties with assessed values below factored base year value.

The following table illustrates the total number and roll value of properties that experienced declines in value for recent years:

ROLL YEAR	PROPERTIES	ROLL VALUE
2006-07	3,415	\$42,244,733
2005-06	3,674	\$52,999,161
2004-05	4,469	\$84,768,366
2003-04	6,041	\$106,162,747
2002-03	6,452	\$115,073,261

Properties in decline-in-value status are tracked on the assessor's computer system, allowing staff to print a list of properties needing annual review. Most taxable possessory interests, including mining claims, are also reviewed annually. A majority of the real property affected by declines in value are vacant rural residential sites located in an area known as California Pines. The remaining properties affected by declines in value include a variety of land uses, which are located throughout the county in small towns and rural areas.

The assessor does not have a formal program for discovering declines in value. Instead, she relies on taxpayer requests for appraisal review and the appraisers' knowledge of their assigned areas. If it is apparent that a downward value adjustment is warranted, such adjustments are made without requiring the taxpayer to request a review of value.

When a property is in a decline-in-value status or is returned to its factored base year value, the assessor sends notification to the property owner. Such notification informs the taxpayer of the property's factored base year value and its current market value, and provides information about the assessment appeals procedures. The assessor's notice also provides all the information required by section 619.

In our prior survey, we recommended the assessor annually enroll the lower of the factored base year value or the current market value of real property. Because the assessor has not implemented this recommendation, we restate this recommendation.

RECOMMENDATION 2: Annually review the lower of the factored base year value or the current market value of real property as required by section 51(a).

Currently the assessor reviews most, but not all decline-in-value properties to determine whether the factored base year value should be restored.

Section 51(a) requires that all property subject to article XIII A of the California Constitution be annually assessed at the lower of factored base year value or current market. The assessor's current practice may result in loss of tax revenue due to the underassessment of property that should be returned to its factored base year value.

California Land Conservation Act Properties

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, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides guidance for the appraisal of these properties.

Since our last survey, Modoc County has established agricultural preserves and adopted rules and regulations for implementing the CLCA program. For the 2006-07 tax roll, Modoc County had approximately 110,000 acres encumbered by CLCA contracts. The total assessed value for CLCA land for 2006-07 was approximately \$27 million. Modoc County has no restricted living improvements and no properties in nonrenewal status.

The following table shows CLCA acreage for recent years:

ROLL YEAR	ACREAGE
2006-07	110,000
2005-06	103,388
2004-05	83,259
2003-04	30,730

Most of the rural property in Modoc County consists of rangeland and irrigated pastureland. The bulk of the agricultural revenue generated in Modoc County is derived from alfalfa hay, livestock, timber, and vegetable crops such as potatoes, onions, and horseradish.

Modoc County contracted with Glenn County for the initial CLCA program setup, property valuation, and annual rental analysis and expense compilation studies, while Modoc County real property appraisers continue to value changes in ownership and new construction on CLCA land.

A computer program annually calculates restricted values using the correct capitalization rate. Rents are updated based on analysis of rental and expense information submitted with new contract applications. Because the original contract applications require extensive income and expense information from the assessees, the assessor has not mailed annual questionnaires since the initiation of the CLCA program. She intends to mail questionnaires for the 2007-08 roll.

Modoc County follows the provisions of section 423.3, which allows counties to assess CLCA lands under a formula that limits the assessment to a value no higher than a given percentage of the property's factored base year value. The computer program compares the total restricted value of the appraisal unit to the factored base year value of the same unit modified by the section 423.3 percentage, and the current market value of the unit as if unrestricted. The lowest value is enrolled.

Compatible uses are valued and added to the restricted value. Pursuant to sections 75.14 and 52(a), supplemental assessments are not issued for restricted land. Mineral rights on CLCA properties are valued correctly. No contracts have been cancelled.

Income and Expenses

The assessor values grazing land based on the amount of cash rent paid per animal unit month (AUM), converted to rent per acre. The assessor makes a separate AUM estimate and assigns class codes for areas of significantly different carrying capacities within a parcel and for irrigated areas. Because of the varying capabilities and qualities of most grazing land (e.g., irrigated, open, steep, brushy, or rocky), the AUM method is the most flexible and accurate measuring device for estimating carrying capacity and, thus, productivity of grazing lands.

The assessor uses a crop rotation pattern and share rents to value CLCA land planted to alfalfa and meadow hay. Cash rents are used to value cropland in the Tulelake area.

The assessor recognizes appropriate expenses, including a charge for management. For irrigated grazing land and cropland, the assessor properly includes agricultural wells as a component of the land value for property tax purposes. Moreover, the assessor properly includes in the capitalization rate a component for the return on the investment in the land. Most irrigated properties in Modoc County have mainline irrigation systems, flood irrigation systems, or portable sprinkler irrigation systems assessed as personal property; the assessor adjusts irrigated market rents by an appropriate amount for income generated by irrigation systems. Irrigation district charges are also deducted.

