NAPA COUNTY
ASSESSMENT PRACTICES SURVEY

AUGUST 2008

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August 28, 2008

TO COUNTY ASSESSORS:

No. 2008/048

NAPA COUNTY
ASSESSMENT PRACTICES SURVEY

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

The Honorable John Tuteur, Napa County Assessor/Recorder/Clerk/Registrar, 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, the Legislature, and to the Napa County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the Board's County-Assessed Properties Division from May through June 2007. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Tuteur and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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INTRODUCTION

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

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the Board, and the Senate and Assembly, and to the Napa County Board of Supervisors and Grand Jury. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable John Tuteur, Napa County Assessor/Recorder/Clerk/Registrar, 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.

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code[2] section 75.60, the Board determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Napa County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in Napa 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.[3]

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.

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

EXECUTIVE SUMMARY

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

The Napa County assessor has made a major commitment toward public access and technology, and has realized efficiencies in assessment services and cost savings.

The assessor has worked with the Napa County Geographic Information Coordinator and his assessment program vendor to provide parcel assessment data on his website.

The assessor improved file archival and retrieval, workflow, and taxpayer service through technological investments. These investments realized cost savings and improved stakeholder service. The following are examples of such accomplishments:

- Expanded assessment information on his website.
- Participation in a statewide asset reporting system for taxpayers.
- Implementation of electronic filing of property statements.
- Availability of digital aerial maps to his appraisal staff on desktop computers.
- Development of software to transfer the calculated aircraft values to his computer system for enrollment.
- Conversion of appraisal records to optical images and maps to an electronic format.
- Improvement of base year and base year value tracking.
- Integration of deed process with the recorder division.
- Improvement of accessibility for the assessor and his staff to the public.

In our 2003 Napa County Assessment Practices Survey, we made 24 recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented 17 of the recommended changes. Four recommendations no longer apply because of changes in law or Board guidance or because we found no incorrect assessments resulting from the assessor's policy. The remaining recommendations, which were not implemented by the assessor, are repeated in this report. In addition, we are making other recommendations based upon our current survey.

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

The assessor is doing an effective job in managing many portions of the administrative program: budget and staffing, appraiser certification, assessment appeals, and exemption programs are all in good order. Staff does an excellent job handling taxpayer concerns. We observed that staff is knowledgeable, courteous, and receptive to the concerns of taxpayers. In addition, the assessor diligently resolves appeals timely.

Overall, the majority of the assessor's programs for the assessment of real property are effective. In particular, the assessor has a well-organized and effective California Land Conservation Act program; however, procedures for assessing special-use properties need revision. Thus, we are making recommendations to improve these types of programs.

In assessing taxable government-owned properties, the assessor is not establishing the correct base year value. Also, in assessing taxable possessory interests, the assessor is not reviewing those with a stated term of possession for declines in value, and he is not deducting allowed lessor expenses from gross income when using the income approach.

The assessor has effective programs for the processing of business property statements, business equipment valuation, discovery of leased equipment, and the discovery and valuation of aircraft and animals; however, other programs need improvement. The majority of issues are minor. The area of greatest concern is with the assessor's program for the audit of business property accounts. Specifically, the assessor is not timely auditing the books and records of professions, trades, and businesses pursuant to section 469.

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

Moreover, we found no significant assessment problems as defined in Rule 371. Accordingly, pursuant to section 75.60, Napa County continues to be eligible for recovery of costs associated with administering supplemental assessments. Since Napa 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.

Following 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 application for disaster relief.....13

RECOMMENDATION 2: Correctly establish base year values for all taxable government-owned property.....30

RECOMMENDATION 3: Improve the taxable possessory interest program by: (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (2) deducting allowed lessor expenses from gross income when valuing taxable possessory interests by the income approach.....30

RECOMMENDATION 4: Improve the water company assessment program by: (1) assessing the real property of regulated water companies at the lower of the current market value or the factored base year value, and (2) periodically reviewing water source properties that are annually inspected by the State Department of Health Services to ensure correct assessment and enrollment. 33

RECOMMENDATION 5: Timely audit the books and records of professions, trades, and businesses pursuant to section 469.....36

RECOMMENDATION 6: Annually review all manufactured homes that have experienced a decline in value as required by section 51(e).....39

RECOMMENDATION 7: Ensure a certified appraiser reviews vessel values. 41

RESULTS OF THE 2003 SURVEY

Assessment Forms

We recommended the assessor return to taxpayers property statements that were not filed using Board-prescribed forms. Currently, we found the assessor is returning the statements and applying the penalty for failure to file unless a signed original statement is included in the filing. The assessor has implemented this recommendation.

Disaster Relief

We recommended the assessor inform owners of property receiving disaster relief of their right to appeal their proposed reassessment as required by section 170(c). Property owners are now being properly informed of their appeal rights. The assessor has implemented this recommendation.

Assessment Roll Changes

We recommended the assessor cite the notation required by section 533 when enrolling escape assessments. This recommendation is no longer applicable due to recent legislative changes to section 533.

Low-Value Property Tax Exemptions

We recommended the assessor exempt all real property that qualifies for the low-value property tax exemption. We found that the assessor has exempted all low-value, non-contiguous parcels. This recommendation has been implemented.

Exemptions

We recommended the assessor review the eligibility of multi-specialty health care clinics for the welfare exemption. Since we found no multi-specialty clinics that meet the requirements as specified in section 1206(l) of the Health and Safety Code to be eligible for the welfare exemption, this recommendation will not be repeated.

New Construction

We recommended the assessor initiate a control program for the processing of building permits. The assessor has implemented this recommendation. The assessor is now proactive in periodically obtaining all newly-issued permits through electronic transfers from reporting agencies. All permit information is then entered into the assessor's electronic database. The database serves as a tracking tool for all new construction. It tracks new construction through completion and the issuance of any supplemental assessments.

We also recommended the assessor revise the computer program to prevent inflation factoring of incomplete new construction. The assessor's system now features a list that tracks all

construction in progress. This feature has enabled the assessor to prevent inflation factoring until construction is complete.

California Land Conservation Act Properties

We recommended the assessor assess farm laborer housing on California Land Conservation Act properties in accordance with section 428. We also recommended the assessor classify wind machines as fixtures. Both recommendations have been fully implemented.

Timberland Production Zone Properties

We recommended the assessor cite the correct notation to identify Timberland Production Zone (TPZ) properties on the assessment roll as required by section 433. Currently there are no parcels zoned TPZ; therefore, this recommendation is no longer applicable.

Taxable Possessory Interests

We recommended the assessor review all private uses of the fairgrounds for possible assessments as taxable possessory interests. We found the assessor is reviewing leases at the fairgrounds and enrolling qualified uses as taxable possessory interests.

We also recommended the assessor determine the specific government agency that controls properties identified on the assessment roll as "USA" or "State of California." The Board is no longer making this recommendation; therefore, it will not be repeated.

Leasehold Improvements

We recommended the assessor properly classify and assess leasehold improvements. During the current survey, we reviewed assessments for tenant improvements, billboards, cell towers, and wind machines. We found that the assessor has implemented this recommendation.

Water Company Properties

We recommended the assessor assess the real property of regulated water companies at the lower of current market value or factored base year value. We reviewed the assessor's records for the lone regulated water company in Napa County and found he has not complied with this recommendation. Therefore, we are repeating the recommendation.

Mining Properties

We recommended the assessor determine both the current market value and the adjusted base year value as required by Rule 469(e)(2)(C). The assessor has implemented this recommendation.

Audits

We recommended the assessor bring the mandatory audit program to current status as required by section 469. We found that the assessor is still behind in timely completing mandatory audits of business property accounts. The assessor has not implemented this recommendation, and it is, therefore, repeated.

