

SHASTA COUNTY ASSESSMENT PRACTICES SURVEY

JULY 2007

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July 31, 2007

TO COUNTY ASSESSORS:

RAMON J. HIRSIG
Executive Director

No. 2007/035

SHASTA COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the [Shasta 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 Leslie Morgan, Shasta County Assessor-Recorder, 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 Shasta County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from May through July 2006. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Both the retired assessor, the Honorable Cris Andrews, and the current assessor, the Honorable Leslie Morgan, and their staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/Lynn Bartolo for

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 comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly; and to the Shasta County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Leslie Morgan, Shasta County Assessor-Recorder, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

¹ This survey covered only the assessment functions of the office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation 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. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.³

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

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

³ All rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

EXECUTIVE SUMMARY

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

In the 2002 Shasta County Assessment Practices Survey, we made ten recommendations to address problems in the assessor's policies and procedures. The assessor has fully implemented all ten of these recommendations.

It should be noted that the Shasta County assessment roll value experienced a 37 percent increase between fiscal years 2001-02 and 2005-06, while staffing levels have remained relatively constant over the same period.

Over the past five years, the current and past assessors have been active in instituting the use of computers and computer technology. Such advances include:

- E-filing for business property statements.
- Digitized county maps as part of a countywide Geographic Information System mapping service.
- A website that includes many printable brochures and pamphlets.
- More effective tracking of assessment appeals and other office functions through greater use of relational database software.

We also noted that the assessor and office staff are easily accessible to the public.

The assessor is effectively managing the major portions of the administration program, i.e., appraiser certification, assessment appeals, and exemptions. One innovative procedure is the pre-printing of the claimant's *Organizational Clearance Certificate* number on the welfare exemption claim form mailed to established claimants. This has streamlined the processing of claims within the assessor's office. There are procedures in other areas, however, that we feel should be revised; we make recommendations to help improve these portions of the program.

In terms of overall administration, the most significant issue is that the assessor fails to notify the county auditor when interest should be added to certain escape assessments. These escape assessments occur when the assessor discovers that a homeowners' exemption has been improperly allowed because a taxpayer failed to timely notify the assessor that the property no longer qualified for the exemption.

In the area of real property, we found that the assessor is effectively managing the change in ownership and new construction programs. There are, however, procedures for assessing special use properties that we feel should be revised; we make recommendations to help improve those portions of the program. Our primary concern in the real property program is the assessment of taxable possessory interests.

The assessor reviews many taxable possessory interests for declines in value. However, for the United States Department of Agriculture Forest Service cabins with stated terms of possession, the assessor does not periodically determine the lower of the factored base year or the market value. Instead, the assessor enrolls the factored base year value until the contract term of possession expires or there is a change in ownership. This practice may overstate the value of the taxable possessory interest.

Overall, the personal property/audit section is well managed. The audit and property statement processing programs have improved substantially since our last survey. The assessor's leased equipment and manufactured home programs are well managed. Still, we make two recommendations to improve the assessor's business and personal property program.

Our main concern is that the assessor does not add sales and use tax to the listed values of vessels found in the *ABOS Marine Blue Book*. Because so many assessments are affected by these shortcomings, we consider this a significant issue in the assessor's overall program.

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

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

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

RECOMMENDATION 1: Include the correct appeals filing period in the notice of proposed reassessment as required by section 170.....14

RECOMMENDATION 2: Notify the auditor when interest should be added to escape assessments.15

RECOMMENDATION 3: Improve assessment forms procedures by: (1) submitting final prints for review and approval, and (2) using correct assessment forms.19

RECOMMENDATION 4: Ensure that section 69.5 transfers of base year value are correctly adjusted for inflation.....24

RECOMMENDATION 5: Periodically review all taxable possessory interests with stated terms of possession for declines in value.31

RECOMMENDATION 6: Improve the mineral property valuation procedures by: (1) using the appropriate quantity measure, and (2) using the annual production volume.35

RECOMMENDATION 7: Perform mandatory audits of partially exempt organizations.....39

RECOMMENDATION 8: Include sales and use taxes and freight charges as an
increment of value for vessels.48

RESULTS OF 2002 SURVEY

New Construction

We recommended the assessor make a record of all issued permits on the property record. Although the assessor still does not record all permit data on the property record, they are entered into the assessor's computer system. Therefore, we are not repeating this recommendation.

Taxable Possessory Interests

We recommended the assessor obtain and analyze all agreements between the United States Department of Agriculture Forest Service and private entities for the operation of public campgrounds in Shasta County. Our prior survey fieldwork discovered that a public campground in Lassen National Forest was being operated by a private nonprofit organization. This organization has discontinued the operation of this campground. In our current survey, we found that the assessor has implemented this recommendation for actively operating private concessionaires. The assessor's files now contain copies of contracts, if available, and documentation of rents, terms of possession, and capitalization rates used to value these properties.

California Land Conservation Act Property

We recommended the assessor assign the correct nonrenewal period when assessing properties subject to terminating California Land Conservation Act Property contracts. The assessor has complied with this recommendation.

Water Companies

We recommended the assessor annually review the California Public Utilities Commission report to discover assessable water company properties. The assessor has complied with this recommendation. The assessor compares the factored base year value with the historic cost less depreciation value indicator and uses the lower figure for the property's annual assessment. We also recommended the assessor obtain documentation on all mutual water companies. In our current review, we found that the assessor has complied with this recommendation by including in each company's file a copy of its articles of incorporation.

Mining Property

We recommended the assessor revise the mining property assessment program by (1) appraising all mining properties according to Rule 469 and (2) auditing production reports for mineral property accounts. We found that the assessor is now in compliance with Rule 469; the value of the entire appraisal unit is aggregated prior to determining whether to enroll the adjusted base year value or the current market value. Audits of production reports may discover inconsistencies in taxpayer reporting; however, since the assessor is using the royalty method for

determining the mineral rights value, it is unlikely that audits of production reports will impact the assessment of the mining properties. Therefore, we believe the assessor has complied with these recommendations.

Audit Program

We recommended the assessor require the use of an audit checklist in every audit to ensure that relevant property tax issues are reviewed. We found that the assessor now routinely requires every audit to include an audit checklist.

Business Property Valuation

We recommended the assessor use the Assessors' Handbook Section 581 as intended. This recommendation was made because the assessor's minimum percent good policy was not supported by adequate documentation. In our current survey we found that the assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). Because the CAA minimum percent good recommendations are based on the salvage value study published by *Marshall Valuation Services*, inadequate documentation is no longer an issue.

Vessels

We recommended the assessor annually appraise vessels at market value. The assessor was applying a fixed percentage of depreciation to all classes of vessels. In our current survey we found that the assessor has implemented this recommendation by using an annual depreciation schedule that is based on sales data of published vessel values.

OVERVIEW OF SHASTA COUNTY

Shasta County lies at the northern end of the narrowing Central Valley. It is bordered on the west by Trinity County, to the east by Lassen County, to the north by Siskiyou and Modoc Counties, and to the south by Tehama and Plumas Counties. Most of the county is mountainous, with some areas that are relatively flat. It has elevations ranging from 430 feet at Anderson to 10,027 feet at Lassen Park.

The county has a population of approximately 172,000, most of whom live in Redding, Anderson, Cottonwood, and Shasta Lake. Redding, the county seat, has a population of 88,000; it is the state's largest city north of Sacramento. Redding is the center of trade and commerce and a regional hub for education, professional services, and government. Shasta County encompasses approximately 3,850 square miles. It is one of California's original 27 counties, created in 1850 by the State Legislature.⁴

⁴ California State Association of Counties Internet Resource, www.co.csac.counties.org.