Capitalization Rates

The assessor utilizes appropriate capitalization rates, including a component for risk, when determining the restricted values of CLCA properties. The AH 521 recommends a basic risk component of 1 percent as a standard guideline for the purposes of developing the capitalization rate used in the valuation of CLCA properties. Because of water shortages and uncertainty of future water deliveries, the assessor uses the recommended risk component of 1 percent for irrigated cropland in the Tulelake area.

AH 521 also notes that the size of the risk component will vary according to what risks have already been considered in the development of the income to be capitalized. For dry grazing land and irrigated land, the assessor has determined that risk components of 0.25 percent and 0.50 percent, respectively, are appropriate. The risk component is less for these types of properties because the risk is considered in the development of the income stream. The net rental income for these properties has remained steady or increased upon negotiation of new leases. In

addition, because the location and characteristics of dry grazing land and irrigated land is similar in the county, it is reasonable to assume a similar level of risk throughout the county.

By annually revaluing CLCA lands using the current yield rate, and considering current economic income and expenses, the assessor has properly assessed these lands. Overall, we found that the assessor has an effective, well-documented CLCA program and complies with most applicable statutes; however, as noted below, we found three areas that need improvement.

Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. AH 521 provides that "even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner."¹⁰ In other words, the homesite must be valued at the lesser of the factored base year value or the fair market value of a comparable homesite.

While the assessor values homesites according to section 428, there are three areas of practice that need improvement.

RECOMMENDATION 3: Improve the valuation of CLCA properties by: (1) correctly determining base year values for homesites, (2) correctly determining supplemental assessments for unrestricted portions of CLCA land, and (3) valuing compatible commercial uses using an economic commercial rent.

Correctly determine base year values for homesites.

Our review indicates that when there is a change in ownership or a newly-created homesite on a CLCA property, the assessor values the homesite at an agricultural land value per acre.

Section 428 provides that since the residence and its site are not restricted, they must be valued as a separate appraisal unit. By determining homesite base year values using the agricultural value per acre, the assessor has undervalued CLCA homesites.

Correctly determine supplemental assessments for unrestricted portions of CLCA land.

The assessor's computer system does not have the capability to separate out restricted and unrestricted land values when calculating supplemental assessments. These calculations must be made manually by the appraisal staff; this practice has resulted in incorrect assessments.

Our review found examples of supplemental assessments issued for homesites where the amount of the supplemental assessment included a portion of the restricted land value. We also found examples of changes in ownership with no supplemental assessments at all for the unrestricted

¹⁰ AH 521, October 2003, page II-51.

portion of the property. Neither of these practices is consistent with applicable statutory provisions.

Value compatible commercial uses using an economic commercial rent.

We found that the assessor values compatible commercial uses using a capitalized agricultural land rent.

Modoc County's CLCA contract permits compatible uses such as processing, packaging, and shipping of agricultural products on parcels devoted to agriculture. Other allowable compatible uses include commercial sales, rental or repair of agricultural machinery or equipment, agricultural storage facilities, and timber or wood processing facilities, e.g., wood pellet mills.

If a portion of a restricted property is used by the owner for a permitted compatible use, the assessor must value the subject site by capitalizing an economic site rent using the open-space capitalization rate. The estimate of the economic rent can be made either by using actual rents of comparable commercial sites or by multiplying the market value of comparable commercial land by a market-derived capitalization rate.

The determination of what constitutes a permissible compatible use on CLCA land is something over which assessors have no control. In accordance with Government Code sections 51238.1, 51238.2, and 51238.3, the assessor must assume that any use allowed by a valid contract is an allowable compatible use. When income generated by this use is attributable to the land, it must be capitalized in the manner specified for restricted properties.

The assessor's practice of using agricultural land rents to value permitted compatible use commercial sites has resulted in underassessments.

Taxable Government-Owned Properties

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

There are seven taxable government-owned properties in Modoc County with a 2005-06 total assessed roll value of \$134,207.

By comparing tax-rate area maps to the county's list of government agencies located within each tax-rate area, the assessor determines the taxability of government-owned properties at the time of acquisition by the local agency. We compared parcel tax-rate area codes with the tax-rate index of government-owned properties to verify whether any listed government-owned properties were located outside their district boundaries. We found no evidence of taxable government-owned property escaping assessment.

Taxable government-owned land values are recalculated each year using the latest Board-announced factors and the 1967 assessed land value. This value is compared to the current market value and the factored base year value to ensure that the lowest of the three values is enrolled. We found an error, however, in the assessor's calculation of base year values.

RECOMMENDATION 4: Correctly establish the 1975 base year value for taxable government-owned lands acquired before 1975.