We also recommended the assessor: (1) schedule audits of those taxpayers who do not agree to a waiver of the two-year statute of limitations, and (2) audit accounts of aircraft that have a full value of $400,000 or more and that are used in a business. The assessor has implemented these two recommendations.

Business Property Statement Processing

We recommended the assessor: (1) accept only properly completed business property statements, and (2) require taxpayers, owning vessels costing $100,000 or more, to file the Board's *Vessel Property Statement*. Both recommendations have been fully implemented.

Business Property Valuation

We recommended the assessor discontinue using arbitrary minimum valuation factors. We found that the assessor has implemented this recommendation by adopting the California Assessors' Association's (CAA) recommended valuation factors.

Vessels

We recommended the assessor: (1) add sales tax as a component of market value when making vessel assessments, and (2) annually assess pleasure boats at market value. Starting with the 2002 roll year, all vessel assessments have included sales tax, and are annually revalued using market value factors generated by an assessor of one of the surrounding counties. Thus, both recommendations have been fully implemented.

We also recommended the assessor use certified personnel to review vessel valuations as required by section 670(a). We found that the assessor has not implemented this recommendation; accordingly, we repeat it in this report.

OVERVIEW OF NAPA COUNTY

Created on February 18, 1850, Napa County is one of California's original 27 counties. The county seat is the City of Napa, which is also the largest city in the county. The county has four other incorporated cities: Yountville, St. Helena, Calistoga, and American Canyon.

The county encompasses a total area of 753.7 square miles. As of 2006, Napa County had an estimated population of 135,500. Geographically, Napa County is located north of the San Francisco Bay Area. Lake County borders it on the north, Sonoma County to the west, Yolo County to the east, and Solano County to the east and south.

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

	PROPERTY TYPE	ASSESSMENTS	VALUE
Secured Roll	Residential	33,730	$10,391,353,431
	Commercial/Industrial	2,635	$4,457,242,364
	Agricultural	12,067	$7,482,489,269
	Other Secured	1,725	$39,740
	Total Secured	50,157	$22,331,124,804
Unsecured Roll	Personal Property & Fixtures	7,043	$890,403,196
	Total Assessment Roll	57,200	$23,221,528,000

The next table illustrates the growth in assessed values over recent years as reported in the Board's annual reports:[4]

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2006-07	$23,221,528,000	10.9%	12.3%
2005-06	$20,947,875,000	11.1%	11.1%
2004-05	$18,857,289,000	9.6%	8.3%
2003-04	$17,213,193,000	10.2%	7.3%
2002-03	$15,622,124,000	N/A	N/A

[4] State Board of Equalization Annual Report, Table 7

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, appraiser certification, assessment appeals, disaster relief, assessment roll changes, low-value property tax exemption, exemptions, the racehorse administrative tax, and other administrative issues.

Budget and Staffing

To enable the assessor to perform his duties, the county board of supervisors annually funds the assessor's office through the county's general fund. The allotted funds are provided to the assessor so that the assessor can produce a timely assessment roll, administer legally permissible exemptions, develop and maintain a set of current maps delineating property ownership, defend assessments as required before an appellate body, and provide information and services to the public as needed.

The Napa County Assessor's Office has a staff of 27 full-time employees. This includes the assessor, the chief deputy assessor, chief appraiser, a supervising appraiser, nine real property appraisers, a supervising auditor-appraiser, four auditor-appraisers, two transfer mapping technicians, an assessment records supervisor, and six assessment records assistants. Staffing has remained relatively constant over the past five years, with minor changes due to retirements and promotions.

As shown in the following table, the assessor's budget has grown almost 63 percent over recent years:

BUDGET YEAR	GROSS BUDGET	ANNUAL CHANGE	PERMANENT STAFF
2006-07	$2,559,334	-6.0%	27
2005-06	$2,723,907	29.0%	27
2004-05	$2,111,682	3.7%	27
2003-04	$2,036,625	29.7%	27
2002-03	$1,570,559		27

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 appraiser's certificate issued by the Board. There are a total of 18 certified appraisers on staff. We found that the assessor and his staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

In Napa County, the chief appraiser administers the training and certification program for appraisers and maintains a spreadsheet for tracking courses taken by the staff. Appraisers who hold permanent appraiser's certificates for at least three years are eligible for advanced Board classes, as well as classes offered by professional appraisal organizations.

Overall, we found the assessor's appraiser training and certification program is efficiently monitored.

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 Board has adopted Rules 301 through 326 to regulate the assessment appeals process.

In Napa County, the board of supervisors sits as the local board of equalization. The Napa County Counsel trains all members of the appeals board on the proper conduct and procedures of assessment appeals.

The clerk of the appeals board is responsible for providing the public with application forms, receiving completed applications, and providing copies of completed applications to the assessor. The clerk is also responsible for scheduling hearings as needed.

Once the assessor receives a copy of the application, his staff reviews the assessment and contacts the taxpayer to attempt to resolve the appeal. If no agreement can be reached, a hearing is scheduled. The chief appraiser prepares and presents all real property appeals. If an appeal involves a business property assessment, the supervising auditor-appraiser prepares the case and accompanies the chief appraiser to the hearing.

The clerk of the board tracks the progress of assessment appeals to ensure that cases are resolved in a timely manner. No appeal has gone unresolved for more than two years unless the taxpayer agreed to a waiver of the statute of limitations as provided in Rule 309(b). Currently, about 95 percent of appeals are resolved within two years of filing.

The following table illustrates the appeal workload for recent years:

APPEALS	2006-07	2005-06	2004-05	2003-04	2002-03
Appeals:					
Applications Received	94	98	141	141	164
Carried Over	6	0	0	0	0
Total Appeals	**100**	**98**	**141**	**141**	**164**
Resolution:					
Withdrawn	10	65	75	92	131
Stipulation	6	26	55	43	26
Appeals Reduced	0	0	2	1	1
Appeals Upheld	1	1	7	5	6
Other Determinations	0	0	2	0	0
Total Resolved	**17**	**92**	**141**	**141**	**164**
Carried over to next year	**83**	**6**	**0**	**0**	**0**

We reviewed several assessment appeals prepared by the assessor and found them to be reasonable and well-documented. The assessor's assessment appeals procedures are in compliance with all applicable statutes. We found no problems with the assessment appeals program.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding $10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under section 170, assessees must make a written application to the assessor requesting reassessment. Alternatively, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment or revalue the property on the 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 reductions in current market value and reduce the assessed values by those percentages.

The Napa County Board of Supervisors first adopted a disaster relief ordinance on January 4, 1977. The board of supervisors adopted an amended ordinance on September 16, 2003. The amended ordinance reflects the 2001 legislative amendments to section 170.

The following table shows the number of applications for disaster relief processed by the assessor for recent years:

ROLL YEAR	APPLICATIONS
2006-07	33
2005-06	75
2004-05	27
2003-04	36
2002-03	29

The assessor discovers instances of misfortune or calamity by reviewing newspaper articles, building permits, field canvassing, and taxpayer-initiated contacts. In cases of large-scale disasters, such as earthquakes or flooding, the assessor issues a press release to inform property owners that they may qualify for disaster relief. In addition, the assessor sets up remote stations near affected areas to help property owners apply for disaster relief.

We reviewed the assessor's disaster relief program and found that the assessor:

- Date-stamps all applications for disaster relief to document that they are timely filed;
- Properly calculates the percentages of relief to be applied to the roll values;
- Correctly includes relief for the month in which the disaster occurred;
- Properly notifies property owners of proposed reassessments and their appeal rights;
- Properly applies the inflation factor to the damaged value when no repair work has been done as of the lien date; and
- Restores the factored base year value when the property is restored to its original condition.

