

PLUMAS COUNTY ASSESSMENT PRACTICES SURVEY

JUNE 2017

CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2017/024

June 30, 2017

TO COUNTY ASSESSORS:

**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 specified counties to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable 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.

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.

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee
Deputy Director
Property Tax Department

DRK:dcl
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of specified county assessors' offices. This report reflects the BOE's findings in its current survey of the 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 Senate and Assembly; 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.

OBJECTIVE

The survey shall "...show the extent to which assessment practices are consistent with or differ from state law and regulations."¹ The primary objective of a survey is to ensure the assessor's compliance with state law governing the administration of local property taxation. This objective serves the three-fold purpose of protecting the state's interest in the property tax dollar, promoting fair treatment of taxpayers, and maintaining the overall integrity and public confidence in the property tax system in California.

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

SCOPE AND METHODOLOGY

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

Pursuant to Revenue and Taxation Code² section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team – based on objective standards defined in regulation – that there are no significant assessment problems in the county.

This survey examined the assessment practices of the Plumas County Assessor's Office for the 2014-15 assessment roll. 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.

Our survey methodology 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.

¹ Government Code section 15642.

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

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

We conducted reviews of the following areas:

- Administration

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

- Assessment of Real Property

We reviewed the assessor's program for assessing real property. Specific areas reviewed include properties having experienced a change in ownership, new construction assessments, properties experiencing a decline in value, and certain properties subject to special assessment procedures, such as California Land Conservation Act property, taxable possessory interests, and mineral property.

- Assessment of Personal Property and Fixtures

We reviewed the assessor's program for assessing personal property and fixtures. Specific areas reviewed include conducting audits, processing business property statements, business equipment valuation, and manufactured home, aircraft, and vessel assessments.

EXECUTIVE SUMMARY

We examined the assessment practices of the Plumas County Assessor's Office for the 2014-15 assessment roll. This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit – the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

In the area of administration, the assessor is effectively managing programs for staffing, workload, disaster relief, and assessment appeals. However, we made recommendations for improvement in the assessment roll changes and welfare exemptions programs.

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

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

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

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

OVERVIEW OF PLUMAS COUNTY

Plumas County lies in the northeastern portion of the state, at the far northern end of the Sierra Nevada range, about 225 miles northeast of San Francisco and adjacent to the border with the state of Nevada. The county encompasses 2,553 square miles of land area and 60 square miles of water. More than three-quarters of Plumas County is in a national forest and the area features more than 100 natural and artificial lakes.



Plumas County is bordered by the counties of Sierra to the south, Yuba to the southwest, Butte and Tehama to the west, Shasta to the northwest, and Lassen to the north and east. Plumas County was chartered in 1854 and was named after the numerous branches of the Feather River that originate within Plumas County. The county has a population of about 18,600. The city of Portola is the only incorporated city, and the county seat is Quincy.

Plumas County's local assessment roll value ranks 49th among the 58 California counties for the 2014-2015 assessment year, with a total assessed value of \$3,251,182,000.³

³ Statistics provided by California State Board of Equalization Annual Report, Table 7 – Assessed Value of County-Assessed Property Subject to General Property Taxes.

FINDINGS AND RECOMMENDATIONS

As noted previously, our review concluded that the Plumas County assessment roll meets the requirements for assessment quality established by section 75.60. This report does not provide a detailed description of all areas reviewed; it addresses only the deficiencies discovered.

Following is a list of the formal recommendations contained in this report.

- RECOMMENDATION 1:** Add penalty and interest when terminating erroneous homeowners' exemptions.....7

- RECOMMENDATION 2:** Improve the exemptions program by: (1) properly notifying claimants when denying the welfare exemption, (2) verifying whether an organization holds a valid OCC, (3) properly applying late-filing provisions for welfare exemption claims that are not timely filed, and (4) exempting only those areas used for exempt purposes for Veterans' Organizations.....9

- RECOMMENDATION 3:** Apply penalties for late filing or non-filing of BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*.12

