

SONOMA COUNTY ASSESSMENT PRACTICES SURVEY

OCTOBER 2010

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October 13, 2010

TO COUNTY ASSESSORS:

KRISTINE CAZADD
Interim Executive Director
No. 2010/051

SONOMA COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Sonoma 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 Janice Atkinson, Sonoma County Clerk-Recorder-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 Sonoma County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from May through June 2009. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Ms. Atkinson and her staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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INTRODUCTION

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

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

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

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

¹ This report only covers the assessment function of this office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

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

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

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

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

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

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

EXECUTIVE SUMMARY

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

The assessor has continued to improve the overall operation of the office since our prior survey. In recent years the assessor has implemented several changes which allow for improved customer service and expanded access to public records. Information such as current and superseded parcel maps and the transfer list have been computerized and are available at the public counter. In addition, assessment information is available on the assessor's website. The assessor's office has also collaborated with the recorder's office to allow automated data transfer of the recorder's records to the assessor. Staff is currently compiling information from vendors for possible implementation of a Computer Aided Mass Appraisal (CAMA) System. Lastly, the assessor has implemented a variety of public outreach programs to proactively increase public awareness.

We make three recommendations for the real property program. The areas of concern are in the valuation of new construction, California Land Conservation Act (CLCA) Property, and taxable possessory interests.

Our primary area of concern involves the CLCA program; we provide a five-part recommendation to improve this program. In regards to taxable possessory interests, we recommend the assessor deduct appropriate lessor expenses when using the income approach.

The assessor has made a number of improvements to the operation of the business division over the last five years. Of primary importance is the assessor's acceptance of an e-filing program which allows taxpayers to submit business property statements electronically.

We have no recommendations for the audit of personal property, the valuation of business equipment, and the processing of business property statements.

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

We found no significant assessment problems as defined in Rule 371. Accordingly, pursuant to section 75.60, Sonoma County continues to be eligible for recovery of costs associated with administering supplemental assessments. Since Sonoma County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling.

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

RECOMMENDATION 1: Properly classify structural improvements in accordance with Rule 124.....22

RECOMMENDATION 2: Improve the valuation of CLCA properties by: (1) capitalizing compatible use income, (2) deducting a charge for a return of the well value from income attributable to the property, (3) assessing vineyard trellising as unrestricted improvements, (4) issuing supplemental assessments when the construction of trellising is completed, and (5) properly accounting for deductions for expense charges from the income stream attributable to the real property.....26

RECOMMENDATION 3: Deduct appropriate lessor expenses when using the income approach to value taxable possessory interests.....29

OVERVIEW OF SONOMA COUNTY

Incorporated in 1850 as one of the original 27 counties of the State of California, Sonoma County lies along the Pacific Coast in the wine country of Northern California. It is bordered by the counties of Mendocino to the north, Lake and Napa to the east, and Marin to the south.

The county's largest city is Santa Rosa, which also serves as the county seat. In 2008, Sonoma County had a population of approximately 466,000.⁴ The county encompasses about 1,576 square miles, and has nine incorporated cities: Cloverdale, Cotati, Healdsburg, Petaluma, Rohnert Park, Santa Rosa, Sebastopol, Sonoma, and Windsor.

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

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$26,598,675,330
	Improvements	\$39,674,197,548
	Fixtures	\$501,049,638
	Personal Property	\$682,243,995
	Gross Secured Roll	\$67,456,166,511
	Less Exemptions	\$1,670,465,469
	Net Secured Roll	\$65,785,701,042
Unsecured Roll	Land	\$50,885,255
	Improvements	\$101,738,494
	Fixtures	\$743,422,697
	Personal Property	\$1,725,692,450
	Gross Unsecured Roll	\$2,621,738,896
	Less Exemptions	\$104,330,497
	Net Unsecured Roll	\$2,517,408,399
	Total Assessment Roll	\$68,303,109,441

⁴ Population estimate from US census data at <http://quickfacts.census.gov>.

