

# PLUMAS COUNTY ASSESSMENT PRACTICES SURVEY

## FEBRUARY 2012

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### CALIFORNIA STATE BOARD OF EQUALIZATION

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STATE BOARD OF EQUALIZATION  
PROPERTY AND SPECIAL TAXES DEPARTMENT  
450 N STREET, SACRAMENTO, CALIFORNIA  
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064  
916 274-3350 • FAX 916 285-0134  
www.boe.ca.gov

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February 7, 2012

TO COUNTY ASSESSORS:

No. 2012/009

PLUMAS COUNTY  
ASSESSMENT PRACTICES SURVEY

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

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from April through May 2010. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Leonhardt 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 amount of funding, the State must make up the difference from the general fund.

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the State Legislature; and to the Plumas 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 Charles W. Leonhardt, Plumas County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys* at page 2) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

In addition, pursuant to Revenue and Taxation Code<sup>1</sup> section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Plumas 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 Plumas 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.<sup>2</sup>

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.

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

<sup>2</sup> 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.

In the area of administration, we noted that the assessor effectively manages staffing. He also has effective programs in place for administering appraiser certification and training, monitoring and assessing staff-owned property, and processing and presenting assessment appeals. However, several administrative components, such as workload, disaster relief, assessment roll changes, exemptions, and assessment forms, are in need of improvement.

In the area of real property assessment, we noted the need for improvement in the assessor's assessment programs for change in ownership, new construction, declines in value, California Land Conservation Act (CLCA) properties, taxable possessory interests, leasehold improvements, and mineral properties.

In the area of personal property and fixtures assessment, the assessor has effective programs for business property statement processing and business equipment valuation. However, the audit and manufactured homes programs are in need of improvement. The area needing improvement in the assessment of manufactured homes is more fully discussed in the declines-in-value section of this report.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly.

We found no significant assessment problems as defined in Rule 371. Accordingly, pursuant to section 75.60, Plumas County continues to be eligible for recovery of costs associated with administering supplemental assessments. Since Plumas 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 they appear in the text.

<b>RECOMMENDATION 1:</b>	Improve the workload program by reporting statistics as requested by the BOE pursuant to section 407. ....	10
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**RECOMMENDATION 2:** Improve the disaster relief program by: (1) requesting the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170, (2) granting disaster relief only with a properly filed application or with approval from the board of supervisors in accordance with the disaster relief ordinance, (3) calculating the proration of taxes due on damaged property to include the month in which the damage occurred, and (4) revising the notice of reassessment for disaster relief to conform to the requirements of section 170(c). .....14

**RECOMMENDATION 3:** Improve the assessment roll change program by: (1) removing incorrect language advising taxpayers of their appeal rights from the *Notice of Proposed Escape Assessment*, (2) sending a *Notice of Enrollment of Escape Assessment* as required by section 534, and (3) adding penalty and interest when terminating erroneous homeowners' exemptions where the assessee's error caused the exemption to be allowed. ....16

**RECOMMENDATION 4:** Improve the administration of the exemptions program by: (1) ensuring that field inspection reports and notes for exemptions are available for review, and (2) cancelling or refunding any tax or penalty in accordance with section 271(a)(3). .....18

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**RECOMMENDATION 6:** Grant the veterans' organization exemption in accordance with section 215.1(a).....21

**RECOMMENDATION 7:** Improve disabled veterans' exemption program by: (1) removing the requirement that claimants need to file for exemption in person, and (2) granting the disabled veterans' exemption in accordance with section 276.1.....23

**RECOMMENDATION 8:** Improve the use of assessment forms by using the most recent assessment forms as provided by the BOE. ....24

**RECOMMENDATION 9:** Improve the change in ownership program by: (1) correctly implementing the penalty process in accordance with section 482(a), and (2) revising the penalty notice to conform to the requirements of section 483(a).....26

**RECOMMENDATION 10:** Reassess all properties having undergone a change in ownership.....31

**RECOMMENDATION 11:** Classify wells as land pursuant to Rule 124. ....33

**RECOMMENDATION 12:** Annually review all decline-in-value properties.....34

**RECOMMENDATION 13:** Value newly created homesites on land under CLCA contract pursuant to AH 521.....36

**RECOMMENDATION 14:** Improve the taxable possessory interest program by:  
(1) assessing all taxable possessory interests,  
(2) deducting allowable expenses from gross income when valuing taxable possessory interests, (3) assessing taxable possessory interests upon a change in ownership in accordance with section 61(b), and (4) adding the present worth of unpaid future contract rents to the sale price of a taxable possessory interest.....37

**RECOMMENDATION 15:** Improve the assessment of leasehold improvements by:  
(1) forwarding copies of Schedule B and the supplemental schedule to the real property division, and  
(2) consistently documenting the investigation of leasehold improvements on the appraisal record.....40

**RECOMMENDATION 16:** Improve the assessment of mineral properties by:  
(1) adjusting the base year value of mineral property for depletion due to production as required by Rule 469, and  
(2) appraising mineral properties as a unit for determination of declines in value. ....41

**RECOMMENDATION 17:** Obtain a waiver of the statute of limitations pursuant to section 532.1 when an audit will not be completed timely.....44

## OVERVIEW OF PLUMAS COUNTY

Plumas County is located in the Sierra Nevada mountain range, about 150 miles northeast of Sacramento and 75 miles northwest of Reno, Nevada. The county has a total area of 2,618 square miles, including 48 square miles of water. Plumas County is bordered by Lassen County to the northeast, Sierra County to the south, Yuba County to the southwest, Butte and Tehama Counties to the west, and Shasta County to the northwest.

Plumas County was created from part of Butte County in 1854. The Legislature, in creating this county, gave it the name "Plumas" from the Spanish words for the Feather River (Rio de las Plumas). The U.S. Census Bureau estimates the 2009 population of Plumas County at 20,122. The county has one incorporated city, Portola. The county seat is Quincy.

The following table displays information pertinent to the 2009-10 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
<b>Secured Roll</b>	Land	\$1,490,024,278
	Improvements	\$2,305,147,696
	Personal Property & Fixtures	\$25,992,871
	Total Secured	\$3,821,164,845
<b>Unsecured Roll</b>	Land	\$17,080,709
	Improvements	\$38,301,442
	Personal Property & Fixtures	\$57,473,933
	Total Unsecured	\$112,856,084
<b>Exemptions<sup>3</sup></b>		(\$54,559,543)
	<b>Total Assessment Roll</b>	<b>\$3,879,461,386</b>

The following table summarizes the change in assessed values over recent years:<sup>4</sup>

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2009-10	\$3,879,461,000	-1.1%	-2.4%
2008-09	\$3,923,882,000	8.8%	4.7%
2007-08	\$3,607,434,000	10.5%	9.6%
2006-07	\$3,264,516,000	11.5%	12.3%
2005-06	\$2,926,908,000	13.4%	11.1%

<sup>3</sup> The Homeowners' Exemption value is not included in the exemption value noted in this table.

<sup>4</sup> 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, workload, appraiser certification, staff property and activities, assessment appeals, disaster relief, assessment roll changes, exemptions, and assessment forms.

### **Budget and Staffing**

The following table represents the assessor's office gross budget and staffing numbers for recent years as provided by the assessor:

<b>BUDGET YEAR</b>	<b>GROSS BUDGET</b>	<b>CHANGE</b>	<b>PERMANENT STAFF</b>
2008-09	\$769,768	-10.1%	9
2007-08	\$856,254	6.8%	10
2006-07	\$801,736	7.6%	10
2005-06	\$744,791	11.2%	12
2004-05	\$669,699	--	11

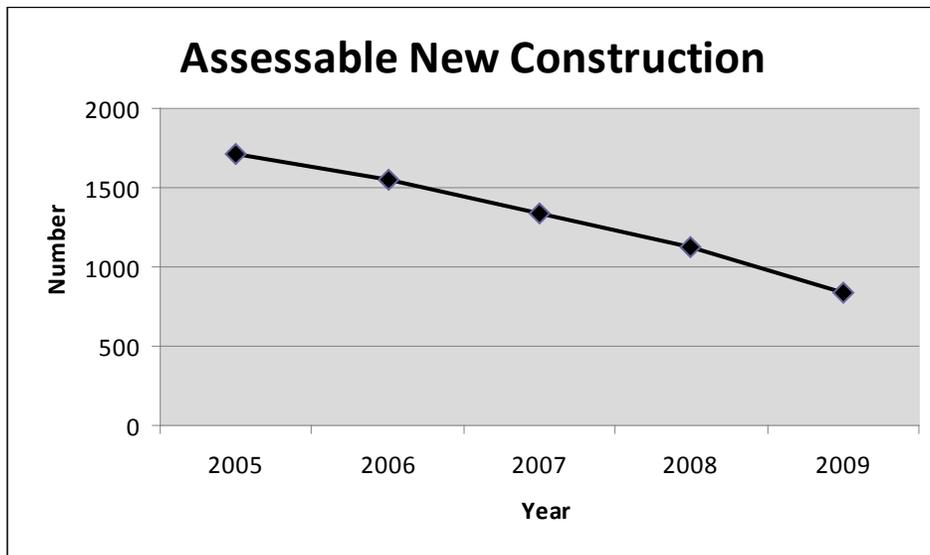
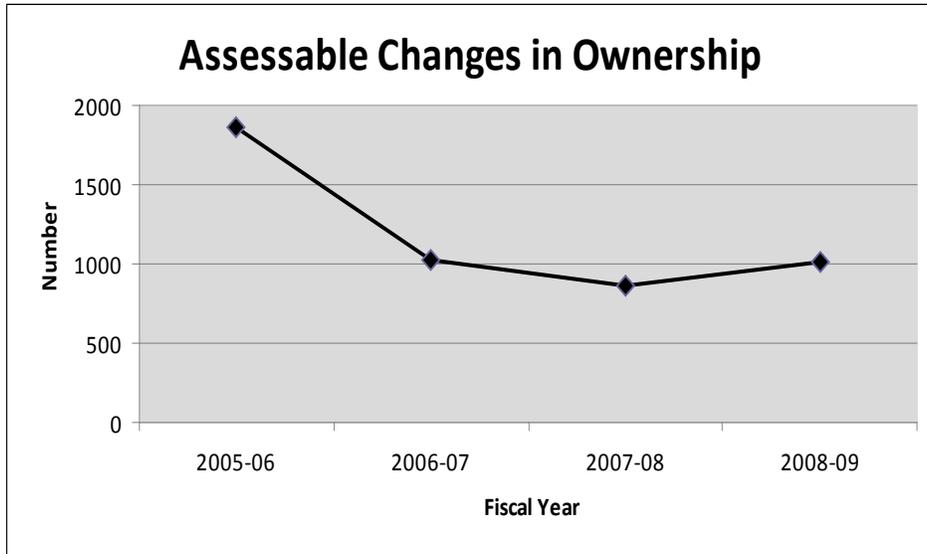
The assessor and his staff are located in Quincy. As shown in the table above, the number of permanent staff has declined in recent years. For the 2008-09 fiscal year, the number of employees totaled nine, including the assessor, the chief appraiser, four real property appraisers, the office manager, a cadastral drafting specialist, and a property tax specialist. The assessor also uses the services of one part-time employee and one student helper.