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

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$3,706,392,511
	Improvements	\$8,144,066,542
	Personal Property	\$209,486,866
	Manufactured Home	\$87,475,134
	Total Gross Secured	\$12,147,421,053
	Less Exemptions	(\$469,041,341)
	Total Net Secured	\$11,678,379,712
Unsecured Roll	Land	\$52,861,449
	Improvements	\$103,870,437
	Fixtures	\$126,944,066
	Personal Property	426,962,148
	Total Gross Unsecured	\$710,638,100
	Less Exemptions	(\$59,753,272)
	Total Net Unsecured	\$650,884,828
	Total	\$12,329,264,540

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

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2005-06	\$12,332,431,000	9.9%	11.1%
2004-05	\$11,219,143,000	8.2%	8.3%
2003-04	\$10,368,637,000	7.8%	7.3%
2002-03	\$9,615,244,000	7.4%	7.3%
2001-02	\$8,950,165,000	NA	NA

ADMINISTRATION

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

Budget and Staffing

Budget

As shown in the following table, the assessor's office has benefited from increased funding levels over recent years (PTAP funds are included in the assessor's gross budget):

BUDGET YEAR	GROSS BUDGET	INCREASE	PERMANENT STAFF	PTAP FUNDS RECEIVED	PTAP STAFF
2005-06	\$4,173,723	19.23%	39	\$342,399	4
2004-05	\$3,500,584	10.23%	39	\$342,399	4
2003-04	\$3,175,745	1.64%	39	\$342,399	4
2002-03	\$3,124,396	10.08%	39	\$342,399	4
2001-02	\$2,838,349		39	\$342,399	4

Staffing

The assessor's office has 43 budgeted full-time positions, including the assessor. All the real property appraisers and business property auditors are in the Valuation Division, which is managed by the valuation deputy. The Valuation Division consists of the following four sections: residential, commercial/industrial, rural, and personal property/audit.

Two senior supervising real property appraisers oversee the residential and rural sections with 11 journey level appraisers. Most work is assigned according to location, by map book. There are three senior real property appraisers in the commercial/industrial section who handle specific property types, such as California Land Conservation Act Property, taxable possessory interests, mineral properties, and commercial and industrial properties. In addition, the personal property/audit section consists of one senior supervising auditor-appraiser and four journey level auditor-appraisers.

The roll production and mapping sections are managed by the administration deputy. Roll production support is provided to both the real property and personal property/audit sections by a program manager, a supervising assessment clerk, four senior assessor-recorder clerks, eight assessment clerks, and seasonal clerks. There is also one program manager in charge of the mapping section with two cadastral mapping technicians and seasonal help.

Staff Property Procedures

We reviewed property records to determine if the assessor has proper procedures in place to ensure that staff does not value their own properties for property taxation purposes. Our review determined that when an employee's property needs to be valued, a senior supervising real property appraiser assigns the employees' property to a staff appraiser. After the initial valuation, the senior supervising real property appraiser reviews and approves the value. We did not find any instances where an appraiser made an assessment of any property that the appraiser owned or had an interest in.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.⁵ This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which was available to counties for fiscal years 2002-03 through 2006-07.⁶ The grant program operates in essentially the same manner as the loan program except that if a county does not meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

If an eligible county elected to participate, the county and the State Department of Finance entered into a written contract as described in section 95.31. The contract provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

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

Shasta County has participated in the PTAP since 1995. For contract year 2005-06, the assessor received a grant of \$342,399. The county's required base funding and staffing levels for the assessor's office are \$1,878,308 and 39 positions, respectively. The Shasta County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for loan repayment for every year under contract.

The assessor has effectively used PTAP funds for mandatory and nonmandatory audits, the timely completion of assessment appeals, supplemental assessments, reviewing properties for declines in value, enrolling transfers, new construction, and new business accounts. Funds have also been used for staffing and to purchase new information technology hardware and software. All expenditures are designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax system.

⁵ Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

⁶ The PTAP funding has been suspended for two years, beginning with the 2005-06 California Budget.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes as an employee of any county or city and county, unless he or she is the holder of a valid appraiser's or advanced appraiser's certificate issued by the BOE. Additionally, section 671 provides that, in order to retain a valid appraiser's certificate, every holder shall complete at least 24 hours of training (12 hours in the case of a holder of an advanced certificate) conducted or approved by the BOE.

There are 24 certified appraisers in the Shasta County Assessor-Recorder's Office, of whom 19, including the assessor, hold advanced certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers. All staff, including the assessor, are appropriately certified and are current in their training hours.

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

In December 1992, the board of supervisors adopted Chapter 2.52 of the Shasta County Ordinance, creating an assessment appeals board. This board has three members and one alternate.

The following table illustrates the assessor's appeal workload for recent years:

APPEALS	FISCAL YEAR				
	2005-06	2004-05	2003-04	2002-03	2001-02
Total Appeals:					
Applications Received	33	68	77	109	132
Carried Over	16	10	89	64	26
Total	49	78	166	173	158
Resolution:					
Hearing-reduced	0	3	8	0	2
Hearing-increased	0	0	0	0	1
Hearing-upheld	2	3	1	3	1
Stipulation	1	6	82	12	1
Withdrawn	22	43	57	41	80
Other*	2	7	8	28	9
Total resolved	27	62	156	84	94
Carried over to next year	22	16	10	89	64

*Includes Board denied and applicant's failure to appear.

All assessment appeals are filed with the clerk of the board of supervisors, who reviews them before forwarding date-stamped copies of the applications to the assessor. The appraiser within whose area the property under appeal is located prepares and presents the assessor's case at the hearing. The chief deputy of valuation also attends each hearing.

There were no appeal hearings scheduled during our review period. However, we found evidence in the property files that the assessor prepares adequate appraisals of the properties under appeal. Most appeals are heard within the required two-year time frame and waivers are obtained for those appeals that cannot be resolved timely. We conclude that the assessor is properly administering the assessment appeals program.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$10,000 in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under an ordinance, assesseees must make a written application to the assessor requesting reassessment. Alternatively, if the assessor is aware of any property that has suffered

damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment.

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

The assessor discovers instances of disaster or calamity by reviewing newspaper articles and building permits, field canvassing, and taxpayer-initiated contacts.

The Shasta County Board of Supervisors passed a disaster relief ordinance in 1977 and amended it in 1979. This ordinance applies to a misfortune or calamity involving any taxable property, both real and personal.

Our survey indicates that the assessor's policies and procedures for the processing of disaster relief claims are correct and in compliance with section 170. However, we did find one problem with the assessor's disaster relief program.

RECOMMENDATION 1: Include the correct appeals filing period in the notice of proposed reassessment as required by section 170.

The assessor's notice of proposed reassessment due to a misfortune or calamity does not inform the owners of their proper assessment appeal rights as required by section 170(c). The current notice sent to the taxpayers provides that if the taxpayers disagree with the reassessment, they may appeal to the local assessment appeals board within 14 days of the mailing of the notice.

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

The assessor's practice does not properly inform property owners of their appeal rights.

Assessment Roll Changes

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, if a correction is made that will decrease the amount of the unpaid taxes, the consent of the board of supervisors is necessary. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

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

The assessor processed 3,171 and 3,608 roll changes for roll years 2004-05 and 2005-06, respectively.

Roll changes may be initiated by the roll production program manager and by any appraiser or auditor-appraiser within his or her area of responsibility and expertise. Transfer clerks process roll changes for properties that qualify for the parent-child or grandparent-grandchild exclusions. The clerical staff may also initiate roll changes necessitated by erroneously allowed exemptions.

All roll changes involving real property assessments are given to the chief deputy of valuation on a transmittal sheet. After he approves the changes, he gives the transmittal sheet to a clerk to key into the computer system. The system produces a roll change sheet, which is forwarded to the roll production program manager for review. Finally, the roll production program manager gives this form to the chief deputy of administration to sign and forward to the county auditor.

The senior supervising auditor-appraiser reviews changes to assessments of personal property. After he approves a change, the correction follows the process described above.

Once the values for an escape assessment have been entered into the computer system, it generates a *Notice of Proposed Escaped Assessment*, which is sent to the taxpayer. The assessor waits a minimum of ten days before enrolling the new value and sending the taxpayer Form BOE-66-A, *Notice of Enrollment of Escape Assessment*. We found one aspect of escape assessment processing that should be revised.

RECOMMENDATION 2: Notify the auditor when interest should be added to escape assessments.

When the assessor determines that a homeowners' exemption was erroneously allowed due to a taxpayer's failure to timely notify the assessor that the property no longer qualifies for the exemption, the assessor processes a roll correction and assesses the penalty prescribed by section 504. However, the assessor does not inform the auditor that interest under section 506 should also be added to the assessment.

Section 531.6 provides that if a homeowners' exemption has been incorrectly allowed without the assessor's fault, an escape assessment in the amount of the exemption, with interest as provided in section 506, shall be made. The assessor is responsible for adding the section 504 penalty to the assessment and for notifying the auditor that interest is to be added.

The assessor's current procedure does not comply with statute and results in lost revenue.

