

MONO COUNTY ASSESSMENT PRACTICES SURVEY

APRIL 2007

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April 18, 2007

TO COUNTY ASSESSORS:

RAMON J. HIRSIG
Executive Director

No. 2007/018

MONO COUNTY
ASSESSMENT PRACTICES SURVEY

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

The Mono County Assessor, the Honorable James D. Lovett, 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 Mono County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from July through August 2005. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Both the retiring assessor, the Honorable R. Glenn Barnes, and the current assessor, Mr. Lovett, 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/Mickie Stuckey for

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:tl
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Mono County Grand Jury and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable James D. Lovett, Mono County Assessor, elected to file his 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 BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Mono County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Mono 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 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 2001 Mono County Assessment Practices Survey, we made 18 recommendations to address problems in the assessor's assessment policies and procedures. The assessor has fully implemented 12 of the recommended changes. One recommendation no longer applies because of a change in statutory provisions, one because of a change in BOE guidance, and one because the required quarterly report is not required when there are no claims to report. The recommendations that were not implemented, or only implemented in part, are repeated in this report.

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

- Property Tax Administration Program (PTAP) funding has been used to modernize the assessor's computer system.
- All of the appraisers are current in their training requirements.
- The property tax exemption program is well administered.

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

- The assessor's roll affidavit does not contain the specific language required by section 616.
- The county's disaster relief ordinance does not conform to current statutory provisions, the assessor's claim form for disaster relief does not comply with section 170, and the assessor's disaster relief notice of reassessment does not contain the assessment appeal information required by section 170.
- The assessor still does not notify the auditor when interest should be added to escape assessments.
- The assessor's addition of a cover letter in the *Geothermal Exploratory Forms Package* does not comply with Rule 171 which prohibits changing, adding to, or deleting the specific wording of property statement forms or mineral productions forms prescribed by the BOE; and the assessor does not reference the correct statutory provisions on the aircraft property statement.

In the area of real property assessment, the assessor has effective programs for the enrollment of supplemental assessments, leasehold improvements, timeshares, and water company property. Other programs have areas where improvement is needed:

- The assessor is still not applying section 482 penalties when a *Change of Ownership Statement* is not returned timely, does not make the *Preliminary Change of Ownership Report* available to the public as required by section 480.3, and fails to reappraise real property subject to a corporate change in control.
- The assessor does not consider entrepreneurial profit as a cost component when valuing new construction, does not consider all valuation approaches for valuing new construction, and does not enroll all assessable new construction.
- The assessor does not annually reappraise properties with taxable values that are less than their factored base year value.
- The assessor does not deduct all applicable expenses in the valuation of California Land Conservation Act (CLCA) properties and does not document income and production data used in the valuation of CLCA properties.
- The assessor is not assessing all taxable possessory interests, does not periodically review the assessment of taxable possessory interests that have a stated term of possession for a decline in value, and does not capitalize net income to the lessor when valuing taxable possessory interests by the income approach.

In the area of business and personal property assessment, the assessor has effective programs for leased equipment, aircraft, vessels, and animals. Areas that need improvement, however, are:

- The assessor does not timely audit the books and records of professions, trades, or businesses pursuant to section 469.
- The assessor continues to misclassify ski lifts, tows, and trams as structures.

Despite the problems noted above, we found that most properties and property types are assessed correctly.

We found no significant assessment problems as defined in Rule 371. Since Mono 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, Mono 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: Revise the roll affidavits to conform to the requirements of section 616.11

RECOMMENDATION 2: Improve the disaster relief program by: (1) requesting that the board of supervisors revise the disaster relief ordinance, (2) revising the application for disaster relief to comply with section 170, and (3) revising the reassessment notice to comply with section 170.15

RECOMMENDATION 3: Notify the auditor when interest should be added to escape assessments.17

RECOMMENDATION 4: Improve the assessment forms program by: (1) complying with Rule 171, and (2) referencing the correct statutory provisions on the aircraft property statement.21

RECOMMENDATION 5: Improve the change in ownership program by: (1) applying the section 482 penalty when a *Change of Ownership Statement* is not returned timely, (2) making the *Preliminary Change of Ownership Report* form available to the public, and (3) reappraising real property subject to a corporate change in control.26

RECOMMENDATION 6: Improve the new construction program by: (1) considering entrepreneurial profit as a cost component when valuing new construction, (2) considering all valuation approaches for valuing new construction, and (3) enrolling all assessable new construction.29

RECOMMENDATION 7: Annually reappraise properties with taxable values that are less than their factored base year value.32

RECOMMENDATION 8: Improve the CLCA program by: (1) deducting all applicable expenses in the valuation of CLCA properties, and (2) documenting information on income and production data used in the valuation of CLCA properties.35

RECOMMENDATION 9: Improve the taxable possessory interests program by: (1) assessing all taxable possessory interests, (2) periodically reappraising taxable possessory interests with stated terms of possession for declines in value, and (3) capitalizing net income to the lessor when valuing taxable possessory interests by the income approach.37

RECOMMENDATION 10: Audit the books and records of professions, trades, or businesses pursuant to section 469.44

RECOMMENDATION 11: Classify ski lifts, tows, and trams as fixtures.....46

RESULTS OF 2001 SURVEY

Low-Value Property Exemptions

We recommended the assessor exempt low-value real property according to the low-value property exemption resolution. Since our last survey, the board of supervisors adopted a new low-value property exemption resolution that applies only to personal property and vessels. The assessor is correctly applying the new resolution; therefore, the recommendation is not repeated.

Supplemental Assessments

We recommended the assessor issue supplemental assessments for all newly completed structural leasehold improvements on the unsecured roll. The assessor has implemented this recommendation.

Assessment Roll Change Procedures

We recommended the assessor enter the section 533 required notation on the current assessment roll. This recommendation is no longer applicable because the requirement was eliminated by legislative changes to section 533 effective January 2005. We also recommended the assessor notify the county auditor when interest should be added to escape assessments. This recommendation has not been implemented and is repeated in this report.

Change in Ownership

We recommended the assessor report section 69.5 claims for transfer of base year value to the BOE, accept only completed section 63.1 claims, and apply the section 482 penalty for failure to timely file a *Change of Ownership Statement*. Since there have been no section 69.5 transfers, the assessor is not required to file the quarterly report to the BOE; therefore, we do not repeat the recommendation. The assessor has implemented the second recommendation, and now only accepts completed section 63.1 claims. The assessor has not implemented the third recommendation, which is repeated in this report.

New Construction

We recommended the assessor assess construction in progress at full value on each lien date and classify wells as land. The assessor has implemented both recommendations.

Taxable Possessory Interests

We recommended the assessor assess the taxable possessory interests of the cable television companies in Mono County and add the present worth of the unpaid future contract rents for the reasonably anticipated term of possession to the reported selling price of the taxable possessory interest. The assessor has implemented both recommendations.

Water Company Property

We recommended the assessor enroll parcels owned by mutual water companies. This recommendation has been implemented.

Timeshares

We recommended the assessor review timeshare projects for possible declines in value. The assessor has implemented this recommendation.

Geothermal Properties

We recommended the assessor request supplemental information for geothermal properties separately from the annual property statement. This recommendation has been implemented.

Valuation of Business Personal Property

We recommended the assessor use Assessors' Handbook Section 581 as intended. The assessor was using the California Assessors' Association's (CAA) minimum percent good factors that were unsupported by market data. The CAA minimum percent-good factors are now based on a Marshall Valuation Services study; therefore, they are supported by market data and this recommendation is no longer applicable.

Classification

We recommended the assessor classify ski lifts, tows, and trams as fixtures. This recommendation has not been implemented and is repeated.

Vessels

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

Manufactured Homes

We recommended the assessor enroll manufactured homes as personal property. This recommendation has been implemented and is not being repeated.

OVERVIEW OF MONO COUNTY

Mono County was created by an act of the Legislature on April 21, 1861. In 1864, the community of Bridgeport was established as the county seat and still remains the center of county government. The county's only incorporated city is the Town of Mammoth Lakes.

Located in the east-central section of California, Mono County is bordered on the north by the county of Alpine; on the west by the counties of Tuolumne, Mariposa, Fresno, and Madera; on the south by the county of Inyo; and on the east by the State of Nevada.

Mono County contains slightly more than 3,000 square miles, of which nearly 90 square miles are located under water. Most of the county's land area is owned by governmental agencies. Sixty percent is located within national forests, 28 percent is under the jurisdiction of the Bureau of Land Management, 3 percent is owned by the Los Angeles Department of Water and Power, and 2 percent is owned by the State of California. Less than 7 percent of the total land in Mono County is in private ownership.

