

# SIERRA COUNTY ASSESSMENT PRACTICES SURVEY

OCTOBER 2007

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## CALIFORNIA STATE BOARD OF EQUALIZATION

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STATE BOARD OF EQUALIZATION  
PROPERTY AND SPECIAL TAXES DEPARTMENT  
450 N STREET, SACRAMENTO, CALIFORNIA  
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0064  
916 445-4982 • FAX 916 323-8765  
www.boe.ca.gov

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October 4, 2007

RAMON J. HIRSIG  
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No. 2007/039

TO COUNTY ASSESSORS:

SIERRA COUNTY  
ASSESSMENT PRACTICES SURVEY

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

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

Both the retiring assessor, the Honorable William G. Copren, and the current assessor, the Honorable Donald G. Iversen, 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/Stanley Y. Siu for

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG:ps  
Enclosure

## TABLE OF CONTENTS

<b>INTRODUCTION.....</b>	<b>1</b>
<b>SCOPE OF ASSESSMENT PRACTICES SURVEYS.....</b>	<b>2</b>
<b>EXECUTIVE SUMMARY .....</b>	<b>3</b>
<b>RESULTS OF 2002 SURVEY .....</b>	<b>6</b>
<b>OVERVIEW OF SIERRA COUNTY.....</b>	<b>8</b>
<b>ADMINISTRATION .....</b>	<b>9</b>
BUDGET AND STAFFING .....	9
OTHER ADMINISTRATIVE ISSUES .....	9
APPRAISER CERTIFICATION.....	10
ASSESSMENT APPEALS.....	10
DISASTER RELIEF.....	11
ASSESSMENT ROLL CHANGES .....	12
EXEMPTIONS .....	13
ASSESSMENT FORMS.....	15
<b>ASSESSMENT OF REAL PROPERTY.....</b>	<b>17</b>
CHANGE IN OWNERSHIP.....	17
NEW CONSTRUCTION .....	20
DECLINES IN VALUE .....	22
SUPPLEMENTAL ASSESSMENTS .....	23
CALIFORNIA LAND CONSERVATION ACT PROPERTY .....	24
TAXABLE GOVERNMENT-OWNED PROPERTY.....	27
TIMBERLAND PRODUCTION ZONE PROPERTY.....	27
TAXABLE POSSESSORY INTERESTS.....	29
LEASEHOLD IMPROVEMENTS .....	31
WATER COMPANY PROPERTY .....	32
MINERAL PROPERTY .....	33
PIPELINE RIGHTS-OF-WAY.....	35
<b>ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES .....</b>	<b>36</b>
AUDIT PROGRAM .....	36
BUSINESS PROPERTY STATEMENT PROGRAM.....	38
BUSINESS EQUIPMENT VALUATION .....	40
LEASED EQUIPMENT .....	41
MANUFACTURED HOMES .....	41
AIRCRAFT .....	42
VESSELS.....	43
<b>APPENDIXES .....</b>	<b>45</b>
A. COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP.....	45
B. ASSESSMENT SAMPLING PROGRAM.....	46
C. RELEVANT STATUTES AND REGULATIONS.....	49
<b>ASSESSOR'S RESPONSE TO BOE'S FINDINGS.....</b>	<b>56</b>

## 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 Sierra County Assessor's Office.

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

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

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

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

Our survey of the Sierra County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Sierra County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2005-06 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

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

## **EXECUTIVE SUMMARY**

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

In our 2002 Sierra County Assessment Practices Survey, we made ten recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented five of the recommended changes. One recommendation dealing with appeals procedures has not been implemented; however, inasmuch as the responsibility for amending the nonconforming appeals procedure rests with the Sierra County Board of Supervisors and not with the assessor, we do not repeat this recommendation in this report. The other recommendations that were not implemented, or only implemented in part, are repeated in this report.

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

The assessor handles many portions of the administration program well, including budget and staffing, appraiser certification, and the exemption program. It is worth noting that the Sierra County assessment roll has increased 25 percent between 2001-02 and 2005-06, while staffing levels have decreased slightly over the same period.

In an effort to embrace new technology, the assessor has completed the conversion of all appraisal records to optical images and all maps to an electronic format. The appraisers utilize hand-held electronic notebooks with digital cameras in the field and then download the information into the computer system. In addition, in 2005 the assessor implemented a self-reporting program for new construction. This program allows the assessor to increase production with fewer staff.

However, there are procedures in other areas that should be revised; we make recommendations to help improve these portions of the program.

In the area of real property assessment, the assessor has effective programs for the handling of the change in ownership and new construction portions of the program. However, there are procedures for assessing special use properties that should be revised; we make recommendations to help improve the assessments of these property types.

Of the recommendations made, the areas of most concern are in the valuation of taxable government-owned property and taxable possessory interests. The assessor establishes the base year value of taxable government-owned property incorrectly and fails to enroll the lowest of the factored base year value, restricted value, or market value for these properties. In regards to taxable possessory interests, the assessor fails to obtain copies of all lease agreements that create the taxable possessory interest. He does not reappraise taxable possessory interests in

compliance with section 61. And, finally, he fails to periodically review taxable possessory interests with a stated term of possession for possible decline in value.

The business and personal property program is well run. The overall quality of work performed is very good. The audit program has improved substantially since our last survey. The recommendations made to improve the assessor’s business and personal property program are relatively minor.

The most significant recommendation to improve the assessor's valuation of business property is that the assessor should use the Assessors’ Handbook Section 581, *Equipment Index and Percent Good Factors (AH 581)*, as intended, when valuing certain types of equipment. Specifically, the assessor's procedures for valuing older equipment and computers are contrary to BOE's guidelines set forth in the AH 581.

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

The Sierra County assessment roll meets the requirements for assessment quality established by section 75.60. Our sampling of the 2005-06 assessment roll indicated an average assessment ratio of 100.19 percent, and the sum of the absolute differences from the required assessment level was 0.79 percent. Accordingly, the BOE certifies that Sierra County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

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

**RECOMMENDATION 1:** Improve the use of assessment forms by: (1) submitting final prints of all forms for approval, and (2) using the current version of all assessment forms. ....16

**RECOMMENDATION 2:** Timely apply the section 482(a) penalty for failure to file a *Change of Ownership Statement*. ....19

**RECOMMENDATION 3:** Establish a base year value for taxable government-owned properties according to BOE guidelines. ....27

**RECOMMENDATION 4:** Assess land zoned Timberland Production Zone according to section 435. ....28

**RECOMMENDATION 5:** Improve the taxable possessory interest assessment program by: (1) obtaining copies of all lease agreements that create taxable possessory interests, (2) reappraising taxable possessory interests in compliance with section 61, and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value. ....30

**RECOMMENDATION 6:** Accept only properly signed business property statements. ....39

**RECOMMENDATION 7:** Revise the business equipment valuation program by:  
(1) using the Assessors' Handbook Section 581 as intended  
and (2) valuing computers using the BOE's valuation factors...40

**RECOMMENDATION 8:** Use the *Aircraft Bluebook-Price Digest* as the primary guide  
for valuing aircraft. ....43

## RESULTS OF 2002 SURVEY

### **Assessment Appeals**

We recommended the assessor request the board of supervisors revise county Rule 2004 to conform to state constitutional, statutory, and administrative law. Rule 2004 has not been amended; however, inasmuch as the responsibility for amending the nonconforming appeals procedure rests with the Sierra County Board of Supervisors and not with the assessor, we do not repeat this recommendation.

### **Mineral Properties**

We recommended the assessor value unpatented mining claims according to Rule 25.<sup>2</sup> The assessor now values these claims properly.

### **Audit Program**

We recommended the assessor complete all mandatory audits as required by section 469 and obtain a signed waiver of the statute of limitations when a mandatory audit will not be completed on time. Our review indicated that the assessor has complied with these recommendations.

### **Business Property Statement Processing**

We recommended the assessor accept only appropriately signed property statements as required by Rule 172 and follow statutory requirements when a taxpayer fails to timely file a business property statement.