Low-Value Property Exemption

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

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

Shasta County adopted Resolution No. 2001-228 on December 11, 2001, authorizing the exemption of all personal property with a full value of \$2,000 or less, all real property with a base year value of \$2,000 or less, and taxable possessory interests for temporary and transitory uses in a publicly owned fairground, convention, or cultural facility having a value not exceeding \$15,000.

Shasta County's computer system automatically identifies assessments that meet the low value exemption threshold, generates an exemption amount equal to the total value, and then creates a zero net value that is used to cancel the assessment. We found that the exemption had been consistently applied to all eligible properties. There were 1,009 properties with a total value of \$1,239,541 that were exempted on the secured 2005-06 roll.

Unlike the low value exemption for real property, the personal property low value exemption is managed using a manual process. When the business property statements are returned and the values estimated, those accounts that have a value less than \$2,001 are enrolled on the unsecured roll as \$0. There were 284 active unsecured accounts qualifying for the low-value exemption on the 2005-06 roll. A sampling of accounts indicates all were properly given a low-value exemption.

The taxable possessory interest low-value exemption is also a manual process. Each year concession contracts with the Shasta County Fair and the Redding Convention Center are reviewed for taxable possessory interest values over \$15,000. Taxable possessory interests that qualify for the low-value exemption are not enrolled.

The low-value property exemption continues to be well managed.

Exemptions

Church and Religious Exemptions

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

Article XIII, section 4(b) authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other

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

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

In Shasta County, institutional exemption claims are processed by the confidential administrative assistant. This staff member relies on several resources for guidance in processing exemptions: Assessors' Handbook Section 267, *Welfare, Church and Religious Exemptions* (October 2004), advisory Letters To Assessors issued by the BOE that deal with exemption issues, and training materials received during a BOE welfare exemption workshop. Field inspections of properties for which a church, religious, or welfare exemption is claimed are conducted by the appraiser assigned to the area in which the exempt property is located. If a field inspection results in a determination of only partial eligibility for exemption, the appraiser documents the appraisal record.

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

ROLL YEAR	CHURCH EXEMPTIONS	EXEMPTED VALUE	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE
2005-06	24	\$4,627,001	158	\$90,786,649
2004-05	26	\$4,116,232	127	\$49,601,205
2003-04	23	\$2,558,103	198	\$80,825,796
2002-03	19	\$1,915,304	194	\$78,602,539
2001-02	21	\$1,665,610	188	\$73,867,906

If a claimant for the religious exemption fails to return the annual religious exemption termination notice, the assessor sends a second notice to the claimant. If that notice is not returned, the assessor schedules a field inspection to verify continued eligibility for the religious exemption

We found that for the 2005-06 assessment roll, the assessor obtained 100 percent compliance from religious exemption claimants; every claimant submitted the required Form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*. The assessor grants the church or religious exemption only to those properties or portions of a property that are exclusively used for qualifying purposes; she denies exemption to

any portion not so used. The assessor correctly applies the section 270 penalty for late-filed claims.

The assessor maintains an effective program for administering church and religious exemptions.

Welfare Exemption

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

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* (OCCs) to qualified nonprofit organizations. Additionally, the assessor became responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

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

ROLL YEAR	WELFARE EXEMPTIONS	WELFARE EXEMPTED VALUE
2005-06	206	\$338,021,277
2004-05	268	\$320,357,800
2003-04	227	\$299,127,950
2002-03	223	\$251,095,468
2001-02	213	\$231,929,310

We reviewed a variety of welfare exemption claims filed by various charitable or religious organizations. We found that the assessor requires an OCC from each claimant, applies late-filing penalties when appropriate, and correctly allocates exempt and taxable areas of properties receiving partial exemptions. In addition, the assessor has streamlined the annual filing process; the assessor adds the claimant's OCC number to the address block on the pre-printed claim form sent annually to all established claimants.

Although the claim form requests the OCC number, many claimants omit it from the completed claim form they return to the assessor's office, requiring staff to spend extra time finding the OCC number by reviewing the list of eligible organizations posted on the BOE's website. By

pre-printing the OCC number on the claim form, the assessor has simplified the filing procedure for claimants and reduced the time required for annual processing while maintaining a program consistent with all statutory requirements. We commend the assessor for this innovative approach.

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

Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.⁷ For the 2006 lien date, the BOE prescribed 80 forms for use by county assessors and one form for use by county assessment appeals boards. 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 county-developed forms to assist them in their assessment duties. However, such forms may not be used as substitutes for BOE-prescribed forms that are required to be used, and no penalty may be imposed upon a property owner for failure to file such form or questionnaire.

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.

A review of the forms used by the Shasta County Assessor's Office for the year 2006-07 revealed the following:

- Of the 80 BOE-prescribed forms, the assessor used 58.
- Of those 58 forms used, the assessor rearranged 2.
- The final prints (versions) of the BOE-prescribed property statements were not submitted to the BOE.

We also reviewed locally-developed forms, letters, questionnaires, and notices. The following changes would improve the program.

RECOMMENDATION 3: Improve assessment forms procedures by: (1) submitting final prints for review and approval, and (2) using correct assessment forms.

Submit final prints for review and approval.

The assessor submitted the final prints of the BOE-prescribed property statements late for the 2005 assessment year; final prints of the forms for 2006 were not submitted at all.

⁷ See also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

Government Code section 15606(d) requires the BOE to prescribe forms to be used by assessors for property taxation purposes. The BOE's review procedures are intended to standardize assessment forms for the benefit of taxpayers statewide.

The review procedures are outlined in Rules 101 and 171, which require BOE staff to annually review and approve all BOE-prescribed forms that each assessor will use in the following year. An assessor may not use a BOE-prescribed form until the assessor has received approval for the content and layout of the form from the BOE. Not later than February 10 annually, assessors must submit to the BOE a final printed copy of each BOE-prescribed form that they intend to use, along with the form's accompanying instructions. Not submitting final prints of forms for review and approval is contrary to specific regulation; such practice may result in taxpayers receiving outdated or obsolete information.

Use correct assessment forms.

We found the assessor used an outdated version of Form BOE 267-L1, *Welfare Exemption Supplemental Affidavit, Housing-Lower-Income Households*. The assessor also has online a locally developed form, the *Vessel Owner's Report*, that appears to be used in lieu of the BOE-prescribed form, Form BOE-576-D, *Vessel Property Statement*.

Using outdated versions of forms and locally developed forms in lieu of BOE-prescribed forms can be misleading to property owners and could create confusion about correct 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, such as property subject to California Land Conservation Act contracts, taxable government-owned property, and property in Timberland Production Zones.

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

Change in Ownership

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

Document Processing

Since the assessor is also the recorder, the recorder's staff daily provides the assessor's staff with copies of recorded documents. They also send completed Form BOE 502-A, *Preliminary Change of Ownership Report* (PCOR), which the assessor's staff matches with the appropriate recorded documents. The following table shows the number of recorded documents reviewed by the assessor during recent years and the number of documents that represented a change in ownership:

ROLL YEAR	RECORDED DOCUMENTS REVIEWED	RESULTING CHANGES IN OWNERSHIP
2005-06	12,450	8,548
2004-05	11,922	8,057
2003-04	11,255	8,621
2002-03	12,191	7,831
2001-02	10,896	7,191

A senior assessment clerk reviews all of the documents provided by the recorder. The clerk checks to see that the assessor's parcel number and legal description on the document match and that the name of the grantor matches the name of the current owner.

These documents are then sent to the transfer analysts, who pull the property records and review the transfer history. After recording the new transfer information on the appraisal record, the analysts update the computer system, which generates an appraisal control record. The analysts flag the appraisal records for reappraisal and re-file them.

When the appraiser works the transfer and keys in new values, the system updates the workload. A printout of transfers that have yet to be worked can be generated by the computer system.

Legal Entity Ownership Program (LEOP)

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

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or section 64(d). However, many of the acquiring entities do not provide sufficient information to identify the real property. Because of the limited data provided by many entities, assessors should independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

A senior supervising real property appraiser is responsible for analyzing and, when appropriate, revaluing properties on the BOE-generated list of LEOP transfers. She researches each reported change in control to determine whether a reappraisable change in ownership has occurred.

We reviewed the assessments of properties owned by five of the legal entities that were reported by the BOE to have experienced a change in control within the last few years. We found that the

assessor processed these LEOP notices properly, and promptly revalued parcels that had undergone a change in ownership.