The population of Mono County is approximately 13,000 residents, of which a little more than 6,300 make up the labor force. The following chart shows the breakdown of the labor force by industry:

INDUSTRY	PERCENT OF LABOR FORCE
Services	36.37%
Trade	26.33%
State-Local Government	18.03%
Finance-Insurance-Real Estate	7.05%
Construction/Mining	6.27%
Federal Government	3.13%
Transportation-Utility	1.88%
Manufacturing	0.94%

The following table displays information pertinent to the 2005-06 assessment roll provided by the assessor:

PROPERTY TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE
Secured Roll	16,125	\$3,568,048,727
Unsecured Roll	3,287	\$261,704,904
Total Assessment Roll	19,412	\$3,829,753,631

The next table illustrates the growth in assessed values for recent years as provided in the BOE's Annual Reports:

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2005-06	\$3,810,547,000	13.1%	11.1%
2004-05	\$3,369,273,000	10.9%	8.3%
2003-04	\$3,038,796,000	12.6%	7.3%
2002-03	\$2,699,199,000	9.9%	7.3%
2001-02	\$2,455,857,000		

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, low-value property exemption, exemptions, and assessment forms.

Assessment Roll

The operation of an assessor's office is geared to one end: production of a property assessment roll that reflects the current status of ownerships, owners' addresses, and values. Assessors' Handbook Section 201, *Assessment Roll Procedures*, sets forth what an assessor must do to comply with the constitutional, statutory, and administrative requirements of preparing both the regular local roll, as provided in section 601, and the supplemental roll, as provided in sections 75 through 75.80.

We found one issue that the assessor should correct in order to be in compliance with the Revenue and Taxation Code.

RECOMMENDATION 1: Revise the roll affidavits to conform to the requirements of section 616.

Each year, when the assessor turns the tax roll over to the auditor-controller, he includes an affidavit that states "I, (assessor's name), am handing over to (name), Auditor/Controller the (year) Secured Tax Roll on this (date)." The assessor uses the same format to transfer the unsecured tax roll to the auditor-controller and both affidavits include the net value and total value for each roll. However, these affidavits do not include statements attesting to the duties of the assessor in the completion of the tax rolls as required in section 616.

Section 616 provides that the assessor shall make and subscribe an affidavit on the roll substantially as follows:

I, _____, Assessor of _____ County, swear that between the lien date and July 1, _____, I have made diligent inquiry and examination to ascertain all the property within the county subject to assessment by me, and that it has been assessed on the roll, according to the best of my judgment, information, and belief, at its value as required by law; and that I have faithfully complied with all the duties imposed on the assessor under the revenue laws; and that I have not imposed any unjust or double assessment through malice, ill will, or otherwise; nor allowed anyone to escape a just and equal assessment through favor, reward, or otherwise."

The assessor should revise the affidavits to include the language as provided by section 616.

Budget and Staffing

As shown in the following table, the assessor's office has benefited from increased budget levels over the last five years. PTAP funds are accounted for separately from the assessor's official budget.

BUDGET YEAR	GROSS BUDGET	INCREASE
2004-05	\$1,026,935	43.56%
2003-04	\$715,319	8.18%
2002-03	\$661,223	20.17%
2001-02	\$550,248	7.39%
2000-01	\$512,369	

The large increase in the budget for 2004-05 was primarily due to a salary adjustment made in order to fill vacant positions with qualified applicants. As of the time of our field review, all positions were filled.

The assessor's staff includes the assessor, one chief appraiser, two appraiser III's, two appraiser II's, one appraiser I, one auditor-appraiser, one appraiser's aide, one office manger, one cadastral mapping specialist/transfer analyst, one fiscal and technical specialist II, and one fiscal and technical specialist I.

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 Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.³ This program expired June 30, 2001, and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07.⁴ The grant program operates in essentially the same manner as the loan program except that if a county does not meet its 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 elected 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.

³ Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

⁴ State-County Property Tax Administration Program funding has been suspended for two years, beginning with the 2005-06 California State Budget.

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

Mono County first participated in the PTAP in fiscal year 1996-97 and continues its participation in the PTAP through June 6, 2006.

For the 2005-06 fiscal year, Mono County received a grant in the amount of \$47,778 from the State Department of Finance. Funds from the grant have been used to provide two contract appraisers and a computer programmer to upgrade the assessor's operating system.

In order to maintain eligibility to receive the grant, a county must show that the increase in tax revenue exceeds the grant amount. The Mono County Auditor-Controller has certified to the State Department of Finance that the county has met the contractual requirements for each year under contract.

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 BOE. There are a total of eight certified appraisers on staff, including the assessor, of whom four hold advanced certificates and four have permanent appraiser's certificates. Additionally, we found that the one auditor-appraiser performing mandatory audits meets the requirements referenced in section 670(d). There are currently no employees who possess a temporary appraiser's certification.

The assessor's office uses the services of two contract appraisers. The contract appraisers are responsible for the appraisal of all geothermal, mineral, and energy-producing properties in Mono County. The contract appraisers possess the necessary certification and are current with their training requirements.

Contracts are for a one-year term, renewable each year. The contract provides that the contract appraisers be compensated monthly upon receipt by the county of an itemized billing from the contractor. The contract also includes a clause that all records and information obtained by the contract appraiser shall be maintained in strict confidence and shall not be disclosed or furnished to any person, firm, or agency without the express written consent of the assessor and county.

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

Mono County has one assessment appeals board comprised of three regular members and two alternates. All assessment appeal applications are received and reviewed by the clerk of the

assessment appeals board. The clerk of the board then forwards a copy of the appeals application to the assessor. The clerk of the board is responsible for scheduling assessment appeal hearings.

The clerk of the board uses a spreadsheet to track appeals from date of receipt of the application to final resolution. Both the assessor and the clerk of the board work to ensure that all appeals are resolved within the two-year time limit. At the appeal hearings, the assessor is represented by the chief appraiser and the appraiser who made the original appraisal.

The following table provides a summary of appeal information for 2001-02 to 2003-04:

	2003-04	2002-03	2001-02
Total Appeals:			
Applications Received	14	18	
Carried Over	15	5	
Total	29	23	12
Resolution:			
Denied-lack of appearance			
Hearing-denied			
Hearing-reduced			
Hearing-increased			0
Hearing-upheld		1	1
Invalid			
Stipulation	2	2	
Withdrawn			6
Other	2	5	
Total	4	8	7
Carried over to next year	25	15	5

We found no problems with the county's 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 an ordinance, assesseees must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must either provide the last known assessee with an application for reassessment or revalue the property on lien date.

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 of value reductions and reduce the assessed values accordingly.

The Mono County Board of Supervisors adopted the county's disaster relief ordinance (No. 81-498) on August 25, 1981. The original ordinance has not been updated and does not conform to current statutory provisions. However, with some exceptions, the assessor's disaster relief procedures conform to current statutory provisions.

The assessor discovers calamities through building permits issued for repairs, newspaper articles, taxpayer notification, and field investigation. The assessor does not regularly receive fire reports from local fire departments to help discover fire-damaged properties. If the assessor becomes aware of a property damaged by fire, he will request information from the appropriate fire-fighting agency. Due to the limited number of structures in the county, the assessor appears to have adequate controls in place for discovering calamities as they occur in the county.

We reviewed the records of several properties that had suffered a calamity and noted that the records were well documented. Disaster relief claim forms were date stamped upon receipt, all of the calculations were accurate and complied with current statutory provisions, and the assessor processed mid-year tax relief for property owners when applicable. The assessor appropriately denied claims for relief received after the filing deadline and documented the filing dates for those claims. We noted three areas for improvement in the assessor's disaster relief program.

RECOMMENDATION 2: Improve the disaster relief program by: (1) requesting that the board of supervisors revise the disaster relief ordinance, (2) revising the application for disaster relief to comply with section 170, and (3) revising the reassessment notice to comply with section 170.

Request that the board of supervisors revise the disaster relief ordinance.

As previously stated, the disaster relief ordinance has not been updated since it was adopted in 1981 and does not conform to the current statute. Chapter 407 of the Statutes of 2001 made various amendments to section 170. The period for filing an application for assessment relief has been extended from 6 months to 12 months or the time specified in the ordinance, whichever is later. Additionally, the amendment provides that the amount of property damage necessary to qualify for assessment relief was increased from \$5,000 to \$10,000, and the period for filing an application for reassessment of the assessor's proposed valuation is increased from 14 days to 6 months. The disaster relief ordinance should be updated to reflect these statutory changes.

Revise the application for disaster relief to comply with the section 170.

The assessor provides a claim form, *Application For Reassessment After Calamity*, to taxpayers who suffer damage to their property as a result of misfortune or calamity. However, the following key statutory elements have been omitted from the form and must be included:

- A statement that the relief applies to any taxable property (real or personal),
- A declaration that the disaster was through no fault of the owner,
- A statement that the damage equals or exceeds \$10,000,
- An estimate of pre- and post-calamity values by the owner,
- A statement that the claim is executed under penalty of perjury, accompanied by an affidavit if executed out-of-state, and
- Required dates, including the application due date and/or filing period.

Revise the reassessment notice to comply with section 170.

The assessor uses the *Notice of Supplemental Assessment* to inform applicants of the amount of proposed reassessment resulting from a misfortune or calamity. This notice contains language stating a claimant choosing to appeal the reassessment must file an application for changed assessment within 60 days after the date of the notice or the postmark on the envelope in which the notice was mailed, whichever is later.