The second recommendation has been implemented; the assessor now follows statutory requirements when a taxpayer fails to timely file a business property statement. However, since the assessor continues to accept improperly signed business property statements, the first recommendation is repeated in this survey.

### **Business Property Assessment**

We recommended the assessor use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581) as intended, because he had been using minimum percent good factors without supporting documentation. We also recommended the assessor assess computers using the BOE's recommended valuation factors. The assessor has not implemented either of these recommendations. Therefore, both are repeated in this survey.

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<sup>2</sup> Unless otherwise stated, all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

***Aircraft***

We recommended the assessor use the *Aircraft Blue Book Price Digest* as the primary guide for valuing aircraft. Since the assessor has not implemented our recommendation, we are repeating it in this report.

***Vessels***

We recommended the assessor add sales tax as a component of market value when making vessel assessments. The assessor has implemented our recommendation.

## OVERVIEW OF SIERRA COUNTY

Sierra County is located in the northern section of the Sierra Nevada and is comprised of two very different regions. On the west side of the crest of the Sierra Nevada Mountains it is mountainous and heavily forested. The east side is home to the 5,000-foot high Sierra Valley. It is one of the largest alpine valleys in the Sierra Nevada Mountains. Sierra County shares common borders with the counties of Yuba and Butte to the west, Plumas and Lassen to the north, and Nevada to the south, with the State of Nevada to the east. The county was incorporated in April 1852 and currently has a population of slightly over 3,300. The only incorporated city in the county is Loyalton.

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

	<b>PROPERTY TYPE</b>	<b>ENROLLED VALUE</b>
<b>Secured Roll</b>	Land	\$197,626,799
	Improvements	\$218,294,248
	Personal Property	\$5,699,326
	Total Gross Secured	\$421,620,373
	Less Exemptions	(\$10,819,237)
	Total Secured	\$410,801,136
<b>Unsecured Roll</b>	Personal Property & Fixtures	\$30,440,828
	<b>Total Assessment Roll</b>	\$441,241,964

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

<b>ASSESSMENT ROLL</b>	<b>TOTAL ROLL VALUE</b>	<b>CHANGE</b>	<b>STATEWIDE INCREASE</b>
2005-06	\$447,431,000	7.3%	11.1%
2004-05	\$418,049,000	4.3%	8.3%
2003-04	\$400,717,000	5.5%	7.3%
2002-03	\$379,649,000	7.5%	7.3%
2001-02	\$353,057,000	2.6%	9.4%

## ADMINISTRATION

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

### ***Budget and Staffing***

The Sierra County Assessor's staffing level decreased slightly since 2001-2002 and budget has decreased between 2001 and 2005, as shown in the following table. (Note: State-County Property Tax Administration Program (PTAP) funds are not included in the assessor's gross budget amount. Sierra County does not participate in the PTAP program.)

<b>BUDGET YEAR</b>	<b>GROSS BUDGET</b>	<b>CHANGE</b>	<b>PERMANENT STAFF<sup>3</sup></b>
2005-06	\$440,776	(19.1%)	4.5
2004-05	\$544,935	1.72%	4.8
2003-04	535,559	19.1%	5.2
2002-03	\$449,722	(2.12%)	5.7
2001-02	\$459,477		5.7

The assessor's staff has decreased slightly over the last several years, down from the staffing level of 5.7 in the 2001-02 fiscal year. At the time of our field work, the assessor had not completed 2005-06 staffing allocation figures; however in 2004-05, six employees, both full and part-time, combine for a total of 4.8 permanent positions, including the assessor, the assistant assessor for administration, two real property appraisers, and two technicians. Employees' hours are allocated to attain a staffing level of 4.8 positions.

### ***Other Administrative Issues***

Part of the BOE survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from valuing their own property. We reviewed these procedures to determine if the assessor has proper procedures in place to ensure that staff do not value their own properties for property taxation purposes. Our review determined that either a senior appraiser or the assessor makes the valuation of employees' properties. We did not find any instances where an appraiser made his or her assessment of any property in which he or she had an ownership interest.

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<sup>3</sup> The number of staff reported includes the assessor.

### ***Appraiser Certification***

Section 670 provides that no person shall perform the duties or exercise the authority 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.

The Sierra County Assessor's Office has a total of four certified appraisers on staff, of whom three hold advanced certificates and one holds a temporary appraiser's certificate. We found that the assessor and his staff possess the required certificates. The assessor does not use contract appraisers, but he participates in the California Counties Cooperative Audit Services Exchange program and has engaged the services of several auditor-appraisers employed in other county assessor's offices to complete his mandatory audits. We found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d).

We reviewed the certification status and the training records maintained by the BOE as well as the training records maintained by the assessor for all staff required to be certified. Based on the training summary provided by the BOE for the 2005-06 fiscal year, all staff, including the assessor, are appropriately certified and 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 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 Sierra County, the board of supervisors sits as the local board of equalization. The clerk of the board schedules assessment appeal hearings.

The county board of equalization hears applications for reductions in value affecting assessments on the unsecured and secured rolls. Taxpayers requesting a hearing before the board must file an application with the clerk of the board between July 2 and September 15 of the assessment year in question. For supplemental assessments and other assessments made outside the regular assessment period, section 1605 requires that the application be filed with the clerk no later than 60 days after the date on which the assessee was notified of the assessment.

A copy of the application received by the clerk of the board is sent to the assessor for review and validation. If there is a problem with the application, it is sent back to the clerk, who contacts the applicant for correction.

When the assessor's office receives its copy of the appeal application, it is routed to the assessor for his review. If the assessor cannot resolve the appeal with the taxpayer, the appeal process

continues and a hearing is scheduled. The assessor and senior property appraiser represent the assessor's office at all board hearings.

In Sierra County, there are few applications for reduced assessments. Most applications are withdrawn by the property owner or result in stipulated values, which are submitted to the local board of equalization for final approval. No appeal in the last five years has gone unresolved for more than two years, unless the taxpayer has agreed to a waiver of the statutory time limits. We reviewed nine appeal cases prepared by the assessor's staff and found them to be easily understood and well documented. The assessor's portion of the assessment appeal program is well administered.

In our 2002 survey, we recommended that the assessor request that the board of supervisors revise local Assessment Appeal Rule 2004, which requires the appellant, under penalty of having his or her claim denied, to discuss the issues raised in the appeal with the assessor prior to the hearing. Although the rule is still in force with its original language and provisions, we do not repeat this recommendation in this report since the ultimate responsibility for amending this nonconforming rule rests with the board of supervisors, not with the assessor.

### ***Disaster Relief***

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

To obtain relief under an ordinance, assesses must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must either provide the last known assessee with an application for reassessment, or revalue the property on lien date.

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

The Sierra County Board of Supervisors last updated the county's disaster relief ordinance on March 18, 2003. The ordinance has no termination date and its terms appear consistent with the requirements of section 170. Included in the ordinance is a provision that allows the assessor to initiate assessment relief without an application from the taxpayer.

When individual calamities occur, for discovery purposes, the assessor relies upon taxpayer reporting, newspaper articles, information provided by fire department personnel, and a general awareness of community events. The assessor has a comprehensive written policy instructing staff on the proper procedures to use in providing assessment disaster relief.

We reviewed the assessor's records of properties that had been damaged by fire and flood. We found that the assessor verified the damage amount, noted on the records that damage had occurred, and reduced the assessment when appropriate. We further noted that proper notification was sent to the owners advising them of their reduced value and appeal rights.

The assessor's treatment of misfortune and calamity claims appear to be proper, well documented, and in full compliance with the law.

### **Assessment Roll Changes**

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

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

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

<b>ROLL YEAR</b>	<b>SECURED ROLL CHANGES</b>	<b>UNSECURED ROLL CHANGES</b>
2004-05	77	61
2003-04	71	69
2002-03	112	47

Real property appraisers or deputy assessment technicians initiate roll changes with a *Request for Correction of Roll Document*. Once the assessor approves the roll changes, the computer system automatically generates a *Notice of Proposed Escape Assessment*. Pursuant to section 531.8, this notice is mailed to taxpayers 10 days before changes are entered on the roll. After 10 days, the changes are entered on the roll and Form BOE-66-A, *Notice of Enrollment of Escape Assessment*, is sent to taxpayers to satisfy the notification requirements of section 534.