Overall, the assessor has an effective program for identifying, processing, and granting disaster relief. However, we found one area that needs correction.

RECOMMENDATION 1: Revise the application for disaster relief.

The assessor's application for disaster relief provides that the property owner has 30 days from the date of notification to file the application. This is in conflict with section 170(a)(3) and with the current county ordinance pertaining to the reassessment of damaged or destroyed property.

Both provide that the property owner must file the application after the occurrence of the damage within 60 days of notification, or within 12 months, which ever is later.

The second paragraph of section 170(a)(3) provides, in part, that the application for reassessment may be filed within the time specified in the ordinance or within 12 months of the misfortune or calamity, whichever is later. Section 3.16.050 of the county ordinance specifies that the owner must file a completed application within 60 days of notification by the assessor.

By failing to provide the property owner with the proper filing period information, the assessor may be discouraging some taxpayers from filing for relief who may otherwise qualify and benefit from filing for disaster relief.

Assessment Roll Changes

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

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

The following table shows the number of secured and unsecured roll changes processed by the assessor over recent years:

ROLL YEAR	ROLL CHANGES
2006-07	2,081
2005-06	2,102
2004-05	1,968
2003-04	2,041
2002-03	2,091

In Napa County, roll changes are initiated by real property appraisers or auditor-appraisers with a roll correction transmittal document. The assessor and two senior staff review all roll correction documents before they are forwarded to the office staff for processing. Staff prepares escape assessment notices and notices of change in assessment, and, when needed, a letter explaining the value reduction.

Prior to the enrollment of an escape assessment, a *Notice of Proposed Escape Assessment* is sent to the taxpayer. The assessor waits ten days, as required, before forwarding the roll correction transmittal documents to the county auditor and before sending form BOE-66-A, *Notice of*

Enrollment of Escape Assessment, to the taxpayer. This notice serves to inform the taxpayer of the right to appeal the assessment, as required by section 534.

We reviewed the assessor's roll change procedures, as well as a sample of actual roll changes, and found no problems.

Low-Value Property Tax Exemption

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

Section 155.20(b)(1) provides that a county board of supervisors shall not exempt property with a total base year value or full value of more than $5,000, or more than $50,000 in the case of certain taxable possessory interests. A board of supervisors must adopt a low-value property tax exemption resolution 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 1993, the Napa County Board of Supervisors passed Resolution 93-135, which established a low-value property tax exemption threshold for assessments that are $2,000 or less, for both real and personal property, excluding manufactured home accessories. Manufactured home accessories classified as personal property are exempt for assessments of $5,000 or less.

The assessor's computer system automatically exempts property that has values falling at or below these thresholds. The chief deputy assessor checks all such properties to verify that they are not part of larger appraisal units.

Low-value real property qualifying for the exemption is tracked on the assessor's computer system. When the factored base year value of a previously exempt real property exceeds the $2,000 benchmark, the exemption is discontinued.

Section 531.9 provides that the county board of supervisors may, by ordinance, prohibit an assessor from making an escape assessment where that assessment would result in an amount of taxes due which is less than the cost of assessing and collecting them, so long as the amount of taxes resulting from the escape assessment does not exceed fifty dollars ($50). In 2003, the Napa County Board of Supervisors passed Ordinance 1224. This ordinance prohibits the assessor from processing escape assessments where the cost of collecting the taxes due would surpass the actual tax up to $20.

We found no problems with the assessor's low-value property tax exemption program.

Exemptions

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution 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. Section 207 exempts property owned by a church and used exclusively for religious worship and school purposes (excluding property used solely for schools of collegiate grade).

Article XIII, section 4(b) of the California Constitution 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. This provision is implemented by section 214 and is commonly known as "the welfare exemption." Section 214 contains several further requirements that an organization must meet to qualify for the exemption.

While the welfare exemption is co-administered by the county assessor's office and the Board, the county assessor is solely responsible for administering the church and religious exemptions. The church exemption, including the church parking exemption, requires 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, the religious exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The assessor processed seven church exemption claims and 72 religious exemption claims for the 2006-07 assessment roll. The following table illustrates the number of properties and the amount of assessed value exempt under the church and religious exemptions for recent years:

ROLL YEAR	CHURCH	VALUE	RELIGIOUS	VALUE
2006-07	7	$2,977,332	72	$64,389,939
2005-06	8	$2,909,604	74	$61,595,688
2004-05	9	$2,853,360	71	$57,227,507
2003-04	9	$2,763,391	78	$50,533,102
2002-03	10	$2,748,199	77	$48,577,736

Our review indicated that the assessor is properly administering church and religious exemptions. We found no problems with the assessor's church and religious 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.

As stated above, the welfare exemption is co-administered by the Board and county assessors. Effective January 1, 2004, the Board became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* (OCCs) to qualified organizations. Additionally, 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 OCC issued by the Board; and, if the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner, then it must also hold a valid *Supplemental Clearance Certificate* (SCC) issued by the Board. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding that the Board has issued an OCC or SCC to the claimant.

The following table illustrates the number of welfare exemptions granted and the corresponding property values taken from assessment rolls for recent years:

ROLL YEAR	WELFARE	VALUE
2006-07	192	$485,593,896
2005-06	183	$469,361,515
2004-05	170	$425,011,213
2003-04	173	$410,189,934
2002-03	184	$378,622,264

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. We also reviewed the exemption claims for low-income housing, including claims by a limited partnership holding an SCC. Our review indicated that the assessor is properly administering the welfare exemption. Accordingly, we have no recommendations in this area.

Homeowners' and Disabled Veterans' Exemptions

The homeowners' exemption is authorized by article XIII, section 3(k) of the California Constitution. This constitutional provision, implemented by section 218, exempts $7,000 of the full value of a dwelling when occupied by an owner as a principal place of residence.

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the full value of a dwelling when occupied as a principal place of residence by an owner who is a qualified disabled veteran (or the veteran's unmarried surviving spouse). The amount of exemption is $100,000; however, for qualifying low-income disabled veterans, the amount is $150,000. Both these amounts are adjusted annually by a cost of living index.

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible. The disabled veteran's exemption at the $100,000 basis requires a one-time filing; annual filing is required for those exemptions at the $150,000 low-income basis.

The assessor processed 23,719 homeowners' exemption claims and 116 disabled veterans' exemption claims for the 2006-07 assessment roll. The following table illustrates the number of homeowners' and disabled veterans' exemptions granted and their corresponding values taken from assessment rolls for recent years:

ROLL YEAR	HOMEOWNERS'	VALUE	DISABLED VETERANS'	VALUE
2006-07	23,719	$165,838,772	116	$10,308,492
2005-06	23,679	$165,522,372	119	$10,127,220
2004-05	23,525	$164,414,472	116	$8,938,424
2003-04	23,414	$163,655,872	109	$8,973,225
2002-03	22,970	$160,782,047	99	$8,073,016

Our review of the homeowners' and disabled veterans' exemption records indicated that the assessor is properly processing these exemptions. Accordingly, we have no recommendations in this area.

Racehorse Administrative Tax

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

Racehorses within the state are registered with the State Horse Racing Board. According to section 5703, the term "racehorse" means each live horse, including a stallion, mare, gelding, ridgeling, colt, filly, or foal that is or will be eligible to participate in a horseracing contest in California where parimutuel racing is permitted. The term also includes any horse that may produce foals that will be eligible to participate in a horseracing contest.

For the 2006-07 roll year, the assessor identified five racehorses in Napa County. The assessor maintains a file of racehorse owners and sends racehorse tax return forms annually to owners reporting in prior years. Newly discovered racehorses are added to the assessor's file, and he mails the owners form BOE-571-J, *Annual Racehorse Tax Return*. In addition, the assessor sends appropriate tax report forms to horse boarding facilities that have reported domicile changes. The assessor forwards copies of these records to the tax collector as required by Rule 1045(c)(2).