However, section 170(c) provides that the reassessment notice shall state that the applicant may appeal the proposed reassessment to the local board of equalization within six months of the date of mailing of the notice.

The assessor's notice is contrary to specific legislation. By misrepresenting the amount of time available to a property owner to file an appeal of the reassessment, the assessor is misinforming the property owner and may inadvertently prevent some applicants from filing such an appeal.

Assessment Roll Changes

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, if a correction is made that will decrease the amount of the unpaid taxes, the consent of the board of supervisors is necessary. 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 for recent years:

ROLL YEAR	SECURED ROLL CHANGES	UNSECURED ROLL CHANGES
2004-05	1,102	45
2003-04	618	57
2002-03	1,949	55
2001-02	932	193

In our 2001 survey, we recommended the assessor include the section 533 notation on the current assessment roll and notify the auditor when interest should be added to escape assessments. Section 533, as amended by Chapter 200 of the Statutes of 2004, effective January 1, 2005, no longer requires specific notations be made on the roll when making roll corrections. Therefore, the first recommendation is no longer applicable. The second recommendation has not been implemented and is repeated.

RECOMMENDATION 3: Notify the auditor when interest should be added to escape assessments.

The assessor does not notify the county auditor to apply section 506 interest to certain escape assessments. In our 2001 survey, we found that the assessor was not notifying the county auditor to apply the section 506 interest and that there were no procedures in place to inform the auditor to apply the interest. In response to our recommendation from the 2001 survey, the assessor added a data field to the roll correction screen to notify the county auditor when interest should be added.

In our current review, we found that, even though the data field has been added to the roll correction screen, the assessor's staff is still not using the field to notify the auditor to apply the section 506 interest. Both the appraiser's aide and the auditor-appraiser who process roll corrections were unaware that there was a data field for notifying the county auditor when interest should be added.

Section 531 provides in part that escape assessments made as result of an owner's failure to file a property statement as herein provided shall be subject to interest imposed by section 506. Therefore, interest must be applied to an escape assessment where the escape was the fault of the taxpayer.

The assessor's procedure is contrary to statutes and may result in lost revenue.

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 may 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 our 2001 survey, we recommended the assessor exempt low-value property according to the low-value property exemption resolution. At that time, Resolution No. 86-16 exempted from property taxation all real and personal property having a base year value or full value of \$2,000 or less. However, the assessor did not apply the exemption to real property. The board of supervisors adopted Resolution No. R02-003 on January 15, 2002, effective January 1, 2002, which repealed Resolution No. 86-16 and specifically exempted from property taxation all classes of property comprising personal property and vessels with a full value of \$3,500 or less. The new resolution does not exempt real property and our review indicates that all values on the secured roll are transmitted to the auditor to be billed. Therefore, we do not repeat the recommendation.

Our review of the assessor's valuation of personal property and vessels indicates that the assessor is correctly applying the low-value exemptions to those classes of property.

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 also is exempt, under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for 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 the Mono County Assessor's Office, both individual exemptions (homeowners', veterans', and disabled veterans') and institutional exemptions (religious, church, and welfare) are processed by the auditor-appraiser. The auditor-appraiser uses instructional materials received from the BOE, such as Letters To Assessors, Assessors' Handbook Section 267, *Welfare, Church and Religious Exemptions* (October 2004), and a welfare exemption workshop binder, as guides in applying the various exemptions.

For the 2005-06 assessment roll, the assessor processed 4 church exemption claims and 11 religious exemption claims. The following table illustrates religious and church exemption data for recent years:

ROLL YEAR	RELIGIOUS		CHURCH	
	NUMBER	EXEMPTED VALUE	NUMBER	EXEMPTED VALUE
2005-06	11	\$5,612,908	4	\$402,151
2004-05	11	\$5,471,494	4	\$377,472
2003-04	11	\$5,371,241	4	\$387,030
2002-03	11	\$5,215,826	4	\$379,464
2001-02	11	\$5,139,835	4	\$372,028

We found the assessor adheres to the statutory filing requirements. Once the religious exemption is granted, in subsequent years, the assessor annually sends out Form BOE-267-SNT, *Religious Exemption Change In Eligibility Or Termination Notice*, to the claimant. If a claimant fails to return the annual termination notice, the assessor contacts the claimant to ensure that the claimant continues to qualify for the exemption. We found no problems in the religious exemption program.

We reviewed all four church exemption claims filed with the assessor. We found that the assessor has an effective church exemption program.

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 BOE and county assessors. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is

eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* to qualified nonprofit organizations. And, the assessor became 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 *Organizational Clearance Certificate* issued by the BOE. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's *Organizational Clearance Certificate* issued by the BOE.

The following table shows welfare exemption data for recent years.

ROLL YEAR	WELFARE	
	NUMBER	EXEMPTED VALUE
2005-06	13	\$10,941,328
2004-05	15	\$7,200,554
2003-04	11	\$4,794,308
2002-03	9	\$3,731,109
2001-02	10	\$4,271,988

We reviewed a variety of welfare exemption claims, including first-time filings, denied claims, and late filings. Some of the specific property types we reviewed included parsonages, land conservation organizations, religious retreat centers, and churches. A separate folder is maintained for every organization and contains supporting documentation and correspondence. We found no problems with the assessor's welfare exemption program.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.⁵ For the 2005 lien date, the BOE prescribed 79 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists and any rearranged forms to the BOE by October 15 in the case of property statements

⁵ Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

and miscellaneous forms and by December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

We reviewed the forms used by the Mono County Assessor's Office for the year 2005-06 and found the following:

- Of the 79 BOE-prescribed forms listed on the three checklists provided for the 2005 lien date, the assessor used 53.
- The assessor did not rearrange any of the forms used.
- The assessor has 14 locally-developed forms, notices, and form letters.
- The assessor uses two "packages" of forms for the submission of geothermal property data.
- The checklists were received timely.
- The final prints of the forms were received late.

We noted two changes that would improve the assessor's assessment forms program.

RECOMMENDATION 4: Improve the assessment forms program by: (1) complying with Rule 171, and (2) referencing the correct statutory provisions on the aircraft property statement.

Comply with Rule 171.

The assessor sends out annually a *Geothermal Exploratory Forms Package* that includes four BOE-prescribed forms. Along with the forms, the assessor includes a cover letter that specifies a filing deadline for the forms. This letter cites sections 441.5, 463, and 441(g).

The cover letter is an unauthorized addition to the four BOE-prescribed forms used by the assessor in his *Geothermal Exploratory Forms Package*. Rule 171 states the assessor shall not change, add to, or delete the specific wording of property statement forms or mineral production report forms prescribed by the BOE or change the sequence of the questions.

Reference the correct statutory provisions on aircraft property statements.

The assessor's aircraft property statement incorrectly cites sections 441 and 445 as statutory authority for requested information from aircraft owners. Sections 441 and 445 apply to property statements other than aircraft property statements. The correct reference for the aircraft property statement is section 5365. Section 5365 requires the owner of an aircraft to file an annual statement providing aircraft assessment information to the assessor. The assessor should either adopt the California Assessors' Association's (CAA) aircraft property statement, which cites the

correct statutory reference, or change the statutory reference on his aircraft property statement to section 5365.

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 and taxable government-owned property.

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

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, based on the property's fair market value on the date of change in ownership pursuant to section 110.1.

Document Processing

Most changes in ownership are discovered through documents recorded in the recorder's office. The recorder transmits all recorded documents electronically to the assessor's office. The assessor's transfer analyst reviews the recordings and determines if there is an assessable transfer and the percentage change of ownership in the property being transferred. The transfer analyst also verifies and matches the legal description to the assessor's parcel number (APN).

Recorded documents are forwarded to the clerical staff, who update the ownership information on the computer database. For each parcel in the county, the assessor maintains a change in ownership history on the computer system and also on a "*Transaction Record*" in the property files. For assessable transfers, a copy of the recorded documents and the property record are given to the appraiser assigned to that geographical area where the property is located.

Once the appraiser completes the appraisal, the appraisal record is routed to the assessor for his review and approval. Once approved by the assessor, the clerical staff inputs the new roll values into the computer system. The computer automatically generates a value notice for the taxpayer.

The following table shows the total number of documents recorded and the number of documents that generated a reappraisal for recent years:

ROLL YEAR	NUMBER OF DOCUMENTS	RESULTING CHANGES IN OWNERSHIP
2004-05	3,187	1,385
2003-04	3,616	1,536
2002-03	3,327	1,301
2001-02	3,055	1,272
2000-01	2,835	1,608

The recorder requires that Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), be submitted with the deed when it is recorded. PCOR's are available at no charge from the recorder. When a deed is recorded without a PCOR, the recorder charges the transferee \$20 as provided in section 480.3.