### **Workload**

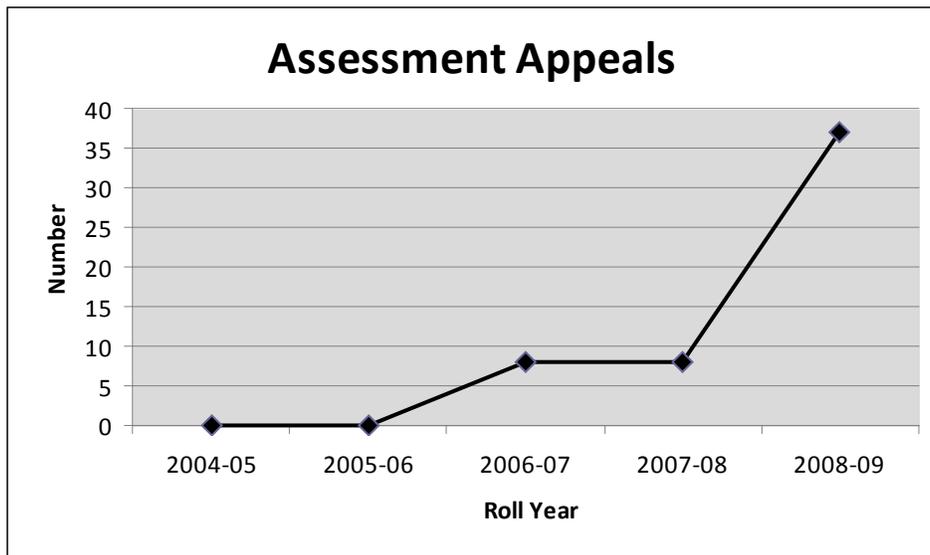
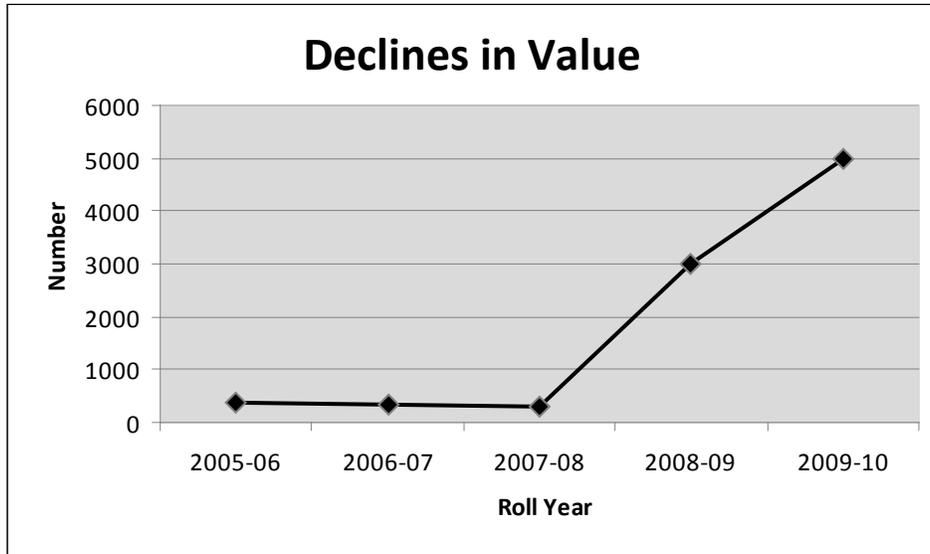
Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. To accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property.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

In addition, for most real property, the assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, the assessor must review the assessment of the property to determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

While the total roll value and the gross budget have increased four out of the past five years, there has been a decline in the number of assessable changes in ownership and the number of permits resulting in assessable new construction. The following charts illustrate these changes:



The decrease in workload for assessable changes in ownership and assessable new construction was replaced by significant workload increases in the areas of declines in value and assessment appeals. The following charts illustrate these changes:



During our review of the workload program, we found one area in need of improvement.

**RECOMMENDATION 1:** Improve the workload program by reporting statistics as requested by the BOE pursuant to section 407.

During the survey, we requested statistics from the assessor for various topics, since the assessor had not reported requested statistics to the BOE for the annual *A Report on Budgets, Workloads, and Assessment Appeals Activities* for the last several years.

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

By not reporting statistics to the BOE, the assessor is not in compliance with current statute. Also, the assessor may not be tracking statistics for in-house use, which may keep him from making accurate decisions in regards to staff, workload, and the budget needed to complete the roll in a timely and efficient manner.

### ***Appraiser Certification***

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless they hold a valid appraiser's certificate issued by the BOE. There are a total of seven certified appraisers on staff, including the assessor; four hold advanced appraiser's certificates. We found that the assessor and his staff possess the required appraiser's certificates. There are no auditor-appraisers on staff and, as a result, audits are contracted through the California Counties Cooperative Audit Services Exchange (CCCASE) program. The assessor does not currently contract for the performance of appraisal or audit work by any person who is not an employee of the state, any county, or any city.

In Plumas County, the assessor performs the function of training coordinator. Some of the duties performed by the assessor as the training coordinator include:

- Tracking staff training hours utilizing BOE annual reports to ensure they maintain their appraisal certification;
- Arranging for staff to attend a variety of training courses and seminars presented in-house, at conferences, by the BOE, and by the Appraisal Institute; and
- Tracking the progress of newly hired appraisal staff to ensure they complete the BOE's certification program within one year.

For the 2008-09 fiscal year, all certified staff employed at the assessor's office were current in their annual training requirements. We found no problems with the assessor's appraiser certification program.

### ***Staff Property and Activities***

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties and conflicts of interest. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from being involved in the assessment of property in which they have an ownership interest and to prevent conflicts of interest.

The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of either the California Fair Political Practices Commission Form 700, Statement of Economic Interests, or BOE-121, Statement of Financial Interest.

Form 700 requests information regarding employee ownership in any real property other than a primary residence, as well as any ownership interest in any business entity. Information provided includes the nature of the interest and the percentage of ownership. BOE-121 requests information regarding an employee's financial interest in a corporation, such as the name of the corporation, the nature of the interest, and the quantity of that interest. While the assessor is required to file Form 700, the county's conflict of interest code does not require his appraisal staff to do so. Instead, to comply with the requirements of section 672, the appraisal staff is required to annually complete and submit BOE-121.

When an appraisal is required on a staff-owned property, the assignment is given to an appraiser other than the owner of the property. When the appraisal is completed, it is forwarded to the assessor for review and approval before the values are enrolled. For properties owned by the assessor, the chief appraiser performs the appraisals and the assessor requests assistance from other county assessors to provide an impartial review of those appraisals once they are completed before values are enrolled.

We reviewed a number of staff-owned properties and found no problems with their valuation.

### ***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.

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

In Plumas County, the five elected members of the board of supervisors sit as the local board of equalization for property tax appeals. There are no hearing officers.

The filing period for appeals in Plumas County is July 2 through November 30. Assessment appeals applications are filed with the clerk. The clerk confirms applications are complete and timely filed, and copies of the applications are forwarded to the assessor's office.

The assigned appraiser discusses the nature of the dispute with the applicant, performs a physical inspection of the property if there are alleged condition issues, determines value using market data, and attempts to come to an agreement. If an agreement is reached, a letter is sent to the applicant along with a withdrawal form to sign and return. If the assessor and the applicant agree to a changed value as part of the agreement, the assessor prepares any necessary roll corrections. If no agreement can be reached, the clerk schedules the appeal for hearing. The assigned appraiser prepares and presents the assessed value before the appeals board. The assessor or a deputy attends every hearing.

The assessor tracks the progress of assessment appeals to ensure all appeals are resolved timely. No appeal filed in the last five years has gone unresolved for more than two years without a timely filed extension.

The following table sets forth the assessment appeals workload over recent years:

ASSESSMENT ROLL	2008-09	2007-08	2006-07	2005-06	2004-05
Appeals Filed	37	8	8	0	0
Appeals Carried Over From Prior Year	0	0	0	0	0
<b>Total Appeals Workload</b>	<b>37</b>	<b>8</b>	<b>8</b>	<b>0</b>	<b>0</b>
Resolution:					
Withdrawn	12	6	8	0	0
Stipulation	0	0	0	0	0
Appeals Reduced	0	0	0	0	0
Appeals Upheld	1	2	0	0	0
Appeals Increased	0	0	0	0	0
<b>Total Resolved</b>	<b>13</b>	<b>8</b>	<b>8</b>	<b>0</b>	<b>0</b>
To Be Carried Over*	24	0	0	0	0

\*Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

We found the assessor has a good working relationship with the clerk and has an effective program for processing and resolving assessment appeals.

**Disaster Relief**

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The relief is available to any assessee whose property suffers damage exceeding \$10,000 (without

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, assesseees must make a written application to the assessor requesting reassessment. In addition, 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. Alternatively, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

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 Plumas County Board of Supervisors adopted a disaster relief ordinance on December 17, 1981 (Ordinance No. 81-472), which was amended on April 20, 1982 (Ordinance No. 82-499). The ordinance allows the assessor to reassess properties damaged or destroyed by misfortune or calamity without an application from the assessee with the approval of the board of supervisors. The assessor does not have a disaster relief application or procedures in place for administering the disaster relief program.

The assessor discovers calamities through field canvassing, taxpayer notification, building permits issued for repairs, radio, television, and newspaper articles. In addition, the assessor has attempted to obtain fire reports from several agencies throughout the county, but has been unsuccessful in getting this information. Upon discovery of a calamity, it is the responsibility of the appraiser assigned to the geographical area to determine if the property is qualified for the disaster relief and to reassess the property accordingly.

We reviewed several records of properties that suffered a calamity. The assessor verified the damage occurred, noted the damage amount on the records, and reduced the assessment when appropriate. In our review of the assessor's program for granting disaster relief, we found several areas that need improvement.

**RECOMMENDATION 2:** Improve the disaster relief program by: (1) requesting the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170, (2) granting disaster relief only with a properly filed application or with approval from the board of supervisors in accordance with the disaster relief ordinance, (3) calculating the proration of taxes due on damaged property to include the month in which the damage occurred, and (4) revising the notice of reassessment for disaster relief to conform to the requirements of section 170(c).