Examinations of tax returns delivered to the tax collector and maintained by the assessor indicated no returns exceeded the threshold amount for mandatory audits. We found that the assessor effectively administers the racehorse tax.

Other Administrative Issues

All employees of the assessor's office are required to sign a form entitled *Inconsistent, Incompatible or Conflicting Activities*. The form lists a number of prohibited activities, such as valuing or auditing property in which the employee or his or her relatives may have an interest,

which are inconsistent or incompatible with employment in the assessor's office. By signing this form, the employee agrees not to engage in any of the prohibited activities under penalty of disciplinary action, up to and including dismissal.

Each fiscal year, the assessor requires all appraisal and audit staff to complete and sign a *Statement of Financial Interest*. The statement requests information regarding employee ownership in legal entities, such as the nature of the interest and the quantity or percentage of ownership.

Currently, the assessor does not require employees of the office to provide information about any real or business property that the employee may own within Napa County. The assessor becomes aware of employee-owned property from either voluntary disclosure by the employee or from name recognition on permits and deeds.

It is the assessor's policy that employees are not allowed to value property that they own in Napa County. Appraisals of employee-owned properties are handled in the same manner as all other real property. The appraiser for the geographical area in which the property is located is responsible for the initial valuation of the property, unless he or she is the owner, in which case, the property is reassigned to another appraiser.

When the appraisal is completed and reviewed by the lead appraiser, it is forwarded to the supervising appraiser for review before it is enrolled. This ensures that all such properties are valued absent a conflict of interest. We reviewed a number of employee-owned property appraisal files and found no problems with the valuation of employee-owned properties.

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.

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

Change in Ownership

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

Document Processing

The Napa County Assessor has a list of specific types of recorded documents that must be reviewed. Those documents are electronically transferred daily by the recorder's staff to the assessor's staff. The incoming recorded documents are screened for any parcels that may require mapping changes, such as lot line adjustments, lot splits, or other newly created parcels. All parcels related to recorded documents that pertain to changes in ownership are assigned to appraisers by geographic area and by property type. Transfers that require additional research are delegated to the appropriate staff.

A history of the number of reappraisals resulting from changes in ownership in recent years is shown below:

ROLL YEAR	DOCUMENTS RECEIVED	REAPPRAISABLE EVENTS
2006-07	11,358	7,755
2005-06	12,041	8,287
2004-05	11,955	7,247
2003-04	11,132	7,594

In compliance with county ordinance, assessor's parcel numbers are required to be noted on all real property documents submitted for recordation. When a change in ownership occurs, if there is a homeowners' exemption claimed on the property, then it is removed from the roll. Where staff determines that the transferee might be eligible for the homeowners' exemption or another type of exclusion, then the file is flagged so that an application for exclusion or exemption can be mailed to the new owner.

Over the past several years, nearly all of the deeds received from the recorder's office have had the form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), attached. The recorder charges a $20 fee when a deed is recorded without a PCOR. Both the assessor and the recorder make the PCOR available at the public counter, along with other change in ownership forms, such as forms to claim a reassessment exclusion. The assessor sends form BOE-502-AH, *Change of Ownership Statement* (COS), to taxpayers who have not submitted a PCOR at the time of recording. These forms are also available online.

Section 69.5 Base Year Value Transfers

Section 69.5 generally allows for the transfer of the base year value of a principal residence to a qualifying replacement residence of equal or lesser value, provided the property owner is at least 55 years of age or severely and permanently disabled, the owner files a claim timely, and both the original property and the replacement dwelling are within the same county.

We reviewed several section 69.5 transfers, including filed applications, and found all documents to be in compliance. The assessor submits the quarterly reports to the Board as required by section 69.5(b)(7).

The following table depicts the number of section 69.5 transfers in recent years:

ROLL YEAR	SECTION 69.5 TRANSFERS
2006-07	67
2005-06	77
2004-05	85
2003-04	55
2002-03	65

Section 63.1 Exclusions

Section 63.1 excludes from the definition of change in ownership the purchase or transfer of principal residences and the first $1 million of other real property between parents and children. Under limited circumstances, certain transfers from grandparents to their grandchildren are also excluded.

We reviewed several section 63.1 exclusions, including the filed applications, and found all documents to be in compliance. The assessor submits to the Board the quarterly section 63.1(f) reports as requested by the Board.

The following table depicts the number of section 63.1 exclusions over recent years:

ROLL YEAR	SECTION 63.1 EXCLUSIONS
2006-07	496
2005-06	556
2004-05	553
2003-04	300

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

Section 408.1 Transfer List

Section 408.1 requires that the assessor maintain a list, available to the public, showing property transfers that have occurred in the prior two years. The list must be divided into geographical areas, and must also include the names of the transferors and transferees, if available, the assessor's parcel numbers (APN), addresses of the sales properties, dates of transfers, dates of recordings and recording reference numbers, and, if known by the assessor, the amount of consideration paid for each transaction.

The assessor makes available to the public a hard copy listing showing all property transfers that have occurred over the last two years. This list is updated quarterly. Properties are listed in chronological order, with all required information.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control, and hence, either do or do not constitute a corresponding change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of the real property transfer.

To help assessors, the Board'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 enough information sufficient to identify the real property involved. Because of the limited data provided by many entities, assessors should independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

When the assessor receives the LEOP listing, he reviews the list, identifies the parcels, and updates the computer system. We reviewed the assessments of properties owned by eight legal entities that were reported to have experienced a change in control within the last few years. We found that the assessor properly and promptly revalued all parcels owned by legal entities undergoing a change in control and reassigned business properties to the new owners' accounts.

New Construction

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

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

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

Building Permits

Building permits are the assessor's primary means of discovering assessable new construction. Currently, there are six permit-issuing agencies in Napa County: the cities of Napa, American Canyon, Yountville, St. Helena, and Calistoga, in addition to the County of Napa. The assessor's office receives permits from all permit-issuing agencies.

The following is a table indicating the total number of permits worked by the assessor in recent years:

BUILDING PERMITS WORKED BY ROLL YEAR					
REPORTING AGENCY	**2006-07**	**2005-06**	**2004-05**	**2003-04**	**2002-03**
American Canyon	439	714	516	536	644
Calistoga	109	97	55	51	38
City Of Napa	1,148	1,175	1,035	851	748
St. Helena	160	156	146	152	110
Yountville	112	54	43	22	22
County Of Napa	811	822	807	761	853
Total	2,779	3,018	2,602	2,373	2,415

The assessor also discovers new construction through field canvassing and by reviewing business property statements. When new construction is noted on form BOE-571-L, *Business Property Statement* (BPS), the auditor-appraiser sends a memorandum to the real property section with a copy of Schedule B from the BPS as an attachment.

The assessor processes all permits that represent assessable new construction and discards those that represent non-assessable work, such as repairs and replacements. The assessor sends a *Property Owners' Statement of New Construction* questionnaire to property owners for all new construction.

For lower-valued new construction projects, a field review is left to the appraiser's discretion. In all other cases, appraisers are expected to field inspect all new construction projects. Appraisers are responsible for preparing electronic sketches of the new construction and attaching them to the property record.

All permit data is entered into the assessor's system. This system tracks completed new construction and construction in progress as of the lien date.

Valuation

The primary approach to valuing residential new construction is the cost approach; however, market and income approaches are also considered. When valuing new construction for commercial and industrial projects, the assessor relies primarily on the market and income approaches.

Fair market value is estimated as of the lien date for new construction in progress. Base year values are maintained on the property record for each item of new construction as of the date of completion. Entrepreneurial profit is added, where appropriate, in the cost approach.