The assessor has incorrectly established the 1975 base year value for taxable government-owned lands acquired before 1975. In Modoc County, for taxable government-owned lands acquired before 1975, the assessor established the 1975 base year value by multiplying both the 1967 assessed values and the Board-announced factors by four in order to adjust for the 25 percent assessment ratio then in effect.

Since the Board-announced factors already account for the change in assessment ratio, the assessor's practice has resulted in overassessment of these taxable government-owned properties.

Timberland Production Zone Properties

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The annual value of a TPZ property is determined by its appropriate per-acre site value (section 434.5) plus the lower of the current market value or the factored base year value of any compatible, nonexclusive uses of the property (section 435). Assuming that TPZ lands are not also under CLCA contract, the annual taxable value of TPZ lands is the lowest of: (1) TPZ value, (2) current market value, or (3) factored base year value.

The special valuation methods for TPZ lands do not apply to structures on TPZ lands or to reasonable sites for such structures. In other words, structures and the sites directly related to those structures are assessed as all other real property.

Modoc County has 558 TPZ parcels comprising approximately 197,400 acres of pine-mixed conifer for the 2006-07 assessment year with a total assessed value of \$12,917,873.

The following table illustrates the TPZ assessments for recent years:

ROLL YEAR	PARCELS	ACRES	VALUE
2006-07	558	197,404	\$12,917,873
2005-06	549	197,308	\$12,840,884
2004-05	549	196,867	\$13,106,353
2003-04	549	196,867	\$13,499,522
2002-03	552	197,002	\$13,709,266

Our review showed that the assessor properly follows the Board's schedule of per-acre values for different site classes of TPZ parcels. The assessor updates TPZ values annually based on the site class values provided by the Board. Currently there are four TPZ parcels in nonrenewal status. All of the land zoned as TPZ is identified on the assessment roll with the notation "Timber Preserve (TPZ)" in conformance with section 433.

The assessor identifies and assesses compatible uses for TPZ properties. In our review we found no instances of improvements on TPZ parcels. However, the assessor is aware that any improvements located upon TPZ parcels shall be identified and assessed at the lower of factored base year or current market value. Although there are no recent instances where TPZ parcels have transferred, the assessor is also aware that no supplemental assessments shall be issued for TPZ parcels upon change in ownership.

In our 2003 survey, we recommended the assessor send compatible-use questionnaires to TPZ landowners. Section 435(a) requires assessors to value timberland according to the site value schedules expressed in section 434.5, plus the value of any compatible, nonexclusive uses of land. Currently, TPZ land owners are asked to complete a questionnaire for compatible uses. The only compatible use identified is for cattle or sheep grazing on some of the parcels. The remainder of TPZ parcels is used exclusively for timber production.

Our review of TPZ lands in Modoc County indicates that the assessor is in compliance with all applicable statutes.

Taxable Possessory Interests

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

The assessor enrolled 247 taxable possessory interests on the 2005-06 assessment roll totaling \$5,727,939. Taxable possessory interests in Modoc County include cable television rights-of-

way, concessionaires at the county fairgrounds, employee housing, mining claims, grazing permits, agricultural leases, and airport hangars and tie downs.

The following table shows the number of taxable possessory interests and their aggregate assessed values for recent years:

ROLL YEAR	TAXABLE POSSESSORY INTERESTS	NET VALUE
2005-06	247	\$5,727,939
2004-05	246	\$5,901,057
2003-04	253	\$5,237,349
2002-03	248	\$5,101,803
2001-02	221	\$5,077,390

The assessor has a comprehensive program for enrolling taxable possessory interests. To discover new taxable possessory interests and to adequately maintain property files, the assessor annually requests government agencies owning property in the county to submit a property usage report. The appraisal staff also discovers taxable possessory interests by periodically inspecting government-owned property and requesting further information from various agencies as needed. The appraisal staff also reviews recorded leases. We found that the terms of possession used are reasonable, rents are market-derived, and appraisals are well documented.

In our 2003 survey, we recommended the assessor revise the taxable possessory interest procedures by: (1) reviewing all private uses of fairground property for possible taxable possessory interests; (2) revaluing taxable possessory interests at the end of the anticipated terms of possession, as required by section 61(b)(2); and (3) issuing supplemental assessments for changes in ownership of taxable possessory interests.

Modoc County has a low-value property exemption that exempts fairground taxable possessory interests valued at \$3,000 or less. In our review, we determined that all taxable possessory interests at the Modoc County Fairgrounds were valued below the \$3,000 threshold. The assessor has implemented our prior recommendation.

Our review also determined that there are stated terms for all grazing permits, agricultural permits, and one cable television franchise; all other taxable possessory interests consist of month-to-month interests that are annually revalued using a term of one year. Previously, the assessor reappraised such interests annually using an anticipated term of possession of several years, instead of reappraising the taxable possessory interest only at the end of the assigned term. The assessor has discontinued the practice of annually reviewing taxable possessory interests using anticipated terms longer than one year. The assessor's present use of anticipated terms is in compliance with section 61(b)(2); therefore, we do not repeat this recommendation.