The next table illustrates the growth in assessed values over recent years:⁵

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2008-09	\$69,219,291,000	2.7%	4.7%
2007-08	\$67,402,178,000	7.9%	9.6%
2006-07	\$62,492,800,000	10.7%	12.3%
2005-06	\$56,453,857,000	9.5%	11.1%
2004-05	\$51,559,627,000	8.3%	8.3%

⁵ State Board of Equalization Annual Report, Table 7

ADMINISTRATION

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

Budget and Staffing

As shown in the table below, the assessor's office budget level has remained stable over the last three years.

BUDGET YEAR	GROSS BUDGET	INCREASE	PERMANENT STAFF
2008-09	\$ 8,153,673	0.47%	74
2007-08	\$ 8,115,614	0.05%	74
2006-07	\$ 8,111,231	N/A	74

The number of permanent employees, totaling 74, includes the assessor and 2 office managers, 24 real property appraisers, 8 auditor-appraisers, 6 mapping staff, and 33 support staff.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. There are a total of 38 certified appraisers on staff, including the assessor; 27 hold advanced appraiser's certificates. We found that the assessor and her staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor uses a contract appraiser for the appraisal of mineral properties; all other appraisers are part of the assessor's full-time staff.

In Sonoma County, an assessment specialist oversees the training and certification program for appraisers, tracking individual appraisers' continuing education progress continuously along with the BOE annual reports. Appraisers are encouraged to take the necessary courses to obtain their advanced certification as soon as possible. Sonoma County does not provide any financial incentive to obtain an advanced certificate.

According to the BOE report on training hours for Sonoma County all appraisers have met their annual training requirements with one exception. One appraiser was deficient four training hours. The assessor indicated the appraiser was in the process of taking an on-line class and would then be current when the course was completed.

Staff Property Procedures

The BOE's assessment practices 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 being involved in the assessment of property in which they have an ownership interest.

The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the certified staff's annual filing of the California Fair Political Practices Commission Form 700, *Statement of Economic Interests*.

Form 700 requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interests in any business entities. The information provides the nature of the interest and the percentage of ownership.

When an appraisal is required on a staff-owned property or business, the assignment is given to a senior appraiser not directly supervising the employee, or to another appraiser. If the property is owned by a senior appraiser, then a senior appraiser from another area will do the appraisal. Upon completion of the appraisal, it is forwarded to the Chief Appraiser or the Chief Deputy Assessor for review and approval.

We reviewed a number of staff-owned properties and found no problems with their valuation for changes in ownership and completed new construction.

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 appeals process.

Sonoma County has one assessment appeals board (AAB) consisting of three members and one alternate member. Ordinance No. 2061, adopted in 1976, allows for the creation of the county's AAB. Ordinance No. 4859 and Resolution No. 95-0327 were added in 1995 to allow for a hearing officer, though none has ever been appointed. All members of the current AAB have completed the mandatory training as required by section 1624.01. The regular filing period for assessment appeal applications in Sonoma County is July 2nd through November 30th. Sonoma County typically conducts appeals hearings on the second Friday of each month.

Applications are received by the clerk of the AAB. There they are reviewed, validated, and, if complete, accepted. A copy of each application is forwarded to the assessor. The original application is retained at the clerk's office. The chief deputy assessor reviews the application and assigns it to an appraiser. The appraiser reviews the matter and contacts the taxpayer to discuss the application. If the applicant decides to withdraw the appeal the assessor sends a withdrawal form to the applicant with an Assessment Appeals Board return envelope. If the applicant agrees

to a stipulated value, the assessor sends a letter outlining the agreed upon changes to the applicant for their review and signature. All stipulated values are based on market value and must be approved by the AAB. Upon receipt of a signed stipulation letter, the assessor forwards it to the clerk of the AAB. The value will be changed only after review and approval by the AAB. If no agreement was reached with the taxpayer a hearing is scheduled. The appraiser responsible for the original appraisal represents the assessor office at most board hearings, along with the appraiser's supervisor and chief appraiser.