The assessor's new construction program is well managed and administered; we found no problems with this program.

Declines in Value

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

The following table shows the number of decline-in-value properties in Napa County for recent years:

ROLL YEAR	ASSESSMENTS
2006-07	105
2005-06	109
2004-05	129
2003-04	209
2002-03	233

Currently, the assessor does not have a formal program for identifying properties where the market value is lower than the FBYV. The assessor's primary methods of discovering declines in value are from taxpayer requests for value reviews, assessment appeals for declines in value, and appraiser familiarity with his or her assigned geographic areas.

There are a number of single-family residential subdivisions in Napa County. One appraiser is responsible for their valuation. Sales in these subdivisions are tracked on a spreadsheet. If the sales data indicates that the market value is declining in a particular neighborhood, the appraiser will reduce the assessed values for all properties in that neighborhood that warrant a decline in value.

Single-family residences not located within these homogeneous subdivisions, multi-residential properties, and commercial and industrial properties are reviewed on an individual basis when

requested by the property owner. When a property owner requests a decline-in-value review, the appraiser responsible for that geographical area will review the claim. When the appraiser completes the review and determines that a reduction in the assessed value is warranted, the appraiser keys the reduced value into the computer system. The computer system generates a notice of assessed value change, which is mailed to the property owner, showing the current FBYV and the enrolled market value. The notice also informs the property owner of his or her appeal rights.

Properties in decline-in-value status are coded in the computer system to prevent the application of the annual inflation factor and to alert the assessor to review these properties annually. For any roll year where the current market value is greater than the FBYV, the assessor correctly restores the FBYV.

We reviewed a number of residential and commercial properties in decline-in-value status and found that the assessor annually compared the current market value with the FBYV and enrolled the lower of the two. However, we noted that for some specific property types, the assessor was not in compliance with section 51. We make recommendations to that effect within this report under the sections covering taxable possessory interests, water company properties, and manufactured homes.

Supplemental Assessments

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

The assessor issues supplemental assessments whenever there is a change in ownership or upon the completion of new construction. New base year values are entered into the computer system, which calculates the supplemental assessment; the computer then forwards this information to the auditor-controller and tax collector for billing. The supplemental assessment process, from the recording of the transfer documents to the production and mailing of the supplemental notices, averages from two to four weeks, depending on the workload and time of year. The notice includes all of the information required by section 75.31.

The assessor's policy is to enroll all supplemental assessments regardless of the dollar amount. The amount of the supplemental assessments may be either positive, which will generate a bill, or negative, which will generate a refund.

The following table shows the number of supplemental assessment notices issued for recent years:

ROLL YEAR	NOTICES
2006-07	5,009
2005-06	5,492
2004-05	5,034
2003-04	5,028

The assessor excludes property built for resale from supplemental assessments, provided the builder properly applies for this exclusion.

We examined a number of change in ownership and new construction events and found the assessor's supplemental assessment program to be accurate and in full compliance with all applicable statutes.

California Land Conservation Act Properties

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

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

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

The vast majority of CLCA acreage in Napa County is planted in vineyards, with a small amount devoted to grazing. For the 2006-07 assessment roll, Napa County had 740 parcels under CLCA contract with a total assessed value of $765,113,875. A total of 70,862 acres were under contract for 2006-07, roughly 15 percent of the county's total land area.

One staff appraiser is responsible for the assessment of all CLCA properties in Napa County. The assessments are highly computerized, and the records, both hard copy and electronic, are well maintained and readily accessible.

Upon a change in ownership of property subject to CLCA contract, a new base year value is allocated to both restricted and unrestricted portions of the property. In accordance with section 75.14, a supplemental assessment is issued only for the unrestricted portion.

There are 15 CLCA contracts in nonrenewal status. The assessor has properly determined the assessed values in accordance with section 426. During the past year the county had one cancellation of a CLCA contract, which was processed according to the applicable provisions of the Government Code.

In arriving at the restricted value, the assessor determines income and expenses according to the provisions of section 423(a), using a cash rent analysis for land rents and an owner-operator analysis for permanent plantings. Income and expense questionnaires are mailed each year to collect income and expense data as well as information related to plantings and associated vineyard improvements.

The statutorily-prescribed capitalization rate is developed in accordance with section 423(b), with a higher risk rate used for permanent plantings. The restricted value is properly compared to the factored base year and current market values, with the lowest of the three values enrolled.

Homesites are treated as unrestricted property to be valued at the lower of factored base year or current market values, in accordance with section 428. The homesite value is properly determined based on the contributory value of the homesite as of the base year value date for the entire property. Nonliving improvements are also treated as part of the unrestricted unit to be valued at the lower of factored base year or current market values.

In conclusion, the assessment of CLCA properties in Napa County is efficient, well organized, and administered in accordance with property tax law. We have no recommendations.

Taxable Government-Owned Properties

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

There are 73 taxable government-owned properties in Napa County, including parcels owned by various cities and districts. The total assessed value of taxable government-owned properties on the 2006-07 assessment roll was $10,939,376.

We reviewed all properties assessed as taxable government-owned properties. We also reviewed a sampling of government-owned properties with a zero roll value to confirm that the properties were not located outside that agency's boundaries. We found that the properties reviewed were correctly assessed.

Notwithstanding, however, we noted that the assessor has been performing a three-way value comparison. While he correctly enrolls the lowest of the restricted value, current market value, or factored base year value, we noted that there is one area for improvement in these procedures.

RECOMMENDATION 2: Correctly establish base year values for all taxable government-owned property.

The assessor erroneously establishes base year values only at current market value at the time of acquisition.

Letter To Assessors 2000/037, dated June 23, 2000, advises that base year values for taxable government-owned properties acquired after March 1, 1975, should be established at the lower of current market value or the 1967 assessed value multiplied by the appropriate factor as of the date of change in ownership.

The assessor's current practice may result in overassessment of taxable government-owned property.

Taxable Possessory Interests

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

The Napa County Assessor's program for discovering taxable possessory interests includes an annual polling of all known government entities owning property in the county. The assessor contacts approximately 27 public agencies by letter, requesting information on land-use agreements with private parties. For the 2006-07 assessment roll, the assessor enrolled 311 taxable possessory interests with a total value of $39,388,467. Napa County has a variety of taxable possessory interests, including airplane hangars, manufactured home sites, office space, cable television rights-of-way, and various uses of the fairgrounds.

We have only two recommended improvements to the taxable possessory interest assessment program.

RECOMMENDATION 3: Improve the taxable possessory interest program by:
(1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and
(2) deducting allowed lessor expenses from gross income when valuing taxable possessory interests by the income approach.

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

We found that, for lien dates subsequent to the establishment of the base year value, the assessor does not determine the market value of a taxable possessory interest with a stated term of possession. Instead, the assessor enrolls the factored base year value until the contract term of possession expires or there is a change in ownership.

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 two percent) or the current market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. Relevant to the current market value of a taxable possessory interest with a stated term of possession, Rule 21 provides that the stated term (defined as the remaining period of possession) must be used unless there is clear and convincing evidence that the lessor and lessee have mutually agreed to a different term. If all other factors remain the same, a reduction in the term of possession will result in a reduction in the market value of a taxable possessory interest.

The assessor should 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.

Deduct allowed lessor expenses from gross income when valuing taxable possessory interests by the income approach.

The assessor does not deduct operating expenses from the gross income of a taxable possessory interest before converting the income stream into a value indicator.

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

A public owner will incur at least some management expense with each taxable possessory interest. Also, 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 inflating this value indicator.