- RECOMMENDATION 4:** Improve the assessment of taxable possessory interests by: (1) including a property tax component when developing the capitalization rate only when appropriate, (2) adding the present worth of unpaid rents to the nominal sale price as required by Rule 21, (3) consistently deducting allowable expenses from gross income when valuing taxable possessory interests by the income approach-direct method, (4) properly issuing supplemental assessments for taxable possessory interests, and (5) excluding taxable possessory interests established by month-to-month agreements from supplemental assessments in accordance with section 75.5.13

- RECOMMENDATION 5:** Modify the audit selection procedure to correctly develop the pool of largest audit accounts as defined by section 469.16

- RECOMMENDATION 6:** Correctly apply the BOE annual vessel valuation factors when using these factors to determine the current market value of vessels.....17

ADMINISTRATION

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.⁴

While the assessor has an effective program for assessment roll changes, we noted an area in need of improvement.

RECOMMENDATION 1: Add penalty and interest when terminating erroneous homeowners' exemptions.

We found the assessor does not add a penalty and interest when terminating an erroneous homeowners' exemption caused by a taxpayer's failure to timely notify the assessor that the property no longer qualifies for the exemption.

Section 531.6 provides that the taxpayer who has filed a claim for the homeowner's exemption is responsible for notifying the assessor when the property is no longer eligible for exemption. If a homeowners' exemption has been incorrectly allowed, as a result of an assessee's error, an escape assessment with interest as provided in section 506 shall be made. Section 531.6 further provides that if the exemption was allowed because the claimant 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.

The assessor's practice does not conform to the specific requirements of section 531.6.

Exemptions

Article XIII, section 1 of the California Constitution sets forth the general principle that all property is taxable unless otherwise provided. Section 3 of article XIII authorizes exemption of

⁴ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Assessment Roll Changes*, available on the BOE's website at

http://www.boe.ca.gov/Assessors/pdf/AssessmentRollChanges_Scope.pdf.

Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

certain types of property from property taxation and section 4 authorizes the Legislature to exempt certain other types of property from property taxation.⁵

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

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 office manager processes initial welfare exemption claims and subsequent annual claims.

We reviewed a variety of welfare exemption claims, including fully exempt claims, partial exemptions, late filings, first-time filings, and annual claims. We noted a number of improvements utilized by the assessor to maintain the welfare exemption program since our last survey. For example, most files we reviewed indicated that field inspections had been conducted, and then documented with completed BOE-267-FIR field inspection reports. However, we discovered areas where additional changes could further improve the program.

⁵ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Exemptions*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/exemptions_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

RECOMMENDATION 2: Improve the exemptions program by: (1) properly notifying claimants when denying the welfare exemption, (2) verifying whether an organization holds a valid OCC, (3) properly applying late-filing provisions for welfare exemption claims that are not timely filed, and (4) exempting only those areas used for exempt purposes for Veterans' Organizations.

Properly notify claimants when denying the welfare exemption.

We discovered that in some cases, the assessor does not properly notify claimants when their application for an exemption is denied. The assessor does not mail proper notices when annual filings are filed late, or for annual filings when only a portion of a property is determined to be eligible for the exemption. For example, if a portion of a property becomes ineligible for a full exemption or if a property received an 85 percent exemption for 2013 due to late filing, and then received the same percentage in 2014, no notification is sent to the claimant in 2014 to notify them that a portion of their property continues to be ineligible for the welfare exemption. In addition, in cases when a written notification is provided, the notice does not include a statement that the property, or a portion of the property, is ineligible for the welfare exemption, nor does it include a statement that the claimant may seek a refund if there is a disagreement with the assessor's findings.

Section 254.5(c)(2) provides that if the assessor finds the claimant's property ineligible for the welfare exemption, the assessor must notify the claimant in writing of that finding. The assessor must also provide notification that the claimant may seek a refund of property taxes by filing a claim for refund with the county board of supervisors. If the claim for refund is denied, the organization may file a refund action in superior court.⁶

By not issuing a finding sheet notifying claimants when a property is denied an exemption, the assessor is not providing proper notification to the claimant.

Verify whether an organization holds a valid OCC.