Section 408.1 Transfer Lists

Section 408.1 requires the assessor to maintain a list, available to the public, showing property transfers that have occurred within the preceding two years. The list must be divided into geographical areas and must include the transferor and transferee, if available, assessor's parcel number, address of the transferred property, date of transfer, date of recording and recording reference number, and the consideration paid if known by the assessor.

Our review showed that the assessor makes such a list available to the public for review at no charge. The information on this list is updated quarterly as required by statute. The assessor includes the recording date on the transfer list, but not the date posted on the grant deed. However, because Rule 462.260 establishes a rebuttable presumption that the recording date is the transfer date, and because in Shasta County most deeds are recorded on the date that appears on the deed, we conclude that the assessor's transfer list substantially complies with the statutory requirements of section 408.1.

Parent-Child Exclusion and Base Year Value Transfer

Section 63.1 excludes from "change in ownership" the purchase or transfer of any principal residence and the first \$1 million dollars of other real property between parents and children.

Under limited circumstances, exclusion is also available for transfers between grandparents and grandchildren.

Section 69.5 generally allows for the transfer of the base year value of a principal residence to a replacement residence of equal or lesser value, provided the property owner is at least 55 years of age or severely and permanently disabled, the owner files a claim timely, and the properties are within the same county. A county board of supervisors may, by ordinance, allow transfers of base year value from properties located in other counties. Shasta County has not adopted an ordinance relative to these types of transfers.

Over the last four years, the assessor has annually excluded from reappraisal an average of 445 parcels that qualified for the parent-child or grandparent-grandchild exclusion and has handled an average of 42 base year value transfer requests from other counties. The assessor uses the BOE-prescribed application forms, and only grants an exclusion from reappraisal when both the applicant and the transaction have met all of the criteria specified by statute.

However, we noted an error in the procedure for processing claims for transfers of base year value by persons aged 55 or older.

RECOMMENDATION 4: Ensure that section 69.5 transfers of base year value are correctly adjusted for inflation.

When a replacement residence that qualifies for the section 69.5 base year value transfer is purchased between July 1 and December 31, the assessor enrolls the factored base year value of the original residence for the replacement property. However, the assessor does not adjust the factored base year value for inflation for the following lien date.

Section 51(a) provides that for each lien date after the lien date in which the base year value is determined the taxable value of real property shall be the lesser of its full cash value or its factored base year value.

The assessor's failure to add an inflation factor has resulted in underassessments for properties excluded from reappraisal under section 69.5.

New Construction

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

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

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

Building Permits

Building permits are the assessor's primary means of discovering assessable new construction. There are four permit-issuing agencies in Shasta County: the cities of Redding, Anderson, and Shasta Lake, and the County of Shasta. The assessor's office receives permits from all issuing agencies. The following is a table indicating the total number of permits, along with the resulting assessed values, reported to the assessor by each permit-issuing agency in recent years.

CITY OF REDDING			CITY OF ANDERSON		
YEAR	PERMITS	VALUE ENROLLED	YEAR	PERMITS	VALUE ENROLLED
2005	4,779	\$222,710,507	2005	494	\$28,923,847
2004	4,238	\$156,661,117	2004	512	\$19,211,551
2003	4,430	\$183,045,315	2003	437	\$14,170,563
2002	4,056	\$172,164,287	2002	367	\$17,092,549
CITY OF SHASTA LAKE			COUNTY OF SHASTA		
YEAR	PERMITS	VALUE ENROLLED	YEAR	PERMITS	VALUE ENROLLED
2005	539	\$13,492,744	2005	3,535	\$123,335,062
2004	534	\$8,541,056	2004	3,300	\$96,055,939
2003	521	\$10,753,366	2003	2,321	\$105,154,321
2002	420	\$10,155,115	2002	2,094	\$96,654,426

The permit-issuing agencies deliver all permits to the assessor's office on a regular basis. The assessor also discovers new construction through field canvassing and by reviewing business property statements. When new construction is noted on Form BOE-571-L, *Business Property Statement* (BPS), the auditor-appraiser sends a copy of the Schedule B of the BPS to the commercial/industrial section.

The assessor processes all permits that represent assessable new construction, and discards those that represent non-assessable work such as repairs and replacements. Appraisers perform field inspections of all new construction estimated to have a value greater than \$75,000. New construction of less than \$75,000 is field reviewed at the appraiser's discretion. In addition, the assessor sends a *Property Owners Statement of New Construction* questionnaire for miscellaneous residential new construction such as pools, barns, garages, and additions deemed to have an assessable value of \$75,000 or less. Using Apex software, appraisers prepare sketches of the new construction.

The assessor appraises construction in progress as of the lien date, appraises completed new construction as of the date of completion, and generates the appropriate supplemental assessments.

Valuation

The primary approach to valuing residential new construction is the cost approach, but market and income approaches are also applied if sufficient data exists. Fair market value is estimated as of the lien date, and the base year and base year value are maintained on the property record for each item of new construction.

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

Declines in Value

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

Similar to many other California counties, Shasta County has experienced notable increases in property values in recent years. Consequently, the assessor has removed many properties from decline-in-value status. There are currently 735 properties with assessed values below their factored base year level. The following table illustrates the total number and roll value of properties that experienced declines in value in recent years:

ROLL YEAR	DECLINE IN VALUE PARCELS	CURRENT MARKET VALUE
2005-06	735	\$469,017,903
2004-05	1,058	\$519,995,415
2003-04	1,540	\$583,558,612
2002-03	2,902	\$783,821,570
2001-02	4,876	\$966,312,926

The assessor does not have a formal program for discovering declines in value. Instead, the assessor depends on taxpayer requests for appraisal review and the appraisers' knowledge of their assigned areas. On occasion, declines in value may be discovered during the course of field work. If it is apparent that a downward value adjustment is warranted, such adjustments can be made without requiring the taxpayer to request a review.

When returning an assessment either in whole or in part to its factored base year value, the assessor's notice to the property owner shows the property's factored base year value, its current market value, and information about assessment appeal procedures as required by section 619.

The assessor also has a formal policy that allows the taxpayer to initiate an assessment review. Using a *Request For Review* form, taxpayers can initiate the formal review process. In the event that the results of the formal review are not agreeable to the taxpayer, the taxpayer may obtain Form-BOE-305, *Application For Changed Assessment*, from the Shasta County Assessment Appeals Board to file an appeal.

The assessor reviews all decline-in-value properties annually to determine if the factored base year value should be restored. Properties currently in decline-in-value status are tracked on the assessor's computer system. This enables the staff to print a list of properties needing annual review. To determine current market values for comparison purposes, the assessor relies primarily on the income approach for commercial properties and the market comparison approach for residential or rural properties.

The assessor's office meets all provisions of law when determining declines in value for properties in Shasta County.

Supplemental Assessments

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

The number of supplemental assessments processed on an annual basis is summarized in the table below.

ROLL YEAR	SUPPLEMENTAL ASSESSMENTS
2005-06	8,724
2004-05	8,818
2003-04	9,933
2002-03	10,925
2001-02	10,364

After appraisers determine the values for the assessable events, they complete worksheets and return them to the clerks to input the value. The system then automatically creates a supplemental assessment notice. Once the notice is reviewed and approved, it is sent to the assessee the next day. The notice includes all of the information required by section 75.31. Within 30 days after sending the notices to property owners, the assessor forwards the enrolled information to the county auditor.

All supplemental assessments are processed, including negative value assessments and new base year values that are not an increase in value. Supplement assessments are processed for taxable possessory interests, manufactured homes, and unrestricted portions of California Land Conservation Act and Timberland Production Zone properties. The assessor does not levy supplemental assessments on newly acquired taxable government-owned properties.

The assessor properly excludes property built for resale from supplemental assessments. Moreover, the assessor correctly applies the statute of limitations specified in section 75.11(d).

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

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

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

For the 2005-06 tax roll, 176,445 acres in Shasta County were encumbered by CLCA contracts, including 1,842 acres in nonrenewal. Most of the acreage under CLCA contract is non-irrigated grazing land; none is orchard or vineyard land. There are no Farmland Security Zone contracts, a more restrictive form of the CLCA contract. One appraiser is responsible for valuing all CLCA properties. He maintains computer spreadsheets which allow him to track, among other things, the total acreage under contract, the land uses and acreage allocated to each use, the acreage and base year values of any homesites, and the base year and base year value for each improvement.

Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. AH 521 (October 2003) on page II-51 provides that even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner. In other words, the homesite must be valued at the lesser of the factored base year value or the fair market value of a comparable homesite. We found that this is the assessor's policy and practice.

Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce and subtract the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring, such as lease payments for oil or gas exploration rights, communication facility sites, and recreational uses such as hunting or

fishing. There are no limits placed upon the income to be capitalized unless the contract contains a provision establishing a minimum annual income per acre.

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

The assessor mailed agricultural income and production questionnaires to owners of CLCA properties in 2001 and 2002, but discovered that querying taxpayers in consecutive years resulted in a dramatically reduced response rate in the second year. As a result, the assessor waited until 2006 to request updated information.

The assessor typically estimates the economic rent for CLCA properties on a cash rent rather than a share rent basis. The assessor deducts typical lessor expenses from the estimate of gross income to the land before capitalizing the income stream into an indication of land value.

Capitalization Rates

Section 423(b) prescribes the composition of the capitalization rate to be used in determining CLCA-restricted land values. It requires that the capitalization rate shall be the sum of the following components:

- An interest component annually determined and announced by the BOE;
- A risk component based on the location and characteristics of the land, the crops to be grown thereon and the provisions of any lease or rental agreement to which the land is subject;
- A component for property taxes; and
- A component for amortization of any investment in perennials over their estimated economic life when the total income from land and perennials other than timber exceeds the yield from other typical crops grown in the area.

For the 2005 roll, the assessor valued CLCA properties using risk rates that ranged from 1 percent for dry grazing to 6.5 percent for land used exclusively for strawberries and land leased for compatible uses such as fishing and trout farms.

The assessor implemented the recommendation we made in our 2002 survey to assign the correct nonrenewal period to terminating CLCA contracts. We found the CLCA assessment program to conform generally to statutory provisions.

Taxable Government-Owned Property

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

There are 67 taxable government-owned properties in Shasta County with a 2005-06 total roll value of \$1,435,265. Government agency names are compared to the Shasta County tax rate area (TRA) listing to identify local government agencies. Then, each local government TRA is compared to a government agency's parcel TRA in order to identify exempt and taxable property owned by local governments. All government-owned properties are reviewed for taxability and the appropriate action is taken. Annexation is tracked annually by comparing current TRAs to each local government agency's assigned TRA.

Taxable government-owned land values are recalculated each year using the latest BOE-announced factor and the 1967 assessed land value. The assessor correctly establishes base year values for taxable government-owned land at the lower of restricted value or market value at the time of acquisition. The lowest of the current market value, restricted value, or the factored base year value becomes the enrolled value. All three values are calculated for each parcel each year to ensure that the lowest value is enrolled.

We found no problems with the assessor's procedures for taxable government-owned property.

Timberland Production Zone Property

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

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

Shasta County has 1,998 TPZ parcels comprising approximately 625,452 acres. For the 2005-06 roll year, the total assessed value of TPZ lands was \$53,467,826.

Our review of 14 randomly selected records showed that the assessor properly follows the BOE's schedule of per-acre values for different site classes of TPZ parcels. The assessor updates TPZ values annually based on the site class values provided by the BOE. Currently there are no TPZ

parcels in nonrenewal status. When one TPZ parcel recently transferred, it was rezoned and revalued pursuant to Government Code section 51120 and Revenue and Taxation Code section 426. All of the land zoned TPZ is identified on the assessment roll with the notation "TPZ" (Timber Preserve) in conformance with section 433.

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

Taxable Possessory Interests

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

The assessor enrolled 1,218 taxable possessory interests for the 2005-06 roll year totaling \$88,026,608. Taxable possessory interests in Shasta County include commercial airline facilities, cable television rights-of-way, airport hangars, summer homes on United States Department of Agricultural Forest Service (FS) lands, marinas, and concessionaires at the county fairgrounds. The following table shows the number of taxable possessory interests and their value for recent years.

ROLL YEAR	TAXABLE POSSESSORY INTERESTS	NET VALUE
2005-06	1,218	\$88,026,608
2004-05	1,215	\$73,721,258
2003-04	1,221	\$73,203,140
2002-03	1,214	\$69,386,519

The assessor has a comprehensive program for enrolling taxable possessory interests. In order to discover new taxable possessory interests and to adequately maintain property files, the assessor annually requests government agencies owning property in the county to submit a property usage report. The appraisal staff also discovers taxable possessory interests through periodic inspections of government-owned property. We found that the terms of possession used are reasonable, rents are market-derived, and appraisals are well documented.

In our review, however, we noted one incorrect procedure.

RECOMMENDATION 5: Periodically review all taxable possessory interests with stated terms of possession for declines in value.

For FS cabins with a stated term of possession, the assessor does not determine the market values of the taxable possessory interests for lien dates subsequent to the establishment of the

base year value. Instead, the assessor enrolls the factored base year value until the anticipated term of possession expires or there is a change in ownership.

Section 51 requires the assessor to assess real property, including taxable possessory interests, at the lesser of the factored base year value or the current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a taxable possessory interest with a stated term of possession, Rule 21 provides that the stated term of possession must be used unless there is clear and convincing evidence that the lessor and lessee have agreed to a different term.

Though not required to reappraise all properties each year, the assessor should have a procedure to periodically review the assessments of taxable possessory interests with stated terms of possession to ensure that declines in value of taxable possessory interests are consistently recognized. This review should contemplate the requirements of Rule 21. Failing to periodically determine the market value of a taxable possessory interest with a stated term of possession may overstate its taxable value.

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 roll.

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

When real property is reported on Form BOE-571-L, *Business Property Statement (BPS)*, coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and avoid escapes and double assessments.

The commercial/industrial and personal property/audit sections have an efficient system of referring information to one another about improvements that minimizes the likelihood of assessable items either escaping assessment or being double assessed.

Responsibility for assessment of leasehold improvements varies depending on the circumstances. The personal property/audit section is generally responsible for assessing tenant improvements, but occasionally such items are referred to the commercial/industrial section for analysis. If the commercial/industrial section cannot determine the classification, the two sections will jointly make a decision.

Discovery

The primary leasehold discovery tool is the review of BPSs and building permits. Other discovery tools include tenant surveys of commercial buildings, reviews of recorded leases, rent surveys, and audits of business accounts. All reported items that are not clear as to classification are investigated using a detailed fixed asset listing requested from the assessee. Typically, improvements reported by the tenant are assessed to the tenant, and improvements installed and paid for by the landlord are assessed to the landlord. Tenant-installed leasehold improvements that are later abandoned are assessed to the landlord.

Valuation

Leasehold improvements, classified as fixtures, are assessed at the lower of the factored base year value or the current market value. Because a fixture is valued separately and is assigned a shorter life than the structure, its market value is normally below the factored base year value.

We found no problems with the assessor's program for discovering and assessing leasehold improvements.

Water Company Property

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

Municipal Water Systems

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

In our review of property owned by municipal water systems within Shasta County, we found one parcel with a well site located outside of the boundaries of the agency that it served; it is properly assessed.

There are 17 municipal water systems in Shasta County that are primarily within their respective community service district boundaries. We found the parcels owned by the municipal water systems located within the city limits or district boundaries were correctly exempted from taxation under article XIII, section 3(b) of the California Constitution.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost primarily for its stockholders or members. When incorporated, the association can enter into contracts, incur obligations, own property, and issue stock. However, if unincorporated, it can do

these things only in the names of the members. Corporations organized for mutual water company purposes are not subject to regulation by the California Public Utilities Commission (CPUC) unless they deliver water for compensation to persons other than stockholders or members.

We identified 17 mutual water companies in Shasta County. These companies do not deliver water to any outside entities for profit. We found that the value of each mutual water company's property was correctly reflected in the assessments of the parcels served by the water systems.

Private Water Companies Regulated by the CPUC

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

The CPUC regulates the rates charged by private water companies, limiting profits to a return on the company's unamortized investment in plant and equipment. Because the earning ability of a regulated private water company is tied to this "rate base," as it is known, the current market value of these companies' properties may be adversely affected by this restriction on earning capacity. The assessor should determine both the current market values and the factored base year values of such properties and enroll the lower of the two as the assessed value (Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, Part I, p.14).