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 time, they may add and/or remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on form BOE-571-L, *Business Property Statement* (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 to avoid escape and double assessments. The assessor must determine whether costs are for repair and maintenance, and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

When new construction by a tenant adds value to a property, the assessor must review those changes and reflect those changes in the property's assessed value. Means of identifying new construction include review of construction permits, sending new construction questionnaires to tenants, and examining rent rolls for tenant changes and rent changes. The BPS, an annual filing requirement of many business owners, is also a useful source for discovering leasehold improvements. Finally, the exchange of information between the business property and real property staff may also lead to the discovery of leasehold improvements.

In Napa County, the most common methods of discovery for leasehold improvements are through the examination of the BPS and building permits. Schedule B of the BPS is a useful source for discovering leasehold improvements. It is the practice of the assessor to refer expenditures reported on Schedule B to the real property section for review. The BPSs are flagged for referral and a copy of the schedule is forwarded to the real property section.

The assessor enrolls reported structural improvements on the secured roll. Fixtures are enrolled on the unsecured roll. The assessor's policy is to split the responsibility of assessing leasehold improvements between the real property and business property sections. The real property section is responsibility for the assessment of leasehold improvements classified as structures; the business property section is responsible for assessing leasehold improvements classified as fixtures. We found this policy to be effective.

Water Company Properties

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

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost primarily for 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, improvement, and delivery system owned by the mutual water company because the values of these properties are reflected in the assessments of the member or stockholder parcels.

The assessor has identified six mutual water companies within Napa County. We found the assessor applies the proper procedures when assessing mutual water company properties.

Municipal Water Systems

Article XIII, section 3(b) of the California Constitution exempts from taxation property owned by a local government and located within its boundaries. This includes both property owned by city water departments 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. Article XIII, section 11 of the California Constitution provides that publicly-owned property (including a water system) located outside its boundaries is taxable if it was taxable at the time it was acquired by the district.

In our review of property owned by municipal water systems within Napa County, we found the parcels owned by the municipal water systems located within the city limits or district boundaries were correctly exempt from taxation under article XIII 3(b) of the California Constitution. We also found parcels owned by the municipal water systems located outside of the city limits or district boundaries were also correctly assessed.

Private Regulated Water Companies Regulated by the CPUC

Private, for-profit water companies are subject to rate-base 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 the 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) value of the assets owned by the company.

In our 2003 survey report, we recommended the assessor assess the real property of regulated water companies at the lower of current market value or factored base year value. We found that the assessor has not complied with this recommendation. Thus, we repeat this recommendation, and make one new recommendation to improve the water company property assessment program.

RECOMMENDATION 4: Improve the water company assessment program by: (1) assessing the real property of regulated water companies at the lower of the current market value or the factored base year value, and (2) periodically reviewing water source properties that are annually inspected by the State Department of Health Services to ensure correct assessment and enrollment.

Assess the real property of regulated water companies at the lower of the current market value or the factored base year value.

We found that the assessor does not determine the current market value of real property owned by the one regulated private water company in Napa County. Instead, the assessor enrolls the factored base year value.

Section 51(a) requires that real property shall be assessed on each lien date at the lower of its factored base year value or its full cash value as defined in section 110. Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, provides guidance in this area. Because of rate regulation by the CPUC, the market value of the properties owned by the private

water company should correlate closely with the HCLD value of the assets owned by the company. The assessor's practice of not calculating the market value of these properties may result in overassessment of the properties owned by the regulated water company.

Periodically review all water source properties that are annually inspected by the State Department of Health Services to ensure correct assessment and enrollment.

To determine whether or not the assessor had properly assessed the property of the various water companies within Napa County, we obtained reports, which contained lists of water supply sources. These water supply sources are inspected annually by the State Department of Health Services' Drinking Water Field Operations branch and the CPUC. Those properties reported as water supply sources include mobilehome parks, campgrounds, wineries, resorts, country clubs, motels, private water companies, and others that may own water company property.

We found that the assessor did not assess properties owned by some of the listed water supply sources. The assessor should contact these property owners and investigate the status of their properties. Property not currently assessed should be enrolled.

Mineral Properties

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties. There are no assessable petroleum or geothermal mineral properties in Napa County.

At the time of our prior survey, there were four active mineral properties in Napa County. There is now only one active mining property in the county. The two quarries are no longer in operation. One quarry has been mined-out and is now producing from its stockpile. Stockpiles are minerals that have been severed from the earth. Once severed, minerals become inventory and are not taxable.

We found no problems with the assessor's mineral property assessment program.

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.

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 table below shows the total number of audits completed by the Napa County Assessor for recent years:

DESCRIPTION	2005-06	2004-05	2003-04	2002-03
Audit Workload				
Mandatory	48	85	64	54
Nonmandatory	17	47	48	6
Carried Over From Prior Year	132	87	64	34
Total Audit Workload	**197**	**219**	**176**	**94**
Audits Completed				
Mandatory	65	40	41	24
Nonmandatory	17	47	48	6
Total Audits Completed	**82**	**87**	**89**	**30**
Total Audits Carried Forward	**115**	**132**	**87**	**64**

We found that the assessor performs change in control (legal ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. In all cases, the audits that were completed were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

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

In our 2003 survey, we recommended the assessor bring his mandatory audit program current. Since the program is still in arrears, we repeat this recommendation.

RECOMMENDATION 5: Timely audit the books and records of professions, trades, and businesses pursuant to section 469.

We found the assessor is not completing his mandatory audits in a timely manner. He has a total mandatory audit workload of about 300 audits and needs to complete about 75 audits per year. However, over the last four years, he has only completed an average of 42 mandatory audits.

Section 469 and Rule 192 require the assessor to audit at least once every four years those taxpayers engaged in a profession, trade, or business that has a full value of $400,000 or more. The mandatory audit verifies the reporting of the largest business property accounts. The further removed the audit is from the years being audited, the more difficult it may be to obtain the necessary records.

By failing to complete these audits in a timely manner, the assessor is not complying with the provisions of section 469 and Rule 192. Additionally, this delay makes it difficult to complete an audit in the future due to the reduced availability of financial records.

Business Property Statement Processing

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

For the 2006-07 assessment roll, a total of 6,015 BPSs (including statements for vessels and aircraft) were processed, resulting in assessments totaling more than $1.3 billion.

Many assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain qualified, lower-value, small business accounts without requiring the annual filing of a BPS. The assessor establishes an initial value and continues that value for several years, with only periodic property statements or field reviews required. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated launderettes, small cafes, small restaurants, and professional firms with small equipment holdings. The direct billing program is beneficial to both taxpayers and the assessor. Direct billing streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be processed by the assessor.

The Napa County Assessor has an active direct billing program. The assessor's criteria for placing an account into the direct billing program are: (1) the cost of assets must be under

$95,000; (2) no multiple accounts; and (3) consistent filings for the past two years. In addition, the assessor requires that taxpayers that have accounts within the direct billing program are scheduled to receive a property statement every four years. Accounts are removed from the direct billing program if: (1) the taxpayer fails to file a property statement in the fourth year; (2) the cost of assets exceeds $95,000; or (3) in the opinion of the auditor-appraiser, it is warranted.

We reviewed the assessor's business property statement processing program, including a sample of direct billing accounts, and have no recommendations for this program.

Business Equipment Valuation

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

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

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

CATEGORY	SECURED	ASSESSED VALUE	UNSEC.	ASSESSED VALUE	TOTAL	ASSESSED VALUE
General Business	1,963	$707,876,209	4,052	$630,689,058	6,015	$1.338,565,260
Vessels			2,331	$30,328,850	2,331	$30,328,850
General Aircraft			259	$94,863,264	259	$94,863,264
TOTAL	**1,963**	**$707,876,209**	**6,642**	**$755,881,172**	**8,605**	**$1,463,737,374**

We reviewed the assessor's business property valuation program, including written processing procedures, the proper use of price indices, percent good factors, and fixture percentage allocation. The assessor uses the valuation factor tables published by the California Assessors' Association (CAA) to value business property. The CAA price indices generally parallel the indices published in AH 581. We have no recommendations in this area.