**Request the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170.**

The Plumas County Board of Supervisors has not amended the county's disaster relief ordinance since April 20, 1982. Section 170 was amended as of January 1, 2002 and includes several significant changes that are not reflected in the county's disaster relief ordinance.

The county's disaster relief ordinance contains a number of provisions that are not in compliance with the amendments made to section 170. Provisions not in compliance include:

- Taxpayers are given 30 days to file a completed application after notification by the assessor but no more than 6 months after the occurrence of such damage. The amendments to section 170(d) increased the period in which an assessor may request an application from 6 months to 12 months.
- The threshold for qualifying for relief is \$5,000 or more of damage. The amendments to section 170(b) increased this threshold to \$10,000.
- The assessment appeal filing period is within 14 days of the date of mailing the notice of reassessment. The amendments to section 170(c) increased the period for a taxpayer to file an appeal on the post-disaster value from 14 days to 6 months after the date of the mailing of notification.
- The assessor may reassess property, with the board of supervisors' approval, without an application if the property has suffered a calamity within the preceding 6 months. The amendments to section 170(l) increased the period in which an assessor may determine that property suffered damage from 6 months to 12 months when the assessor does not have general authority to initiate reassessments, no application is made, and the board of supervisors approves the reassessment.
- The lien date is referred to as March 1. The amendments to section 170(e) changed the lien date from March 1 to January 1.

By not revising the disaster relief ordinance, the assessor's current administration of the disaster relief program will continue to be in conflict with the provisions authorized by the board of supervisors.

**Grant disaster relief only with a properly filed application or with approval from the board of supervisors in accordance with the disaster relief ordinance.**

As discussed above, the current county ordinance allows the assessor to grant disaster relief without application with the approval of the board of supervisors. However, the assessor has not been obtaining approval from the board of supervisors before granting disaster relief to property owners without an application.

Section 170(a) permits a county board of supervisors to enact an ordinance that gives the assessor the authority to initiate reassessment if the assessor determines that taxable property located in the county has been damaged or destroyed within the preceding 12 months. However, the county's current disaster relief ordinance does not incorporate this language. Therefore, before the assessor can grant disaster relief without an application, he must first have the approval of the board of supervisors.

By not obtaining either a disaster relief application filed in a timely manner or approval of the board of supervisors when no application is received, the assessor is not in compliance with the county's disaster relief ordinance and does not have the authority to grant relief.

**Calculate the proration of taxes due on damaged property to include the month in which the damage occurred.**

We found the assessor incorrectly prorates the amount of tax relief given due to a calamity by giving tax relief as of the date the calamity occurred. This practice is inconsistent with section 170(e)(2), which requires that the assessee's tax liability after a reassessment be prorated such that the relief given includes the entire month in which the damage occurred. Because the assessor does not correctly calculate the proration of the taxes due on damaged property, taxpayers do not receive the full relief to which they are entitled under section 170.

**Revise the notice of reassessment for disaster relief to conform to the requirements of section 170(c).**

When the assessor grants a taxpayer disaster relief and reassesses their property, the assessor notifies the taxpayer by sending an automated notice entitled either *Notice of Supplemental Reassessment* or *Notice of Correction to the Section 601 Assessment Roll*, depending on how relief was granted. However, these notices state the deadline to file a formal appeal is within 60 days of the date of mailing of the notice. According to section 170(c), the notice must state that the taxpayers may appeal the reassessment within six months of the date of mailing the notice. Failure to properly notify taxpayers of their assessment appeal rights may lead taxpayers to believe they have missed the deadline to file an appeal when in fact they have an additional four months to file.

**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.

In Plumas County, roll changes are initiated by either the assessor or his staff of real property appraisers. Roll changes are submitted on a roll correction worksheet entitled *Assessor Roll Correction*. Completed worksheets along with the appraisal files are routed to the assessor for his review and approval before being forwarded to the office manager for input into the computer system. Once the office manager inputs the corrected values, the computer system generates a *Notice of Proposed Escape Assessment* for each assessment with an increase in value, which notifies taxpayers of a correction to their assessed value. The *Notice of Proposed Escape Assessment* cites the Revenue and Taxation Code section authorizing the correction. In addition, it shows the old values, proposed new values, and the net change. Printed on the back of the notice is an *Explanation of Notice of Correction to Section 601 Assessment Roll*, which informs the taxpayers of their rights to appeal the proposed changes. To track the passage of the 10 days before enrollment of an escape assessment, the office manager places a copy of the correction worksheet in an accordion file that has 31 dividers each representing a day in the month. After the 10 days have passed, the proposed value changes are forwarded to the auditor-controller for enrollment and issuance of the tax bill.

We noted a number of areas in need of improvement in the assessor's assessment roll change program.

**RECOMMENDATION 3:** Improve the assessment roll change program by:  
(1) removing incorrect language advising taxpayers of their appeal rights from the *Notice of Proposed Escape Assessment*, (2) sending a *Notice of Enrollment of Escape Assessment* as required by section 534, and (3) adding penalty and interest when terminating erroneous homeowners' exemptions where the assessee's error caused the exemption to be allowed.

**Remove incorrect language advising taxpayers of their appeal rights from the *Notice of Proposed Escape Assessment*.**

When the assessor initiates an escape assessment, a *Notice of Proposed Escape Assessment* is sent to the taxpayer to notify them of a change to their assessed value. The notice correctly includes the information as required by section 531.8:

- The amount of the proposed escape assessment for each tax year involved; and
- The telephone number of the assessor's office to allow the taxpayer to contact that office regarding the proposed escape assessment.

However, the assessor includes incorrect information regarding appeal rights on the *Notice of Proposed Escape Assessment*.

In Letter To Assessors No. 2008/021, dated March 10, 2008, the BOE advised county assessors and the county clerks of the board that an assessment made outside of the regular filing period is not effective for any purpose until proper notice is given to the taxpayer in accordance with sections 534 and 1605. The *Notice of Proposed Escape Assessment* is not a valid notice within the meaning of section 534 and 1605. Therefore, an *Application for Changed Assessment* filed solely upon receipt of a *Notice of Proposed Escape Assessment* and filed prior to receipt of a *Notice of Enrollment of Escape Assessment* or a tax bill reflecting the escape assessment is invalid, because the escape assessment has not yet occurred.

The assessor's current *Notice of Proposed Escape Assessment* provides taxpayers with misleading information regarding their rights to appeal an escape assessment because an appeal based on the notice would be invalid.

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

The assessor does not properly notify taxpayers of the enrollment of an escape assessment. Taxpayers receive a *Notice of Proposed Escape Assessment*, but the first notice they receive informing them that an escape assessment has been enrolled is the tax bill.

Section 534 requires that taxpayers be apprised of their rights to an informal review of the assessment by the assessor and their rights to file an appeal contesting the assessment. Section 534(d)(2) specifically provides that the *Notice of Proposed Escape Assessment* required by section 531.8 does not satisfy the notification requirements of section 534. Although section 534(c)(3) provides that receipt of a tax bill by an assessee shall suffice as notice under section 534 for counties in which the board of supervisors has adopted the provisions of section 1605(c), the Plumas County Board of Supervisors has not adopted such provisions. To assist in meeting the requirements of section 534, the BOE provides BOE-66-A and BOE-66-B, *Notice of Enrollment of Escape Assessment*, for use by assessors, but use of the BOE forms is not mandatory. If the assessor uses a locally developed form as the *Notice of Enrollment of Escape Assessment*, it must be submitted to the BOE for approval.

The assessor does not send the notification required by section 534 and, thus, does not adequately inform taxpayers of the right to an informal review or the right to file an appeal contesting the assessment.

**Add penalty and interest when terminating erroneous homeowners' exemptions where the assessee's error caused the exemption to be allowed.**

The assessor does not add a penalty when terminating an erroneous homeowners' exemption caused by a taxpayer's failure to timely notify him that the property no longer qualifies for the exemption, nor does the assessor add interest to this type of roll change.

Section 531.6 provides that the taxpayer who has filed a claim for the homeowners' exemption is responsible for notifying the assessor when the property is no longer eligible for exemption. If a homeowners' exemption has been incorrectly allowed, without assessor fault, an escape

assessment in the amount of the exemption plus interest as provided in section 506 shall be made. If the homeowners' exemption was incorrectly allowed because the taxpayer failed to notify the assessor in a timely manner that the property was no longer eligible for the exemption, the penalty provided by section 504 shall be added to the assessment. The assessor is responsible for adding the penalty to the assessment and for notifying the auditor that interest is to be calculated and added, as well.

The assessor's practice does not comply with section 531.6 and results in lost revenue.

### **Exemptions**

In Plumas County, the exemptions program is administered primarily by a retired annuitant, who assists the office during the exemptions filing period and at roll close. The office manager is presently being cross-trained in exemptions so that she will assume the responsibility in addition to her other duties.

The assessor references Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions* (AH 267), as well as the California Assessors' Association Education Committee's exemption workshop handbook, in its administration of exemptions. Staff also refers to the BOE website for *Organizational Clearance Certificate* (OCC) information and property tax rules.

We reviewed all church exemptions, a sampling of religious exemptions, all welfare exemptions, and a sampling of disabled veterans' exemptions in the county. We found a number of areas in need of improvement in the assessor's program for the administration of property tax exemptions. Deficiencies were noted in both institutional exemptions, as well as the disabled veterans' exemption program.

**RECOMMENDATION 4:** Improve the administration of the exemptions program by: (1) ensuring that field inspection reports and notes for exemptions are available for review, and (2) cancelling or refunding any tax or penalty in accordance with section 271(a)(3).

### **Ensure that field inspection reports and notes for exemptions are available for review.**

The assessor maintains exemption claims for the two most recent years in binders separated by exemption type. Exemption claims over two years old, as well as field inspection reports and notes, are boxed and stored; however, they are not readily available for review, making the effective administration of exemptions problematic. Without field inspection reports or other notes, the assessor was unable to provide us with the reason for granting only a partial exemption to some parcels claiming the religious exemption, and we were unable to determine if these partial exemptions were correctly granted.

Section 465(b) provides that affidavits claiming an exemption for the first time pursuant to sections 254.5, 257, and 277 may be destroyed by the assessor six years after the lien date of the tax year for which the exemption was last granted or upon preservation in a medium that provides access to the documents, such as microfilm, microfiche, electronic document imaging, or other media that captures a true image of the document that may later be retrieved.