The assessor cites proper code sections and notifies the auditor to apply penalty and interest when required. The assessor notes penalties on the roll pursuant to Rule 261. The assessor observes section 532 statutory limitation guidelines for making escape assessments and section 51.5 guidelines for base year value roll corrections.

We reviewed all secured and unsecured assessment roll changes completed in 2004 and 2005. We found roll changes and escape assessments are correctly prepared, well documented, and timely enrolled.

## **Exemptions**

### **Church and Religious Exemptions**

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

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

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

In Sierra County, religious claims (there are no church exemptions) are processed by the assistant assessor for administration. For guidance, this staff member relies upon Assessors' Handbook Section 267, *Welfare, Church and Religious Exemptions* (October 2004), and advisory Letters To Assessors issued by the BOE that deal with exemption issues. Real property appraisers conduct field inspections of properties for which the religious exemption is claimed.

If a field inspection results in a determination of only partial eligibility for exemption, the appraisal record will be documented with the appraiser's calculations.

The following table presents the number of properties and the amount of assessed value exempted under the religious exemption for recent roll years:

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE
2005-06	14	\$1,674,227
2004-05	14	\$1,693,177
2003-04	14	\$1,609,452
2002-03	15	\$1,573,644
2001-02	14	\$1,531,178

The assessor timely sends Form BOE-267-SNT, *Religious Exemption Change in Eligibility Termination Notice*, for religious exemptions and contacts all claimants to ensure they return the forms to his office. His procedures are effective, and we found no problems with his administration of the religious exemption.

### 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. And, the assessor became responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid 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 receipt of a valid BOE-issued OCC.

The following table summarizes welfare exemptions granted for recent roll years:

ROLL YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2005-06	10	\$2,007,439
2004-05	10	\$2,195,982
2003-04	10	\$2,096,029
2002-03	11	\$2,212,147
2001-02	9	\$2,205,437

We reviewed a variety of welfare exemption claims on file at the assessor's office, including youth organizations, volunteer fire departments, a medical clinic, a church with a parsonage, summer camps, a historical society, and a nonprofit computer network service. We found that the assessor requires evidence of an OCC from each claimant, properly notifies claimants of their eligibility or ineligibility for exemption, correctly applies late filing penalties, and properly allocates values for exempt and taxable areas of properties receiving partial exemptions.

The assessor does a very conscientious job of administering the welfare exemption.

### **Assessment Forms**

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.<sup>4</sup> For the 2005 lien date, the BOE prescribed 79 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor 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.

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. For assessment year 2005-06 the assessor indicated that he would use 61 of the 79 BOE-prescribed forms.

The assessor needs to improve his compliance with the BOE's forms monitoring procedures.

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<sup>4</sup> Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

**RECOMMENDATION 1:** Improve the use of assessment forms by: (1) submitting final prints of all forms for approval, and (2) using the current version of all assessment forms.

**Submit final prints of all forms for approval.**

The assessor did not submit a final print of four of his forms for approval as required by Rules 101 and 171. Accordingly, these forms are not approved for use by the assessor.

Government Code section 15606(d) provides the BOE-prescribed forms to be used by assessors for property taxation purposes. As a result, the BOE instituted procedures for the approval of assessment forms. These procedures are intended to standardize assessment forms for the benefit of taxpayers statewide. The assessor's participation and compliance with these procedures are mandatory.

**Use the current version of all assessment forms.**

Five of the forms the assessor submitted for the 2006 lien date were outdated versions. In each instance, the form had been changed in October 2005. Using outdated versions of forms could mislead property owners and 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.

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

### ***Change in Ownership***

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for property tax purposes. Section 50 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership pursuant to section 110.1.

### **Discovery**

The assessor's primary means of discovering properties that have changed ownership is the review of deeds and other documents recorded with the county recorder. The county recorder electronically transmits all recorded documents to the assessor on a daily basis.

The recorder also requires that Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), accompany documents submitted for recordation that transfer the ownership of real property. A \$20 fee is added to the recording fee when a PCOR is not received.

The assistant assessor for administration, with input from the staff, reviews the deeds, other recorded documents, and the PCORs to determine whether the documents represent a reappraisable change in ownership and, if so, the percentage of ownership transferred. Those changes in ownership are tracked in the computer system until the appraisers complete the property appraisal and enroll a new base year value.

The assessor also regularly reviews newspaper articles and obituaries to aid in the discovery of transfers not related to a recorded deed and changes in ownership brought about by the death of a property owner.

The following table shows the total recorded documents reviewed and those that were determined to be reappraisable events for recent years:

<b>ROLL YEAR</b>	<b>RECORDED DOCUMENTS REVIEWED</b>	<b>REAPPRAISABLE TRANSFER DOCUMENTS</b>
2005-06	824	402
2004-05	988	477
2003-04	900	385
2002-03	857	479

We found the assessor establishes the correct base year value, takes advantage of the presumption in Rule 2 that the sale price reflects the full cash value of the property, and uses standard appraisal principles and practices. He also correctly values partial interest transfers and enrolls supplemental assessments.

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

We reviewed all properties on the BOE's LEOP list for Sierra County and found no errors pertaining to identification and change in ownership enrollment. We found that the assessor processes LEOP notifications properly and timely reappraises all LEOP changes in control.

## Change in Ownership Exclusion and Base Year Value Transfers

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer, on or after November 6, 1986, of the principal residence and the first one million dollars of other real property between parents and children when a claim is timely filed. The voters subsequently modified the exclusion's definition to include qualifying purchases or transfers between grandparents and their grandchild or grandchildren. The following table shows the approved section 63.1 applications for recent roll years:

ROLL YEAR	APPLICATIONS
2005-06	55
2004-05	40
2003-04	34

We reviewed several section 63.1 transfer exclusion claims processed by the assessor. We found that the claim forms were filed timely, included the required information, and that all required signatures were present. Additionally, the assessor contacts taxpayers when more information is needed.

Section 69.5 allows qualified homeowners over the age of 55 to transfer the base year value of their principal residence to a qualifying replacement dwelling. Sierra County has had no qualifying section 69.5 base year value transfers.

## Change of Ownership Statements

When a transfer document is received without a PCOR, the assessor mails Form BOE-502-AH, *Change of Ownership Statement* (COS), to the new owner. A COS is also sent when there is insufficient or incomplete information on the PCOR.

We noted only one aspect of the assessor's change in ownership statement processing that should be revised.

**RECOMMENDATION 2:** Timely apply the section 482(a) penalty for failure to file a *Change of Ownership Statement*.

We found that the assessor does not timely apply the section 482(a) penalty. After the original request for a COS is made, the assessor sends a reminder letter approximately 30 days after the first request. The penalty is not applied until 30 or more days after the reminder letter.

Section 482 provides that failure to file a change in ownership statement within 45 days from the date of a written request by the assessor shall result in a penalty of either \$100 or 10 percent of the taxes applicable to the new base year value, whichever is greater, to a maximum of \$2,500, if the failure to file was not willful. By not adding a penalty to the assessment roll until 60 or more days after the date of his written request to complete a COS, the assessor is not following the provisions of section 482.

## **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.

## **Discovery**

The primary sources for the discovery of new construction in Sierra County are the building permits and notices issued by the various government agencies. The county building department issues building permits for construction in the county as well as in the City of Loyalton. The assessor reviews these permits to discover new construction activity in Sierra County.

Other methods used to discover new construction include newspaper articles, business property statements, field canvassing, encroachment permits issued by the Sierra County Department of Public Works, business property audits, mining production reports, and mining claim assessment work notices. The building department also notifies the assessor of building code violations, which sometimes leads to the discovery of new construction.

## **Permit Processing**

The county building department sends copies of all issued building permits to the assessor's office. The permits are received by an assessment clerk, who catalogs each document by permit number to ensure that the assessor's office receives all permits issued. The permits are then reviewed by the senior appraiser, who determines if the noted construction qualifies as an assessable event.