In our current review, we found no recent transfers of taxable possessory interests that would require statutory application of supplemental assessments; therefore, we will not repeat this part of our recommendation.

Restricted Historical Properties

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with the legislative body of a city, county, or city and county restricting the use of that property in exchange for valuation according to a statutorily-prescribed capitalization of income method. For assessment purposes, qualified historical property under such a contract is referred to as "restricted historical property." Section 50280.1 provides that in order for a property to qualify as an historical property, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Restricted historical properties are assessed annually at the lowest of the factored base year value, the current market value, or the restricted value. The restricted value must be determined by the income capitalization method, as provided in section 439.2. In this method, a fair or market rent less "ordinary and necessary" expenses is capitalized by a rate that is not derived from the market but is a summation of:

- An interest component that is determined annually by the Board;
- A risk component of 2 percent (4 percent if the property is owner-occupied);
- A component for property taxes; and,
- A component for amortization of the improvements.

The City of Alturas has executed historical property contracts for two historically significant buildings. The contracts were executed in 1987 and were amended in 1997. The assessed value of these two properties on the 2006-07 roll was \$49,964.

A senior appraiser is responsible for the annual valuation of these two properties. He requests current income and expense data each year. He also correctly applies the current interest component, the correct tax rate, the proper risk rate for non-owner occupied properties, and a reasonable allowance for amortization of the improvements when processing the net income reported by the two organizations owning the historical properties. However, we noted three areas that need attention.

RECOMMENDATION 5: Revise assessment practices for restricted historical properties by: (1) considering only property income and expenses in the capitalization process, (2) weighting the amortization component of the capitalization rate to reflect the ratio of the improvement value to total property value, and (3) assessing new construction located on historical properties.

Consider only property income and expenses in the capitalization process.

The assessor annually requests information from the owners of historical properties regarding actual income and expenses. She processes the reported figures into a net income for the property to be capitalized into a restricted value. However, the assessor uses the income from the organization that owns the property, rather than the income of the property itself.

Section 439.2(a) provides that the assessor shall determine the fair rent and expenses that can be imputed to the restricted historical property based either on actual rents and expenses or typical amounts paid in the market for similar properties.

By using the reported income of the organization, the assessor is including income (namely, membership dues and donations, proceeds from fundraising events, and interest on bank accounts) that should be excluded from an estimate of income attributable to the property. The assessor should research fair rental values and typical annualized expenses for comparable commercial properties in the Alturas area and assign such amounts to the restricted historical properties. Failing to do so will produce taxable values that do not conform to the requirements of section 439.2.

Weight the amortization component of the capitalization rate to reflect the ratio of improvement value to total property value.

The assessor divides the net income attributable to both restricted land and improvements by a capitalization rate that includes an unweighted amortization component. For the 2006-07 roll, the capitalized value was then allocated between land and improvements in the case of one historical property, while for the other historical property it was enrolled as improvements only.

In Letter To Assessors 2005/035 (LTA 2005/035), dated June 2, 2005, the Board sets forth guidelines for the proper assessment of restricted historical properties. In the several examples furnished with the letter, the component of the capitalization rate that accounts for the depreciation of the building value is weighted by the relative percentage contribution that the building makes to the total property value. This adjustment prevents overstatement of depreciation and consequent understatement of capitalized property value. As a final step, the capitalized property value should be allocated between land and improvements in the same proportion used to weight the amortization component.

By failing to properly weight the amortization component of the capitalization rate and to properly allocate final value, the assessor has inaccurately valued restricted historical properties.

Assess new construction located on historical properties.

In 2001 the organization owning one restricted historical property constructed a detached shop and storage building at the rear of the property. The assessor estimated the value of the structure, but did not enroll an assessment for it.

LTA 2005/035 advises that, in general, a newly constructed building is not eligible for inclusion on the National Register of Historic Properties because it is not an existing building with basic structural elements. Unless the contract so provides, newly constructed separate buildings not part of a planned master restoration do not qualify for valuation under section 439. Rather, such new construction should be treated as a separate unrestricted appraisal unit subject to assessment as other real property.

By failing to treat new construction as a separate appraisal unit, the assessor is underestimating the value of these properties.

Leasehold Improvements

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

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

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

The Modoc County Assessor's Office does not have written procedures for the assessment of leasehold improvements. However, the office is small and staff are able to share information regarding leasehold improvements so that they avoid double and escaped assessments.

Discovery

The primary discovery tools for leasehold improvements are business property statements, building permits, and field checks. When a business property statement is submitted by the taxpayer and costs are reported in Section B, the clerical staff makes a copy of the statement and sends it to an appraiser and auditor-appraiser for review and analysis. Any new reported cost

triggers an onsite inspection. After inspection, a decision is made as to its classification and value.