The prudent administration of property tax exemptions requires a physical inspection of real property for which the exemption is claimed, and incorporates notes on a field inspection report, exemption claims, and other documents that clarify the history of the exemption. An onsite inspection of the property serves to verify the information provided on the claim. As part of the field inspection the assessor should complete BOE-267-FIR, *Welfare Exemption Assessor's Field Inspection Report*, to accurately document the claimant's property use observed during the field inspection.

These reports and other supporting documentation should be readily available for review in case questions arise regarding the uses of the property qualifying it for the exemption. Without access to the field inspection reports, it is not possible to determine if the assessor has correctly granted the exemption for all qualifying uses of the property.

### **Cancel or refund any tax or penalty in accordance with section 271(a)(3).**

When a qualifying organization obtains property in Plumas County, it is the policy of the assessor to cancel only the supplemental tax bills generated as a result of the acquisition or completed new construction. The assessor does not cancel or prorate the taxes from the regular roll as of the date of acquisition.

Section 271(a)(3) provides that property acquired after the beginning of any fiscal year by an organization qualified for the college, cemetery, church, religious, exhibition, veterans' organization, tribal housing, or welfare exemption, and the property is of a kind that would have qualified for an exemption if it had been owned by the organization on the lien date, whether or not that organization was in existence on the lien date, shall be cancelled or refunded in the proportion that the number of days for which the property was so qualified during the fiscal year bears to 365.

The failure to prorate taxes from the regular roll for qualifying organizations creates a hardship for qualifying organizations in the form of unwarranted taxes. This may be particularly burdensome if the acquisition of the property occurs in the window period after the lien date and before the beginning of the following fiscal year since, in addition to the prorated lien roll, the claimant would be denied exemption on an additional year's worth of taxes.

### **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. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

County assessors administer 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.

For the 2009-10 roll year, the assessor processed 7 church exemption claims and 42 religious exemption claims. The following table sets forth religious and church exemption data for recent years:

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2009-10	42	\$13,990,099	7	\$3,106,595
2008-09	43	\$13,986,502	7	\$3,010,702
2007-08	32	\$11,556,681	8	\$2,539,140
2006-07	42	\$12,636,456	8	\$2,217,025
2005-06	42	\$12,236,422	7	\$1,476,365

**RECOMMENDATION 5:** Exempt real property leased by organizations filing the church exemption.

The assessor grants the exemption on real property owned by qualifying organizations. However, the assessor does not grant the exemption on real property that is being leased by religious organizations or other qualifying entities.

Section 3 of article XIII of the California Constitution provides for the exemption of property *used* by free public libraries, free public museums, public schools, community colleges, state colleges, state universities, nonprofit institutions of higher learning, and buildings, land and equipment *used* exclusively for religious worship. Ownership of the real property is not a prerequisite to receiving an exemption for the institutions referenced in the constitution. This is different from the welfare exemption, which does require ownership of the property for which an exemption is sought. Exemptions under section 3 (with the exception of the cemetery exemption) are dependent upon qualifying use on the lien date of the year for which an exemption is sought and the subsequent filing of an exemption claim.

Disallowance of the church exemption based on lack of ownership denies property tax savings to qualified organizations and is contrary to statute.

**Welfare Exemption**

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital, or charitable purposes by organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added.

Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships, which have a qualified organization as the managing general partner, that own and operate low-income housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

The assessor processed 40 welfare exemption claims for the 2009-10 roll year. The following table shows welfare exemption data for recent years:

ROLL YEAR	WELFARE EXEMPTION	EXEMPTED VALUE
2009-10	40	\$24,335,048
2008-09	42	\$23,116,406
2007-08	38	\$22,216,270
2006-07	44	\$20,207,913
2005-06	44	\$21,228,242

The assessor annually mails BOE 267-A, *Claim for Welfare Exemption (Annual Filing)*, to organizations renewing the exemption. The date the claim is received by the assessor's office is noted on the form, and an assessor's representative acknowledges receipt by signing the claim. The exemption is then extended to the roll in process.

**RECOMMENDATION 6:** Grant the veterans' organization exemption in accordance with section 215.1(a).

The assessor incorrectly granted a 100 percent exemption on a property for which the welfare exemption was claimed, even though a portion of the property was involved in for-profit activities. In addition, the assessor granted a full exemption to a veterans' organization even though the claim revealed that a one-bedroom apartment on the property was being rented. In general, most areas of veterans' organization property do not qualify for exemption, because they are used for social rather than exempt purposes.

Section 215.1(a) states,

All buildings, and so much of the real property on which the buildings are situated as may be required for the convenient use and occupation of the buildings, used exclusively for charitable purposes, owned by a veterans' organization which has been chartered by the Congress of the United States, organized and operated for charitable purposes, when the same are used solely and exclusively for the purpose of the organization, if not conducted for profit and no part of the net earnings of which inures to the benefit of any private individual or member thereof, shall be exempt from taxation.

The assessor is obligated to exempt only those areas used exclusively for exempt activity. The exemption of nonqualifying property is contrary to statute.

### Disabled Veterans' Exemption

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 value of a dwelling when occupied as a principal place of residence by a qualified disabled veteran (or the veteran's unmarried surviving spouse). The property must be owned by the veteran, the veteran's spouse, or the veteran and the veteran's spouse jointly. The amount of exemption is \$100,000 or, for qualifying low-income veterans, \$150,000. Both of these amounts are adjusted annually by a cost of living index.

The disabled veterans' exemption at the \$100,000 basis requires a one-time filing, while the low-income exemption at the \$150,000 level requires annual filings to ensure the claimant continues to meet the household low-income restriction.

The assessor processed 62 disabled veterans' exemption claims for the 2009-10 roll year. The following table summarizes disabled veterans' exemption data for recent years:

<b>ROLL YEAR</b>	<b>DISABLED VETERANS' EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2009-10	62	\$6,199,202
2008-09	59	\$5,795,974
2007-08	50	\$4,682,535
2006-07	50	\$4,430,454
2005-06	46	\$3,913,768

We reviewed a number of disabled veterans' exemptions in the county. The review revealed several areas where improvement is needed.

**RECOMMENDATION 7:** Improve disabled veterans' exemption program by:  
(1) removing the requirement that claimants need to file for exemption in person, and (2) granting the disabled veterans' exemption in accordance with section 276.1.

**Remove the requirement that claimants need to file for exemption in person.**

We found the assessor was requiring claimants for the disabled veterans' exemption to file in person. Filing in the presence of assessor's personnel is a requirement of the veterans' exemption, not the disabled veterans' exemption. Requiring 100 percent disabled individuals or their representatives to appear before the assessor is not supported in statute and is an unreasonable imposition.

**Grant the disabled veterans' exemption in accordance with section 276.1.**

We found that new claimants for the disabled veterans' exemption are given late-filing penalties whenever a claim is filed after February 15, regardless of the date of the determination letter. In addition, the assessor is neither prorating disabled veterans' exemptions from the effective date of disability nor granting the exemption retroactively in accordance with section 276.1.

Section 276.1(b) states, "Subject to the provisions regarding cancellations and the limitations periods on refunds, the disabled veterans' exemption applies beginning on the effective date, as determined by the USDVA, of a disability rating that qualifies the claimant for the exemption." Section 276.1 also provides for timely filing if the disabled veterans' exemption claim is filed between the date of the Department of Veterans' Affairs determination of 100 percent disability and the next succeeding lien date or 30 days, whichever is later (90 days, effective 1/1/11). It also provides for timely retroactive exemptions prorated from the effective date of disability.

The denial of the full exemption when claims are timely filed deprives claimants of the full amount of exemption to which they are entitled and is contrary to statute; and the assessor's practice of denying retroactive exemptions is contrary to statute providing for the retroactivity of exemptions and subsequent refunds to qualified claimants.

**Assessment Forms**

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.<sup>5</sup> Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties. However, such forms may not be used as substitutes for Board-prescribed forms, and no penalty may be imposed upon a property owner for failure to file a county-developed form or questionnaire.

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

To enforce the use of prescribed forms, the BOE annually requires assessors to specify in writing the forms they will use in the succeeding assessment year. Assessors are also required to submit to the BOE copies of the final prints of all prescribed forms they intend to use.

We reviewed procedures used by the assessor in updating assessment forms, as well as forms used by the assessor and provided by the assessor to taxpayers. Our review noted an area where improvements can be made regarding assessment forms.

**RECOMMENDATION 8:** Improve the use of assessment forms by using the most recent assessment forms as provided by the BOE.

The assessor does not utilize current property tax forms. A review of all property tax forms used by the assessor revealed 11 outdated forms. Most of these forms are out-of-date by at least two years. Seven of the eleven outdated forms are located on the assessor's website. We also noted one form where one revision can be downloaded online, while a different revision is offered at the counter.

To ensure changes in property tax laws are implemented timely and uniformly across the state, assessors are required to adopt and use BOE-issued prototype forms pursuant to Government Code section 15606(d). The assessor should follow the forms approval process guidelines released annually, as well as adopt current form revisions as they are released. Also, to ensure that taxpayers are served equally throughout the county, the assessor should offer the same forms at the counter as are offered online. The assessor should regularly update the website to remove any obsolete forms and to ensure the forms offered are current.

Using outdated versions of forms and offering two different revisions of the same form could mislead taxpayers and create confusion about current procedures and filing requirements.

## 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.

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, except that it can be 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 the definition of change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of change in ownership.

### **Discovery and Document Processing**

The assessor's primary means of discovering properties that have changed ownership is through deeds and other documents recorded at the county recorder's office. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), to accompany documents submitted for recordation that transfer ownership of real property. If a transfer document is received without a PCOR, a \$20 charge is applied to the recording fee. Local ordinance requires the assessor's parcel number (APN) to be noted on all deeds.

Recorded documents are sent electronically from the recorder's office to the assessor's office through a shared computer program. On a weekly basis, the cadastral drafting specialist collects the original PCORs and sorts through the list of recorded documents, pulling and printing those documents that need to be reviewed for possible changes in ownership. The cadastral drafting specialist assigns the appropriate APN to each document printed before forwarding the documents and PCORs to the property tax specialist for further review.

The property tax specialist processes a week of recordings at one time. The documents are matched with the corresponding PCORs and then reviewed to determine if a change in ownership has taken place, what percentage of ownership has transferred, and what percentage of ownership is assessable. If any additional correspondence is needed, the property tax specialist is responsible for sending the appropriate letter or form to the property owner. The property tax specialist verifies the current ownership in the computer system and checks the APN printed on each document before updating the information on the property record. After the information has

been reviewed by the office manager, the property tax specialist inputs the current information from the document into the computer system. Hard copies of the documents and PCORs are filed with the property record. The assessable events are electronically sent to the appropriate appraiser's work queue for valuation.