The permits indicating assessable new construction are scanned into the database and incorporated into a "workload tracking" program. If the permit does not indicate assessable activity, the senior appraiser notes on the permit "scan only." These "scan only" permits are only scanned into the database for future reference. When appraiser assignments are made, the "workload tracking" program ensures that all permits indicating assessable new construction are processed in a timely manner. The following table shows the permit workload of the assessor over recent roll years:

ROLL YEAR	PERMITS RECEIVED	PERMITS GENERATING VALUE
2005-06	196	119
2004-05	172	112
2003-04	201	120
2002-03	187	124

We found that the assessor's processing procedures are thorough and provide for effective retrieval of information upon which an appraiser may make informed decisions.

### Valuation

The assessor values new construction by estimating the full value of new construction either on the lien date (construction in progress) or as of the date of completion. The assessor developed a Computer Assisted Appraisal Program (CAAP) that serves as a valuation tool for improved residential property. The CAAP program incorporates *Marshall Valuation Service* cost data as well as a market derived time and location component. This allows the appraisers to enter pertinent data into the program, which then computes the finished cost estimate for the new construction.

The value of new construction for commercial, industrial, and agricultural properties is estimated by the cost approach using information from *Marshall Valuation Service* and Assessors' Handbook Section 534, *Rural Building Costs*.

The assessor actively seeks builder and owner new construction costs for all property types. This data becomes a valuable consideration for appraisers when making value estimates.

### Self-Reporting System

In an effort to collect useful cost data and to partially compensate for a staffing reduction, the assessor implemented a taxpayer self-reporting system. When the senior appraiser reviews the building permits for assessable new construction, he also determines if a new construction questionnaire will be mailed to the owner. New construction questionnaires are sent for nearly all new construction projects, with the exception of minor items such as septic tanks.

Once this determination is made, a questionnaire is sent and procedures are followed to track, collect, and store the data. The self-reporting system has proven successful, as between 80 and 85 percent of the questionnaires are returned annually. At this time, only minor items of new construction, such as decks and patios, are valued and directly enrolled without a field inspection; all other new construction is field reviewed by the appraisers prior to making a value determination.

We reviewed numerous new construction appraisal records and found the appraisal files to be well documented. The assessor's program for discovering and assessing new construction complies with all statutory requirements.

### ***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.

As indicated by the following table, the number of properties enrolled at less than factored base year value in Sierra County is minimal. Rising market values in recent years have served to steadily reduce the number of decline-in-value assessments.

<b>ROLL YEAR</b>	<b>DECLINE-IN-VALUE ASSESSMENTS</b>
2005-06	59
2004-05	70
2003-04	78
2002-03	87
2001-02	90

The assessor discovers declines in value through taxpayer requests for assessment review. In addition, he actively identifies properties that have been affected by factors causing declines in value. He uses the CAAP to identify areas of value decline, which is useful in estimating the extent of the decline.

Properties that are identified as decline-in-value assessments are coded and tracked on the assessor's computer system. All properties with values below their factored base year value are reviewed annually to ensure proper assessment. These appraisals are well documented to support the assessment reductions as well as subsequent increases in assessed value.

Every year, the assessor sends all taxpayers a *Notification of Amount of Assessment* cards conforming to section 619. For those properties having a value decline, the notice includes the statement that "this is a value decline" and lists both the current assessed value and the factored base year value.

We found that the assessor properly applies all appropriate statutes pertaining to the assessment of properties affected by declines in value, and the appraisal staff properly analyze the information and make reasonable value decisions.

### Supplemental Assessments

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

The Sierra County Assessor processed in excess of 500 supplemental assessments annually for recent years:

ROLL YEAR	SUPPLEMENTAL ASSESSMENTS	SUPPLEMENTAL VALUE ADDED
2004-05	583	\$20,827,901
2003-04	572	\$14,738,564
2002-03	729	\$13,407,706
2001-02	531	\$9,954,963

### Supplemental Assessment Processing

The assessor processes supplemental assessments using an automated system. Appraisers use a worksheet to initiate a supplemental assessment valuation whenever a change in ownership or new construction occurs. Upon completion of the data entry, the computer system automatically calculates supplemental assessment amounts and generates Form BOE-67-A, *Notice of Supplemental Assessment*, to be mailed to property owners. The *Notice of Supplemental Assessment* provided by the automated system includes all of the information required by section 75.31.

Approximately 30 days after sending the notices to property owners, the assessor forwards supplemental assessment information to the county auditor. This process ensures that supplemental assessments can be processed in a timely manner.

### Enrollment

We examined several new construction and transfer events and found that the assessor appropriately processes negative supplemental assessments when property loses value due to damage or the voluntary removal of improvements. The assessor correctly makes two supplemental assessments for events occurring between January 1 and May 31, and one supplemental assessment for events occurring between June 1 and December 31. Additionally, the assessor properly applies the inflation factor for the following lien date when a supplemental assessment event occurs between January 1 and June 30, and properly enrolls supplemental assessments for small value changes.

We examined escaped assessments and found no supplemental assessments processed outside of the statute of limitations set by section 75.11(d).

The assessor properly makes supplemental assessments for leasehold improvements, manufactured homes, taxable possessory interests, and the unrestricted portions of California Land Conservation Act properties and Timberland Production Zone properties. The assessor properly does not make supplemental assessments for taxable government-owned properties.

The assessor's supplemental assessment program is efficiently coordinated and complies with applicable provisions of property tax law.

### **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 BOE-approved guidance for the appraisal of these properties.

For the 2005-06 tax roll, Sierra County had approximately 41,400 acres encumbered by CLCA contracts, including 3,677 acres restricted under Farmland Security Zone (FSZ) contracts. FSZ contracts are a more restrictive form of the CLCA contracts and afford greater property tax reductions. Sierra County has no properties in nonrenewal status. The total assessed value for CLCA land and living improvements for 2005-06 was approximately \$16.7 million.

Most of the rural property in Sierra County consists of rangeland and timberland. The bulk of the agricultural revenue generated in Sierra County is derived from timber, livestock, and hay.

### **Valuation of CLCA Property**

The valuation of CLCA properties in Sierra County is the responsibility of one real property appraiser. A computerized program annually calculates the restricted values, using the correct capitalization rate. Rents are updated based on information reported on CLCA questionnaires, which are mailed annually. Compatible uses are valued and added to the restricted value. The appraiser compares the restricted value, the factored base year value, and the current market value, and enrolls the lowest value. In recent years, the appraiser has not found it necessary to

annually compare the current market values of any properties under contract with their restricted values or factored base year values, as periodic review confirms that current market values are substantially higher.

FSZ values and cancellation fees are calculated correctly.

## 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 (Oct. 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.

Homesites are valued according to section 428. The assessor issues supplemental assessments on homesites and improvements on CLCA properties that experience changes in ownership and any new construction.

Pursuant to sections 75.14 and 52(a), supplemental assessments are not issued for restricted land and living improvements.

## 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 values grazing land based on the amount of rent paid per animal unit month (AUM). The assessor makes a separate estimate for areas of significantly different carrying capacities within a parcel and for irrigated areas. Because of the varying capabilities and qualities of most grazing land (for example, irrigated, open, steep, brushy, or rocky) the AUM method is the most flexible and accurate measuring device for estimating carrying capacity and thus productivity of grazing lands.

The assessor recognizes appropriate expenses, including a charge for management. For irrigated grazing land, the assessor properly includes wells as a component of the land value for property tax purposes and a return on the investment is included in the land capitalization rate. Most irrigated properties in Sierra County do not have permanent sprinklers and are either flood irrigated or irrigated with portable sprinkler systems that are assessed as personal property. The assessor adjusts irrigated market rents by an appropriate amount for income generated by irrigation systems.