We noted instances when the assessor granted an exemption for multiple years without reviewing the BOE website for active OCCs when processing annual exemption claims.

Prior to granting an annual exemption, the assessor should review the list of active OCCs on the BOE website to confirm the validity of an organization's OCC. Under section 214, a claimant is not eligible for an exemption unless or until it obtains a valid OCC.

By not consistently reviewing the BOE website for the validity of a claimant's OCC, the assessor may improperly issue exemptions to taxpayers that do not qualify for the exemption.

⁶ Refer to Letter To Assessors (LTA) 2014/058, *Effective Administrative Practices – Welfare Exemptions*, for further discussion.

Properly apply late-filing provisions for welfare exemption claims that are not timely filed.

We found that in some instances the assessor granted 90 percent of the eligible exemption amount on property, but did not cap the penalty at \$250.

Section 255(a) provides that annual claims for the welfare exemption must be filed with the assessor between January 1 and 5 p.m. on February 15. Section 270 states that 90 percent of any tax, penalty, or interest will be cancelled or refunded if the claim is filed on or before January 1 of the next calendar year. If a claim is filed with the assessor after January 1 of the next calendar year, then 85 percent of any tax, penalty, or interest shall be cancelled or refunded. However, section 270(b) provides that the total amount of tax, penalty, and interest may not exceed \$250.

Further, for a welfare exemption claim filed on property acquired after the lien date, section 271(a) provides that it is considered filed timely if filed within 90 days from the first day of the month following the month in which the property was acquired or by February 15 of the following calendar year, whichever occurs earlier. If the claimant does not file within the prescribed time period, but files later, then 85 percent of any tax, penalty, or interest is cancelled or refunded. In addition, section 271(c) provides that any tax, penalty, or interest exceeding \$250 in total amount shall be cancelled or refunded.

By not properly applying late-filing provisions on welfare exemption claims, the assessor is not in compliance with statutory requirements.

Exempt only those areas used for exempt purposes for Veterans' Organizations.

In general, most areas of veterans' organization properties do not qualify for exemption because they are used for social rather than exempt purposes. In the case of the veterans' organization claimant in Plumas County, the assessor granted the property a 90 percent exemption although the claim revealed that a one-bedroom apartment on the property was being utilized as a storage area, and other portions of the facility are also utilized for qualifying purposes.

Section 215.1 states the exemption extends to "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,..." In addition, section 214(a)(5) provides for the exemption if the property is not used for fraternal or lodge purposes, or for social club purposes except where that use is clearly incidental to a primary religious, hospital, scientific, or charitable purpose.

The assessor must exempt only areas used exclusively for exempt activity. The exemption of non-qualifying property or portions thereof, is improper and conflicts with statutes.

ASSESSMENT OF REAL PROPERTY

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 a 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 the change in ownership.⁷

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 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 section 64(d). A change in ownership statement must be filed with the BOE within 90 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 a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 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.

⁷ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Change in Ownership*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/cio_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

The assessor discovers changes in control or ownership of legal entities by checking the monthly LEOP *Entities Indicating a Change in Control and Ownership by County* reports and annual *Non-Response List* from the BOE. The assessor also discovers potential changes in control or changes in ownership of legal entities from changes in signage, local news reports, fictitious name statements, and the staff's personal knowledge. Parcels located within the county are identified and reviewed, along with other properties affiliated with the entity, to ensure all of the entity's affected real property is reassessed.

However, we found an area in need of improvement.

RECOMMENDATION 3: Apply penalties for late filing or non-filing of BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*.

We reviewed several records and found that penalties were not being applied for non-response and late filings.

Section 482 provides that if a person or legal entity required to file a statement described in section 480.1 or 480.2 fails to do so within 90 days from the earlier of (1) the date of the change in control or the change in ownership of the corporation, partnership, limited liability company, or other legal entity, or (2) the date of a written request by the State Board of Equalization, a penalty of 10 percent of the taxes applicable to the new base year value, not to exceed certain maximum amounts, reflecting the change in control or change in ownership of the real property owned by the corporation, partnership, or legal entity, or 10 percent of the current year's taxes on that property if no change in control or change in ownership occurred, shall be added by the county assessor to the assessment made on the roll. The penalty shall apply for failure to file a complete statement with the board notwithstanding the fact that the board determines that no change in control or change in ownership has occurred as defined in subdivisions (c)(1) and (d) of section 64. In addition, section 482(f) provides the notice of any penalty added to either the secured or the unsecured roll pursuant to this section shall be mailed to the transferee.