The following table illustrates the appeal workload from over recent years:

ASSESSMENT ROLL	2008-09	2007-08	2006-07	2005-06	2004-05
Appeals Filed	1,306	1,026	440	346	480
Appeals Carried Over From Prior Year	585	208	203	272	316
Total Appeals Workload	1,891	1,234	643	618	796
Resolution:					
Withdrawn	353	297	199	217	271
Stipulation	436	302	193	137	204
Appeals Reduced	2	3	2	0	7
Appeals Upheld	0	1	0	0	10
Appeals Increased	12	9	4	15	14
Other Determination*	123	37	37	46	18
Total Resolved	926	649	435	415	524
To Be Carried Over**	965	585	208	203	272

* Note: Includes, but not limited to late-filed appeals, applicants' failure to appear and board denied applications.

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

Section 1604 requires the AAB to make a final determination of value on an appeal within two years of the filing of the appeal, unless the taxpayer and the AAB mutually agree to an extension, or the application for reduction is consolidated for hearing with another application. If an assessment appeal of a base year is not heard and decided within two years of the filing, the taxpayer's opinion of value becomes the taxable value of the property until the appeal is decided.

The assessor tracks the progress of each appeal and monitors the two-year resolution window by way of monthly reports of appeals having waiver expirations within six months. Those appeals are scheduled prior to the expiration date. 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 limit. During our current survey, we reviewed several records involving assessment appeals. We found them to be well documented and complete.

Overall, the assessor's appeals program is well administered; we found no issues or concerns.

Exemptions

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

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

The assessor processed 30 church exemption claims and 192 religious exemption claims for the 2008-09 assessment roll. The following table illustrates church and religious exemption data for recent years:

ROLL YEAR	CHURCH EXEMPTION	EXEMPTED VALUE	RELIGIOUS EXEMPTION	EXEMPTED VALUE
2008-09	30	\$15,147,813	192	\$109,981,791
2007-08	57	\$21,006,177	233	\$110,465,266
2006-07	61	\$21,722,682	241	\$110,968,033
2005-06	39	\$19,544,837	206	\$106,456,396

The assessor maintains an effective program for administering the church and religious exemptions. The assessor refers to Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions; Property Tax Welfare Exemption* Publication 149, dated March 2008; and to other advisory information distributed at BOE exemptions workshops. Field inspections of properties for which the church or religious exemption are claimed are performed when necessary.

The assessor's exemption staff consists of one supervisor who processes all church, welfare, and religious exemption claims and oversees two exemptions staff that process both the homeowners' and disabled veterans' exemption.

Several claims, for both the religious and church exemptions, were reviewed during the survey. We found the assessor's church and religious exemption programs to be well documented and properly administered.

Welfare Exemption

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

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

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE, or, a valid SCC issued by the BOE if the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The assessor processed 886 welfare exemption claims for the 2008-09 roll. The following table illustrates welfare exemption information for recent years:

ROLL YEAR	WELFARE EXEMPTION	EXEMPTED VALUE
2008-09	886	\$1,357,989,362
2007-08	1,013	\$1,197,199,126
2006-07	1,210	\$1,110,133,636
2005-06	1,006	\$997,005,009

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. We inspected claims for low-income housing property, including properties owned by a limited partnership holding an SCC. Our review indicated that the assessor is properly

administering the welfare exemption, obtaining an OCC from each claimant, reviewing each claim and any supporting documents before granting an exemption, appropriately examining an organization's property when it holds a valid SCC, and correctly allocating exemption values and taxable values of properties receiving partial exemptions.

Homeowners' and Disabled Veterans' Exemptions

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

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

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible.

The assessor processed 89,250 homeowners' exemption claims and 435 disabled veterans' exemption claims for the 2008-09 roll. The following table illustrates homeowners' and veterans' exemption information for recent years:

ROLL YEAR	HOMEOWNERS' EXEMPTIONS	EXEMPTED VALUE	DISABLED VETERANS' EXEMPTIONS	EXEMPTED VALUE
2008-09	89,250	\$623,805,228	435	\$44,998,547
2007-08	89,807	\$627,872,755	427	\$42,230,959
2006-07	90,300	\$631,036,131	414	\$38,995,865
2005-06	90,226	\$630,557,915	414	\$37,892,571

Our review indicates that the assessor properly processed claims for homeowners' and disabled veterans' exemptions. The assessor submits information regarding homeowners' exemption claims to the BOE in the appropriate manner. Claim forms for the disabled veterans' exemption were submitted timely with the proper exemption allowed, either basic or low income, and for year requested.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange

information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties.