The following table shows the total number of recorded transfers received and the total number of assessable transfers processed in recent years:

FISCAL YEAR	RECORDED TRANSFERS	ASSESSABLE TRANSFERS
2008-09	3,142	1,008
2007-08	2,954	861
2006-07	3,347	1,024
2005-06	4,137	1,857

We examined several recorded documents and found the assessor conducts a proper and thorough review for assessable transfers.

**Penalties**

When a transfer document is received without a PCOR or the PCOR is incomplete, the property tax specialist mails BOE-502-AH, *Change of Ownership Statement* (COS), to the property owner, giving the property owner 30 days to respond. The property tax specialist keeps a copy of the letter to track responses to COSs sent. If the COS is not returned within the 30 days, the property tax specialist sends a second request with another COS, allowing the property owner an additional 30 days to respond before the assessor applies any penalties. The county has not adopted an ordinance pursuant to section 483(b) allowing the assessor to automatically abate penalties; instead, the property owner must file an application for abatement with the board of supervisors. We found two areas related to the application of penalties that need improvement.

**RECOMMENDATION 9:** Improve the change in ownership program by:  
 (1) correctly implementing the penalty process in accordance with section 482(a), and (2) revising the penalty notice to conform to the requirements of section 483(a).

**Correctly implement the penalty process in accordance with section 482(a).**

The assessor allows 30 days from the date the letter is mailed for a property owner to file a COS. If the COS is not returned within the 30 days, the assessor sends a second notice and allows the property owner an additional 30 days to file the COS before applying penalties.

Section 482(a) provides that if a person or legal entity required to file a statement described in section 480 fails to do so within 45 days from the date of a written request by the assessor, a penalty of either: (1) one hundred dollars (\$100), or (2) 10 percent of the taxes applicable to the new base year value reflecting the change in ownership of the real property or manufactured

home, whichever is greater, but not to exceed two thousand five hundred dollars (\$2,500), shall be added to the assessment made on the roll. The assessor should allow the property owner only 45 days to return a completed COS before applying penalties for failure to file as described in section 482(a).

The information contained in a properly completed COS assists the assessor in making an accurate assessment. By allowing the property owner more time to file the requested COS than described in section 482(a), the assessor is not in compliance with applicable statutes.

### **Revise the penalty notice to conform to the requirements of section 483(a).**

When the assessor applies a penalty for failure to file a COS, he notifies the property owner by sending a *Notice of Correction to the Section 601 Assessment Roll*. However, this notice does not properly inform the property owner of the penalty abatement process.

Section 483(a) provides that if the assessee establishes to the satisfaction of the county board of supervisors that the failure to file the change in ownership statement within the time required by subdivision (a) of section 482 was due to reasonable cause and not due to willful neglect, and has filed the statement with the assessor, the county board of supervisors may order the penalty abated. The property owner must file a written application for abatement of the penalty with the board of supervisors no later than 60 days after the date of notification of the penalty. The notice currently used by the assessor does not inform the property owner of this penalty abatement process.

By not providing property owners with information about their right to file a written request to have the penalty abated, property owners may be unaware of this right and be forced to pay penalties that could be abated.

### **Transfer Lists**

Pursuant to section 408.1(a), the assessor shall maintain a list of transfers of any interest in property, other than an undivided interest, within the county, which have occurred within the preceding two-year period. Section 408.1(e) states the provisions of section 408.1(a) shall not apply to any county with a population under 50,000 people, as determined by the 1970 federal decennial census. Based on the population of 11,707 in Plumas County in 1970, the assessor is not required to maintain a transfer list.

### **Legal Entity Ownership Program (LEOP)**

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under 64(d). A change in ownership statement must be filed with the BOE within 45 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of penalty if a person or legal entity required to file a statement under 480.1 and 480.2 does not do so within 45 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE. The BOE advises county assessors of entities that are subject to penalty so they can impose the applicable penalty to the entity's real property.

The assessor discovers changes in control or changes in ownership of legal entities by reviewing the monthly LEOP reports from the BOE. The assessor also discovers potential changes in control or changes in ownership of legal entities from sign changes, fictitious name statements, requests for business name changes, and staff's personal knowledge. The assessor does not use form letters to notify or obtain further information related to a potential change in control or change in ownership of a legal entity.

The assessor reviews LEOP reports to determine if any entities undergoing a change in control or change in ownership of legal entities reported real property in Plumas County. An examination of the assessor's records is also performed to identify other properties owned by the entity that may not have been reported on an entity's BOE-100-B filing. If a change in control or ownership has occurred, the chief appraiser performs the valuation of all properties subject to reassessment.

The assessor reviews the BOE annual *Non-Response List* and *Entities Indicating a Change in Control and Ownership By County*. According to the office manager, the assessor has not had any late filings of BOE-100-B in recent years and, therefore, has not had to apply penalties.

We reviewed the records for several properties involved in changes in control or changes in ownership of legal entities and found the assessor's LEOP program to be well administered.

### Change in Ownership Exclusions – Section 63.1

Section 63.1 generally 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. Certain transfers from grandparents to their grandchildren are also excluded.

To enforce the \$1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests

served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. Even if an assessor opts not to report quarterly to the BOE, the assessor must track such transfers internally to be in compliance with section 63.1.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any transferors who have been granted the exclusion for property over their \$1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Applications and information regarding the section 63.1 exclusion are available to the public at the assessor's office and on the assessor's website.

The following table represents section 63.1 claims filed and granted in recent years:

<b>FISCAL YEAR</b>	<b>SECTION 63.1 CLAIMS FILED</b>	<b>SECTION 63.1 CLAIMS GRANTED</b>
2008-09	133	133
2007-08	189	189
2006-07	129	129
2005-06	43	43

The assessor is proactive in notifying interested parties of a possible exclusion when a PCOR indicates a transfer may be between a parent(s) and child(ren) or from grandparent(s) to their grandchild(ren). The property tax specialist sends a claim form along with a letter explaining potential eligibility for the exclusion. If the property owner fails to respond within 30 days of the first notice, a second notice and, if necessary, a third notice will be sent; each notice gives the property owner an additional 30 days to file a claim. Once the application is received, the office manager determines if the exclusion will be granted or denied. If the property owner has still not filed a completed claim form for exclusion after six months, the property tax specialist will then process the document and code the property for reappraisal.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives the quarterly *Report of Transfers Exceeding \$1,000,000* from the BOE, the report is reviewed to determine if property exceeding the limit is located within Plumas County. If property exceeding the limit is located within Plumas County, the chief appraiser determines which of the parcels will be reassessed.

Pursuant to section 63.1(i), the assessor protects confidential information furnished on claim forms by keeping all claim forms in a locked and secure area not accessible to the public.

We found the assessor properly reviews and processes section 63.1 claims.

Change in Ownership Exclusions – Section 69.5

Section 69.5 generally allows persons 55 years of age or older, or who are severely or permanently disabled to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. A county board of supervisors may provide by ordinance that base year values may be transferred from properties located outside the county.

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Plumas County does not have an ordinance in place to accept base year value transfers from other counties. Applications and information regarding the exclusion are available to the public at the assessor's office and on the assessor's website.

The following table represents section 69.5 claims filed and granted in recent years:

<b>FISCAL YEAR</b>	<b>SECTION 69.5 CLAIMS FILED</b>	<b>SECTION 69.5 CLAIMS GRANTED</b>
2008-09	1	1
2007-08	4	4
2006-07	0	0
2005-06	0	0

If a PCOR indicates a transfer may involve a base year exclusion, the property tax specialist sends interested parties a claim form. All section 69.5 claims are reviewed by appraisers to determine if the exclusion will be granted or denied. Appraisers determine the fair market value of both the replacement and original properties, and apply the appropriate percentage based on the date the replacement property was purchased or the new construction was completed.

Pursuant to section 69.5(n), the assessor protects confidential information furnished on claim forms by keeping all claim forms in a locked and secure area not accessible to the public.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions as required by section 69.5(b)(7), even reporting when the number of claims approved for the quarter is zero. To avoid duplicate filing of a section 69.5 claim, the office manager reviews the quarterly *Duplicate SSN Report* from the BOE to determine if any claims made in Plumas County duplicate any claims made in another county. In the past five years, no duplicate claims have been filed within Plumas County.

We found the assessor properly reviews and processes section 69.5 claims.

## Valuation

Once a change in ownership has been determined to be an assessable event, the information is sent to the appraisers for valuation. The sale price is not automatically enrolled. Assessable transfers are reviewed to confirm that the listed sale price accurately reflects market value. Appraisers typically rely on the comparable sales approach and the cost approach to determine market value for residential and commercial properties. Value conclusions are documented on the appraisal record, and any supporting data is included in the property record.

The appraisers maintain residential and commercial electronic sales databases. Data is automatically updated as appraisers process the sales. It is generally left to the appraiser's judgment as to whether or not a field inspection is necessary. Typically, if a property has been recently field inspected, the appraiser will not inspect the property again; however, if the property has not been field inspected in quite some time or there are numerous structures involved, the appraiser will conduct an inspection of the property.

We reviewed a number of transfers, including residential and commercial sales, as well as partial interest transfers. We found the assessor is following proper procedures for valuation and is correctly processing supplemental assessments. However, we did find one area in need of improvement.

**RECOMMENDATION 10:** Reassess all properties having undergone a change in ownership.

The assessor failed to reassess several properties determined to have undergone a change in ownership. The property records indicate the reason for not reappraising the property and deleting the supplemental assessment is due to minimal or no change in value to the current enrolled value.

Section 50 requires the assessor to enter a base year value on the roll for real property upon a change in ownership based on the property's fair market value as of the date of the change in ownership pursuant to section 110.1. The fact that the assessor has determined the fair market value to be similar or the same as the current assessed value is not cause for exclusion from reassessment. The reassessment is still necessary to establish a new base year and base year value, even when the value remains the same as the existing value on the roll. Additionally, supplemental assessments should be processed.

By not reassessing properties identified as having undergone a change in ownership, the assessor is not following applicable statutes and is not accurately tracking base year values.

## ***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 the 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) and (d), and sections 73 through 74.7 address these exclusions.

**Discovery**

The assessor's primary means of discovering assessable new construction is through building permits. The assessor receives building permits from two permit-issuing agencies: the Plumas County Building Department (county) and the City of Portola (city). Other methods used to discover assessable new construction include taxpayer inquiries, business property statements, and field canvassing.

**Permit Processing**

The assessor receives hard copies of building permits from the city, while the county provides building permits, including well and septic permits, electronically through the county database system. Once a week, the office manager accesses the county database system and prints a hard copy of each permit issued by the county. The hard copies of the building permits from both the county and city are given to the property tax specialist for input into the computer system.