When a PCOR is not submitted to the recorder, the assessor sends out Form BOE-502-AH, *Change of Ownership Statement* (COS), to the taxpayer. Approximately 99 percent of COSs sent out are completed and returned to the assessor. When a COS is mailed to the taxpayer, the assessor attaches a cover letter outlining the section 482 penalty for not returning the completed form within 45 days. In our 2001 survey, we recommended the assessor apply the section 482 penalty when a COS is not returned timely. The assessor still does not apply the penalty as provided for in section 482; therefore, this recommendation is repeated in this survey.

Improvement Bonds

Improvement bonds are instruments used to finance the construction of public improvements that generally enhance the land value of privately owned real property. Improvements often financed using improvement bonds include sewers, sidewalks, lighting, and water lines. Land directly benefiting from such improvements is pledged as security for payments of the bonds. The improvement bond is a lien that encumbers the land and binds the owner and all successors in interest in accordance with the 1911, 1913, and 1915 Bond Acts.

Section 110(b) provides, in part, that there is a rebuttable presumption that the value of improvements financed by bonds is reflected in the purchase price paid for a property exclusive of the bond amount. In Mono County, the assessor presumes that any outstanding bond balance is included in the sales price; therefore, the assessor does not add bonds to the nominal sales price unless there is evidence to overcome that presumption.

Change in Ownership Exclusion and Base Year Value Transfers

Section 63.1 excludes from the definition of change in ownership the purchase or transfer (on or after November 6, 1986) of the principal residence and the first \$1 million of other real property

between parents and children when a claim is filed timely. Subsequent amendment to section 63.1 also excludes certain transfers from grandparents to their grandchildren.

The following table shows the number of section 63.1 exclusions granted for recent years:

ROLL YEAR	SECTION 63.1 EXCLUSIONS
2004-05	130
2003-04	128
2002-03	70
2001-02	59
2000-01	81

In our 2001 survey, we recommended the assessor accept only completed section 63.1 claims. The assessor has implemented this recommendation and now only accepts completed section 63.1 claims and is reporting these exclusions to the BOE on a quarterly basis.

Section 69.5 allows qualified homeowners, 55 years of age or older, to transfer the base year value of their principal residence to a replacement dwelling purchased or newly constructed within the same county on or after November 5, 1986, provided a claim is timely filed. Such claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling. Subsequently, section 69.5 was amended to include qualified homeowners who are severely and permanently disabled, and to allow counties to adopt ordinances to expand its benefits to include intercounty transfers. Mono County does not have an ordinance allowing intercounty transfers of a base year value to a replacement dwelling for person(s) over age 55 or disabled.

In our 2001 survey, we recommended the assessor report section 69.5 claims for transfer of base year value to the BOE. Our review of the assessor's 2005 files and records failed to identify any properties that had been granted a section 69.5 transfer. When there have been no transfers of base year value as allowed by section 69.5, the assessor is not required to file the quarterly report to the BOE. Therefore, we are not repeating this recommendation.

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

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under

section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide specific information about the real property involved—for example, the county of location, the assessor's parcel number, etc. Because of the limited data provided by many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

When the LEOP listing is received from the BOE, the transfer analyst reviews the list, identifies the parcels owned by the legal entity in the county, and forwards the information and property records to the appraiser who is assigned to that particular geographical area. We reviewed a number of changes in control. With one exception, we found that the assessor processed LEOP notices properly and revalued parcels that had undergone a change in ownership.

As mentioned earlier, the assessor still does not apply the section 482 penalties when a COS is not returned timely. Therefore, we are repeating this recommendation. In addition, we found two other areas in the assessor's change in ownership program that need improvement.

RECOMMENDATION 5: Improve the change in ownership program by: (1) applying the section 482 penalty when a *Change of Ownership Statement* is not returned timely, (2) making the *Preliminary Change of Ownership Report* form available to the public, and (3) reappraising real property subject to a corporate change in control.

Apply the section 482 penalty when a *Change of Ownership Statement* is not returned timely.

The assessor does not apply the section 482 penalty when a change of ownership statement is not returned timely. Section 480(a) provides that whenever any change in ownership of real property or of a manufactured home occurs that is subject to local property taxation, the transferee shall file a signed change of ownership statement. Section 482(a) provides that if a person or legal entity required to file a statement described in section 480 fails to do so within 45 days from the date of a written request by the assessor, a penalty of either: (1) one hundred dollars (\$100), or (2) 10 percent of the taxes applicable to the new base year value, whichever is greater, but not to exceed \$2,500, shall be added to the assessment made on the roll.

The information contained in a properly completed COS assists the assessor in making an accurate assessment. By not processing penalties in a timely fashion, the assessor is not enforcing section 482 as prescribed and conveys to the public that these statements and the application of the penalty are unimportant.

Make the *Preliminary Change of Ownership Report* form available to the public.

We found that the assessor does not have PCOR forms in his office. Taxpayers needing to file a PCOR must obtain the form from the recorder's office.

Section 480.3 provides that each assessor must make available to the public, without charge and upon request, the *Preliminary Change of Ownership Report* form.

The assessor's policy is contrary to specific statutory requirements.

Reappraise real property subject to a corporate change in control.

In 2001, the assessor discovered that, in 1997, a corporation acquired approximately 51 percent ownership interest in the legal entity that owns a major ski resort in Mono County. The assessor believed that this stock purchase resulted in a change in control of the legal entity and, therefore, a reappraisable event for the ski resort had occurred.

In 2002, the assessor sent a letter requesting an opinion from the BOE to determine if this acquisition of ownership interest in the legal entity resulted in a change in ownership of the real property within the provisions of section 64(c)(1). In a letter dated January 2, 2003, the BOE agreed with the assessor that the stock purchase did result in a change of ownership within the provisions of section 64(c)(1) and therefore a 100 percent reappraisable event of the real property has occurred. To date, the resort has not been reappraised.

Section 64(c)(1) provides that, when one legal entity obtains ownership or control of more than 50 percent of the voting stock of another legal entity, that a change of ownership of all real property owned by the second legal entity has occurred.

Neglecting to reappraise the resort is contrary to a specific statutory requirement and may result in lost revenue.

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; section 70(c), (d), and (e), and sections 73 through 74.7 address these exclusions.

Discovery

Most new construction activity is discovered from building permits. Currently, the assessor receives building permits from the following permit-issuing agencies: Mono County Building Department, the town of Mammoth Lakes, and the Mono County Health Department, which

issues permits for wells and septic systems. Other sources of information for discovering new construction include newspaper articles, business property statements, and field canvassing.

The following table shows the permit workload of the assessor for recent years:

ROLL YEAR	PERMITS RECEIVED	PERMITS GENERATING VALUE	TOTAL VALUE ADDED
2004-05	1,052	350	\$22,664,789
2003-04	1,040	674	\$48,629,588
2002-03	936	460	\$55,851,389
2001-02	992	377	\$39,321,699
2000-01	N/A	532	\$25,203,360

Permit Processing

The assessor obtains copies of building permits from the county building department and health department on a monthly basis. An appraiser picks up permits from the town of Mammoth Lakes every two weeks. All of the permits received by the assessor are in hard copy form and most permits are accompanied by a building plan. An appraiser's aide enters data from the permits into the assessor's computer system. Permits are then forwarded to the appraiser assigned the geographical area in the county where the parcel with the permit is located. Each appraiser is responsible for culling permits assigned to them to eliminate items that the assessor does not believe qualify as new construction, such as maintenance and repairs.

Appraisers field check all properties with active permits. When construction is completed, the appraisers make their valuation estimates and the appraisal records are forwarded to the chief appraiser and assessor for review and approval. After review and approval, the appraiser's aide enters the new values into the computer system.

Valuation

For valuing residential new construction, the Mono County Assessor uses several cost sources, including Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), the property owner's actual cost, and the *Marshall Valuation Service* cost guide. The preferred method is to use the owner's actual costs if available.

The assessor mails a *New Construction Questionnaire* to all property owners with building permits that indicate an assessable event. The questionnaire requests that the property owner provide the status of work, a description of construction, a description of any structure's interior, and any comments concerning the construction activity. Construction cost information is also obtained from building permits and from taxpayers by phone, if necessary.

In our 2001 survey, we made two recommendations to improve the assessor's new construction program. The first recommendation was that he assess construction in progress at full value on

each lien date. We reviewed a number of appraisal records of property under construction and found that the assessor has implemented this recommendation. The second recommendation was for the assessor to classify wells as land. At that time, wells were being assessed as improvements. Our current review found that this recommendation has been implemented.

However, in our current review of the assessor's new construction program, we noted three areas that need improvement.

RECOMMENDATION 6: Improve the new construction program by: (1) considering entrepreneurial profit as a cost component when valuing new construction, (2) considering all valuation approaches for valuing new construction, and (3) enrolling all assessable new construction.

Consider entrepreneurial profit as a cost component when valuing new construction.

The assessor does not consider entrepreneurial profit as a cost component when valuing new construction. The assessor's policy is inconsistent with the guidelines set forth in Rule 6, Assessors' Handbook Section 501, *Basic Appraisal* (AH 501), and Assessors' Handbook Section 502, *Advanced Appraisal* (AH 502), for valuing new construction by the cost approach to value.