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

We found the Sonoma County Assessor used 60 of the 82 BOE-prescribed forms, and rearranged three. The assessor has timely provided the BOE with copies of rearranged forms, final prints, and forms checklists. We have no recommendations for this program.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:

- Revaluation of properties that have changed ownership;
- Valuation of new construction;
- Annual review of properties that have experienced declines in value;
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts and taxable possessory interests.

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

Change in Ownership

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

County Specific Programs

The Sonoma County Assessor and her staff build positive relationships with the public through a variety of public outreach programs. Once a year the chief deputy assessor discusses property tax issues and answers the public's questions on a local radio show. Bilingual representatives from the assessor's office also attend local real estate fairs and home expo fairs to provide answers to the public regarding various change in ownership questions and other property tax topics. We commend the assessor for being proactive in public awareness.

Document Processing

Sonoma County maintains detailed policies and procedures for staff in processing changes in ownership. The assessor has also created an online reference guide which provides in-depth procedures to staff on various property tax programs.

The declining real estate market is reflected in the drop in the number of transfers. The following table shows the total number of reappraisable transfers in Sonoma County in recent years:

ROLL YEAR	REAPPRAISABLE TRANSFERS
2007-08	9,087
2006-07	15,076
2005-06	12,456
2004-05	12,836

The assessor's primary source of discovering properties having changed ownership is through deeds and other documents recorded at the county recorder's office. The recorder's office requires that form BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, accompany documents submitted for recordation for the transfer of ownership of real property. If a transfer document is received without a PCOR, the recorder's office adds a \$20 charge to the recording fee. PCORs are available at both the assessor's and recorder's office as well as from the county's website. Local ordinance requires the assessor's parcel number be printed on all deeds.

The recorder's office provides a Preliminary Change of Ownership Requirements Policy letter to the public to give general instruction on filing a PCOR. The recorder's office does not initially screen documents sent to the assessor; however, the recorder's office does review PCORs for completion.

The assessor's office electronically filters all recorded documents from the recorder's computer system to pull documents which relate to possible change in ownership events. Each day the recorder's office sends a batch of PCORs, from the previous day's recordings, to the assessor's Ownership Unit. The Assessment Process Clerk reviews the batch of PCORs and pulls any potential base year value transfers for immediate processing. All other PCOR batches are placed on a shelf to be worked by an ownership specialist.

An ownership specialist works batches in chronological order. Recorded document images and PCORs are reviewed for title transfer, intent, and accuracy in both the ownership chain and legal description to determine if a change in ownership has occurred. All title transfers are keyed into the computer system applying a document code which corresponds to the reassessment decision. Due to staffing constraints, it takes approximately four weeks after the recording date to process the recorded document.

Once the recorded document is processed, the information is forwarded to a Value Entry Specialist to determine the proper base year. Once the base year has been determined, PCORs are forwarded to the clerk in the ownership unit, put in order by assessor's parcel number (APN), and forwarded to a clerk in customer service. The clerk in customer service prints the valuation worksheet, matches it with the PCOR, and files it with the building record for an appraiser to value.

Penalties

When a recorded document is received without a PCOR, the ownership unit mails form BOE-502-AH, *Change of Ownership Statement* (COS), to the property owner with a cover letter. The mailings are tracked through a computer database. If the COS is not returned by the 45 day deadline, the property is reappraised and a new value is determined. Once a new value has been placed on the property, the penalty is applied. Once the penalty has been applied the assessor cannot abate the penalty; the property owner has to file an abatement request with the Board of Supervisors.

Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The assessor's office has computers available for the public to access transfer information. The transfer list is divided into geographical areas by book number or address, and is updated monthly. Pursuant to section 408.1(c), the transfer list describes the transferee, transferor, the assessor's parcel number, the date of recording, recording reference number, and the address of the property. The transfer list also includes any documentary transfer taxes paid. By using a simple mathematical formula, these documentary transfer taxes can be converted into an indicated selling price. The data provided on the transfer list is generated from the assessor's computer system, and is not taken directly from the PCOR or COS.

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 changes in control of legal entities, and thus, no corresponding recorded notice of any real property transfers.