### 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 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.

The assessor utilizes appropriate capitalization rates, including a component for risk, when determining the restricted values of CLCA properties. As recommended by AH 521, the assessor uses a basic risk component of 1 percent as a standard guideline for the purposes of developing the capitalization rate used in the valuation of CLCA properties. Additionally, AH 521 notes that the size of the risk component will vary according to what risks have already been considered in the development of the income to be capitalized. The assessor uses economic cash rents in the valuation process and has considered any additional risk in the development of the income stream. The net rental income has remained steady or increased upon negotiation of new leases. In addition, because the characteristics of all dry grazing land in the county are similar, it is reasonable to assume a similar level of risk throughout the county.

By annually revaluing CLCA lands using the current yield rate and current economic income, the assessor has properly assessed these lands. Overall, we found that the assessor has an effective CLCA program and is in compliance with all applicable statutes.

### ***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.

**RECOMMENDATION 3:** Establish a base year value for taxable government-owned properties according to BOE guidelines.

We found that the assessor has not properly established the base year value for taxable government-owned properties acquired after March 1, 1975. The assessor incorrectly established the base year value by solely estimating the market value at the time of acquisition. The proper method to establish the base year value is to enroll the lower of the restricted value, the current market value, or the factored base year value as of the date of acquisition. All three values are calculated for each parcel each year to ensure that the lowest value is enrolled.

The BOE issued guidance in Letters To Assessors 2000/37, dated June 23, 2000, regarding the assessment of taxable government-owned land and improvements. These guidelines provide, among other things, that base year values for taxable government-owned properties should be established at the lower of full cash value or restricted value as of the date of change in ownership. In subsequent years, the base year value is to be adjusted for inflation like other property subject to article XIII A of the California Constitution. Factored base year values determined in this manner will generally be lower than either the current market value or the restricted value.

By not establishing a factored base year value for each taxable government-owned property according to the BOE guidelines, the assessor may be overassessing these properties.

### ***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.

As of the 2006 lien date, there were 306 parcels zoned TPZ in Sierra County totaling 84,722 acres. This is about 14 percent of the total acreage in the county. The total assessed value of these TPZ lands is approximately \$13.8 million, or a little over 3 percent of the local roll total value.

Our review of the TPZ appraisal records indicate that the assessor and his staff have made a conscientious effort to properly identify and assess property zoned TPZ. Timberland site values, structures and other improvements, and compatible uses are accurately recorded and their values enrolled in conformance with article XIII A of the California Constitution. Applicable supplemental assessments are issued.

We noted only one area where the assessment of TPZ properties should be revised. We disagree with the assessor's assumption that the TPZ restrictions can be rebutted when the property no longer meets the criteria for TPZ zoning.

**RECOMMENDATION 4:** Assess land zoned Timberland Production Zone according to section 435.

We noted several examples where the assessor has treated TPZ land as not subject to an enforceable restriction. In these instances, the assessor has valued the property as if the TPZ restrictions do not apply. The assessor takes the position that section 402.1(b) gives him the authority to rebut the TPZ zoning restrictions. Section 402.1(b) provides that there is a rebuttable presumption that restrictions will not be removed or substantially modified in the predictable future and that they will substantially equate the value of the land to the value attributable to the legally permissible use or uses.

One example involves a 40-acre parcel that recently went through a zoning change to TPZ. The county planning department allowed TPZ zoning for this parcel despite the fact that the parcel was less than the minimum size for a TPZ unit. The parcel was reportedly included in TPZ because the owner was a timber operator and had other TPZ holdings in the county. After being rezoned TPZ, the property was transferred to another owner that had no TPZ property in the vicinity.

The assessor concluded that the property had previously qualified for TPZ inclusion only because of other holdings by the owner. However, after the transfer, the assessor no longer believed that the property met the minimum qualifications for TPZ. The assessor, therefore, ignored the enforceable restriction and enrolled the current market value as of the transfer date.

However, section 435(a) provides that the assessor shall use, as the value of each parcel of timberland, the appropriate site value, plus the value, if any, attributable to existing, compatible, nonexclusive uses of the land. It has long been the position of the BOE's legal staff that the assessor has no authority to assess TPZ property based on its value as other than timberland and that there is no legal authority for valuing a TPZ parcel according to its actual use.

### **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.

In Sierra County, the assessor enrolled 1,258 taxable possessory interests on the 2005-06 assessment roll totaling more than \$18 million. The following table lists the distribution of these assessments:

<b>TYPES OF TAXABLE POSSESSORY INTEREST</b>	<b>ASSESSMENTS</b>	<b>ASSESSED VALUE</b>
United States Forest Service Cabins	172	\$9,891,701
Mining Claims	1,020	\$7,937,777
Grazing Leases	27	\$446,126
Miscellaneous	39	\$608,938
Total	1,258	\$18,884,542

One real property appraiser is responsible for the discovery and assessment of these interests. The appraiser annually contacts ten public agencies with property on which existing taxable possessory interests are located and requests updated lists of tenants and lease terms. We found that for month-to-month tenancies or leases without stated terms of possession, the anticipated terms of possession used are reasonable.

We found that for leases with stated terms of possession, the assessor uses the stated term of possession or has obtained what he deems clear and convincing evidence that the lessor and lessee have mutually agreed to a different term. We also found that rents and capitalization rates used are market derived, lessor expenses are considered when valuing taxable possessory interests by the income approach to value pursuant to Rule 21(e)(3)(C), and the present worth of unpaid future contract rents are added to the nominal selling prices of summer cabins pursuant to Rule 21(e)(1)(A). The cable television possessory interest is not valued using the preferred method pursuant to section 107.7, but the valuation method appears reasonable.

The assessor is in compliance with most applicable statutes; however, we did find some areas that need improvement.

**RECOMMENDATION 5:** Improve the taxable possessory interest assessment program by: (1) obtaining copies of all lease agreements that create taxable possessory interests, (2) reappraising taxable possessory interests in compliance with section 61, and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

**Obtain copies of all lease agreements that create taxable possessory interests.**

We found a number of taxable possessory interest files that did not include a copy of the lease for the interests being assessed.

Rule 21 describes the various approaches to value and how to determine the term of possession for the valuation of taxable possessory interests. For example, subsection (d) explains that the stated term of possession is deemed the reasonably anticipated term of possession except in certain situations, and subsection (e)(3)(C) explains how to determine the income for capitalization purposes. These steps in the valuation process cannot be completed if the contract conveying the possessory interest is not reviewed.

For example, the assessor may have some information relating to the initial lease term, but may not know of any renewal options contained in the lease or of lessor/lessee expense allocations. The usage reports submitted annually to the assessor by government agencies that lease property to others provide some information but are not adequate substitutes for the actual leases. Unconfirmed data may be inaccurate or incomplete and lead to incorrect assessments.

**Reappraise taxable possessory interests in compliance with section 61.**

We found that the assessor does not reappraise taxable possessory interests at the end of the anticipated term of possession used to value the taxable possessory interest. Instead, he enrolls the factored base year value.

Section 61 provides that a change in ownership, as defined in section 60, includes the creation, renewal, extension, or assignment of a taxable possessory interest in tax exempt real property for any term. Section 61(b)(2) provides that, for renewals, the assessor shall, at the end of the initial term of possession used by the assessor, establish a new base year value, based upon a new reasonably anticipated term of possession. By not revaluing possessory interests as provided in section 61(b)(2), the assessor has incorrectly valued these rights.

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

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

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

Even though the assessor is not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of taxable possessory interests with stated terms of possession to ensure that declines in value of taxable possessory interests are consistently recognized. Failure to assess a taxable possessory interest using the 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 assessment roll.

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

When real property is reported on 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 assessments and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

The Sierra County Assessor's Office does not have written procedures for the assessment of leasehold improvements. However, there is an established routine to avoid double and escaped assessments. The first and primary step is a review of all building permits, which is the assessor's primary tool for discovering leasehold improvements. Three other tools utilized by the

assessor to discover leasehold improvements: BPS, field area reviews, and audits. Permits issued are followed up with a new construction questionnaire in order to gather cost and other construction information not disclosed on the permit. After a review of the questionnaire, a decision is made whether a physical inspection is required.