Valuation

The assessor classifies improvement items as either structural or business fixtures. Once a base year value is established, for subsequent roll years the assessor assesses them at the lower of their factored base year value or current market value. Leasehold improvements are assessed to the lessee except when there exists a documented agreement between lessor and lessee to do otherwise. When leasehold improvements are abandoned but value remains, the assessor adds the value to the lessor's secured account. Supplemental assessments are applied to structural leasehold improvements on both the secured and unsecured rolls.

There are two billboard accounts in the county that are properly assessed as fixtures.

The assessor has an effective and well managed program for the assessment of leasehold improvements.

Water Company Properties

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

Municipal Water Systems

Article XIII, section 3(b) of the California Constitution exempts from taxation property owned by a local government and located within its boundaries. Such property includes both property owned by city water departments and located within city limits and property owned by water districts and located within district boundaries. When a local government entity owns property located outside of its boundaries, this exemption does not apply.

There is one municipal water system in Modoc County. We reviewed the assessment of the properties owned by this water system. We found that there is one parcel located outside the agency's boundaries, which was properly assessed.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost primarily for its stockholders or members. When incorporated, the association can enter into contracts, incur obligations, own property, and issue stock. However, if unincorporated, it can do these things only in the names of the members. Corporations organized for mutual water company purposes are not subject to regulation by the California Public Utility Commission (CPUC) unless they deliver water for compensation to persons other than stockholders and members.

We identified five mutual water companies in Modoc County. These companies do not deliver water to any outside entities for profit. We found the value of the mutual water company's properties was correctly reflected in the assessments of the parcels served by the water systems.

Private Water Companies Regulated by the CPUC

Private water companies are privately-owned utilities in business to earn a profit from the sale of water. This type of water company is subject to regulation by the CPUC and must submit annual reports to the CPUC.

There are no private water companies regulated by the CPUC in Modoc County.

Private Water Systems Not Regulated by the CPUC

Unregulated private water systems are similar to regulated water companies in that they are usually owned by individuals or corporations and are operated on a for-profit basis to supply water to commercial developments, such as manufactured home parks, resorts, or campgrounds. However, they do not sell water for profit to customers in the same manner as a regulated water company.

There are six private unregulated water systems within Modoc County. We reviewed several assessments of properties owned by these companies and found that the assessor correctly values these properties.

Mineral Properties

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.

There are no assessable petroleum properties in Modoc County.

Geothermal Properties

Geothermal property mineral rights refer to the rights to explore for, develop, and produce useful geothermal energy, and the real property associated with these rights. Pursuant to Rule 473, the rights to enter in or upon the land for the purpose of exploration, development, or production of proved reserves are taxable real property interests to the extent that they individually or collectively have ascertainable value. "Proved reserves" means that quantity of geothermal energy capable of supporting the economic life of the geothermal project(s) which geological and engineering information indicate with reasonable certainty to be recoverable in the future, taking into account reasonable projected physical and economic operating conditions.

There is continuing interest in the geothermal resources in the county, but there has been little progress beyond the exploration stage.

Mining Properties

Mining property mineral rights refer to the rights to explore, develop, and produce minerals, other than oil, gas, and geothermal resources. There may be other real property associated with these rights. Pursuant to Rule 469, the rights to enter in or upon the land for the purpose of exploration, development, or production of minerals are taxable real property interests to the extent they individually or collectively have ascertainable value.

There were no prior recommendations regarding mining properties. The assessor documents only the adjusted base year values for the mining properties. There is no documentation of their current market values. The assessor discovers the existence of mining operations through the issuance of a use permit and uses the royalty method to estimate the mineral rights value. Most of the mining is limited in scope to small amounts produced each year. There is little equipment associated with the individual properties, and therefore, the appraisal unit is typically the minerals only.

There are no recommendations regarding mining properties for Modoc County.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

As of February 2005, one auditor-appraiser is assigned to the business property program. In addition, at the time of our fieldwork, two part-time auditor-appraisers assisted the assessor with the audit program. The real property appraisers work in conjunction with the auditor-appraisers to ensure the correct classification and allocation of real and personal property items assessed to businesses.

In this section of the survey report, we review the assessor's audit program, business property statement program, business equipment valuation and leased equipment assessment programs, and the assessment of manufactured homes, aircraft, vessels, and animals.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

The following table shows the total number of audits completed in recent years:

ROLL YEAR	2005-06	2004-05	2003-04	2002-03	2001-02
Mandatory	2	3	2	3	3
Non-mandatory	16	5	2	2	8
Total Audits Completed	18	8	4	5	11

Mandatory Audits

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

Our review of the business property accounts subject to mandatory audits indicated that the assessor is current with all mandatory audits.

Nonmandatory Audits

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

Our review of the audited business property accounts indicated that the assessor is performing audits of nonmandatory accounts. The current criteria for selection as a nonmandatory audit are former mandatory audits that have fallen below the minimum status of \$400,000 or those selected by the auditor-appraiser for inclusion in the program.