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 information sufficient to identify the real property involved. 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.

The chief deputy assessor reviews monthly LEOP reports, including the non-response list, to determine if any property listed is owned by an entity in Sonoma County. Ownership records of additional properties owned by an entity are also reviewed to ensure all real property is reassessed as a result of a change in control or ownership. The corresponding APN(s) are written on form BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*, and

given to the assessment process clerk to start the change in ownership process. The county also discovers potential changes in control or ownership of legal entities from news articles, annual business property statements, local business journals and magazines, and field inspections.

Our review of several records shows the county does a thorough job in reviewing LEOP reports and reassessing all property interests identified as well as additional properties not reported on the form.

Change in Ownership Exclusions – Section 63.1

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first one million dollars of other real property between parents and children. Certain transfers between grandparents and grandchildren are also excluded.

Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's website. The following table represents section 63.1 claims filed in Sonoma County in recent years:

ROLL YEAR	SECTION 63.1 CLAIMS FILED
2007-08	1,940
2006-07	2,279
2005-06	2,896
2004-05	2,471

Assessment process specialists in the ownership unit review all section 63.1 applications and determine if the exclusion will be accepted or denied. Property owners are notified if the exclusion is denied. A written confirmation of an approved claim is provided upon request.

If a PCOR or COS indicates a transfer may be between a parent(s) and child (ren) or from grandparent(s) to grandchild(ren) the county is proactive in notifying interested parties of a possible exclusion. The county sends a claim form along with a cover letter explaining the exclusion and requesting a response within 45 days. Claim forms are tracked in a database. If no response is received within 45 days, a second letter and claim form is sent, allowing an additional 60 days. If there has been no reply within 105 days of the initial claim form, the property is reappraised.

Sonoma County submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives the quarterly *Report of Transfers Exceeding \$1,000,000* from the BOE, the ownership unit identifies the parcel(s) involved and makes a note in the system. Transfers within the county are also tracked according to social security number. If multiple properties transfer within the county, an ownership specialist contacts the property owner or representative to determine which parcel(s) he or she wants to have reappraised. Once the property owner or

representative makes the decision, the list of parcels is given to the chief deputy assessor to determine the excluded portion. If parcels exceeding the limit are in counties other than Sonoma and the most recent transfer is in another county, contact is made with the other county to ensure a reappraisal is completed.

The assessor keeps all claim forms in a secure area which is locked each night to protect property owner confidentiality. The information is not accessible to the public.

Change in Ownership Exclusions – Section 69.5

Section 69.5 allows qualified homeowners who are 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of their principal residence to a replacement dwelling purchased or newly constructed within the same county if certain conditions are met. Claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling. Section 69.5 allows individual county boards of supervisors to adopt ordinances to make this exclusion applicable to intercounty transfers.

The following table represents section 69.5 claims filed in Sonoma County in recent years:

ROLL YEAR	SECTION 69.5 CLAIMS FILED
2007-08	131
2006-07	224
2005-06	330
2004-05	247

Sonoma County does not accept base year value transfers from other counties. Applications and information regarding exclusions are available to the public at the assessor's office and on the assessor's website.

A transfer indicating a possible section 69.5 exclusion on the PCOR is entered into the computer system within two working days after recordation. Once entered into the computer, the PCOR is given to a specific clerk who handles section 69.5 claims. The clerk reviews a database to determine if the property owner has previously been approved for a base year value transfer in the county. If the claimant has not previously been approved for an exclusion, a claim form and letter explaining the criteria are mailed to the property owner. Once a claim form is returned, it is reviewed to determine if the claimant meets eligibility requirements. If the basic requirements are met, the claim is forwarded to an appraiser to determine if the replacement dwelling is of equal or lesser value than the original property, as required by section 69.5. Property owners are notified by letter if the claim is approved or denied.

Sonoma County submits required quarterly reports to the BOE listing approved section 69.5 exclusions. The county also reviews the quarterly *Duplicate SSN Report* from the BOE to determine if any claims made in Sonoma County duplicate any claims made previously in another county.

All claim forms are kept in a locked cabinet to protect property owner confidentiality. The information is not accessible to the public.