We found that there are two private water companies regulated by the CPUC in Shasta County. The assessor annually compares the factored base year value and the market value (as indicated by historic cost less depreciation) for properties owned by these companies, and enrolls the lower of the two values. We reviewed the assessments of these properties and found that the assessor has correctly valued them.

Private Water Systems Not Regulated by the CPUC

Unregulated private water systems are similar to regulated water companies in that they are usually owned by individuals or corporations and are operated on a for-profit basis to supply water to commercial developments such as mobilehome parks, resorts, or campgrounds. However, they do not sell water for profit to customers in the same manner as a regulated water company. There are approximately 86 unregulated private water systems within Shasta County. We reviewed several assessments of properties owned by these companies and found that the assessor has correctly valued them.

Mineral Properties

Petroleum, mining, and geothermal properties comprise the three main categories of mineral properties. By statute and case law mineral properties are taxable as real property. These properties are subject to special rules designed to accommodate their unique characteristics. More specifically, Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*, constitute interpretations of existing statutes and case law

with respect to the assessment of mineral properties. There are no assessable petroleum or geothermal properties in Shasta County.

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

While the mineral properties located in Shasta County are primarily sand and gravel, there are other commodities produced, including limestone, diatomaceous earth, shale, and some gold. The county also has several hundred unpatented mining claims; however, their values typically fall below the threshold of county's low value exemption resolution. The Shasta County Assessor-Recorder primarily uses the royalty method to value mineral rights. The properties are appraised by a senior supervising real property appraiser.

In our 2002 survey report, we recommended the assessor (1) assess each mineral property as one appraisal unit as required by Rule 469, and (2) audit production reports for mineral property accounts. The assessor implemented the first recommendation. The assessor did not implement the second recommendation; however, because of the current valuation method used by the assessor, this recommendation is not needed. In addition, we did note two areas where the assessor is not in compliance with the applicable statute.

RECOMMENDATION 6: Improve the mineral property valuation procedures by:
(1) using the appropriate quantity measure, and (2) using the annual production volume.

Use the appropriate quantity measure.

One mineral property owner appears to have switched reporting units on its annual production report from tons to cubic yards. It does not appear that the assessor noticed this change; the result is that the property has been valued incorrectly. The value error for the 2005 roll is not material, but this error will cumulatively affect the annual depletion allowance and ultimately the property value.

Mineral production volume is typically measured in either tons or cubic yards depending upon the product and local area custom. Using the royalty method, the assessor multiplies the annual production volume by the economic royalty to determine the annual payments, and then capitalizes the annual payments to determine the leased fee mineral right value to the landowner. By using the wrong volume, the assessor will incorrectly value the mineral rights.

Use the annual production volume.

The assessor is using the quantity of minerals sold as the annual production volume in the valuation of the mineral rights. The proper procedure is to use the quantity produced, instead of the quantity sold. In some years it is likely that sales will include some stockpiled ore. Stockpiled ore is exempt from property taxation as minerals because it has already been severed from the earth. Rule 121 and Letter To Assessors 91/62, dated September 6, 1991, provides that unextracted minerals are land that, once severed, become personal property held for sale.

Power Plants

Rule 905 provides that electrical generating power plants are assessed by the BOE if they meet the following qualifications: the generating capability is greater than 50 megawatts, ownership is by an electrical corporation (as defined in section 218 of the Public Utilities Code), or the taxpayer is a state assessee for reasons other than its ownership of an electrical generating facility.

"Electrical generating facility" does not include a qualifying small power production facility or a qualifying cogeneration facility within the meaning of sections 201 and 210 of Title II of the Public Utility Regulatory Policies Act of 1978. In simple terms, if the electrical generating facility is less than 50 megawatts or uses a renewable fuel, it is a qualifying facility and locally assessed.

Since our 2002 survey, section 721.5 was adopted by the legislature. This section redefines which power plants are assessed by the state and which are assessed by the county. The county is responsible for assessing all qualifying facilities. Shasta County has six generating facilities generating 153 megawatts that are assessed by the BOE.

Shasta County has several cogeneration projects and hydroelectric power plants that are locally assessed. A senior supervising real property appraiser values the properties using an income approach. To adjust for fluctuations in annual water flows, the appraiser averages the annual electrical production for the last five to seven years; the average output is then used to generate the revenue stream for analysis. The appraiser uses a cash flow analysis to estimate the current market value of the power plant. The appraiser compares this value with the factored base year and enrolls the lower of the two values. The assessor's procedures for appraising power plants comply with BOE guidelines.

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, business property statement processing, business property valuation, and leased equipment discovery and assessment programs, and the assessment of manufactured homes, aircraft, vessels, and animals.

Audit Program

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

The following table shows the total number of audits completed by the Shasta County Assessor for recent years:

FISCAL YEAR	2005-06	2004-05	2003-04	2002-03	2001-02
Audit Workload Per Year:					
Scheduled Mandatory	65	38	55	36	44
Scheduled Nonmandatory	6	45	43	34	38
Audits Carried Over	9	6	6	4	5
Total	80	89	104	74	87
Audits Completed:					
Mandatory	54	35	55	34	45
Nonmandatory	6	45	43	34	38
Total	60	80	98	68	83
Audits Carried Forward	20	9	6	6	4

The assessor's audit results for both mandatory and nonmandatory accounts for recent years can be summarized as follows:

ROLL YEAR	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS	NET VALUE CHANGE
2005-06	60	54	6	(\$3,400,795)
2004-05	80	35	45	\$3,178,846
2003-04	98	55	43	\$4,216,958
2002-03	68	34	34	(\$2,181,522)
2001-02	83	45	38	(\$4,424,892)

Mandatory Audits

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

The assessor has a current workload of about 180 mandatory audit accounts, or an average of about 45 audits per year. The assessor participates in the California Counties Cooperative Audit Services Exchange for out-of-county and out-of-state audits. We found that, except for the account discussed in the following recommendation, mandatory audit accounts were all completed timely.

RECOMMENDATION 7: Perform mandatory audits of partially exempt organizations.

The assessor has one partially exempt nonprofit organization that meets the mandatory audit threshold; this organization has never been audited.

Section 469 and Rule 192 require that assessees owning, controlling, or possessing tangible business personal property and fixtures with a full cash value of \$400,000 or more for four consecutive years must be audited every four years. Starting with the 2006 lien date, nonprofit organizations that meet the section 469 requirements may not be subject to the mandatory audit requirement if they are fully exempt. However, partially exempt nonprofit organizations would be subject to the mandatory audit requirements.

Due to non-qualifying uses, many organizations receive only partial exemptions on their property. Moreover, an organization may fail to file a claim for exemption in a given year. In either case, the assessor must enroll an assessment for the property. If this occurs, the assessment must be prepared in the same manner as any other assessment, which includes the requirement to periodically audit the organization to ensure that all taxable property is reported.

Failing to perform a mandatory audit is contrary to section 469.

Nonmandatory Audits

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

There were six nonmandatory audits completed for fiscal year 2005. Over 166 such audits have been performed over the past five years. We found these audits to be in order and well documented.

Statute of Limitations

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

Our review of the audit program indicated that most scheduled audits were timely completed. The assessor requests waivers whenever a mandatory audit cannot be completed within the required time limits.

Audit Quality

An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should include adequate documentation, full value calculations, reconciliation of the

fixed assets totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

We found the audit forms, format, and checklists were uniform and well designed. The assessor's research and approach to the audit were consistent, reasonable, professional, and complete for all audits that we reviewed.

Business Property Statement Program

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

Auditor-appraisers process all business property statements under the direction of the senior supervising auditor-appraiser. Only certified staff determine the correct input of reported costs from the business property statement. Additionally, certified auditor-appraisers check for full disclosures of property based on the taxpayer's prior year's statement and reconcile any differences during processing.

We reviewed the assessor's business property statement program, including written processing procedures, to verify the use of BOE-prescribed forms, processing by certified staff, taxpayer interactions, completeness of the property statements, application of penalties, real property coordination, and record storage and retention. After April 1 of each year, the assessor sends out reminder postcards to those business accounts that have not filed a business property statement.

We found that when an auditor-appraiser reviews the business property statements, he or she checks for completeness and a valid signature. All statements are date-stamped when received by the auditor-appraiser. If a statement is unsigned, a copy is made and the original is returned to the taxpayer. If a statement is received late, then a penalty is added by the auditor-appraiser as prescribed by section 463. If a statement reports any additions or deletions to real property items, then those changes are referred to the real property staff for review.