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, 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.

For audits approaching expiration under the statute of limitations, the assessor makes estimated assessments, based on available information, for the expiring periods when the taxpayer declines to sign a waiver. Therefore, we do not repeat our prior recommendation.

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 a sample of 18 mandatory and nonmandatory audits in detail. Our review included verification of how the assessor: (1) processes changes in control (ownership), (2) reviews and verifies the assessment of leased equipment, (3) enrolls construction in progress, (4) accounts for supplies, and (5) classifies equipment. In all cases, the mandatory audits were supported by an audit checklist defining the areas of investigation. The assessor has an effective and efficient audit program.

Business Property Statement Program

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

For the 2006-07 assessment roll, a total of 1,427 business property statements, including statements for vessels and aircraft, were processed in Modoc County.

The auditor-appraiser processes business property statements under the direction of a senior appraiser. Only certified staff determine the correct input of reported costs from the business property statement. The auditor-appraiser checks for full disclosures of property based on the taxpayer's prior year's statement and reconciles any differences during processing.

We reviewed the assessor's business property statement program, including written processing procedures, to verify the use of Board-prescribed forms, processing by certified staff, responsiveness to taxpayer interactions, completeness of the property statements, application of penalties, coordination with real property staff, and record storage and retention.

We found that when the auditor-appraiser reviews the business property statements, she checks for completeness and a valid signature. She also date-stamps all statements upon receipt. If a statement is unsigned, a copy is made for the assessor's file and the original is returned to the taxpayer for signature. If a statement is received late, then a penalty is added by the auditor-appraiser as prescribed by section 463. If a statement reports any additions or deletions to real property items, those statements are referred to the real property staff for review.

Our review included verification of written authorization for agents to sign property statements on behalf of property owners. We found that the assessor maintains the written authorizations in the business property files.

The discovery of taxable property is an essential function of the county assessor. It is a difficult but necessary task to maintain accurate, up-to-date listings of assessable business properties. Discovery sources are building permits, business licenses, business directories, phone directories, Form BOE-600-B (state assessee report of locally assessable leased equipment), and tenant information supplied by landlords.

The assessor maintains a list of taxpayers that have had multiple penal assessments due to chronic failure to file business property statements. These taxpayers are contacted as part of staff's fieldwork assignments.

In our 2003 survey, we recommended the assessor accept only completed business property statements. In our current review, we found a significant number of business property statements where Part I was not completed; however, we are not repeating this recommendation since there is no statutory requirement that the assessor return incomplete business property statements.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent good factors. A value indicator is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor.

Section 401.5 provides that the Board shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the Board annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

The following table displays the assessor's current secured and unsecured business property assessments on the 2006-07 assessment roll:

CATEGORY	SECURED	VALUE	UNSECURED	VALUE	TOTAL	VALUE
Commercial, Industrial, Agricultural, Construction	661	\$37,702,416	318	\$14,960,397	979	\$52,662,813
Vessels	0	0	412	\$1,261,226	412	\$1,261,226
General Aircraft	0	0	36	\$1,647,440	36	\$1,647,440
TOTAL	661	\$37,702,416	766	\$17,869,063	1,427	\$55,571,479

We reviewed the assessor's business property valuation program, including written processing procedures, to verify the proper use of price indices, percent good factors, and fixture percentage allocations. The assessor uses the valuation factors published by the California Assessors' Association (CAA) to value business property.

We found no problems with the assessment of business equipment.

Computer Valuation

Pursuant to section 401.5, the Board issues valuation factors for computer equipment (see AH 581, "Table 7: Computer Valuation Factors").

We found the assessor has adopted the CAA factors for computer equipment. The factors parallel those found in AH 581. We found no problems with the assessment or valuation of computers.

Billboard Fixture and Equipment Valuation

A senior appraiser is responsible for the valuation of billboards. He uses the current State Department of Transportation value schedule for both newly constructed billboards and billboards that have changed ownership, as recommended by the CAA. Annually, the factored

base year value is compared with the fair market value based on this schedule. The appraiser enrolls the lesser of the two values. We found no problems with the assessment or valuation of billboards.

Agricultural Machinery and Equipment Valuation

Business equipment valuation also includes the valuation of agricultural machinery and equipment. In this area, we found one problem with the minimum percent good used by the assessor.

RECOMMENDATION 6: Use supportable minimum percent good factors.

We found the assessor is using a minimum of 20 percent good for mobile agricultural machinery and equipment, which does not conform to the factors in AH 581 or those recommended by the CAA. We were not provided with a study or analysis to support this minimum percent good factor. Section 401.16(b) provides that if a minimum percent good factor is used by the county assessor, the factor shall be determined in a manner that is supportable. Without adequate documentation, section 401.16(b) prohibits the assessor from using an arbitrary minimum percent good factor when valuing personal property and trade fixtures.