Change in Ownership Exclusions – Registered Domestic Partners

As of January 1, 2006, Sonoma County processes changes in ownership of registered domestic partners similar to the way interspousal transfers are processed. Before an exclusion is granted, the county requires confirmation that the partnership is registered with the California Secretary of State. Pursuant to section 62(p), Sonoma County will reverse any reappraisal for transfers between registered domestic partners occurring between January 1, 2000 and January 1, 2006. The county requires form BOE-62-DP, *Claim for Reassessment Reversal For Registered Domestic Partners*, be filed to be considered for the relief. The county is aware a property owner must file a claim form by June 30, 2009, to receive a reversal of reassessment.

Valuation

Once a transfer has been determined to be a reappraisable event, the information is sent to an appraiser for valuation. Reappraisable transfers are reviewed to confirm that the sales price reported on the PCOR or COS accurately reflects market value. The sales price is not automatically enrolled. Typically, residential changes in ownership are valued using the market approach, while commercial changes in ownership are valued using the market and income approaches. To obtain additional income and expense information of commercial properties, the assessor mails a questionnaire to the property owner. Field inspections of a property are conducted if more information regarding the condition of the property is required for the appraiser to make an accurate determination of market value. Supplemental assessments we reviewed were processed correctly.

Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements (e.g., sewers, sidewalks, lighting, and water lines) which generally enhance the land value of privately owned real property. Land directly benefiting from such improvements is pledged as security for repayment of the construction loan.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration, exclusive of the lien amount, involved in the transaction. This presumption may be overcome if the assessor establishes by a preponderance of the evidence that all or a portion of the value of those improvements is not reflected in the consideration.

Sonoma County has approximately 27 active bond assessment districts. The tax collector oversees the listing of parcels encumbered with assessment bonds. It is the assessor's policy not to add for improvement bonds unless the market indicates otherwise.

We reviewed properties with a change in ownership and found no problems with the assessor's handling of improvement bonds.

New Construction

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

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

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

Discovery

The assessor has written procedures, policies, and forms involving the assessment of new construction. Building permits are the assessor's primary means of discovering new construction activity. Currently, the assessor receives building permits from twelve permit-issuing agencies: the county of Sonoma; and the cities of Sebastopol, Santa Rosa, Healdsburg, Windsor, Sonoma, Petaluma, Cloverdale, Rohnert Park and Cotati. The county also issues well and septic permits through the Permit and Resource Management Department. Manufactured home installation and accessory permits are received from the California Department of Housing and Community Development. Additional sources of discovery include field inspections, violation notices from building permit departments, anonymous reports, newspapers, aerial photography, and reviews of properties listed for sale.

The following table exhibits the number of new construction permits received and those creating new assessments for recent years:

ROLL YEAR	PERMITS RECEIVED	NEW ASSESSMENTS FROM PERMITS
2007-08	11,727	5,245
2006-07	13,420	6,809
2005-06	13,732	5,547
2004-05	13,156	6,007
2003-04	12,011	5,221

Permit Processing

Permits are received by the assessor's office in hard copy form from the permit-issuing agencies along with plans and completion lists. The cities of Santa Rosa and Petaluma and the county of Sonoma also provide online access for appraisers to review final dates and permit information. The incoming permits are the responsibility of three appraisal aides who screen the permits to determine the assessability of the new construction. The aides return the assessable permits to the assessment clerk who enters them into the computer system and then forwards them on to the appraiser assigned to that specific area.

Valuation

The appraiser determines the completion status of new construction through direct contact with the building department, new construction questionnaire data, on-site inspections, or from the recorded date of occupancy. The assessor relies primarily on the cost and market approaches to value residential new construction. When valuing new construction for commercial and industrial projects, the assessor utilizes the cost, market, and income approaches. The assessor uses a variety of sources to develop cost indicators of value for new construction, including Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), Assessors' Handbook Section 534, *Rural Building Costs* (AH 534); the owner's reported cost; and cost surveys conducted by the office. The *Marshall Valuation Service* is used mostly for commercial and industrial new construction. It is the assessor's practice to allow the appraiser to determine which items of new construction require a field inspection based on the information available to them and the type of permit.