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

Discovery

The discovery of taxable property is an essential function of the county assessor. It is a difficult but necessary task to maintain accurate, up-to-date listings of businesses. Discovery sources are building permits, business licenses, business directories, phone directories, Form BOE-600-B,

(state assessee report of locally assessable leased equipment), and tenant information from landlords.

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

Direct Billing

Many assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing qualified lower-value business accounts without the annual filing of a business property statement. The assessor establishes an initial value and continues it for several years. Property statement filing or field reviews are required periodically. Examples of businesses in the direct billing program are small apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes and restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer business property statements that must be processed annually by the assessor's staff, increasing time available for the auditor-appraisers to perform other required duties.

The Shasta County Assessor has an active direct billing program. Currently, the direct billing program has 110 accounts. The business accounts that are in this program are generally stable and between \$10,000 and \$30,000 in full cash value of reportable business property. Every three to four years the assessor reviews the direct billing accounts to determine if there have been changes to the business property such as increased equipment, decreased equipment, sale of the business, or change in location. A field inspection may be scheduled and a business property statement may be requested if there are indications of substantial changes to the business property. If the property statement is not returned, the assessor contacts the taxpayer in an effort to secure the requested information, and the account is dropped from the direct billing program. If it is known that the taxpayer has poor records, the account is updated every two to three years by requesting that a property statement be filed.

As part of the review, the assessor decides whether the account is still suitable for direct billing. If not, the direct billing account is converted back to a regular account and yearly business property statement filings resume. We found that the direct billing program was properly administered.

Electronic Filing (E-Filing) of Business Property Statements

Section 441 was amended effective January 1, 2004, to allow business property statements to be filed in electronic media specified by the assessor. Property statements filed with the assessor using electronic media must have authentication methods specified by the assessor and approved by the BOE. The acceptance of an e-filing is at the discretion of the assessor.

Beginning with the year 2006, the Shasta County Assessor accepts e-filing of property statements. E-filings are authenticated through the assignment of a unique public key code known as the business identification number. This code is a random number known only to the taxpayer and the assessor. In the year 2006-07, the assessor received 103 e-filings.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

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

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

The following table displays the assessor's current secured and unsecured business property assessments assessed on the 2005-06 assessment roll:

CATEGORY	SECURED	ASSESSED VALUE	UNSECURED	ASSESSED VALUE	TOTAL	ASSESSED VALUE
Commercial	1,607	\$396,814,393	4,822	\$432,889,414	6,429	\$829,703,807
Agricultural	210	\$8,049,662	60	\$5,116,853	270	\$13,166,515
Vessels	0	0	6,911	\$89,722,700	6,911	\$89,722,700
General Aircraft	0	0	256	\$29,360,738	256	\$29,360,738
Certificated Aircraft	0	0	4	\$3,585,460	4	\$3,585,460
TOTAL	1,817	\$404,864,055	12,053	\$560,675,165	13,870	\$965,539,220

We reviewed the assessor's business property valuation program, including written processing procedures, the proper use of price indices and percent good factors, and fixture percentage allocation.

The assessor uses the factors provided by the California Assessors' Association (CAA). The CAA price indices generally parallel the indices published in AH 581.

Computer Valuation

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

We found the assessor has adopted the CAA factors for computer equipment. The factors agree with those found in AH 581.

Mobile Construction and Agricultural Equipment Valuation

Our review of business equipment valuation included the valuation of mobile construction and agricultural equipment. According to AH 581, the condition of equipment affects its value. Within each group, three columns of percents good (new, used, and average) are listed. Our review indicated the assessor has recognized these three different groups in the percent good factors for this type of equipment.

Billboard Fixture and Equipment Valuation

A senior supervising real property appraiser is responsible for the valuation of billboards. This staff member uses the current State Department of Transportation value schedule, as recommended by the CAA, to establish the base year value for newly constructed billboards and billboards that have changed ownership. Annually, the factored base year value is compared with the fair market value based on this schedule. The appraiser enrolls the lesser of the two values. We inspected a sample of billboard properties and found that the assessor is uniformly assessing billboards.

Leased Equipment

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

One of the responsibilities of the personal property/audit section is the discovery and assessment of taxable leased equipment. Taxpayers report all leased equipment (taxable property in their possession but belonging to others) on the annual business property statement. On the statement, the assessor requests the name and address of the owner, the month and year of property acquisition, the acquisition cost, the location, and other relevant information.

In the assessor's office, one auditor-appraiser designated as the lease expert is in charge of tracking and valuing leased equipment. When a lessee reports leased equipment on the business property statement, this auditor-appraiser checks to see whether the named lessor's file has been documented with a reference to the lessee. If there is a note in the file, the auditor-appraiser ensures that the lessor and lessee account files are properly cross-referenced and that the business property is properly assessed.

The business property staff sends statements to all known lessors and lessees and reconciles all information submitted. As a general rule, lessors are assessed for leased equipment. Lessees may be assessed when the lease agreement calls for assessment to the lessee(s), or when the lessor is

exempt and the lessee is not. The assessor's staff also notes whether the lease document is an actual lease or something other than a lease, such as a conditional sales contract. If a contract of sale exists, the lessee is assessed as the fee owner of the business equipment.

When the auditor-appraiser processes business property statements from leasing companies and other known lessors in the county, he checks to see whether any items have gone off-lease (expired lease) and possibly escaped assessment for the current year. Off-lease equipment is frequently purchased by the former lessee and should be reported as such.

The assessor is diligent in ensuring that all leased and previously leased equipment is accounted for and that the valuation factors applied are appropriate to the particular leased equipment rather than to the particular commercial enterprise or industry where the equipment is used. For instance, a desk leased to a hospital would be treated as office furniture rather than as hospital equipment.

We reviewed the procedures for assessing leased equipment and sampled several lessor accounts for compliance with office procedures, communications with the commercial/industrial section, and compliance with statutes. We found the program to be well managed, with the assessor doing an excellent job in the discovery, tracking, and assessing of leased equipment.

Manufactured Homes

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

For the 2006-07 assessment roll, the assessor enrolled as personal property 2,457 manufactured homes located in 99 mobilehome parks. Their total assessed value of \$39,525,302 was placed on the secured roll. Additionally, an estimated 2,800 manufactured homes located outside of a park on land owned by the owner of the manufactured home were classified as personal property and enrolled at a total value of approximately \$48,000,000.

The following table summarizes past activity for recent roll years for all manufactured homes locally assessed in Shasta County:

ROLL YEAR	MANUFACTURED HOMES	ASSESSED VALUE
2005-06	5,275	\$87,509,740
2004-05	5,264	\$88,434,304
2003-04	5,200	\$85,691,140

The assessor's primary means of discovering manufactured homes is the State Department of Housing and Community Development's (HCD) listing of transfers, voluntary conversions (including refinances), and new registrations. This method is augmented by manufactured home dealer reports of sales, building permits, referrals from other counties, and recorded certificates of occupancy.

Sales prices, the NADA *Manufactured Housing Appraisal Guide*, local cost data, and BOE unit cost factors are considered during the valuation analysis. Any increment of site value is excluded from the assessment of the manufactured home. Manufactured homes situated in parks are reviewed annually to determine if there has been a decline in value. When applicable, supplemental assessments are processed.

We reviewed several manufactured home assessments and determined that the assessor's program complies with property tax laws and that the assessor is proactive in finding declines in value and determining market trends in Shasta County.

The assessor correctly applies supplemental assessments to transferred manufactured homes. The assessor correctly exempts from assessment manufactured homes held in dealer's inventory and those held or owned by financial institutions and insurance companies. In addition, the assessor prepares several value indicators for transferred properties that include manufactured homes, rather than simply enrolling the sale price. This ensures that site value is excluded from the assessed value.

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

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the

primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

For the 2005-06 assessment roll, the assessor enrolled 256 general aircraft with a total assessed value of \$29,360,738.

The assessor discovers general aircraft from listings obtained from the Federal Aviation Agency, airport operators reporting on Form BOE-577-B, *List of Aircraft*, and referrals from other county assessors' offices. We found that the assessor annually submits an aircraft report to the State Department of Transportation, Division of Aeronautics, as required by section 5366.