By failing to apply the penalty for late filing, the assessor is not in compliance with section 482.

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.⁸

⁸ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Taxable Possessory Interests*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/tpi_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

The assessor enrolled 447 taxable possessory interests on the 2014-15 unsecured assessment roll totaling \$26,624,952. The county has a low-value property exemption resolution that exempts taxable possessory interests arising from a temporary use in a publicly owned fairground, fairground facility, convention facility, or cultural facility, with a full value \$50,000 or less.

We found areas in need of improvement in the assessment of taxable possessory interests.

RECOMMENDATION 4: Improve the assessment of taxable possessory interests by: (1) including a property tax component when developing the capitalization rate only when appropriate, (2) adding the present worth of unpaid rents to the nominal sale price as required by Rule 21, (3) consistently deducting allowable expenses from gross income when valuing taxable possessory interests by the income approach-direct method, (4) properly issuing supplemental assessments for taxable possessory interests, and (5) excluding taxable possessory interests established by month-to-month agreements from supplemental assessments in accordance with section 75.5.

Include a property tax component when developing the capitalization rate only when appropriate.

We found a number of taxable possessory interests where the assessed value was estimated with the inclusion of a property tax component in the capitalization rate when the possessor pays the property taxes.

Under subdivision (f) of Rule 8, the capitalization rate should include a component for property taxes, where applicable. According to Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), when the landlord (lessor) is responsible for paying the property taxes, the capitalization rate should include a component for property taxes. However, if the tenant is responsible for paying the property taxes in addition to rent, the capitalization rate should not include a component for property taxes. With most taxable possessory interests, the possessory interest tax is paid by the tenant (lessee or possessor) in addition to rent and, therefore, the capitalization rate typically should not include a component for property taxes.

Improperly including a component for property taxes may cause the assessor to apply an inappropriate capitalization rate and enroll incorrect assessments.

Add the present worth of unpaid rents to the nominal sale price as required by Rule 21.

Upon the sale of a cabin situated on U. S. Forest Service land, it is the assessor's 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 adjust the sale price for unexpired contract rents assumed by the buyer of the property, asserting that buyers are essentially paying fee value for the land on which the cabins are located without adding the present value of the unpaid rents.

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, subdivision (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.

Absent a current or updated study showing that sales prices reflect, as the assessor asserts, the fee values of the lands on which the cabins are located, the assessor should add to each sales price the present worth of any unpaid future contract rents as provided in Rule 21(e)(1)(A). Otherwise, the assessor's practice may result in underassessments.

Consistently deduct allowable expenses from gross income when valuing taxable possessory interests by the income approach-direct method.

When valuing possessory interests by the income approach-direct method, the assessor does not consistently include deductions from the gross rent for expenses incurred by the public lessor; expenses are deducted for some assessments but not for others.

AH 510 provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent. Rule 21(e)(3)(C) provides that the income to be capitalized in the valuation of a taxable possessory interest is the "net return" (as defined in subdivision (c) of Rule 8) attributable to the taxable possessory interest. Rule 8(c) provides 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 least some management expenses with each taxable possessory interest. Certain lease agreements may require the public owner to pay for insurance, maintenance, or utilities.

By not consistently deducting all allowable expenses, the assessor is not treating all taxpayers equally and may be overstating the value of some taxable possessory interests.

Properly issue supplemental assessments for taxable possessory interests.

We reviewed a number of taxable possessory interest appraisals related to newly created taxable possessory interests or changes in ownership. We found the assessor is improperly offsetting the new base year value against the existing roll value when calculating the amount of the supplemental assessment and, in a number of cases, is not issuing supplemental assessments when appropriate.