The assessor then reviews the permits to determine whether the new construction should be enrolled on the unsecured roll. If not, then he forwards it to the senior property appraiser for his review and enrollment on the secured roll.

Subsequently, the assessor analyzes the reported costs on the BPS. First, it is determined whether the item is real or personal property. Then, it is determined whether the reported item is properly classified as a structure or a fixture. If it is determined that there is new construction, a supplemental assessment is generated.

There were only eight unsecured business property accounts with leasehold improvements on the 2005 roll in Sierra County. In most cases, property owners apply for the building permits to construct leasehold improvements, even if the lessee pays for them. Consequently, almost all leasehold improvements are assessed on the secured roll to the owner of the land and building, except when there exists a documented agreement between lessor and lessee to do otherwise.

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

### **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.

We obtained lists of all water supply sources from two public agencies, the California State Department of Health Services Branch of Drinking Water Field Operations and the California Public Utilities Commission (CPUC). The table below is a list of the type of water companies whose properties are assessed by the Sierra County Assessor:

<b>TYPE</b>	<b>COMPANIES</b>	<b>ASSESSED VALUES</b>
CPUC Regulated	3	\$391,217
Mutual	7	\$10,552
Municipal (section 11)	2	\$1,522
Unregulated private	9	\$119,065

The assessor uses various coding to identify water companies. The assessor requires all private water companies to annually file Form BOE-540-S, *Mutual or Private Water Company Property Statement*.

## CPUC Regulated Water Companies

The assessor has identified and enrolled all regulated water company property. The assessor develops a historical cost less depreciation value indicator annually, as recommended by Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights* (AH 542), and compares it to the factored base year value. The assessor does not audit regulated water companies because the full values of these properties are well below the \$400,000 mandatory audit threshold.

## Mutual Water Companies

AH 542 provides that appraisers must recognize that the value of the mutual water company may be included in the value of the land that it serves. The assessor has obtained and reviewed the articles of incorporation for two of the seven mutual water companies. The assessor has not identified any mutual water companies with excess capacity, excess property, outside water sales to nonmembers, or outstanding indebtedness. Therefore, the assessor correctly assigns nominal values to all parcels owned by mutual water companies.

## Municipal Water Systems

The assessor has determined that some of the property for two municipal water systems lie outside the entity's boundaries and has assessed these properties according to article XIII, section 11 of the California Constitution. However, the assessor's valuation method is not consistent with BOE guidance and is discussed in this report under the heading of Taxable Government-Owned Properties.

## Unregulated Private Water Companies

The assessor uses well permits issued by the Sierra County Environmental Health Department to discover assessable water system property. The assessor assesses all private water systems that are not exempt or are identified as common area for a mutual water company.

With the exception of the taxable government-owned water system property, the assessor is in compliance with procedures for assessing water company property, and we have no recommendation.

## **Mineral Property**

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

Mining property rights refer to the rights to explore, develop, and produce minerals, other than oil, gas, and geothermal resources, and the real property rights 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.

Sierra County has a rich mineral history dating back to the start of the Gold Rush. Many of the state's most prolific mines have been located in Sierra County. The mineral rights value for the county is \$8.25 million, representing 1.84 percent of the total tax roll. Mineral rights for the county's current mineral production are limited to one remaining lode mine and about 1,000 active unpatented mining claims.

Mining claims will generally take one of two forms, placer or lode. Placer claims mine material from current or old streambeds. The minerals are deposited by water action. On lode claims, the mining removes gold that is imbedded in the rock.

While there are some gravel quarries in the county, the sporadic nature of their operation and production precludes valuation of the mineral rights. The county does not exempt low-valued properties, and therefore all of the unpatented mining claims are placed on the roll.

Estimating reserves for the lode mine is not possible given the nature of the deposit and mining operations; therefore, the assessor uses an average of prior year's production and expenses to make forecasts of future revenue. This practice is entirely within acceptable appraisal guidelines.

The assessor spent considerable effort in developing a database for tracking sales of mining claims. This database significantly enhances the assessor's ability to determine the fair market value of mining claims. The assessor classifies placer mining properties into one of three categories.

Category I properties have recently undergone extensive exploration and development work or have been significant historical producers. These are typically patented mineral properties. Category II properties are located on rivers and are usually classified as recreational claims. The rivers or creeks near these claims generally have produced gold in sufficient quantities to maintain mining interest. These claims transfer on a regular basis and distinct market value ranges can be seen for different river drainage. Category III claims are all claims that do not fall into either Category I or II. These claims are usually new locations. Both Category II and III properties are unpatented.

A prior recommendation for the assessor relating to the valuation of taxable possessory interest mining claims was to consider the capitalized value of future rental payments in the total value as required by Rule 21 (prior Rule 25). The assessor has implemented this prior survey recommendation regarding the valuation of unpatented mining claims and now adds the current market value of future rental (maintenance) payments to the comparable sales value of the mining claims. There are no other recommendations regarding unpatented mining claims.

### **Pipeline Rights-of-Way**

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority.<sup>5</sup> The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, governing the valuation of intercounty pipeline lands and rights-of-way.

When valuing the pipeline rights-of-way prior to the appellate court decision, the BOE developed "density classifications" for appraisal purposes. Should an assessor use different classifications or associated values, the assessor loses the benefit of a statutory presumption of correctness.

Sierra County has only one pipeline company. The Sierra County Assessor did not use the three density classification values prescribed in section 401.10, but rather prepared a market value appraisal of the right-of-way as of March 1, 1989.

For the 2005-06 tax roll, the assessor enrolled one pipeline right-of-way with a total assessed value of \$844,298. He has consolidated the 11 pipeline parcels into a single assessment. Additionally, he maintains a separate base year value for each separate right-of-way interest, as required by section 401.8.

The assessor properly administers the right-of-way assessment program. We have no recommendation.

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<sup>5</sup> *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4<sup>th</sup> 42.

## 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 equipment valuation, and leased equipment assessment programs, and the assessment of manufactured homes, aircraft, and vessels.

### **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 total number of audits completed from 2001-02 to 2005-06 was seven, with a net value increase of \$259,523.

### **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 eight accounts subject to mandatory audit requirement. Each year the assessor generates a computer listing of accounts attaining values of \$400,000 or more for four consecutive years, which forms the basis of the mandatory audit list. To remain current, the assessor must audit an average of two accounts each year.

In our 2001 survey, we recommended the assessor bring the mandatory audit program to current status. The assessor indicated in his response that he concurred with the recommendation. Currently, all audits were completed in the 2002-03 assessment year and all will again be scheduled and completed timely for the 2006-07 assessment year.

As he did in 2002-03, the assessor will ask the board of supervisors to add funds to the 2006-07 budget to pay for a contract auditor-appraiser. When funding is obtained, the assessor will complete the audits through the California Counties Cooperative Audit Services Exchange

program. The assessor has an effective mandatory audit tracking program and obtains waivers of the statute of limitations as needed.

### 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.

Currently, due to lack of resources, the assessor does not have a nonmandatory audit program. However, he closely monitors the assessment of personal property with site visits and careful review of property statements.

### 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.

In our 2002 survey, we recommended the assessor obtain a signed waiver of the statute of limitations when an audit will not be completed timely. In our current review, we found that the assessor obtains waivers. Therefore, we do not repeat the recommendation.

### 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 that the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. All audits were accurate, well documented, and supported by a comprehensive audit narrative defining the areas of investigation.

### **Business Property Statement Program**

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

We reviewed the assessor's business property statement program, including written procedures, methods of discovery, use of BOE-prescribed forms, processing by noncertified staff, taxpayer interactions, application of penalties, real property division coordination, direct billing, and record storage and retention.