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*.

When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of a lease, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

We reviewed the procedures for assessing leased equipment along with a sample of lessor and lessee assessment records. We found the leased equipment program is well managed, with staff doing a good job in the discovery, processing, tracking, and cross-checking of leased equipment information.

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 2006-07 assessment roll, there were 30 mobilehome parks and 1,598 manufactured homes in Napa County. The total assessed value of these manufactured homes was $73,653,812. The majority of the manufactured homes can be found in mobilehome parks.

An appraiser aide, working directly under a supervising appraiser, is responsible for all manufactured home assessments. The assessor learns of new taxable manufactured homes, sales, new installations, and voluntary conversions of manufactured homes through periodic State Department of Housing and Community Development listings. This discovery is supplemented by dealer reports of sales, building permits, deed recordings, *Preliminary Change of Ownership Reports*, and periodic reports of tax clearance notifications from the treasurer's and tax collector's offices.

For sales and transfers, the assessor determines market values by using recognized value guides in accordance with section 5803. The assessor uses the *National Automobile Dealers Association Manufactured Housing Appraisal Guide* as well as Assessors' Handbook Section 531, *Residential Building Costs*, to value manufactured homes. When applicable, supplemental assessments are processed.

We reviewed a number of manufactured home assessments and found them to be well documented. However, we did find one area of concern.

RECOMMENDATION 6: Annually review all manufactured homes that have experienced a decline in value as required by section 51(e).

We found the assessor correctly enrolls a base year value for each manufactured home pursuant to section 5803. However, for subsequent lien dates, the assessor enrolls this base year value as the market value, ostensibly to reflect a decline in value. This value remains unchanged until there is a change in ownership or new construction occurs.

Section 51(e) provides that a property in decline-in-value status must be annually reviewed until its current market value returns to the factored base year value level. In 2001, the assessor conducted a study that showed that the market values of manufactured homes at that time were lower than their factored base year values. However, no study has since been done to show market trends for subsequent lien dates.

By not annually reviewing manufactured home values, the assessor is not in compliance with section 51(e), which may have resulted in either an over- or an under-assessment of manufactured homes.

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

The Board further directed in Letter To Assessors 97/03 (LTA 97/03), dated January 31, 1997, that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market value for aircraft in truly average condition on the lien date. Additionally, LTA 97/03 states that the value should be adjusted for overall condition of the aircraft, equipment installed, hours since major overhaul, and airframe hours. While LTA 97/03 further directs assessors to make any other adjustments necessary to achieve fair market value assessments of aircraft, such variances from the values published in the recommended guide, other than the 10 percent reduction, must be based on reasonable evidence and should be well documented.

The 2006-07 local tax roll in Napa County includes 259 general aircraft with a total assessed value of $94,863,264.

The assessor mails annual aircraft statements to the owners of all aircraft with situs in the county. The statement has a filing deadline of April 1, and the assessor imposes a 10 percent penalty for failure to file or for statements received after May 7.

We found the assessor used the required primary value guide, and the aircraft files were in good order with verifiable documentation. In compliance with Board policy, the assessor adjusted the

appraisals downward by 10 percent. Additionally, the assessor made adjustments for sales tax, interior and exterior condition, engine hours, airframe hours, and variances from the value guide for systems and equipment.

There are no air carriers or air taxis operating a scheduled service in Napa County. In 2005 there was just one landing of a certificated aircraft at the Napa County Airport. Additionally, for the 2006-07 roll, there were no historical aircraft exemptions issued.

Vessels

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

Assessors are required to annually appraise all vessels at market value except as provided in sections 228 (a vessel with a market value of $400 or less shall be free from taxation so long as no more than one vessel is owned, claimed, possessed, or controlled by an assessee on the lien date and the vessel is not used for commercial purposes) and 155.20 (low-value property tax exemption). Napa County has an ordinance exempting personal property valued at $2,000 or less.

In Napa County, the assessor discovers vessels through property statements, harbormasters' marina reports, field canvassing, referrals from other counties, and DMV reports. The assessor uses reported purchase prices and value indicators from the *National Automobile Dealers Association Small and Large Boat Appraisal Guide* (NADA*)*, a recognized value guide, to appraise vessels.

For the 2006-07 assessment roll, the assessor enrolled 2,331 vessels with a total assessed value of $30,334,610. This amount included nine documented vessels that qualified for the four percent assessment as provided by section 227.

The following table shows the vessels assessed in Napa County for recent years:

ROLL YEAR	PLEASURE VESSELS	ASSESSED VALUE	DOCUMENTED VESSELS	ASSESSED VALUE
2006-07	2,322	$30,328,850	9	$5,760
2005-06	2,259	$29,493,758	10	$7,470
2004-05	2,265	$29,311,390	11	$10,040
2003-04	2,209	$27,046,380	10	$4,910
2002-03	2,042	$22,649,847	7	$2,070

When a vessel first establishes tax situs in Napa County, and when there is a change in ownership, the assessor sends the owner a *Vessel Owner's Report*. The Board-prescribed form BOE-576-D, *Vessel Property Statement*, and form BOE-576-E, *Affidavit for 4 Percent Assessment of Documented Vessels*, are available to the assessor, but the assessor prefers to use a

locally-developed *Vessel Owner's Report*. We found no penalties assessed on any non-Board-prescribed forms.

In our 2003 survey report, we recommended the assessor use certified personnel to review vessel valuations as required by section 670(a). We found that the assessor has not implemented this recommendation. Accordingly, we repeat this recommendation below.

RECOMMENDATION 7: Ensure a certified appraiser reviews vessel values.

An assessment clerk makes the initial appraisal of each vessel using NADA. Although it is the assessor's policy that complex vessel appraisals be reviewed and approved by a certified appraiser, not all vessel assessments receive this review.

Section 670(a) provides that no person shall perform the duties or exercise the authority of an appraiser for property tax purposes unless they hold a valid appraiser's or advanced appraiser's certificate issued by the Board. In addition, Letter To Assessors 2003/068, dated October 29, 2003, provides that while assistants may aid in the valuation of vessels and aircraft by selecting and applying information from a valuation guide deemed appropriate by an appraiser, an appraiser must first verify that the items are properly described and assessable, and an appraiser must review the resulting value estimate.

By allowing non-certified staff to value property without review by a certified appraiser, the assessor is allowing unqualified persons to exercise the authority of an appraiser, which is contrary to the provisions of section 670(a).

Animals

The California Constitution mandates that all property is taxable unless specifically exempt under 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 exempt under section 224. Many animals that are considered business inventory are exempt under sections 129 and 219 and Rule 133.

Most animals are reported on form BOE-571-F, *Agricultural Property Statement*. Taxable animals include those that are held or used in connection with the owner's business, trade, or profession; those used to produce offspring for sale at a net profit; and those with proficiency that have gained substantial monetary or other rewards.

Methods of discovering taxable animals in Napa County include referrals from the real property section, telephone yellow pages, animals reported on form BOE-571-F, and audits of agricultural property.