After input, the property tax specialist reviews all the permits and culls those considered nonassessable new construction. Culled permits are deleted from the appraiser's work list, but the permit information is not, which allows the assessor to maintain documentation of each permit issued. Those permits considered assessable new construction are assigned to an appraiser's work list. The work list allows the appraiser the ability to track the progress of each permit to its completion.

The following table shows the number of permits received and the number of permits resulting in new assessments for recent years:

<b>YEAR</b>	<b>PERMITS RECEIVED</b>	<b>NEW CONSTRUCTION ASSESSMENTS</b>
2009	841	732
2008	1,119	1,038
2007	1,333	1,258
2006	1,548	1,617
2005	1,717	1,842

## Valuation

The assessor values new construction by estimating the full cash value of new construction either as of the date of completion or as of the lien date for construction in progress. The appraiser determines the date of completion for new construction through field checks, cost questionnaires, the building department, and certificates of occupancy.

The assessor relies primarily on the cost approach to value new construction. The assessor uses a variety of sources to develop a cost indicator of value. These sources include Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), Assessors' Handbook Section 534, *Rural Building Costs* (AH 534), historical costs provided by the property owner, and *Marshall Valuation Service*.

Whenever possible, the appraiser uses historical costs to value new construction. The appraiser attempts to obtain historical costs by sending out a cost questionnaire. Approximately 75 to 80 percent of the cost questionnaires are completed and returned. If a contractor completed the project and the historical costs provided seem reasonable in comparison to the cost manuals, the appraiser enrolls the historical costs. If an owner/builder or a combination of a contractor and an owner/builder completed the project, then the appraiser will use one of the cost manuals to value the new construction.

We reviewed several files containing new construction activity. The assessor's files were well documented with drawings updated, cost sources identified, and notes explaining the appraiser's valuation decision for new construction. The assessor correctly assesses construction in progress as of the lien date, assesses completed construction as of the date of completion, and generates supplemental assessments on completed new construction as of the date of completion. However, we found one area in need of improvement.

**RECOMMENDATION 11:** Classify wells as land pursuant to Rule 124.

The assessor incorrectly classifies new wells as structural improvements. According to Rule 124(b)(1), wells are classified as land and, therefore, should be valued as land improvements. By classifying and assessing wells as structural improvements, the assessor is underassessing the land, while overassessing the structural improvements. This may also result in incorrect special assessments.

## ***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 assessments for recent years:

ROLL YEAR	DECLINES IN VALUE
2009-10	5,006
2008-09	3,004
2007-08	306
2006-07	325
2005-06	385

The assessor's primary methods of discovering declines in value are taxpayer requests for value reviews and appraisers' knowledge of property values in their assigned areas. Due to a less active real estate market in recent years, the number of properties in Plumas County experiencing declines in value has increased. Nearly 20 percent of all assessments in Plumas County are in decline-in-value status.

Plumas County has very few homogeneous communities; most properties must be reviewed on an individual basis. The differences in property characteristics and the lack of current market sales have made it very time-consuming for the assessor to determine if all homes in a specific neighborhood are affected by a decline in value. Despite this, the assessor is proactive in researching sales to determine value trends for each homogeneous neighborhood.

When a taxpayer requests a decline-in-value review, the appraiser responsible for that geographical area reviews the claim. If the appraiser determines the market value of the property has not declined below its FBV, a notice is mailed to the taxpayer to inform them that their property does not qualify for a decline-in-value assessment. If the appraiser determines the market value of the property has declined below its FBV, a *Notification of Assessed Value Change* is mailed to the taxpayer to inform them of the change in value. The notice shows the FBV, the proposed decline-in-value assessment, and informs the taxpayers of their rights to appeal the assessment. The *Notification of Assessed Value Change* is also used to inform taxpayers when the FBV of their property is being restored from a decline-in-value status.

Once a decline-in-value assessment is enrolled for a property, it is assigned a unique taxability code in the computer system to prevent application of the annual inflation factor. This coding also provides the assessor with a means of tracking properties needing annual review due to decline-in-value status. Additionally, the appraisal records for these assessments are physically flagged for annual review.

We found the assessor's decline-in-value assessments were well documented and the value conclusions were reasonable. However, we did note one area for improvement in the assessor's decline-in-value program.

**RECOMMENDATION 12:** Annually review all decline-in-value properties.

The assessor has not been reviewing decline-in-value assessments, including manufactured homes, on an annual basis. Section 51(e) provides that it is not necessary for the assessor to make an annual reappraisal of all assessable property to determine if they qualify for a decline-

in-value assessment; however, it also provides that once the base year value of real property is lowered to reflect a decline in value, it must be annually reappraised until its market value exceeds the FBV. Additionally, section 5813 provides that a manufactured home should be enrolled as of the lien date at the lesser of its factored base year value or its full cash value considering any factors that cause a decline in value.

By not reviewing these assessments, the assessor is not in compliance with applicable statutes, and he may be assessing some properties at an amount that is other than the appropriate taxable value.

### ***California Land Conservation Act Property***

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

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

Most of the agricultural preserve property in Plumas County is devoted to pasture land and hay production. The county produced nearly \$19 million in gross production value of agricultural commodities in 2008, which was a decrease of approximately 9 percent from the prior year.

For the 2009-10 roll year, Plumas County had 80 CLCA and 4 Farmland Security Zone (FSZ) contracts. FSZ contracts are another form of the CLCA contract, but have greater benefits and restrictions. Currently, there are 71,933 acres under CLCA contracts, of which 5,570 acres are considered prime. There are 4,595 acres under FSZ contracts, of which 1,160 acres are considered prime. These include 316 acres in nonrenewal status, and no contracts are in the process of being cancelled. Nonrenewal values are calculated according to section 426.

In Plumas County, the assessor and chief appraiser are responsible for the valuation of CLCA properties. CLCA questionnaires are mailed out annually to all CLCA land owners. Each year the assessor, using a computer program, calculates the restricted values of the land in accordance with section 423. The assessor then compares the restricted value to the factored base year value and the current market value, enrolling the lowest of the three values.

The assessor derives income and expenses from a market analysis, which utilizes data from crop reports from several different counties, agricultural property sales, questionnaires, cost reports, information from property owners, and other agricultural resources. The assessor's market

analysis provides sufficient support for the income and expense estimates used in CLCA valuations.

In developing the capitalization rate used in the valuation process for CLCA properties, the assessor correctly uses the current interest component provided annually by the BOE, and includes a risk rate component and a tax rate component. The tax rate used is specific to the property's location.

We reviewed several CLCA assessments and found, overall, the assessor has an efficient and well-organized program in place to value these properties. However, we did find one problem with the assessor's CLCA homesite valuations.

**RECOMMENDATION 13:** Value newly created homesites on land under CLCA contract pursuant to AH 521.

The assessor establishes the value of a homesite created on land under CLCA contract based on the estimated market value of a comparable homesite as of the date of completion of the residential improvements on the homesite. When the completed new construction and change in ownership are concurrent, this practice is correct. However, when a homesite is created after a change in ownership, the assessor's procedure should differ.

In accordance with AH 521, the value for the land allocated to the homesite should be based on the estimated market value of a comparable homesite as of the date of the most recent change in ownership. The value should then be indexed up to the date the homesite was created.

By valuing a homesite at its estimated market value as of the date residential improvements are completed rather than as of the date of the last change in ownership, the assessor incorrectly establishes homesite values.

### ***Taxable Possessory Interests***

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

For the 2009-10 roll year, the assessor enrolled 301 taxable possessory interests with a total assessed value for land and improvements of approximately \$18.8 million. The assessor's program for discovering taxable possessory interests includes annual inquiries to all government entities within the county requesting information on agreements with private parties. Taxable possessory interests in Plumas County consist mainly of vendors at the county fairgrounds, cabins on U.S. Forest Service land, and hangars at the three airports in the county.

We found several areas in which the assessment of taxable possessory interests could be improved.

**RECOMMENDATION 14:** Improve the taxable possessory interest program by:  
(1) assessing all taxable possessory interests,  
(2) deducting allowable expenses from gross income when valuing taxable possessory interests, (3) assessing taxable possessory interests upon a change in ownership in accordance with section 61(b), and (4) adding the present worth of unpaid future contract rents to the sale price of a taxable possessory interest.

**Assess all taxable possessory interests.**

The assessor does not assess cable television companies for their use of public land. Section 107.7 provides that when valuing taxable possessory interests in real property created by the right to place wires and conduit along or across public streets, the assessor must value the interests at full value pursuant to section 401. The assessor will gain the presumption of correctness of the assessment by valuing the taxable possessory interest pursuant to section 107.7. By not assessing the private right to use publicly owned property conveyed in the cable television franchise, the assessor fails to assess all taxable possessory interests.

**Deduct allowable expenses from gross income when valuing taxable possessory interests.**

When valuing taxable possessory interests by the income approach, the assessor typically capitalizes the gross rental income without making any deductions from the gross rental income for management and other operating expenses incurred by the public lessor.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent. Also, Rule 21 provides that in the direct income approach, the amount to be capitalized to arrive at a value estimate is the future net income the taxable possessory interest is capable of generating under typical, prudent management during the term of possession. Further, Rule 8(c) provides that it is appropriate to reduce a lessor's rental income for typical management and other property-related expenses incurred by the lessor.

A public owner will incur, at a minimum, some management expense with each taxable possessory interest. Some lease agreements may require the public owner to pay for insurance, maintenance, utilities, or other operating expenses. Capitalizing the gross income without deducting management and other property related expenses may overstate the value of the taxable possessory interest.

**Assess taxable possessory interests upon a change in ownership in accordance with section 61(b).**

When valuing taxable possessory interests with a stated term of possession created by a permit for cabins on U.S. Forest Service land, the assessor does not reassess the possessory interest when the stated term of possession expires and a new permit is issued, thereby creating a new taxable possessory interest.

Section 61(b) states that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. A new permit entered into by the holder of the taxable possessory interest and the government entity at the expiration of an existing contract is the creation of a new taxable possessory interest and a change in ownership. Changes in ownership, unless excluded, must be reassessed.

The assessor's practice of reassessing taxable possessory interests on U.S. Forest Service land only in the event of a change in ownership due to assignment and not other forms of change in ownership is contrary to statute and inconsistent with the assessment of other taxable possessory interests in the county.

**Add the present worth of unpaid future contract rents to the sale price of a taxable possessory interest.**

Upon the sale of a cabin situated on U.S. Forest Service land, it is the assessor's current practice to enroll the sale price of the cabin as the taxable value of the possessory interest, allocating the value between land and improvements. The assessor does not add the present value of unpaid future contract rent for the remaining term of possession to the reported sale price.