#### **Workload**

The following table shows the assessor's workload of property statements for businesses, leased equipment, and other property types for the 2005-06 assessment roll:

<b>TYPE OF PROPERTY STATEMENTS</b>	<b>COUNT</b>	<b>SECURED</b>	<b>UNSECURED</b>
Agriculture	76	74	2
Apartments	39	39	0
Financial	2	0	2
General Business	252	150	102
Direct Billing	28	17	11
Leased Equipment	65	0	65
Service Stations	6	5	1
Other	130	62	68
<b>Totals</b>	<b>598</b>	<b>347</b>	<b>251</b>

#### **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 assessable business properties. The assessor's sources of discovery are building permits, business licenses, business directories, phone directories, Form BOE- 600-B, *Schedule of Leased Equipment Which is to be Reported by Lessor to Local Assessor for Assessment*, and tenant information from landlords.

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

We found the discovery process used by the assessor to be adequate.

### **Direct Billing**

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain smaller business accounts without requiring the annual filing of a business property statement. An initial value is established and continued for several years, with only periodic property statements or field reviews. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to both taxpayers and the assessor. Direct billing streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be processed by the assessor.

In Sierra County, there were 28 direct billing accounts on the 2005-06 assessment roll. The assessor's guidelines for direct billing are as follow: the cost of assets must be under \$6,000, the account must have a history of asset stability, and the taxpayer must be scheduled to receive a property statement every four years. Taxpayers are removed from this program if they fail to file in the fourth year, if the cost of assets exceeds \$6,000 or if, in the opinion of the auditor-appraiser, it is warranted.

Since our 2002 survey, the assessor has implemented our recommendation to follow statutory provisions of section 463 and to apply the 10 percent, not the 25 percent penalty, for late filed or nonfiled business property statements.

We have only one recommendation for improving the assessor's business property statement program.

**RECOMMENDATION 6:** Accept only properly signed business property statements.

Our review of the business property statements indicated that the assessor continues to accept property statements that lack a proper signature. Many of the signatures on the statements identify the relationship of the persons signing the statements as bookkeeper, without any agent's authorization on file.

A correct property statement filing includes a proper signature as provided in Rule 172. The acceptable signature on the property statement is the signature that is identified as the assessee, a partner, a duly appointed fiduciary, or an agent. When signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary, the assessee's written authorization of the agent or employee to sign the statement on behalf of the assessee shall be filed with the assessor.

The assessor's practice of accepting property statements bearing unauthorized signatures is contrary to the provisions of Rule 172.

## **Business Equipment Valuation**

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

Section 401.5 provides that the 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 assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581 with the exception of specific types of equipment, such as pagers, facsimile equipment, and photocopiers, that CAA recommends should not be trended. The percent good factors also parallel the AH 581 factors with the exception that the CAA factors provide a minimum percent good factor for older equipment.

In our 2002 survey report, we noted that the assessor did not follow BOE guidance regarding minimum percent good factors and computer valuation. Since these issues persist, we repeat them in this report.

**RECOMMENDATION 7:** Revise the business equipment valuation program by:  
(1) using the Assessors' Handbook Section 581 as intended  
and (2) valuing computers using the BOE's valuation factors.

### **Use the Assessors' Handbook Section 581 as intended.**

The assessor does not follow the AH 581 depreciation tables. This issue was the subject of a recommendation in our 2002 survey. Instead, he claimed that he established minimum percent good factors based on salvage study data published in the *Marshall Valuation Service* cost guide. However, the minimum percent factors the assessor utilized for the business property assessments on the 2006-07 roll differ significantly from those published in *Marshall Valuation Service*.

Section 401.16(b) prohibits assessors from employing minimum percent good factors that are determined in an unsupported manner. The assessor has no documentation supporting his factors. Therefore, the assessor's practice does not conform to the law.

### **Value computers using BOE's valuation factors .**

This recommendation was also made in our 2002 survey. The assessor continues to value computers using his own locally developed factors without any supporting documentation.

Pursuant to section 401.5, the BOE issues valuation factors for computer equipment that should be used by all assessors.

The assessor's practice is without support and may lead to erroneous assessments of computers.

### ***Leased Equipment***

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

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

When a lessee obtains ownership and retains possession of equipment at the end of the lease, the assessor should confirm that the lessee reports the property and assesses the property to the lessee. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

We found that staff understood the differences between leases and conditional sales contracts, and followed the correct appraisal and assessment procedures in the application of valuation processes. Additionally, we reviewed several files of lessors and lessees for valuation methods, completeness of reporting, tracking of equipment, correct assessee designation, and leased equipment reported by state assessee(s).

We found the leased equipment program to be well managed.

### ***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.

The following table summarizes the total manufactured home assessment enrolled on the secured roll:

ROLL YEAR	ENROLLMENTS	TOTAL ENROLLED VALUE
2005-06	31	\$211,207
2004-05	30	\$200,265
2003-04	30	\$200,265
2002-03	30	\$200,265

In Sierra County, one real property appraiser appraises all manufactured homes.

All manufactured homes classified as personal property are assigned a ten-digit account number on the secured roll that begins with "45." All manufactured homes are correctly enrolled on the secured roll. The assessor reviews manufactured homes for possible declines in value every fourth year using comparable sales or the National Automobile Dealer Association's *Manufactured Home Appraisal Guide* to estimate fair market value. The assessor does not add any value attributable to the site when appraising manufactured homes.

The assessor has a well-documented system for identifying and properly assessing manufactured homes. We do not have any recommendations.

## **Aircraft**

### General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (general aircraft contrast with certificated aircraft, discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

In Sierra County, the 2005-06 assessment roll included two general aircraft with a total assessed value of \$42,900. Sources of aircraft discovery used by the assessor include information from individual aircraft owners, field canvass, and referrals by assessors of other counties.

We have one recommendation for improving the assessor's aircraft program.

**RECOMMENDATION 8:** Use the *Aircraft Bluebook-Price Digest* as the primary guide for valuing aircraft.

In our 2002 survey report, we recommended the assessor use the *Bluebook* as the primary guide for valuing general aircraft. The assessor has not implemented our recommendation; instead, he refers to the *Vref* guide, obtained from the Plumas County Assessor, in spite of the fact that both of the aircraft he assessed for the 2005 roll were listed in the *Bluebook*.

Section 5363 provides that the assessor is to determine the market value of aircraft according to standards and guides to the market value of aircraft prescribed by the BOE. Section 5364 provides that the BOE is to establish such standards and fix guides or review and approve commercially available guides. On January 10, 1997, the BOE approved the *Bluebook* as the primary guide for valuing aircraft. The *Vref* was designated as an alternative guide only for situations where the aircraft to be valued is not listed in the *Bluebook*.

By using the alternate guide as the primary guide, the assessor is not following the guidelines prescribed by the BOE.

### 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.

One historical aircraft was properly exempted on the 2005-06 assessment roll, at a value of \$20,300.

### Vessels

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

The assessor continues to have an effective discovery program for vessels. Vessels are discovered through reports from the DMV and referrals from other counties of boat owners moving their vessels to Sierra County.

The following table shows the assessor's vessel data for recent years:

ROLL YEAR	PLEASURE VESSELS	ASSESSED VALUE
2005-06	202	\$633,187
2004-05	177	\$421,475
2003-04	171	\$381,959
2002-03	156	\$327,453
2001-02	149	\$230,425

The assessor appraises vessels initially based on the current year's *N.A.D.A Marine Appraisal Guide (NADA)*. In certain instances, other sources may be used, such as Internet resources and classified ads. If the vessel's reported purchase price falls within the value range indicated by *NADA*, the purchase price is enrolled. If the purchase price falls outside the value range suggested by *NADA*, the owner is contacted regarding any condition problems with the vessel. Any adjustments are then made to the appropriate value from the current value guide. In the second and third year, values are based on the prior year's roll value less 4 percent. In the fourth year, the vessel is again valued using *NADA*.

Our review of a representative sample of vessels indicates that the assessor appears to value vessels properly.

In our 2002 survey, we recommended that the assessor add sales tax as a component of market value when making vessel assessments. Our review noted that, starting with the 2002 roll year, all vessel assessments now include sales tax. The assessor is in compliance with our recommendation.