Under subdivision (b) and (c) of Rule 6, when estimating the current cost to replace a property by reference to the current prices of a property's labor and material components, it is appropriate to add amounts for entrepreneurial services and costs that would typically be incurred in bringing the property to a finished state.

The AH 501 and AH 502 discuss the concept that costs, for appraisal purposes, may be thought of as "full economic costs." In general, full economic costs are the payments that must be made to secure the supply of all the agents necessary for production. Full economic costs consist of all expenditures necessary to place the completed property in the hands of the buyer or ultimate consumer. Full economic costs necessary to construct real property and ready it for its intended use include direct costs, indirect costs, and entrepreneurial profit.

The assessor's policy is contrary to specific statutory requirements and acceptable appraisal practices.

Consider all valuation approaches for valuing new construction.

The assessor has directed his staff to only consider the cost approach when valuing completed new construction. The assessor's policy is to value completed new construction based on the project's historical cost or replacement cost. The assessor prohibits his staff from using either the comparative sales or income approach to value. The assessor's policies of valuing new construction using only historical or replacement cost is contrary to specific statutory and regulatory guidelines and inconsistent with generally accepted appraisal practices.

Section 75.10 provides that whenever new construction is completed, the assessor shall appraise it at its full cash value on the date the new construction is completed. Section 110(a) provides that "full cash value" or "fair market value" means the amount of cash or its equivalent that property would bring if exposed for sale in the open market.

Rule 4, the comparative sales approach to value, provides that when reliable market data are available with respect to a given real property, the preferred method of valuation is by reference to sales price. Rule 6(a) provides that the reproduction or replacement cost approach to value is used in conjunction with other value approaches and is preferred when neither reliable sales data nor reliable income data are available and when the income from the property is not so regulated as to make such cost irrelevant. Rule 8(a) provides that the income approach to value is the preferred approach for the appraisal of improved real properties and personal properties when reliable sales data are not available and the cost approaches are unreliable because the reproducible property has suffered considerable physical depreciation, functional obsolescence or economic obsolescence, is a substantial over- or under-improvement, is misplaced, or is subject to legal restrictions on income that are unrelated to cost.

In valuing completed new construction, the assessor should consider all three approaches to value to establish the full value contribution of the new construction. And, if adequate sales data are available, the preferred approach to value is by the comparative sales approach.

Prior to this policy change, the assessor used the comparative sales approach in conjunction with the cost approach to value completed new construction. We reviewed a number of records where the comparative sales approach was used to value completed new construction. We found that in those instances the value from the comparative sales approach provided the best indicator of value.

The assessor's policies of relying solely on the cost approach may result in the underassessment of completed new construction and is contrary to specific statutory and regulatory guidelines.

Enroll all assessable new construction.

New construction was completed in 2002, 2003, and 2004 to a major property in Mono County. To date, the assessor has not enrolled any value on the assessment roll for the completed new construction.

The assessor has assessed all structural new construction that was complete as of the 2000 lien date. However, new construction completed subsequent to the 2000 lien date has not been assessed. We found a number of building permits resulting in assessable new construction that were issued final notices or certificates of occupancy by the building division that had not been assessed by the assessor.

By not assessing these completed new construction projects, the assessor is allowing property to escape assessment.

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.

For the 2005-06 assessment roll, there were 1,143 parcels in Mono County that had a decline-in-value assessment. Ninety-eight percent of these parcels are timeshares and the remaining 22 parcels are detached single-family residences, commercial properties, or condominiums. The following table illustrates the number of parcels reviewed by the assessor for declines in value for recent years:

ROLL YEAR	NUMBER OF DECLINE-IN-VALUE ASSESSMENTS
2005-06	1,143
2004-05	not available
2003-04	1,192
2002-03	1,192
2001-02	1,387

Discovery

The assessor has no formal program to annually identify properties with market values that are less than their factored base year values. The assessor only reviews properties for a decline-in-value if requested by the property owner. Property owners must submit a written request to have their property reviewed. The majority of single-family residences in Mono County are custom built, rather than homogeneous subdivisions of similar homes; therefore, the assessor believes the best approach is to review the assessment of each property to determine if a reduction in value was warranted.

Document Processing

The assessor has written procedures for handling requests for reviews of declining values. After receiving the applicant's written request, the clerical staff enters the information from the request into the computer database. The request for review is forwarded to the appraiser responsible for that particular geographical area. If the appraiser determines that a reduction in value is not justified, a letter of denial is sent to the applicant. If the appraiser determines that a reduction in value is appropriate, the request is sent to the assessor for review and approval. If approved, the new value is enrolled. The computer then generates a notice, which is mailed to the applicant.

The notice includes the current market value and the current factored base year value, and outlines the taxpayer's right to appeal the proposed new value.

We reviewed several properties that had been granted a decline-in-value and found them to be well documented; the reductions in value were supported with market data. However, we found one area in the assessor's decline-in-value program that needs improvement.

RECOMMENDATION 7: Annually reappraise properties with taxable values that are less than their factored base year value.

The assessor is not annually reviewing all properties with taxable values that are less than their factored base year value.

Section 51(e) requires that properties with taxable values less than their factored base year values be reappraised annually until their full cash values exceed their factored base year values.

The assessor's practice of not annually reappraising properties with taxable values that are less than their factored base year values may result in overassessments and is contrary to specific statutory regulations.

Supplemental Assessments

Sections 75 through 75.80 mandate supplemental assessments for changes in ownership and the completion of new construction occurring on or after July 1, 1983. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completed new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The assessor issues supplemental assessments whenever there is a change in ownership or completion of new construction. After the appraiser establishes the new value due to a change in ownership or completed new construction and the assessor approves the new value, the appraisal folder is forwarded to the appraiser's aide.

The appraiser's aide reviews the documents for mathematical errors and then inputs the data into the computer system. The computer calculates the supplemental assessment and generates a supplemental assessment notice to be mailed to the taxpayer. We found that the notice of supplemental assessment includes all information required by section 75.31.

The assessor processes all supplemental assessments regardless of value. The supplemental assessments are then forwarded to the auditor-tax collector to be billed. Supplemental tax bills that are \$20 or less are cancelled by the county auditor-tax collector, as allowed by section 75.41(d). The total supplemental assessment process, from the event date to the issuance of the supplemental tax bill, can take up to 18 months.

The following table shows the number of supplemental assessments notices issued by the assessor for recent years:

ROLL YEAR	SUPPLEMENTAL NOTICES MAILED
2004-05	1,803
2003-04	3,071
2002-03	2,630
2001-02	2,296
2000-01	2,647

In our 2001 survey, we recommended the assessor issue supplemental assessments for all newly completed structural leasehold improvements assessed on the unsecured roll. Supplemental assessments were not being issued for structural improvements reported on schedule B-1 of the business property statement. The assessor has implemented this recommendation and structural improvements are now supplementally assessed when appropriate.

When structural leasehold improvements are reported on the business property statement, a special folder with a unique code is created and used to process the assessment. This procedure allows for the proper classification of structural leasehold improvements as real property and thereby subject to supplemental assessment. This unique code allows the computer system to annually apply the proper inflation factor to these assessments for subsequent lien dates.

California Land Conservation Act Property

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

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, such as, hunting rights and communications facilities). 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 BOE-approved guidance for the appraisal of these properties.

On October 17, 2000, the Mono County Board of Supervisors adopted Resolution No. R00-79 establishing requirements and procedures for the implementation of the California Land

Conservation Act of 1965, as amended, in the County of Mono. On June 12, 2001, the Mono County Board of Supervisors adopted Resolution No. R01-55a, allowing land subject to a CLCA contracts with Mono County to be valued according to section 423.3. For the 2004-05 assessment roll, there were 13,317 acres in Mono County encumbered by CLCA contracts. The valuation of CLCA properties in Mono County is the responsibility of one real property appraiser.

The assessor uses a spreadsheet to track the restricted, factored base year, and current market values of CLCA properties for the purpose of enrolling the lowest of the three values each year. In computing the restricted value, the assessor uses a capitalization rate that is comprised of the yield component announced annually by the BOE, a risk component, and a property tax component. The assessor annually mails a questionnaire, *Rural Property and Production Questionnaire for Williamson Act Properties*, requesting income, production, and expense information pertaining to CLCA lands.

Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce and subtract the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring, such as lease payments for oil or gas exploration rights, communication facility sites, and recreational uses such as hunting or fishing. There are no limits placed upon the income to be capitalized unless the contract contains a provision establishing a minimum annual income per acre.

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

We found two areas that needed improvement in the assessor's program for the assessment of CLCA properties in Mono County

RECOMMENDATION 8: Improve the CLCA program by: (1) deducting all applicable expenses in the valuation of CLCA properties, and (2) documenting information on income and production data used in the valuation of CLCA properties.

Deduct all applicable expenses in the valuation of CLCA properties.

We found that the assessor does not deduct an expense allowance for management and irrigation improvements from the land income to be capitalized. In the valuation of CLCA properties, applicable expenses include amounts for management, a return on and return of the investment in irrigation systems, and return of the well value.