The direct method of the comparative sales approach is one of the generally accepted methods for valuing a taxable possessory interest and is described in Rule 21(e)(1)(A). In this method, an important adjustment to the reported purchase price is the addition of the present value of the unpaid future contract rent over the remaining term of possession.

When determining the value of a taxable possessory interest, the assessor must include the total consideration paid for the interest. To arrive at the total consideration, the assessor must add to the sale price the present value of the unpaid future contract rents (reduced by allowable expenses) for the remainder of the reasonably anticipated term of possession. If this adjustment is not made, the value indicator does not reflect the full value of the taxable possessory interest.

***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 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 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 if additions are properly enrolled.

### Discovery

The assessor does not have written procedures and policies dealing with the discovery and assessment of leasehold improvements. The assessor does not use special forms or documents to communicate information concerning leasehold improvements between the real property and business property divisions.

The assessor allocates responsibility for the assessment of leasehold improvements classified as structural improvements to the real property division. The business property division assesses leasehold improvements classified as business fixtures.

The majority of leasehold improvements in Plumas County are discovered by reviewing Schedule B of the BPS, BOE-571-D, *Supplemental Schedule for Reporting Monthly Acquisitions and Disposals of Property Reported on Schedule of B of the Business Property Statement* (supplemental schedule), building permits taken out by tenants, and leases of commercial and industrial property. The business property division initially receives BPSs reporting additions on Schedule B. All costs for fixtures reported on Schedule B are enrolled by the business property division. After reviewing the BPS, the business property division verbally conveys costs identified as structural items, land improvements, or land and land development to the real property division.

### Valuation

The assessor classifies leasehold improvements as either structural improvements or business fixtures. Structural improvements and business fixtures are assessed at the lower of the factored base year value or the current market value. The current market value of business fixtures is determined based on the year of acquisition and economic life using the economic life and assessment factors recommended by the California Assessors' Association (CAA). Supplemental assessments are applied to structural leasehold improvements on both the secured and unsecured rolls.

Typically, improvements reported by the tenant are assessed to the tenant on the unsecured roll, and improvements installed and paid for by the landlord are assessed to the landlord on the secured roll. Tenant-installed leasehold improvements that are later abandoned are assessed to the landlord on the secured roll.

We reviewed a number of BPSs and real property records with leasehold improvements and determined most leasehold improvements were properly identified and assessed. However, we did find a few areas in need of improvement.

**RECOMMENDATION 15:** Improve the assessment of leasehold improvements by:  
(1) forwarding copies of Schedule B and the supplemental schedule to the real property division, and  
(2) consistently documenting the investigation of leasehold improvements on the appraisal record.

**Forward copies of Schedule B and the supplemental schedule to the real property division.**

The business property division does not forward copies of Schedule B and the supplemental schedule to the real property division for their review. Instead, the business property division verbally communicates to the real property division all costs identified by the taxpayer as structural items, land improvements, or land and land development.

Sharing of information between the real property and business property divisions within an assessor's office can help avoid duplicate or escape assessments of leasehold improvements, which may include structural items and fixtures. In the event that the assessee does not correctly classify the improvements, the real property appraiser's review should include consideration of both non-fixture real property items and fixtures. Based on a building permit received earlier in the year, for instance, the real property appraiser may add value to real property, believing those improvements to be structural items. However, the assessee may report the same improvements on the BPS as fixtures. If the real property appraiser does not receive a copy of Schedule B of this statement and review the costs as they were reported, a duplicate assessment may occur.

**Consistently document the investigation of leasehold improvements on the appraisal record.**

Business owners can report costs for both structural improvements and business fixtures on their BPS. In some cases, there was no documentation in the property records describing the leasehold improvement or indicating how the assessor determined the reported costs were for repair and maintenance, structural improvements, or business fixtures. In other cases, there was no documentation in the property records regarding the determination of the appropriate assessee or which parcel received the assessment.

Record management for accurate tracking of base year values and ownership of leasehold improvements may be complex and tedious, but is extremely important to ensure correct valuation and assessment. Proper notes on appraisal records concerning the establishment of value are an important step in the appraisal process. Appraisal notes should include information regarding the existence of leasehold improvements, a description of the improvements, and the basis for valuation. If the improvements involve more than one account, the appraisal records should indicate in what manner the improvements are assessed (namely to whom, secured or unsecured roll, and assessor's parcel number or business property account number). Notes regarding the leasehold improvement in both the real property appraisal records and in the business property files will not only help appraisers and auditor-appraisers who work on the subject parcel or related business accounts in the future, but will also help to avoid duplicate or escape assessments.

## **Mineral Property**

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

There are no assessable petroleum or high temperature geothermal properties in Plumas County.

Unpatented mining claims are a possessory interest in the mineral rights on federal land. During our review, we noted that since the last survey, the assessor has updated the procedures used to value unpatented mining claims.

We found several areas in which the assessment of mineral property could be improved.

**RECOMMENDATION 16:** Improve the assessment of mineral properties by:  
(1) adjusting the base year value of mineral property for depletion due to production as required by Rule 469, and  
(2) appraising mineral properties as a unit for determination of declines in value.

### **Adjust the base year value of mineral property for depletion due to production as required by Rule 469.**

The assessor does not account for the depletion of reserves when estimating the assessed value of a mineral property.

Rule 469 provides that rights to enter in or upon the land for the purpose of exploration, development, or production of minerals are taxable real property interests to the extent they individually or collectively have ascertainable value. Further, subsection (e)(2)(A)(4) provides that when estimating the base year value or the adjusted base year value of mineral rights, an adjustment must be made to account for depletion of the mineral reserves. To estimate the value of the reserves removed, the assessor should multiply the quantity of reserves removed in the prior year by the weighted average value, for reserves only, per unit of minerals for all prior base years. The adjusted base year value of the reserves remaining from prior years is found by subtracting the value of the removed reserves from the prior year's adjusted base year value.

Failure to account for the depletion of reserves could result in the overassessment of the mineral rights.

### **Appraise mineral properties as a unit for determination of declines in value.**

The assessor does not appraise mineral properties as a unit for determination of declines in value. Rule 469(e)(2)(C) states that declines in value shall be recognized when the market value of the appraisal unit falls below the adjusted base year value of that unit. The appraisal unit is defined as land, improvements including fixtures, and reserves. This requires special attention to the

value of the business property associated with the mineral property. Property classified as fixtures typically is enrolled as a separate appraisal unit at its current market value. However, for mineral properties, adjusted base year values must be determined and tracked for all fixtures so that the adjusted base year value of the appraisal unit can be compared to the current market value of the same unit. The lower total value can then be allocated to various parcels, if necessary, and enrolled. Failure to properly account for fixtures in the appraisal unit when estimating the decline in value could result in the enrollment of an incorrect taxable value.

## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

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

### **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.

Prior to January 1, 2009, section 469 required county assessors to audit, at least once every four years, the books and records of any taxpayer engaged in a profession, trade, or business, if the taxpayer had assessable trade fixtures and business tangible personal property valued at \$400,000 or more. These statutorily required audits are commonly referred to as mandatory audits. Additionally, a county assessor may audit the books and records of taxpayers with holdings below \$400,000 in value under the authority of section 470. These audits are referred to as nonmandatory audits. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of property taxpayers with personal property holdings subject to the property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

The Plumas County Assessor's Office did not have any auditor-appraisers certified to perform the section 469 mandated audits as of the date of our survey. Staff from the Nevada County Assessor's Office and the California Counties Cooperative Audit Services Exchange (CCCASE) completed these audits.

According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete three audits per year hereafter. Five audits were completed during the 2008-09 roll year. The assessor will meet his newly established production obligation.

### Statute of Limitations

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

**RECOMMENDATION 17:** Obtain a waiver of the statute of limitations pursuant to section 532.1 when an audit will not be completed timely.

Since there is no auditor-appraiser in the Plumas County Assessor's Office, the five audits completed for the 2008-09 roll year did not go through the complete audit process, namely, roll correction updates and notification to the taxpayers of the audit results. Therefore, they were not completed prior to the expiration of the four-year statute of limitations.

Section 532 establishes statutes of limitations for escape assessments and underassessments. An escape assessment must be made within four years of the assessment year in which the property escaped assessment or was underassessed. If the escape assessments are not enrolled timely, they are not valid. Section 532.1 allows for the extension of time for making an escape assessment, correction, or claim for refund when the assessee and the assessor have so agreed in writing. If the taxpayer does not provide a written waiver to the assessor, an extension of time is not authorized. The statute of limitations provided in section 532 prevails in such cases. This waiver protects the taxpayer if there was an overassessment and allows the assessor to enroll an escape assessment if a reporting deficiency is discovered.

Without a waiver, the assessor is possibly losing revenue due to escape assessments that are precluded from assessment by the statute of limitations.

### Audit Quality

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

The audits reviewed were well documented and supported by an audit narrative and cost summaries.

## ***Business Property Statement Program***

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more to annually file a business property statement (BPS) with the assessor; other people must file a BPS if requested by the assessor. BPSs 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.

The Plumas County Assessor does not have an auditor-appraiser on staff. The office manager, who is a certified appraiser, and a part-time assistant perform all the BPS processing functions. They check the current BPS costs against the prior years BPS to verify consistent reporting from year to year, taking into account any additions or deletions.

### **General Statement Processing**

We reviewed the use of Board-prescribed forms, processing by noncertified staff, taxpayer interactions, completeness of the BPS, authorized signatures, application of penalties, and record retention. All BPSs sampled evidenced the proper use of Board-prescribed forms and were properly signed. Reporting of leased equipment is confirmed by reviewing BPSs for leased equipment and comparing the information with lessor filings to determine if the leased equipment is assessed.

BPSs are date-stamped as they are received. The office manager and a part-time assistant review the BPSs and enter into the database all changes in owner name, business name, situs, mailing address, and valuation adjustments.

### **Discovery**

The assessor utilizes various tools for discovering taxable business property. Taxpayer self-reporting and periodic field canvassing are important means of discovering assessable property. Other means of discovery utilized by the assessor include reviewing fictitious business name filings, sales tax permits, real property appraiser referrals, and city and county business licenses. The assessor employs acceptable methods for discovering taxable business property.

### **Filing Procedures**

Under section 441.5, in lieu of completing the BPS, information required of the taxpayer may be furnished to the assessor as attachments to the BPS provided that the attachments are in a format as specified by the assessor and one copy of the BPS, as printed by the assessor, is signed by the taxpayer and carries appropriate reference to the data attached.

The assessor allows taxpayers to submit attachments in lieu of completing BPSs as provided by section 441.5 only if the taxpayer or the taxpayer's assignee submits an original signature on the printed BPS. We reviewed several BPSs and found the taxpayer or an authorized agent appropriately signed the BPSs, even when a rendition was attached to an original of the BPS.