## APPENDIXES

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

#### Sierra County

##### *Chief*

Dean Kinnee

##### *Survey Program Director:*

Arnold Fong

Principal Property Appraiser

##### *Survey Team Supervisor:*

Peter Gaffney

Supervising Property Appraiser

Sally Boeck

Supervising Property Appraiser

##### *Survey Team Leader:*

Pamela Bowens

Senior Specialist Property Auditor-Appraiser

##### *Survey Team:*

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Zella Cunningham

Associate Property Appraiser

Tom McClaskey

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

David Barbeiro

Associate Property Auditor-Appraiser

Kristina Valdez

Tax Technician I

## **B. Assessment Sampling Program**

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing<sup>6</sup> activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The BOE, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The BOE's County-Assessed Property Division (CAPD) conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)<sup>7</sup>

From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.

For purposes of analysis, after the sample is drawn, the items are identified and placed into one of the five categories listed below:

**Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

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<sup>6</sup> The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

<sup>7</sup> The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

**Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

**New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

**Non-Proposition 13 properties.** Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, Timberland Production Zone property, and taxable government-owned property.

**Unsecured properties.** Those properties on the unsecured roll.

From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, that is, the "unexpanded" sample, to over-represent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

The field investigation objectives are somewhat different in each category, for example:

**Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? Was there a change in ownership? Was there new construction? Or, was there a decline in value?

**Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? Do we concur with the county assessor's new value? Was the base year value trended forward (for the allowed inflation adjustment)? Was there a subsequent ownership change? Was there subsequent new construction? Was there a decline in value?

**New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? Do we concur with the value enrolled? Was the base year amount trended forward properly (for the allowed inflation adjustment)? Was there subsequent new construction? Or, was there a decline in value?

**Non-Prop 13 properties** -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment, do we concur with the amount enrolled?

**Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

The results of the sample are then expanded as described above. The expanded results are summarized according to the five assessment categories and by property type and are incorporated into the published assessment practices survey report.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County-Assessed Property Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

### **C. Relevant Statutes and Regulations**

#### **Government Code**

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

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

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

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

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

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

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

**15642. Research by board employees.**

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

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

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

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

**15644. Recommendations by board.**

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

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

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

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

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

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

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

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

## **Revenue and Taxation Code**

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

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

(b) For purposes of this section:

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

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

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

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

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

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

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

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

**Rule 371. Significant assessment problems.**

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

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

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

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

## **ASSESSOR'S RESPONSE TO 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 Sierra County Assessor's response begins on the next page. The BOE has no comments on the response.

# SIERRA COUNTY

Office of the Assessor  
P.O. Box 8  
Downieville, California 95936  
530-289-3283  
Fax 530-289-2801  
assessor@sierracounty.ws



Donald G. Iversen  
Assessor

July 12, 2007

Dean Kinnee, Chief  
County-Assessed Properties Division  
State Board of Equalization  
P.O. Box 942879  
Sacramento, CA 94279-0062

Re: Response to Sierra County Assessment Practices Survey

Dear Mr. Kinnee:

In accordance with Section 15645 of the Government Code, please include my response to the recommendations set forth in the 2005/06 Sierra County Assessment Practices Survey.

Arnold Fong, Peter Gaffney and the remainder of the SBE staff were professional, courteous, and always cognizant of our staff time necessary to aid them in the performance of their duties. I appreciate their assistance towards improving the quality of our overall assessment program.

Significant technological advances have been integrated into our office during the last several years. These accomplishments include the implementation of an optical imaging system that reduces the amount of paper while providing efficient record retention and retrieval. An electronic workload tracking system has been developed in-house that effectively manages work assignments from start to finish. The assessor's parcel maps have been digitized to reflect more accurate parcel configuration, reduce the time needed to update parcel changes and provide the base for the county GIS. A computer-assisted appraisal program was also created in-house that interfaces between the county production server and small handheld field notebook computers. This system generates more professional and higher quality appraisal reports. The difficulty in developing and implementing these advancements while continuing to generate assessment rolls has been compared to "overhauling a car engine while it's still running". This would not have been possible without the teamwork of highly qualified, dedicated and creative staff with a good understanding of technology and the complex assessment minutiae. I am proud of our accomplishments and would like to thank the staff for their exemplary performance. These systems will benefit the office and the county for many years to come.

I would like to recognize the past assessor, William G. Copren, for his dedication and pursuit of excellence during his 31-year career in the assessor's office. This affirmative report is a product of his work.

Sincerely,

Donald G. Iversen  
Sierra County Assessor

**RECOMMENDATION 1:**

Improve the use of assessment forms by: (1) submitting final prints of all forms for approval, and (2) using the current version on all assessment forms.

Response:

We agree. We inadvertently overlooked the update and submittal of a small group of forms for SBE approval in 2006. We are in full compliance for the 2007 assessment year.

**RECOMMENDATION 2:**

Timely apply the section 482(a) penalty for failure to file a Change of Ownership Statement.

Response:

We agree. Although not always timely, the penalty required under section 482(a) is applied. We will attempt to comply with this recommendation even though it is an inefficient use of our limited staff time to track the return of these statements on a daily basis.

**RECOMMENDATION 3:**

Establish a base year value for taxable government-owned properties according to BOE guidelines.

Response:

We respectfully disagree with this recommendation. We believe that we have correctly determined the base year value for these properties in accordance with Sections 50 and 110.1 of the Revenue and Taxation Code.

**RECOMMENDATION 4:**

Assess land zoned Timberland Production Zone according to section 435.

Response:

The Assessor values nearly all property under timberland production zone (TPZ) in accordance with section 435. The few exceptions include parcels that fail to meet the minimum size requirement under this zoning. Small substandard parcels that are zoned TPZ sell for multiple \$100,000, not based on their timber and timber production capabilities, but rather on the rural residential amenities they can provide. The assessed value according to Section 435 could be less than 5% of the unrestricted Prop. 13 value. Building permits are issued for the construction of single-family residences on these substandard non-conforming parcels. Consequently, we have been unable to identify any enforceable restriction that TPZ imposes on their use. The planning commission is currently embroiled in public hearings and debate to identify legally permissible uses on TPZ properties. Any agreed upon changes will be recommended to the Board of Supervisors for ratification. We are closely following the progress of the commission and the board and will reflect the outcome in our future assessments for these properties.

#### **RECOMMENDATION 5:**

Improve the taxable possessory interest assessment program by: (1) obtaining copies of all lease agreements that create taxable possessory interests, (2) reappraising taxable possessory interests in compliance with section 61, and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

Response:

We appreciate the detail to which the survey team has reviewed our possessory interest program. They have recommended 3 changes to improve our system. We agree with item (1). Our policy is to obtain all copies of agreements that create taxable possessory interests. We will endeavor to obtain the missing agreements. We agree with item (2) and are in the process of updating our "tickler file" used to track the renewal/termination status of the possessory interest lease agreements. This will provide better compliance with section 61. (3) We are in the process of improving our data base that will enable a more comprehensive periodic review of taxable possessory interests for declines in value. There are relatively few possessory interests which will require a revaluation due to a declining term of possession. In our opinion, we have clear and convincing evidence that the vast majority of our possessory interests will continue beyond the stated term of possession.

#### **RECOMMENDATION 6:**

Accept only properly signed business property statements.

Response:

We agree. Effective for the 2008 assessment year, we will mail letters of authorization with the business property statements.

#### **RECOMMENDATION 7:**

Revise the business equipment valuation program by: (1) using the Assessors' Handbook Section 581 as intended and (2) valuing computers using the BOE's valuation factors.

Response:

In response to item (1) we agree and will institute the minimum percent good factors adopted by the California Assessor's Association that are based on the Marshall and Swift salvage factors. These factors appear reasonable and will be the basis for establishing minimum percent good factors for the 2007 lien date assessments. We agree with item (2) and will employ the factors for valuing computers as recommended by Assessor's Handbook 581 and the California Assessor's Association for the 2007 assessment year.

#### **RECOMMENDATION 8:**

Use the Aircraft Bluebook-Price Digest as the primary guide for valuing aircraft.

Response:

We agree. The Aircraft Bluebook-Price Digest was used to value the aircraft, effective the 2006 lien date.