Nonliving improvements that are not subject to the CLCA contract, such as irrigation systems, are subject to the provisions of article XIII A of the California Constitution and assessed separately from the property that is subject to the CLCA contract. Because these separately assessed unrestricted irrigation systems contribute to land income that is capitalized into CLCA land value, an amount for return on and return of the investment in these irrigation systems must be deducted from the income stream. Wells are classified as land for property tax purposes. The charge for the return on and of the well value is included in the income attributable to the land. Since wells are wasting assets, a charge for return of the well value (or recapture) must be subtracted from the income stream (Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties*, Part II, page 24, "Irrigation Wells").

By failing to deduct for return on and return of the investment in irrigation systems and a charge for the recapture of the investment in the well, the assessor overstates the net income to the land and overvalues the property.

Document information on income and production data used in the valuation of CLCA properties.

The assessor does not document the rents used in the valuation of CLCA properties. The assessor's CLCA appraisal records contain no documentation supporting the rents used in the income approach. The assessor states that the land rents used to value CLCA properties are based on information that he obtains from the Inyo-Mono Counties Agricultural Commissioner and from individual CLCA landowners. However, on the appraisal records for CLCA properties there was no documentation as to the source of the rental data or any documentation to indicate that the rents used were fair rents for these properties.

Section 423(a) provides that the annual income to be capitalized shall be determined as follows: (1) where sufficient rental information is available the income shall be the fair rent which can be imputed to the land being valued based upon rent actually received for the land by owner and upon typical rents received in the area for similar land in similar use, where the owner pays the property tax; and (2) where sufficient rental information is not available, the income shall be that which the land being valued reasonably can be expected to yield under prudent management and subject to applicable provisions under which the land is enforceably restricted.

Section 423(a) makes clear that the income to be capitalized is the economic net income attributable to the land determined, whenever possible, by analysis of the rents received in the area for similar lands in similar use. The appraiser must locate adequate and verifiable data upon which to base an estimate.

Each year, the assessor sends out a *Rural Property and Production Questionnaire for Williamson Act Properties* to all owners of properties under CLCA contract. The assessor has a good CLCA production questionnaire. The questionnaire is a good resource for obtaining rental and expense information for agricultural properties in Mono County. The information obtained should be tracked and documented on the CLCA appraisal records to support the assessment.

Verification of income and production data is necessary in order to provide accurate assessments of property under Williamson Act contract.

Taxable Government-Owned Property

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in 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.

For the assessment year 2005-06, the assessor assessed 186 parcels that were owned by government agencies and that were located outside of the agency's boundaries. The 186 parcels cover an area of approximately 900 square miles and have a total assessed value of \$201,956,433.

Article III, section 11(b) of the California Constitution provides in part that taxable land belonging to a local government and located in Mono County shall be assessed as of the 1967 lien date. The 1967 assessed value is then multiplied by the factor that is supplied yearly by the BOE to establish the restricted value.

We reviewed several taxable government-owned properties and found that they were being properly assessed. We found no problems with the assessor's program for tracking and valuing taxable government-owned properties.

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.

For the 2005-06 roll year, the assessor enrolled 766 taxable possessory interests with a total value of \$158,394,294.

In our 2001 survey, we recommended the assessor assess the taxable possessory interests of the cable television companies in Mono County. The assessor has implemented this recommendation and is enrolling the taxable possessory interests of the cable television companies. The assessor values the taxable possessory interests of cable television companies using the discounted cash flow method of rents based on a percentage of the franchise fees.

Also in our 2001 survey, we recommended the assessor add the present worth of the unpaid future contract rents for the reasonably anticipated term of possession to the reported sales price of the taxable possessory interest. The assessor has implemented this recommendation and is adding the present worth of all unpaid future rents to the sale prices.

We found a number of areas that needed improvement in the assessor's program for the assessment of taxable possessory interests.

RECOMMENDATION 9: Improve the taxable possessory interests program by:
(1) assessing all taxable possessory interests, (2) periodically reappraising taxable possessory interests with stated terms of possession for declines in value, and (3) capitalizing net income to the lessor when valuing taxable possessory interests by the income approach.

Assess all taxable possessory interests.

While the assessor is proactive in the assessment of taxable possessory interests we found two types of taxable possessory interest that were not being assessed: unpatented mining claims and employee housing at a state park. The assessor stated the value of the mining claims was minimal and, therefore, is not assessed. The assessor also stated that he was aware of the employee housing at the state park but has never assessed these rights.

Article XIII of the California Constitution provides that all property is taxable unless exempt by the California Constitution or the laws of the United States. Section 107 and Rule 20 define the requirements for a taxable possessory interest. Rule 20 defines "possession" and the four criteria cited in the statute: "independence," "durability," "exclusivity," and "private benefit." The county's low-value property exemption applies only to personal property and vessels; it does not allow exemption of real property such as taxable possessory interests.

By not assessing all private uses of publicly owned property that meet the definition of a taxable possessory interest, the assessor is allowing property to escape assessment and exempting taxable property without authorization.

Periodically reappraising taxable possessory interests with stated terms of possession for declines in value.

Except for airport hangars and a few other taxable possessory interests, we found the assessor does not annually determine the market value of a taxable possessory interest with a stated term. Instead, he annually enrolls the factored base year value until the contract term of possession expires or a change in ownership occurs.

Section 51 requires the assessor to assess real property, including taxable possessory interests, at the lesser of the base year value (adjusted annually for inflation by no more than 2 percent) or the current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a taxable possessory interest with a stated term of possession, Rule 21(d)(1) provides that the stated term of possession must be used unless there is clear and convincing evidence that the lessor and lessee have agreed to a different term.

Though not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of taxable possessory interests with stated terms of possession to ensure that declines in value of taxable possessory interests are consistently recognized. Failing to assess a taxable possessory interest using the stated term of possession may overstate its taxable value.

Capitalize net income to the lessor when valuing taxable possessory interests by the income approach.

Except for cable television franchises and airport hangars, the assessor does not deduct operating expenses from the gross income before capitalizing the income stream into a value.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, provides that, in the direct method of the income approach, it is appropriate for the appraiser to estimate the value of the taxable possessory interest by discounting the estimated economic rent less allowed expenses paid by the public owner.

A public owner will incur some management expense with each taxable possessory interest. Lease agreements may require the public owner to pay for insurance, maintenance, or utilities. By estimating the fair market value using gross income rather than net income to the lessor, the assessor is overassessing the property.

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

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 (BPS)*, 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 escapes 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 most common methods of discovery for leasehold improvements are the BPS and building permits. Schedule B of the BPS is specifically used for reporting real property installed by the tenant. Taxpayers filing a BPS are required to list additions or deletions of real property.

The auditor-appraiser receives and reviews all BPS's. If there are any new costs or any deletions reported on the BPS, the auditor-appraiser contacts the taxpayer to determine whether or not the reported costs are for new construction, remodel, or replacement. This information helps the auditor-appraiser to determine if there is any assessable new construction.

The auditor-appraiser also forwards a copy of Schedule B of the BPS to the real property division for their review. This exchange of information helps to prevent duplicate assessments.

We found no problems with the assessor's program for the assessment of leasehold improvements.

Timeshares

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

There are four timeshare projects located in Mono County. All timeshare projects are located in the Mammoth Lake and June Lake areas. For the 2005-06 assessment roll, the assessor enrolled approximately 1,679 individual timeshare interests. Each timeshare estate is assigned an assessor's parcel number, which includes a sub-unit number and an interval number.

The assessor maintains appraisal files for each individual timeshare estate. Since all of the intervals have all been sold, the assessor does not maintain a property file for each project to track and value the developer's remaining interest. However, separate files are maintained for each project's common area parcels. The assessor also maintains a spreadsheet for each

timeshare project that contains a record of transfers, including selling price, type of sale, date of sale, and other data.

In our 2001 survey, we recommended that all timeshares be reviewed for possible declines in value. This recommendation has been implemented. Timeshares are now annually reviewed for declines in value.

Water Company Property

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 Constitution of California exempts from taxation property owned by a local government and located within its boundaries. This includes both property owned by city water departments and located within city limits, and property owned by water districts located within district boundaries. When the water system is located outside of the government agency's boundaries, this exemption does not apply. Mono County has four government-owned municipal water systems. All four municipal water systems are located within their own jurisdiction and are exempt from taxation.

We found no problems with the assessor's assessment of municipal water systems.

Private Water Companies - Regulated and Unregulated

Private, for-profit water companies are subject to rate base/rate of return regulation by the California Public Utilities Commission (CPUC). In brief, this form of regulation limits the rate a company may charge to the cost of service plus a fair return on rate base or invested capital. For this reason, the market value of the property of a regulated water company should correlate closely with the historical cost less depreciation (HCLD) of the assets.

The assessor has identified one assessable water company regulated by the CPUC in Mono County. Our examination of the regulated water company appraisal records indicates that the assessor correctly assesses this property based on its HCLD.