Use of unsupported minimum percent good factors can result in overassessment of mobile agricultural machinery and equipment that are approaching the end of their useful economic lives.

Leased Equipment

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

Assesseees are required to report all taxable leased property (property in their possession but belonging to others) on their annual business property statements. Along with the property statement, the assessor sends a form letter requesting detailed information about the terms and conditions of the lease agreement. The assessor requests the name and address of the lessor, the date the equipment was acquired, the quantity and description of the equipment, the cost to the lessor or cost to purchase the equipment, the situs of the equipment, the terms of the lease, and other relevant information.

The assessor reviews the lessor's property file to identify the lessee and the leased equipment. This ensures that the lessor and lessee account files are properly cross-referenced, the leased equipment is correctly assessed, and the proper assessee is identified.

When the assessor receives business property statements from leasing companies and other known lessors in the county, she verifies that equipment having matured leases have not escaped assessment for the current year. Leased equipment is often purchased by the lessee and, as such, must be reported by the lessee. The assessor verifies that the reported cost and year of acquisition are the same as original cost to purchase and year of acquisition including sales tax, freight, and installation charges.

We reviewed a sample of lease accounts to verify that leased equipment and expired leased equipment has been properly identified and assessed. We found that the assessor has adequately identified and assessed leased and previously leased equipment.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

Responsibility for appraising manufactured homes is based on geographic assignments divided between two appraisers and one auditor-appraiser. The assessor currently enrolls 545 manufactured homes with an assessed value of \$14,704,848. The assessor correctly classifies manufactured homes as personal property and enrolls them on the secured roll.

The assessor discovers new or transferred manufactured homes primarily through the Department of Housing and Community Development (HCD) reports, dealer reports of sale, and building permits. Taxable accessories are discovered by inspection, building permits, and a follow-up inspection the year following enrollment. The assessor values manufactured homes by correlating value indicators from three sources: selling price, Assessors' Handbook Section 531, *Residential Building Costs*, and the *NADA Manufactured Housing Appraisal Guide*.

We found the assessor's program complies with property tax laws. We found the assessor correctly applies supplemental assessments to transferred manufactured homes and correctly exempts from assessment manufactured homes held in dealer's stock and those held or owned by financial institutions and insurance companies.

We found the assessor's manufactured home program comprehensive and her manufactured home property files well documented. We found no problems with her manufactured home program.

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 (general aircraft

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

The Modoc County Assessor assessed 36 general aircraft for the 2006-07 assessment roll with a total value of approximately \$1,600,000. The assessor discovers aircraft through the airport operator reports, other counties' referrals, United States Department of Transportation Federal Aviation Administration reports, and field inspections if requested.

An aircraft property statement is mailed each year to the known owner of each aircraft in the county. The statement requests a description of the aircraft, purchase price, description of any additions or deletions of equipment, engine hours since last major overhaul, date of last overhaul, and overall condition. If the aircraft has been sold since the last lien date, then information about the transfer is also requested.

Upon receipt of the aircraft property statement, the assessor incorporates adjustments for the overall condition of the aircraft, additional or special equipment, and engine hours since last major overhaul to determine a market value estimate. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

We reviewed a sample of aircraft statements and found the procedures to be correctly administered and the estimates of value to be properly calculated. We have no recommendations in this area.

Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of \$35 upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale, (2) the assessee does not use the aircraft for commercial purposes or general transportation, and, (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

One historical aircraft was exempted on the 2006-07 roll at a value of \$53,700. The assessor has properly obtained a signed affidavit for the historical aircraft exemption pursuant to

section 220.5(c). We found the assessor to be in full compliance with the historical aircraft filing procedures.

Vessels

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include State Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves.

For the 2006-07 roll year, the assessor enrolled 412 vessels with a total assessed value of \$1,261,226. The following table summarizes vessel assessments for recent years:

ROLL YEAR	VESSELS	ASSESSED VALUES
2006-07	412	\$1,261,226
2005-06	387	\$1,082,248
2004-05	373	\$942,630
2003-04	360	\$869,390
2002-03	342	\$815,525

The assessor's office appraises vessels initially with the aid of the *ABOS, New Boat and Motor Price Guide* (ABOS) and the *BUC New and Used Boat Price Guide* (BUC). Adjustments for vessel condition and for added equipment are made if appropriate. The assessor uses Form BOE 576-B1, *Vessel Owner's Report*, to obtain vessel information from taxpayers regarding their vessels.

In our prior survey report, we recommended that the assessor add sales tax as a component of market value when appraising vessels. Currently, we found that the assessor has fully implemented our prior survey recommendation. However, we did find one additional problem with the vessel assessment program.

RECOMMENDATION 7: Assess all vessels at market value.