Taxable possessory interests, like other real property, are subject to supplemental assessment whenever there is a change in ownership or completed new construction. Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that there shall be a supplemental assessment following a change in ownership or completion of new construction. AH 510, at pages 59-60, advises that the supplemental assessment amount for a newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll.

The assessor's failure to properly issue supplemental assessments is contrary to statute, and results in unequal treatment of taxpayers.

Exclude newly created taxable possessory interests established by month-to-month agreements from supplemental assessments in accordance with section 75.5.

The assessor issues supplemental assessments on newly created taxable possessory interests established by a month-to-month agreement. Upon the creation of these taxable possessory interests, the assessor establishes base year values and issues supplemental assessments. However, section 75.5(b) excludes newly created taxable possessory interests established by month-to-month agreements, with a full cash value of \$50,000 or less, from supplemental assessment. The assessor's policy is contrary to this statutory provision.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Audit Program

County assessors are required to annually conduct a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with 50 percent of those to be selected from a pool of those taxpayers with the largest assessments.⁹

For Plumas County, the minimum required number of audits to be conducted each year is three, with the additional requirement that 50 percent of those audits are to be performed on taxpayers selected from a pool of those taxpayers that have the largest assessments of locally assessable trade fixtures and business tangible personal property in the county.¹⁰ Although the assessor has budgeted a half-time position, the auditor-appraiser function remains unfilled. To fulfill this function, the assessor relies on the intercounty cooperative property tax audit program referred to as California Counties Cooperative Audit Services Exchange (CCCASE). Through the CCCASE program, certified auditor-appraisers from other counties conduct the audits. The assessor then reviews the audit results.

The assessor completed 6 audits for 2010-11, 5 audits for 2011-12, 4 audits for 2012-13, 3 audits for 2013-14, and 4 audits for 2014-15 roll years. However, we found an area in need of improvement.

RECOMMENDATION 5: Modify the audit selection procedure to correctly develop the pool of largest audit accounts as defined by section 469.

We found the assessor does not follow the audit selection requirements prescribed by section 469 when determining the pool of taxpayers with the largest assessments each year. The assessor selects audits from a report that lists business accounts with assessments greater than \$400,000, but does not rank the accounts in descending order as described in section 469. As a result, for the 2012-13 and 2014-15 roll years, the assessor did not conduct the minimum number of audits selected from the pool of taxpayers with the largest assessments as required.

Section 469 requires the assessor to rank all taxpayers annually in the county in descending order by their total locally assessed value of both trade fixtures and business tangible personal property. Rule 192(a)(6) states that the "taxpayers with largest assessments" means taxpayers that have the largest assessments of locally assessable trade fixtures and business tangible personal property in the county for the applicable year of audit selection.

⁹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Audit Program*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/auditprogram_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

¹⁰ Refer to Letter To Assessors LTA 2009/049, *Significant Number of Business Property Audits*.

The assessor cannot be in compliance with section 469 without first accurately identifying the pool of largest audit accounts. By failing to comply with section 469, the assessor risks not auditing the largest assessments for the current year and, as a result, may allow taxable property to escape assessment permanently.

Vessels

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.¹¹

Vessels include every description of watercraft used for pleasure, transportation, scientific research, and commercial activities. For the purposes of California property taxation, pursuant to sections 401 and 401.3, vessels are valued at their fair market value every year as of the January 1 lien date.

The assessment of vessels is the responsibility of the property transfer analyst; prior to enrollment, values are reviewed by a certified property appraiser. The assessor's primary sources of discovery include reports from the DMV, marina reports, and referrals from other counties.

We reviewed several vessel assessments and found the assessor correctly adds a sales tax component of value, makes adjustments for vessel condition, motor and motor condition, accessories, and deducts for trailers when appropriate. However, we found an area in need of improvement.

RECOMMENDATION 6: Correctly apply the BOE annual vessel valuation factors when using these factors to determine the current market value of vessels.

We found the assessor did not correctly update the property tax assessment system's vessel factor table with the BOE annual vessel valuation factors.