We reviewed appraisal records for taxable animals and found no problems with the assessor's methods of assessing taxable animals.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Napa County

Chief

Dean Kinnee

Survey Program Director:

Arnold Fong	Principal Property Appraiser

Survey Team Supervisor:

Sally Boeck	Supervising Property Appraiser

Survey Team Leader:

Bob Marr	Associate Property Appraiser

Survey Team:

Dale Peterson	Senior Specialist Property Auditor-Appraiser
Paul Lane	Senior Specialist Property Appraiser
Ron Louie	Senior Specialist Property Appraiser
David Yeung	Senior Specialist Property Appraiser
Dave Barbeiro	Associate Auditor-Appraiser
Zbigniew Radko	Associate Auditor-Appraiser
Jon Wolf	Associate Auditor-Appraiser
Andy Austin	Assistant Property Appraiser
Chandra Williams	Tax Auditor
Prubjit Singh	Tax Technician I

B. Relevant Statutes and Regulations

Government Code

15640. **Survey by board of county assessment procedures.**

(a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.

(b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.

(c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.

(d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.

(e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.

(f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. **Audit of records; appraisal data not public.**

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

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

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

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

15642. **Research by board employees.**

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

15643. **When surveys to be made**.

(a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

(b) The surveys of the 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 BOARD'S FINDINGS

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

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

NAPA COUNTY

JOHN TUTEUR
Assessor

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Voice 707.253.4459 email: jtuteur@co.napa.ca.us

RECEIVED
JUL 15 2008
County-Assessed Properties Division
State Board of Equalization

July 18, 2008

DEAN R. KINNEE, CHIEF
COUNTY-ASSESSED PROPERTIES DIVISION
STATE BOARD OF EQUALIZATION'
450 N ST
SACRAMENTO CA 94279-0062

Dear Mr. Kinnee:

Pursuant to California Government Code 15645 I am providing our written response to the findings and recommendations contained in the Napa County Assessment Practices Survey of the 2006-2007 assessment roll. On behalf of the staff of this office, I want to acknowledge the favorable comments contained in the Survey.

Survey Supervisor Sally Boeck and Survey Leader Bob Marr and all the members of the team accomplished their review in an efficient manner with minimal interruption of our operations during the 2007-2008 roll closing process in May and June 2007. We appreciate the constructive suggestions and comments SBE staff provided during the fieldwork and follow-up conversations.

I also want to acknowledge the dedication and professionalism of our staff and their commitment to providing fair and accurate assessments to the property owners and residents of Napa County.

Sincerely,

JOHN TUTEUR
NAPA COUNTY ASSESSOR

Attachment

RESPONSE TO NAPA COUNTY ASSESSMENT PRACTICES SURVEY RECOMMENDATIONS

RECOMMENDATION 1 [Page 13]: Revise the application for disaster relief.

RESPONSE: WE CONCUR The letter to property owners who suffer a calamity was revised in June 2007 with the following text:

> It has come to our attention that you have recently sustained a property loss which may qualify for property tax relief. By filling out and returning the form on the reverse side of this letter, you will provide us with the information we need to determine if a calamity adjustment is justified. You have 60 days from the date shown on the form but no more than twelve (12) months from the date of the calamity to return the form to us in order to be considered.

RECOMMENDATION 2 [Page 29]: Correctly establish base year values for all taxable government owned property.

RESPONSE: WE RESPECTUFLLY DISAGREE The Supreme Court's finding in *City and County of San Francisco v. County of San Mateo et al.* (1995) 10 Cal.4th 554 affirms that the proper base year value is the 1975 appraised value for taxable government owned properties that were appraised for the 1975 lien date. Section 110.1(d) defines base year value as the appraised value for property that was appraised as a result of a periodic reappraisal pursuant to Section 405.5 for the 1975 lien date. For taxable government owned properties that were appraised for the 1975 lien date under Article XIII, Section 11, the appraised value was the lesser of full cash value or the Phillips Factor value.

This BOE recommendation relates to properties which 1) were not valued under Article XIII Section 11 for the 1975 lien date and 2) were acquired by a governmental agency outside its boundaries after March 1, 1975 by a change of ownership. BOE guidelines (LTA 2000/037) wrongly provide that base year values of taxable government owned properties acquired after the 1975 lien date are established at the lesser of current market value as of the date of change in ownership, or the Phillips Factor value.

The method for establishing a base year value for properties acquired after March 1, 1975 by a government agency outside its boundaries is set forth in the California Constitution Article XIIIA Sec. 2 (a) and Revenue and Taxation Code section 110.1(a)(2)(A). The "full cash value" means the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value" or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. LTA 2000/037 is in conflict with these constitutional and statutory provisions. An assessor who follows LTA 2000/037 requiring a comparison with the Phillips Factor is acting against constitutional and statutory direction and could establish a base year value that is *less* than fair market value.

There is no legal or logical basis for creating a new type of base year value for properties acquired by a government agency outside its boundaries after March 1, 1975. Letter to Assessors 2000/037 should be rewritten to describe the correct method, as set forth in the Constitution and statutes, of establishing a base year value for properties acquired by a government agency outside its boundaries after March 1, 1975 by determining the full cash value of the property as of the date of change of ownership.

RECOMMENDATION 3 [Page 29]: Improve the taxable possessory interest program by: 1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, and (2) deducting allowed lessor expenses from gross income when valuing taxable possessory interests by the income approach.

RESPONSE (1): WE RESPECTFULLY DISAGREE We have done an annual review of possessory interests held by seven resorts in Federally owned land at Lake Berryessa. Those possessory interests have been reviewed for a decline in value for the last decade and many have been enrolled with a decline in value. Our study of other possessory interests confirm that renewal of the term of possession beyond the term stated in the contract is the norm and neither a review for decline in value nor a decline in value is warranted.

RESPONSE (2): WE CONCUR We have modified our possessory interest procedures to deduct allowed

Lessor expenses from gross income when valuing taxable possessory interests by the income approach.

RECOMMENDATION 4 [Page 32]: Improve the water company assessment program by:

1) assessing the real property of regulated water companies at the lower of the current market value or the factored base year value, and (2) periodically reviewing water source properties that are annually inspected by the State Department of Health Services to ensure correct assessment and enrollment.

RESPONSE (1): WE CONCUR We valued our only regulated water company correctly when it changed ownership in 2004. We did not review the value for several years. We did review the value for the 2008-2009 roll and determined that the factored base year value is correctly enrolled as lower than the current market value which was also the case for the intervening years. We will review this water company each year in the future.

RESPONSE (2): WE CONCUR We are reviewing the three small mutual water companies discovered by the survey team (with a total of 45 parcels for the three companies combined.) We will review the improvements of these companies and enroll escape assessments if warranted for the parcels served by each company if improvement values were missed.

RECOMMENDATION 5 [Page 35]: Timely audit the books and records of professions, trades, and businesses pursuant to section 469.

RESPONSE: WE CONCUR Napa County used PTAP funds for several years to hire two Limited Term Auditor Appraisers to reduce the backlog. With the termination of this program we lost one of these positions. We are hoping to become current in our audit production in the near future.

RECOMMENDATION 6 [Page 38]: Annually review all manufactured homes that have experienced a decline in value as required by section 51(e).

RESPONSE: WE CONCUR We believe that our 2001 study still holds true that manufactured homes depreciate at a rate which equals the 2% maximum inflationary adjustment under Proposition 13. We agree that it would be better to compare the factored base year value to the current market value annually. Beginning with the 2009 assessment roll, our Megabyte property tax system will allow us to make an annual, automated comparison to the AH 531 cost information for each manufactured home which will replace the less accurate but still useful information developed by our 2001 study.

RECOMMENDATION 7 [Page 40]: Improve the assessment of vessels by ensuring a certified appraiser reviews vessel values.

RESPONSE: WE CONCUR A certified appraiser currently establishes the parameters for valuing all vessels using recognized value guides with appropriate market-derived factors and makes all complex vessel appraisals. As staffing and time permits we will attempt to have a certified appraiser review routine appraisals derived from value guides using the valuation guidelines established by a certified appraiser.