The assessor's policy is to appraise vessels annually based on the appropriate current year value guides. However, there is a gap of 14 years between the two value guides (ABOS and BUC) in her possession. The assessor uses the ABOS guide for newer vessels (1996-2005) and the BUC guide for older vessels (1905-1981). However, the assessor has no value guide covering the 14 year time span (1981-1996). Rather, she interpolates the value indicators from these two value guides to estimate a value for any vessel built in this time gap. However, we found that using this method has resulted in value differences up to 30 percent.

The law requires the assessor to assess all taxable property in proportion to its value unless there is specific statutory provision for another manner of assessment. Vessels are subject to assessment at market value. The assessor's practice, of interpolating the value indicators from

these two value guides, results in some vessels being assessed at greater than market value while other vessels are being assessed at something less than market value.

Animals

The California Constitution mandates that all property is taxable unless specifically exempt by the Constitution, the laws of the United States, or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219 and by Rule 133.

Taxable animals include those that are held or used in connection with an owner's business, trade, or profession; those used to produce offspring for sale at a net profit; and those with proficiency that have gained substantial monetary or other awards.

Modoc County is a rural agricultural community with few assessable animals. The assessor's primary source for discovery of taxable animals is from Form BOE 571-F, *Agricultural Property Statement*. Other discovery methods include inter-county communications of transfers, newspaper articles and advertisements, telephone yellow pages, business directories, and audits of agricultural property.

We reviewed several agricultural statements and found that the assessor properly discovers, identifies, and appraises assessable animals.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Modoc County

Chief

Dean Kinnee

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Peter Gaffney

Supervising Property Appraiser

Sally Boeck

Supervising Property Appraiser

Survey Team Leader:

Glenn Danley

Senior Specialist Property Appraiser

Survey Team:

Dale Peterson

Senior Specialist Auditor-Appraiser

Larry Gee

Associate Auditor-Appraiser

Zella Cunningham

Associate Property Appraiser

Bob Marr

Associate Property Appraiser

Jay Price

Associate Property Appraiser

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of records; appraisal data not public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located, of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report.

The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement or the reasons for not implementing, the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code

75.60. Allocation for administration.

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

(c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.

(d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

(a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOARD'S FINDINGS

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

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

JAN -7 2008



County of Modoc

"Where the West Still Lives"

County-Assessed Properties Division
State Board of Equalization



Office of Assessor.....*Cheri Budmark*

Courthouse, 204 S. Court St., Rm 106
Alturas, CA 96101-4064
530/233-6218 Fax: 530/233-6237

January 2, 2008

Dean R. Kinnee, Chief
County-Assessed Properties Division
State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0062

Dear Mr. Kinnee:

Pursuant to Section 15645 of the California Government Code, I am enclosing the Assessor's response to the State Board of Equalization Assessment Practices of Modoc County conducted in July and August of 2006, and request that this response be included as part of the survey report.

I want to thank the entire survey team for their courteous and professional manner in conducting this survey and for their recognition of the use of modern computer technology in the Assessor's Office, resulting in improvement of our office functions.

I welcome the periodic review of the operations of this office and appreciate the positive and the constructive comments. I am in agreement with the State's recommendations and have already taken appropriate steps to implement changes in our procedures.

I would also like to acknowledge the staff of the Assessor's Office for their dedication, hard work, professionalism and commitment to serving the citizens of Modoc County.

Sincerely,

A handwritten signature in cursive script that reads "Cheri Budmark".

Cheri Budmark
Assessor, Modoc County

Encl.

MODOC COUNTY
Response to Recommendations

RECOMMENDATION 1: Cite proper authority when initiating roll changes to notify the auditor-controller when to apply penalties and interest for escape assessments.

We concur and have implemented this recommendation.

RECOMMENDATION 2: Annually review the lower of the factored base year value or the current market value of real property as required by section 51(a).

We are taking steps to implement this recommendation.

RECOMMENDATION 3: Improve the valuation of CLCA properties by: (1) correctly determining base year values for homesites, (2) correctly determining supplemental assessments for unrestricted portions of CLCA land, and (3) valuing compatible commercial uses using an economic commercial rent.

We concur and have implemented these recommendations.

RECOMMENDATION 4: Correctly establish the 1975 base year value for taxable government-owned lands acquired before 1975.

We concur and have implemented this recommendation.

RECOMMENDATION 5: Revise assessment practices for restricted historical properties by (1) considering only property income and expenses in the capitalization process, (2) weighting the amortization component of the capitalization rate to reflect the ratio of the improvement value to total property value, and (3) assessing new construction located on historical properties.

We concur and have implemented these recommendations.

RECOMMENDATION 6: Use supportable minimum percent good factors.

We concur with this recommendation and will utilize the California Assessors' Association (CAA) minimum percent good guidelines along with the guidelines set fourth in SBE LTA 2004/019, Minimum Percent Good Factors.

RECOMMENDATION 7: Assess all vessels at market value.

We concur and have implemented this recommendation.