According to Assessors' Handbook section 504, *Assessment of Personal Property and Fixtures*, the use of valuation factors should be supported by a recognized sampling method. To utilize sampling of current market evidence, assessors must develop and use recognized methods that will be accepted with confidence by the BOE and property owners. In lieu of developing county-specific valuation factors, the assessor may use the annual vessel valuation factors provided by the BOE. In order to promote uniformity of vessel assessments among counties within California, the BOE annually produces and publishes market derived vessel valuation factors for use by assessors since the 2009 lien date. These vessel valuation factors were developed with the assistance of county assessors for use in the mass appraisal of vessels when determining a value for property taxation purposes.

¹¹ For a detailed description of the scope of our review of this topic, please refer to the document entitled *Vessels*, available on the BOE's website at http://www.boe.ca.gov/Assessors/pdf/vessels_general.pdf. Additionally, detailed descriptions of assessment practices survey topics, authoritative citations, and related information can be found at <http://www.boe.ca.gov/proptaxes/apscont.htm>.

By not updating the property tax assessment system's vessel factor table with the current BOE annual valuation factors, the assessor is likely not assessing vessels at their current market value.

APPENDIX A: STATISTICAL DATA

Table 1: Assessment Roll

The following table displays information pertinent to the 2014-15 assessment roll:¹²

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$1,152,237,233
	Improvements	\$1,976,133,211
	Fixtures	\$56,102,531
	Personal Property	\$22,700,695
	Total Secured	\$3,207,173,670
Unsecured Roll	Land	\$14,595,782
	Improvements	\$26,796,675
	Fixtures	\$10,023,669
	Personal Property	\$47,537,137
	Total Unsecured	\$98,953,263
Exemptions¹³		(\$54,945,015)
	Total Assessment Roll	\$3,251,181,918

Table 2: Change in Assessed Values

The next table summarizes the change in assessed values over recent years:¹⁴

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2014-15	\$3,251,182,000	1.2%	6.2%
2013-14	\$3,212,303,000	-0.5%	4.3%
2012-13	\$3,227,726,000	-2.8%	1.4%
2011-12	\$3,319,558,000	-6.7%	0.1%
2010-11	\$3,558,427,000	-8.3%	-1.9%

¹² Roll values are from BOE 822 Report, *Report of Assessed Values By City*.

¹³ The value of the Homeowners' Exemption is excluded from the exemptions total.

¹⁴ Roll Values and Statewide changes are from the California State Board of Equalization Annual Report, Table 7.

Table 3: Gross Budget and Staffing

The assessor's budget has decreased from \$709,479 in 2010-11 to \$667,297 in 2014-15

Presently, the number of permanent employees totals 8 and includes 5 real property appraisers (including the assessor and the chief appraiser), 1 office manager, 1 property transfer analyst, and 1 cadastral drafting specialist. In addition, the assessor has two extra help part time staff.

The following table sets forth the assessor's gross budget and staffing over recent years:¹⁵

BUDGET YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF
2014-15	\$667,297	-2.8%	8
2013-14	\$686,860	9.7%	8
2012-13	\$626,049	-12.1%	8
2011-12	\$712,276	0.4%	8
2010-11	\$709,479	-2.4%	8

Table 4: Assessment Appeals

The following table shows the number of assessment appeals filed in recent years:¹⁶

ROLL YEAR	ASSESSMENT APPEALS FILED
2014-15	26
2013-14	23
2012-13	22
2011-12	22
2010-11	52

¹⁵ The assessor provided budget information for 2010-11, 2011-12, and 2012-13 during survey fieldwork. Information for 2013-14 and 2014-15 was provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

¹⁶ Statistics provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

Table 5: Exemptions – Welfare

The following table shows welfare exemption data in recent years:¹⁷

ROLL YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2014-15	45	\$22,456,694
2013-14	39	\$21,760,388
2012-13	35	\$21,159,764
2011-12	37	\$22,184,277
2010-11	39	\$24,938,327

Table 6: Change in Ownership

The following table shows the total number of reappraisable transfers processed in recent years:¹⁸

ROLL YEAR	REAPPRAISABLE TRANSFERS
2014-15	1,482
2013-14	1,627
2012-13	1,482
2011-12	1,448
2010-11	1,389

¹⁷ Statistics provided by BOE-802, *Report on Exemptions*.