Our review also included verifying the assessor's procedures for processing late-filed and non-filed BPSs. The assessor estimates the value and applies a penalty if required by sections 501 and 463. Additionally, habitual non-filers are contacted in an attempt to collect accurate assessment information. If no other information is available, the assessor will conduct a field review.

## Summary

Overall, the assessor's BPS processing program is effectively administered. The procedures in place are well structured and in compliance with existing law. We have no recommendations regarding the BPS processing program.

## **Business Equipment Valuation**

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

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

We reviewed a variety of entries for business equipment reported on BPSs for businesses, such as banks and financial institutions, service stations, grocery stores, propane companies, and construction and agricultural businesses.

The assessor has a coding system to identify and designate the use of specific valuation tables for business property equipment reported on BPSs. These factor tables are developed for use in mass appraisal and are used for converting original cost to estimates of reproduction cost or replacement cost new.

## Application of Board-Recommended Index Factors

The assessor has adopted the price indices and percent good factors recommended in the AH 581 and in tables developed by the California Assessors' Association (CAA). The CAA price indices parallel the indices published in the AH 581 with the exception of specific types of equipment (such as pagers, facsimile equipment, high tech medical equipment, and photocopiers) that the CAA recommends should not be trended. We found the Board-recommended cost index and depreciation tables to be correctly applied.

## **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.

In Plumas County, for the 2009-10 roll year, there were approximately 294 manufactured homes located in 59 mobilehome parks. These homes had a total assessed value of \$4,741,088. Manufactured homes located in mobilehome parks are identified on the assessor's computer system by using an assessment number that begins with a "910" prefix.

The appraisal of manufactured homes situated in mobilehome parks is the responsibility of the chief appraiser. The appraisal of manufactured homes not located in a mobilehome park is the responsibility of the appraiser assigned to appraise properties in the geographical area in which the manufactured home is located. Manufactured homes not on a permanent foundation are enrolled as personal property on the secured assessment roll. The assessor enrolls and assesses manufactured homes as real property only if the manufactured home is installed upon an approved foundation system and proof of recordation of the notice of affixation, Department of Housing and Community Development (HCD) form 433A, is provided to the assessor. Once assessed as real property, manufactured homes are treated as any other structural improvement subject to Proposition 13.

The appraisers use market sales information, the National Automobile Dealers Association *Manufactured Housing Cost Guide*, and Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), to value manufactured homes. All accessories such as decking, awnings, and skirting are included and documented in the cost estimate. Overall condition and age are also considered in the cost analysis. Supplemental assessments are correctly processed for manufactured homes, as well as for accessories.

The assessor learns of sales, new installations, and voluntary conversions of manufactured homes through periodic HCD listings. These printouts list the names of the grantor and grantee, date of purchase, purchase price, decal number, date of manufacture, and manufacturer's name. Other discovery sources utilized by the assessor are the dealer reports of sale, contact from previous or current owner(s), building permits, and field inspections.

We reviewed a number of manufactured home assessments, including transfers and new installations of manufactured homes. The assessor's manufactured home program is well administered. The discovery procedures are good, and new construction and accessories are assessed and classified properly. However, we did find one area in need of improvement. This issue is addressed in the decline in value section of this report.

## APPENDIXES

### A. County-Assessed Properties Division Survey Group

#### Plumas County

*Chief*

Dean Kinnee

*Survey Program Director:*

Benjamin Tang

Principal Property Appraiser

*Survey Team Supervisor:*

Sally Boeck

Supervising Property Appraiser

*Survey Team Leader:*

Ronald Louie

Senior Specialist Property Appraiser

*Survey Team:*

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Patricia Lumsden

Senior Specialist Property Appraiser

Andy Austin

Associate Property Appraiser

Bryan Bagood

Associate Property Appraiser

Brian Salmon

Associate Property Appraiser

Paula Montez

Associate Property Auditor-Appraiser

Paul Stueber

Tax Technician II

## **B. Relevant Statutes and Regulations**

### **Government Code**

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

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

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

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

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

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

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

**15642. Research by board employees.**

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

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

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

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

**15644. Recommendations by board.**

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

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

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

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

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

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

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

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

## **Revenue and Taxation Code**

### **75.60. Allocation for administration.**

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

(b) For purposes of this section:

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

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

### **Title 18, California Code of Regulations**

#### **Rule 370. Random selection of counties for representative sampling.**

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

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

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

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

**Rule 371. Significant assessment problems.**

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

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

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting audits in accordance with Revenue and Taxation Code section 469.
- (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 recommendations 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 Plumas County Assessor's response begins on the next page. The Board has no comments on the response.

# PLUMAS COUNTY ASSESSOR

1 Crescent Street, • Quincy, CA 95971 • (530) 283-6380 • Fax (530) 283-6195



CHARLES W. LEONHARDT  
ASSESSOR

RECEIVED

JAN 23 2012

County-Assessed Properties Division  
State Board of Equalization

January 10, 2012

Mr. Dean Kinnee, Chief  
County –Assessed Properties Division  
California State Board of Equalization  
P.O. Box 942879  
Sacramento, Ca. 94279-0083

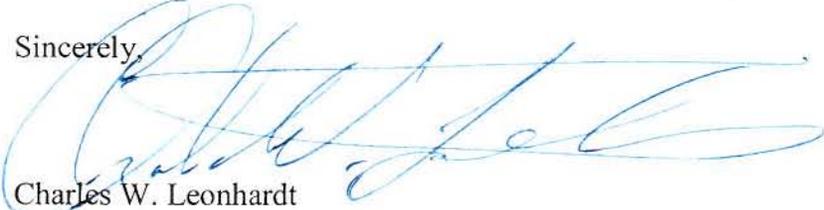
Dear Mr. Kinnee,

Pursuant to section 15645(b) of Government Code, please find my written response to the findings and recommendations contained in the August 2011 Plumas County Assessment Practices Survey. Please include my response in your final report.

I would first like to thank the Survey Team for their professionalism during the survey process. The current economic environment and significant staffing reductions challenge my dedicated staff in addressing significant and ever changing workload. The survey team was very good about acknowledging the areas where our core programs are successful, as well as areas where we can improve.

I would also like to thank my staff. This team as a group is short in assessor's office experience, based upon other jurisdictions. Their commitment to learn and grow in an ever changing environment is very much appreciated. While few in number, their commitment to fair and equal assessments for the taxpayers in Plumas County is admirable. It is an honor to work with such a dedicated team of public servants.

Sincerely,

  
Charles W. Leonhardt  
Assessor

Encl: (1)

**Recommendation 1-**Improve the workload program by reporting statistics as requested by BOE pursuant to section 407.

This form was filed for 2011. We will attempt to continue this practice as budget and human resources allow.

**Recommendation 2-**Improve the disaster relief program.

We concur and made a number of improvements to this program prior to the departure of the survey team. We will implement the other suggested changes in the near future.

**Recommendation 3-**Improve the assessment roll change program.

We concur and are in contact with our software vendor to make the necessary changes.

**Recommendation 4-**Improve the administration of the exemption program.

We concur and will implement these recommendations. We will also provide staff with additional training in the exemptions area.

**Recommendation 5-** Exempt real property leased by organizations filing the church exemption.

We agree and will implement this recommendation at such time as an application for exemption is filed..

**Recommendation 6-**Grant the Veterans' organization exemption in accordance with section 215.1(a)

We agree and will implement this recommendation.

**Recommendation 7-**Improve disabled veterans' exemption program

We agree and will make the recommended changes in addition to providing more staff training in this area.

**Recommendation 8-**Improve the use of assessment forms by using the most recent assessment forms as provided by BOE.

We agree and have reviewed our internal procedures to determine how this occurred. Staff annually receives the list of prescribed forms from the BOE. This comprehensive list contains many forms that are not commonly used in our county. Updated commonly used forms are then scanned and entered into our copy machine to be printed as needed. The remaining forms are filed in paper form by year. These forms are also forwarded to the Department of Information and Technology. A procedural problem was identified and corrected.

**Recommendation 9-** Improve Change of Ownership program

We agree and will make the suggested changes.

**Recommendation 10-** Reassess all Properties having undergone a change in ownership.

We agree and have already implemented this change, which is more of a book keeping issue than a lack of appraisal consideration.

**Recommendation 11-** Classify wells as land pursuant to Rule 124

The current methodology for adding wells and pressure systems as improvements is consistent with long term historical office practices that pre-date all members of the appraisal staff and the assessor. That said, we do acknowledge the guidance provided by Rule 124. We will endeavor to develop a transition plan to resolve this classification issue.

**Recommendation 12-** Improve the decline in value program

We agree with this recommendation. With the significant decline in the local real estate markets and limited staffing this office has endeavored to proactively address declines in value. The table on page 34 reflects those efforts. The majority of prop 8 properties have been reviewed annually. Part of this recommendation is being resolved by record keeping changes. In prior tax years this office did not enroll a value update in the computer system where there was a no change in value after a Prop 8 review. That practice has been changed to accurately reflect that the property was in fact reviewed annually. We will likewise strive to improve our audit process to insure that all Prop 8 properties are reviewed annually.

**Recommendation 13-** Value newly created home sites on land under CLCA pursuant to AH 521.

We agree and have updated this procedure.

**Recommendation 14-** Improve the taxable possessory interest program

- (1) We agree and will implement.
- (2) We agree and will implement.
- (3) We respectfully disagree. After extensive research and interaction with taxpayers, their attorneys, the federal government and the State Board, we, as a number of other rural counties believe that the findings in the court case *Wynne vs The Board of Equalization of the County of Tuolumne* better reflects the actual market conditions for this property type. *Charter Communications Properties vs County of San Luis Obispo*, 2d Civil No. B226390 is an appellate court decision that

further supports the findings of both the Tuolumne and San Luis Obispo AABs and superior courts on this topic. We urge the Board to review their position on the assessment methodology for recreational home sites on federal public lands.

- (4) Again, we respectfully disagree in regard to recreational home site sales. These properties have been found to sell substantially equivalent to the fee interest. This appears to be based upon the market's perception of the reasonably anticipated term of possession. Adding the present value of the future rents would result in an over assessment of the property. We do agree that this approach is supportable in other possessory interest property types with clearly defined reasonably anticipated terms of possession.

**Recommendation 15-** Improve the Assessment of Leasehold Improvements

We concur and have already partially implemented this recommendation.

**Recommendation 16-** Improve the assessment of mineral properties

We concur and will implement.

**Recommendation 17-** Obtain a waiver of the statute of limitations pursuant to section 532.1 when an audit will not be completed timely.

We concur and will implement.