Other water source properties include those privately owned and water systems located on or associated with entities such as mobile home parks, campgrounds, lodges, and country clubs. These types of assessable properties may include wells, pumps, and pressure systems. The assessor receives periodic reports from the Mono County Health Department listing all well and septic system permits issued to private water companies and individuals to help in the discovery of assessable properties. The assessor has identified and is assessing numerous private unregulated water systems. These water source properties offer no service to the general public and are not subject to regulation by the CPUC. We reviewed a number of these properties and found that they were correctly assessed.

Mutual Water Companies

There are five mutual water companies operating in Mono County. A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to the land, improvements, and delivery system owned by the water company because the values of these properties are reflected in the assessments of the member or stockholder parcels. However, if the ownership in a mutual water company is not appurtenant to the land, its land, improvements, and personal property must be assessed separately from those served parcels.

In our 2001 survey, we recommended the assessor enroll parcels owned by mutual water companies. At that time, the assessor was coding parcels owned by mutual water companies as nontaxable and they were not being assessed.

The assessor has implemented this recommendation. In our current survey we found that parcels owned by mutual water companies are now being enrolled and properly assessed.

Mineral Property

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

In our 2001 survey, we recommended the assessor request supplemental information for geothermal properties separately from the annual property statement. At that time, the assessor was mailing the annual property statements and supplemental questionnaires under one cover letter. The cover letter implied that the failure to timely complete both the property statement and the supplemental questionnaire would result in a section 463 penalty. This was incorrect; the assessor can only apply the section 463 penalty for failure to timely file a BOE-prescribed property statement. The assessor has implemented this recommendation.

The assessor now mails Form BOE-567-K, *Annual Geothermal Operating Expense Data*, Form BOE-566-J, *Oil, Gas, and Geothermal Personal Property Statement*, and Forms BOE-571-L and BOE-571-D, *Business Property Statement*, together as a mailing entitled *Geothermal Exploratory Forms Package*. A cover letter enclosed with the forms specifies a filing deadline and that failure to return the forms timely will result in the penalties provided for in section 463.

Under separate cover, the assessor mails a *Supplemental Data Request Package* that contains a cover letter with instructions, deadlines, assessor's contact information, and the following four forms: (1) a *Geothermal Mineral Rights Change in Ownership Statement*, (2) a *Geothermal Well New Construction Form* with instructions, (3) a *Geothermal Field Facility New Construction*

Form, (4) a Geothermal Power Plant New Construction Form, and (5) a Supplemental Data Request for Exploratory Data.

We found one problem with the assessor's *Supplemental Data Request Package*, which is addressed in this report under the topic for assessment forms.

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.

In this section of the survey report, we review the assessor's audit program, business property statement processing, business property valuation, and leased equipment discovery and 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 assessor's business property staff is composed of one auditor-appraiser. The auditor-appraiser is responsible for performing all of the business account audits, both mandatory and nonmandatory. Completed audits are reviewed and approved by the assessor.

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

ROLL YEAR	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS	NET VALUE CHANGE
2004-05	24	3	21	Unavailable
2003-04	25	4	21	\$4,001,568
2002-03	21	2	19	\$2,522,660
2001-02	31	1	30	\$1,374,911

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.

The assessor has a total workload of approximately 11 mandatory audit accounts. To remain current, the assessor must audit approximately three accounts each year.

RECOMMENDATION 10: Audit the books and records of professions, trades, or businesses pursuant to section 469.

We found that the assessor completes the majority of his mandatory audits in a timely manner. However, we found one business account that has not been audited since 1998.

Section 469 and Rule 192 require that qualifying accounts be audited every four years.

Nonmandatory Audits

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

The assessor performs about 20 nonmandatory audits per year. We found no problems with the assessor's nonmandatory audit 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.

We reviewed the files listed on the mandatory audit schedule. We found that all accounts currently approaching the statute of limitations had a signed agreement to extend the statute of limitations as defined in section 532.

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 number of mandatory audits and found the audits were well documented and supported by a comprehensive audit checklist defining the areas of investigation.

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.

The number of processed statements with enrolled values for the 2005-06 assessment roll was 1,247, of which 584 were for unsecured assessments. This number does not include 693 assessments that are part of the direct billing program or had values lower than the minimum value of \$3,500 set by the Mono County resolution exempting low-value property. The total assessed value of the statements processed for the 2005-06 assessment roll was \$37,408,894.

The assessor has an efficient program to discover businesses with taxable personal property and fixtures. While taxpayer self-reporting is the principal means of detecting assessable business property, the discovery program includes field canvassing, reviewing fictitious business name filings, newspaper articles and advertisements, city and county business licenses, referrals from other counties, and BOE notifications. We found that the assessor has an effective discovery program.

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

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

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

In our 2001 survey report, we made two recommendations to improve the assessor's business equipment valuation program. The first recommendation was that the assessor use AH 581 as intended. We found that the assessor was using minimum percent good factors for commercial,

industrial, agricultural, and construction equipment that were not supported with market data. In our current survey, we found that the assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). A study conducted by Marshall Valuation Services supports, with market data, the minimum percent good factors in the CAA tables; therefore, we do not repeat this recommendation.

The second recommendation was that the assessor properly classifies ski lifts, tows, and trams as fixtures. We found that the assessor was improperly classifying these types of property as structures. This recommendation has not been fully implemented and is repeated below.

RECOMMENDATION 11: Classify ski lifts, tows, and trams as fixtures.

We found that the assessor currently classifies ski lifts, tows, and trams as fixtures. However, this only applies to new equipment reported since 2000. Ski lifts, tows, and trams purchased prior to 2000 are still assessed as structural items. The AH 581 includes a section on the classification of improvements as either structures or fixtures. It specifically lists ski lifts, tows, and trams as fixtures and not structures.

Proper classification of leasehold improvements as structure items or fixtures is important because fixtures are treated differently than structures. Fixtures are a separate appraisal unit when measuring declines in value; in certain cases, fixtures are not subject to supplemental assessments. Fixtures are also considered in meeting the \$400,000 threshold for mandatory audit.

The assessor's practice may result in erroneous valuations of fixed equipment.

Computer Valuation

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

We found that the assessor properly uses the valuation factors provided by the BOE in their valuation of computer equipment.

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*.

The assessment of leased equipment in Mono County is the responsibility of the auditor-appraiser. Assesseees are required to report all leased property (taxable property in their possession but belonging to others) on their annual property statement. Also, they are required to provide information on the type of property, year of acquisition and manufacture, cost to

purchase new, description or lease number, and the owner's name and address. This information is compared with the leased data reported on the lessor's property statement to discover unreported equipment and to ensure continued assessment of leased equipment upon termination of a lease

We reviewed the annual property statements of several accounts and found that they contained the required information. We also reviewed the files of a number of qualified exempt organizations and found that the assessor has adequate procedures for tracking equipment leased to them. We found no problems with the assessor's program for valuing 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.

For the 2005-06 assessment roll, there were 27 mobilehome parks and 343 manufactured homes in Mono County. The total assessed value of these 343 manufactured homes was \$6,801,237. Each manufactured home is assigned its own parcel number.

Each appraiser is responsible for the assessment of manufactured homes located within his or her assigned geographical area. The assessor learns of sales, new installations, and voluntary conversions of manufactured homes through periodic Department of Housing and Community Development listings. These printouts list the grantor's and grantee's names, date of purchase, purchase price, decal number, date of manufacture, and manufacturer's name. Other discovery sources utilized by the assessor are the dealer reports of sale, contact from previous or current owner(s), building permits, and field inspections – all 343 manufactured homes were inspected in 2003-04.

The assessor uses the *National Automobile Dealers Association Manufactured Housing Appraisal Guide* to value manufactured homes. We reviewed a number of manufactured home assessments and found them to be well documented.

In our 2001 survey, we recommended the assessor classify and enroll manufactured homes as personal property. Personal property is exempt from property taxation when owned by a dealer who holds it for sale or lease;⁶ by out-of-state military personnel on active duty in California;⁷ by a bank, insurance company, or financial corporation,⁸ or by a government agency.⁹ Incorrect classification may affect the application of these exemptions and may also affect the amount of property tax levied, since certain special assessments are not levied against personal property.

⁶ Section 5815.

⁷ Soldiers' and Sailors' Civil Relief Act.

⁸ Section 23182.

⁹ Section 202(a)(4).

Since our recommendation, modifications have been made to the assessor's computer system, and manufactured homes are now denoted on the roll with an "M" and treated as personal property on the secured roll. Therefore, we do not repeat the recommendation.

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 BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternative guide for aircraft not listed in the *Bluebook*.

The auditor-appraiser is responsible for the valuation of all general aircraft in the county. We found that the assessor effectively discovers aircraft by using listings from the Federal Aviation Agency website and from referral from other county assessors. For the 2005-06 assessment roll, the assessor enrolled 25 general aircraft with a total assessed value of \$4,033,828.