¹⁸ The assessor provided transfers information during survey fieldwork.

Table 7: New Construction

The following table shows the total number of new construction assessments processed in recent years:¹⁹

ROLL YEAR	NEW CONSTRUCTION ASSESSMENTS
2014-15	32
2013-14	27
2012-13	N/A
2011-12	N/A
2010-11	N/A

Table 8: Declines In Value

The following table shows the total number of decline-in-value assessments in recent years:²⁰

ROLL YEAR	DECLINE-IN-VALUE ASSESSMENTS
2014-15	8,071
2013-14	8,769
2012-13	9,549
2011-12	9,276
2010-11	8,429

¹⁹ The assessor provided this information during survey fieldwork.

²⁰ The assessor provided information for 2010-11 through 2013-14 during survey fieldwork. Information for 2014-15 was provided by *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*.

APPENDIX B: COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP

Plumas County

Chief

David Yeung

Survey Program Director:

Diane Yasui

Manager, Property Tax

Survey Team Supervisor:

Teresa Quento

Supervisor, Property Tax

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Teresa Nguyen

Business Taxes Specialist I

Gary Coates

Associate Property Appraiser

Lee Coleman

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Paula Montez

Associate Property Auditor-Appraiser

Eric Santana

Assistant Property Appraiser

APPENDIX C: RELEVANT STATUTES AND REGULATIONS

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

The Plumas County Assessor's response begins on the next page. The BOE 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

May 22, 2017

Mr. David Yeung, Chief
County Property Taxes Division
State Board of Equalization
P.O. Box 942870
Sacramento, Ca. 94279-0062

Dear Mr. Yeung,

In accordance with section 15645(b) of the California Government Code, please find enclosed my response to the recommendations made by the State Board of Equalization Assessment Practices Survey report dated May 2017.

I would like to express my appreciation to your Survey Team for the professionalism and courtesy extended to my staff during the survey process.

You will find that I concur with most of your recommendations and have already implemented many of them. Other recommendations are currently under study and may be implemented in the future as our investigation concludes. Please find my responses attached.

I would also like to take this opportunity to thank my staff for their hard work, professionalism and dedication to Plumas County and its taxpayers. Their commitment to excellence in both the technical and customer service areas are greatly appreciated.

Sincerely,

A handwritten signature in blue ink, appearing to read "Charles W. Leonhardt".

Charles W. Leonhardt, Assessor.

Response to
Survey Recommendations

Recommendation 1: Add penalty and Interest when terminating erroneous Homeowner's exemptions.

We concur and have implemented these changes.

Recommendation 2: Improve exemptions program by: (1) Properly notifying claimants when denying the welfare exemption, (2) verifying whether an organization holds a valid OCC, (3) properly applying late filing penalty provisions for welfare exemption claims that are not timely filed, and (4) exempting only those areas used for exempt purposes for Veteran's Organizations.

We concur and have implemented these changes.

Recommendation 3: Apply penalties for late filing or non-filing of BOE-100-B, *Statement of Change of Control of Legal Entities*.

We concur and have implemented these changes.

Recommendation 4: Improve the assessment of taxable possessory interests by: (1) including a property tax component when developing the capitalization rate only when appropriate, (2) adding the present worth of unpaid rents to the nominal sales price as requires by Rule 21, (3) consistently deducting allowable expenses from gross income when valuing taxable possessory interests by the direct income approach, (4) properly issuing supplemental assessments for taxable possessory interests, and (5) excluding taxable possessory interests established by month to month agreements from supplemental assessments in accordance with section 75.5.

We concur with most of these recommendations and have either have implemented or are in the process of studying the implementation of them.

Recommendation 5: Modify the audit selection procedure to correctly develop the pool of largest, audit accounts as defined by section 469.

We concur and have implemented these changes.

Recommendation 6: Correctly apply the BOE annual vessel valuation factor when using these factors to determine the current market value of vessels.

We concur and have implemented this change.