The following table summarizes the number and assessed value of the general aircraft in Shasta County for recent years:

ROLL YEAR	AIRCRAFT	ASSESSED VALUE
2005-06	256	\$29,360,738
2004-05	235	\$27,432,864
2003-04	221	\$29,358,503
2002-03	226	\$29,543,895
2001-02	223	\$30,239,410

The assessor annually mails aircraft property statements to aircraft owners for aircraft that have situs in the county. The assessor is using a locally-developed *Aircraft Property Statement* that has a filing deadline of April 1. A 10 percent penalty for failure to file or late-filing of the statement is imposed as permitted by section 5367.

We reviewed a sample of ten general aircraft accounts. We found that staff uses the *Bluebook* as the primary guide for valuing aircraft with the *Vref* as an alternative guide for aircraft not listed in the *Bluebook*. Staff adjusts 10 percent downward for average condition and also makes adjustments for engine and airframe hours, condition of the aircraft, and any additional equipment. Our review indicated that the appraisals were adequate and well documented.

Certificated Aircraft

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

There are two scheduled airlines and one air freight operation in Shasta County. The senior supervising auditor-appraiser is responsible for the assessments of certificated aircraft. For the 2005-06 assessment roll, the assessor enrolled an allocated value of \$3,585,460 for certificated aircraft assessments. We found the assessor uses the recommended worksheet and California

Assessors' Association Aircraft Subcommittee values in processing the assessment of these certificated aircraft.

Historical Aircraft

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

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

There were eight historical aircraft assessed on the 2005-06 roll in Shasta County with a total value of \$388,938. In each case, the assessor has properly obtained a signed affidavit for the historical aircraft exemption pursuant to section 220.5(c). We reviewed all of the active historical aircraft assessments and exemption claims. We found that the assessor has properly assessed these aircraft and applied the exemption.

Vessels

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

In Shasta County, vessels are discovered through property statements, certificates of documentation issued by the United States Coast Guard, harbor masters' marina reports, field canvassing, referrals from other counties, and DMV reports.

For the 2005-06 assessment roll, the assessor enrolled 6,911 vessels with a total assessed value of \$89,722,700. Our review indicated that there are no documented vessels registered in Shasta County. The county's low-value resolution eliminates assessment of vessels valued at less than \$2,000.

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

ROLL YEAR	VESSELS	ASSESSED VALUE
2005-06	6,911	\$89,722,700
2004-05	6,590	\$80,118,430
2003-04	6,213	\$70,563,110
2002-03	6,079	\$60,301,880
2001-02	5,796	\$53,712,280

When a vessel first establishes a tax situs in Shasta County and when there is a change in ownership, the assessor sends the owner a *Vessel Owner's Report*. The BOE-prescribed Form BOE-576-D, *Vessel Property Statement*, is available to the assessor, but the assessor prefers to use a locally-developed *Vessel Owner's Report*. This is inappropriate. See the Assessment Forms Section of this report for our recommendation.

Vessels entering Shasta County are assessed based on reported purchase price, DMV values, or the *ABOS Marine Blue Book* (ABOS) value indicator. The assessor adjusts the ABOS value for vessel condition, motor and motor condition, and accessories, with deductions for trailers, when appropriate. After the first year, the vessels are assessed using a depreciation table that is based on a study of the most recent ABOS values for a selected number of vessel classes.

A request by the assessor for additional vessel information will be made only if the vessel has been damaged or is a recreation occupancy vessel (generally, a houseboat). Those vessels that are below \$2,000 in value are placed on inactive status. We sampled a number of vessel accounts to verify that they are being processed and valued correctly. We found one problem in the assessor's valuation procedure.

RECOMMENDATION 8: Include sales and use taxes and freight charges as an increment of value for vessels.

In *Xerox Corp. v. Orange County*, 66 Cal. App. 3d 746, the court ruled that under the market value concept, where price is the basis of value, the sales tax and freight charges are elements of value. Yet our review of vessel appraisals indicated that the assessor, when using ABOS, fails to add sales tax and freight charges to the listed values. We found that the assessor has undervalued vessels because of this practice.

Animals

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

The Shasta County Assessor discovers taxable animals by exchanging information with other county assessors; reviewing newspaper articles, advertisements, telephone directories, business directories and agricultural property statements; and auditing agricultural business property accounts. Animals that are assessed may be those used as rodeo stock, show horses, security dogs, riding stable, or pack animals remaining under the owner's direct control, and animals held for breeding purposes. Also included are any other animals not held for sale or lease or used in the production of food or fiber or feed for such animals.

The assessor annually sends Form BOE-571-F, *Agricultural Property Statement*, to those property owners involved in agriculture. Schedule B of this form requests the description and number of all taxable animals. If registered and show horses are reported, the assessor sends Form BOE-571-F2, *Registered and Show Horses Other Than Racehorses*, to be completed as a supplemental schedule. When the statements are returned, they are forwarded to an auditor-appraiser for review and valuation of the reported property. The auditor-appraiser compares the reported costs of taxable animals with a pricing schedule to determine taxable value. The pricing schedule is reviewed annually and lists taxable animals and farm supplies. The auditor-appraiser is careful to recognize the exempt status of animals that qualify as pets or business inventory as provided in Rule 133.

A review of the assessor's files indicated that there are 13 active files of property owners who have assessable animals located in Shasta County. We reviewed a sample of four accounts. Our review included the procedures for discovering and assessing taxable animals. We found that the program was properly administered.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Shasta County

Chief

Dean Kinnee

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Sally Boeck

Supervising Property Appraiser

Peter Gaffney

Supervising Property Appraiser

Survey Team Leader:

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Survey Team:

Glenn Danley

Senior Specialist Property Appraiser

Jim McCarthy

Senior Petroleum and Mining Appraisal Engineer

Lloyd Allred

Associate Property Auditor-Appraiser

Larry Gee

Associate Property Auditor-Appraiser

Wes Hill

Associate Property Appraiser

Bob Marr

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Kristina Valdez

Tax Technician I

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals 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 the assessee's property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

15644. Recommendations by board.

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

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

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report.

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

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

(a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.

(b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.

(1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.

(2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

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

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

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

Rule 371. Significant assessment problems.

(a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

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

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
- (8) Discovering and assessing property that has suffered a decline in value.
- (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

(c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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



SHASTA COUNTY

OFFICE OF THE ASSESSOR-RECORDER

LESLIE MORGAN
ASSESSOR-RECORDER

May 21, 2007

Mr. Arnold Fong
County Property Tax Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0062

Dear Mr. Fong:

In accordance with Government Code Section 15645, I am providing the following response to the Assessment Practices Survey for Shasta County. Please include my response in your final published report.

I wish to express my appreciation to the BOE survey team for the professional and courteous manner in which they performed their duties. I welcome and appreciate their suggestions for improvement and constructive comments regarding our processes and practices.

I believe the State's Report reflects the hard work and dedication my staff provides to the citizens of Shasta County. We strive to provide a fair, accurate and equitable assessment roll. I would like to applaud the staff of the Shasta County Assessor's Office for their service to the public.

Sincerely,

Leslie Morgan
Shasta County Assessor-Recorder

Shasta County Assessor
Responses to State Board of Equalization
Assessment Practices Survey Report
April 2007

Recommendation 1: Include the correct appeals filing period in the notice of proposed reassessment as required by section 170.

Response: We agree and have implemented this recommendation.

Recommendation 2: Notify the auditor when interest should be added to escape assessments.

Response: We agree and have implemented this recommendation.

Recommendation 3: Improve assessment forms procedures by: (1) submitting final prints for review and approval, and (2) using correct assessment forms.

Response: We agree and will comply with both recommendations.

Recommendation 4: Ensure that section 69.5 transfers of base year value are correctly adjusted for inflation.

Response: We agree and have implemented this recommendation.

Recommendation 5: Periodically review all taxable possessory interest with stated terms of possession for declines in value.

Response: We agree and will comply.

Recommendation 6: Improve the mineral property valuation procedures by: (1) using the appropriate quantity measure and (2) using the annual production volume.

Response: We concur with the recommendation. When valuing mineral properties, we will take caution to make certain the appropriate quantity measure is used and that the annual production volume is based on the annual quantity produced.

Recommendation 7: Perform mandatory audits of partially exempt organizations.

Response: We agree and will comply.

Recommendation 8: Include sales and use taxes and freight charges as an increment of value for vessels.

Response: We agree and have implemented this recommendation.