The assessor mails an annual aircraft property statement to owners of aircraft with a situs in the county. The statement has a filing deadline of April 1. The assessor is using a locally-developed *Annual Aircraft Property Statement* that has incorrect reference to statutory provisions. This issue is addressed in the section covering assessment forms.

The assessor uses the *Bluebook* for the appraisal of general aircraft and adjusts the values downward by 10 percent for average condition, as directed in Letter To Assessors 97/03, dated January 31, 1997. Additionally, he makes adjustments for sales tax, interior and exterior condition, engine hours, airframe hours, and other variances from the listed value guide. We found the assessor's estimates of value to be properly calculated.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.17.

Mono County has one commercial airline subject to local assessment. For the 2005-06 assessment roll, the value of the certificated aircraft was \$18,671. We found no problems with the certified aircraft assessment program.

Vessels

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

Assessors in California are required to annually appraise all vessels at market value, except as provided in section 228 (no more than one vessel owned, claimed, possessed, or controlled by an assessee on the lien date, not used for commercial purposes, and having a market value of \$400 or less, shall be free from taxation) and section 155.20 (low-value property exemption). Mono County has a low value resolution (Resolution No. R02-003) exempting from property taxation all classes of property comprising personal property and vessels with a full value of \$3,500 or less.

For 2005-06 roll year, the assessor enrolled 210 vessels with a total assessed value of \$2,169,802. The assessor discovers assessable vessels from a review of DMV reports, referrals from other counties, and from property statements.

The assessor uses Form BOE-576-D, *Vessel Property Statement*, to obtain vessel information from taxpayers regarding their vessels. When appropriate, the assessor applies the section 463 penalties for late filing or failure to file the *Vessel Property Statement*.

The assessor appraises vessels with the aid of the *ABOS Marine Blue Book*. Sales tax is correctly added to the value of the vessels. Adjustments for vessel condition and for added equipment are made if appropriate. Advertised sales in the *Mammoth Times* are also used as a value indicator resource.

In our 2001 survey, we recommended the assessor add sales tax as a component of value. The assessor has implemented this recommendation.

Animals

The California Constitution mandates that all property is taxable unless specifically exempted 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.

Mono County has a number of assessable animals. The assessor's primary source for the discovery of taxable animals is Form BOE-571-F, *Agricultural Property Statement*. Other methods of discovering taxable animals include referrals from the real property division and a review of the telephone directory.

We found no problems with the assessor's program for the assessment of animals.

APPENDIXES

A. County Property Tax Division Survey Group

Mono County

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Bob Reinhard

Supervising Property Appraiser

Survey Team Leader:

Ron Louie

Senior Specialist Property Appraiser

Pam Bowens

Senior Specialist Property Auditor-Appraiser

Survey Team:

Jim Lovett*

Senior Specialist Property Appraiser

Robert Curry

Associate Property Appraiser

Charles Matura

Associate Property Appraiser

Tom McClaskey

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Jeffrey Dangermond

Associate Property Auditor-Appraiser

*Mr. Lovett was a member of the survey team prior to his appointment as the Mono County Assessor.

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

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

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

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the

assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

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

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

(1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.

- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997-98 fiscal year.
- (b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.

- (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

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

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

Rule 371. Significant assessment problems.

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

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

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.

- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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



Office of the... ASSESSOR

C O U N T Y O F M O N O

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JAMES D. LOVETT

ASSESSOR

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RECEIVED

JAN 03 2007

DEPUTY DIRECTOR
PROPERTY AND SPECIAL TAXES

December 13, 2006

David J. Gau, Deputy Director
Property and Special Taxes Department
State Board of Equalization
P.O. Box 942879
Sacramento CA 94279-0063

Dear Mr. Gau:

Pursuant to Section 15645 of the California Government Code, enclosed is the Mono County Assessor's response to the recommendations contained in the Assessment Practices Survey of 2005/2006 assessment roll conducted by the State Board of Equalization. Please incorporate my response into your final Assessment Practices Survey Report.

In my response to the survey report, you will see that the recommendations have been addressed or are in the process of being addressed.

I would like to thank Arnold Fong and his survey team for the professional and courteous manner in which they conducted the survey. I would also like to express my gratitude to the employees of the Mono County Assessor's Office for their hard work, expertise, dedication and commitment to public service.

Sincerely,

A handwritten signature in cursive script that reads "James D. Lovett".

James D. Lovett
Mono County Assessor

Attachment

Assessment Practices Survey Responses – 2006

Recommendation 1: Revise the roll affidavits to conform to the requirements of section 616.

Response: We concur. When the 2006 assessment roll was transferred to the Mono County Auditor/Controller we included an affidavit which contained the precise wording contained in §616.

Recommendation 2: Improve the disaster relief program by: (1) requesting that the board of supervisors revise the disaster relief ordinance, (2) revising the application for disaster relief to comply with section 170, and (3) revising the reassessment notice to comply with section 170.

Response:

- (1) We concur. In April 2006, the Board of Supervisors passed Ordinance 06-04 which incorporates all of the amendments provided by Chapter 407 of the Statutes.
- (2) We concur. The application has been revised to include all of items listed in the survey.
- (3) We concur. The *Notice of Supplemental Assessment* has been modified to state that the property owner may appeal the proposed reassessment within six months of the date of mailing of the notice.

Recommendation 3: Notify the auditor when interest should be added to escape assessments.

Response:

We concur. The electronic files have been modified to include a field to notify the auditor when interest is to be applied.

Recommendation 4: Improve the assessment forms program by: (1) complying with Rule 171, and (2) referencing the correct statutory provisions on the aircraft property statement.

Response:

- (1) We concur. The cover letter that specifies a filing deadline for the forms, and instructions in filling out the forms are now mail separately from the *Geothermal Exploratory Forms Package*.
- (2) We concur. The aircraft property statement has been modified to reference § 5365.

Recommendation 5: Improve the change of ownership program by: (1) applying the section 482 penalty when a *Change of Ownership Statement* is not returned timely, (2) making the *Preliminary Change of Ownership Report* form available to the public, and (3) reappraising real property subject to a corporate change in control.

Response:

- (1) We concur. We now track all *Change of Ownership Statements* (COS) that are mailed to property owners. If the COS is not returned within 45 days a *Notice of §482 Penalty* is mailed to the property owner notifying them that a penalty has been applied. After notice of penalty, if a COS is not filed with the assessor's office, the Mono County Auditor/Controller is notified of the appropriate penalty. By action of the County Board of Supervisors, the Assessor has the jurisdiction to abate any penalties if a completed COS is filed prior to the expiration of the 60 days.
- (2) We concur. The *Preliminary Change of Ownership Report* is now available at either the assessor's office or the recorder's office.
- (3) We concur. This recommendation was made because a major recreational site experienced a possible change in control in 1997. The issue of whether a change in control actually occurred is a matter of conjecture. We have taken the position that a change in control did take place. We have employed an outside appraisal person to provide us with 1997 market value for the property in question.

Recommendation 6: Improve the new construction program by: (1) considering entrepreneurial profit as a cost component when valuing new construction, (2) considering all valuation approaches for valuing new construction, and (3) enrolling all assessable new construction.

Response:

- (1) and (2): The previous assessor issued a memo to all staff members stating that entrepreneurial profit would not be added as a component when valuing new construction and that new construction would be valued only by the Replacement Cost Approach. This memo was rescinded.
- (2) We concur. A major effort is being made to address all backlogged new construction.

Recommendation 7: Annually reappraise properties with taxable values that are less than their factored base year value.

Response:

We concur and this recommendation has been implemented. All properties that have experienced a decline-in-value receive a special code identifier and an annual electronic file is generated for review.

Recommendation 8: Improve the CLCA program by: (1) deducting all applicable expenses in the valuation of CLCA properties, and (2) documenting information on income and production data used in the valuation of CLCA properties.

Response:

- (1) and (2), we concur. The current CLCA program is being extensively reviewed. We will implement Recommendation 8 at the conclusion of the review.

Recommendation 9: Improve the possessory interests program by: (1) assessing all taxable possessory interests, (2) periodically reappraising possessory interests with a stated term of possession using the remaining contract term, and (3) capitalizing net income to the lessor when valuing possessory interests by the income approach.

Response:

- (1) We concur. The employee housing at a state park have been enrolled. The unpatented mining claims have been reviewed, however, we understand that the assessment of unpatented mining claims is before the Court of Appeals. Once the court makes a finale decision, we will take the appropriate action.
- (2) We disagree that PIs should be periodically reappraised with a stated term of possession using the remaining contract term. We agree that PIs should be periodically reviewed in order to determine the lesser of the factored base year value versus the current market value. The declining term of possession is integral in the determination of the current market value, but does not necessarily mean that the PI will be reappraised per § 51.
- (3) We concur.

Recommendation 10: Audit the books and records of professions, trades or businesses pursuant to section 469.

Response: We concur. The one business account that was not been audited since 1998 involves a large and complex recreation area. A contractor has been engaged to review and audit this property.

Recommendation 11: Classify ski lifts, tows, and trams as fixtures.

Response: We concur. See response to Recommendation 10.