Self Reporting

The assessor sends questionnaires for the majority of permit activity. The clerk generates questionnaires when the permit is entered into the computer system; each questionnaire is held for sixty days to allow time for the construction to begin. The clerk then gives the questionnaires to the appraisers to decide which they would like to send out and mails those returned to her. The

assigned appraiser is responsible for reviewing the information provided on the new construction questionnaire and comparing it with other cost and market data.

In general, the assessor's new construction program is effective. New construction, including construction in progress, is properly handled and supplemental assessments are correctly issued. However, we did find one area that could be improved.

RECOMMENDATION 1: Properly classify structural improvements in accordance with Rule 124.

We found that the assessor enrolls completed new construction of septic systems as land value. Rule 124 provides that buried tanks are improvements. Though components of septic systems include grading that could be included in the land, septic systems are generally included as new construction in the improvement value. Classification of septic systems as land instead of improvements may result in incorrect special assessments.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value 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 adjusted for inflation up to two percent.

Due to the weakening of the local real estate market in recent years, the number of properties experiencing a decline in value below the factored base year value (FBYV) has increased dramatically.

The following table shows the number of properties reviewed for declines in value over recent years:

ROLL YEAR	ASSESSMENTS
2008-09	19,254
2007-08	268
2006-07	110
2005-06	94
2004-05	229

Prior to the recent market downturn declines in value were discovered primarily through the appraisal staff's knowledge of current property values and taxpayers' requests for value reviews. However, as a result of market conditions, the assessor recently developed a proactive decline-in-value program for use with homogeneous residential neighborhoods. In such

neighborhoods the assessor tracks sales of properties near the lien date to determine market values. These values are compared to the FBVVs of properties which sold in prior years to estimate the percentage of value decline experienced in each neighborhood. The appropriate value reduction is automatically applied to qualified properties based on their original date of valuation. We reviewed several benchmarked properties and found the reductions in value to be reasonable.

Each property that receives a reduction in value is coded as a "Prop 8" in the Megabyte system. This code prevents the automatic application of the inflation factor and identifies the property as requiring an annual value review by an appraiser. Megabyte also tracks the property's FBV to ensure the assessed value never exceeds the FBV.

The assessor sends a *Notification of Assessed Value* to property owners when the assessed value has changed due to a decline in value, if the decline in value remains on the roll for the current assessment year, or if the decline in value has been fully or partially restored. The notice meets the requirements of sections 619.

We reviewed several assessment records for properties under decline in value and found them to be well documented and the values reasonable. We also reviewed several properties that sold in recent years but were not granted a value reduction. We found that no reduction was warranted for those parcels. Overall, the assessor's decline in value program is comprehensive, efficient, and well administered.

California Land Conservation Act Property

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

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

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

Most of the rural property in Sonoma County is devoted to agricultural use, with wine grapes and market milk comprising the two largest commodities by value. The county surpassed \$639

million in gross production value of agricultural commodities in 2007, an increase of approximately 7.6 percent from the 2006 production value.

For the 2007-08 roll year, Sonoma County had 2,573 parcels encumbered by CLCA contracts, comprising approximately 275,869 acres with a total assessed value of \$1,697,375,471. This included 4,008 acres in nonrenewal status and 2,256 acres of open space easements. Sonoma County has not had any recent contract cancellations.

In Sonoma County, one supervising appraiser and eight appraisers are responsible for the valuation of the CLCA properties. CLCA questionnaires are mailed out annually for vineyard and orchard properties, and every three to five years for all other properties as staffing and budgeting allows. Using a computer program, each year the assessor calculates the restricted values of the land in accordance with section 423. Pursuant to section 423.3 Sonoma County adopted Resolution No. 05-0903 which provides for the comparison of 75% of the FBV and the restricted value. For each property the assessor compares the restricted value to 75% of the factored base year value and the current market value, enrolling the lowest of the three values.

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 at page II-51 provides that "even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner." In other words, the homesite must be valued at the lesser of the factored base year value or the fair market value of a comparable homesite. We found that this is the assessor's policy and practice.

Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce, and subtract from that estimate 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.

Income and expenses are derived from a market analysis which utilizes data from the Sonoma County crop report, the state crush report, questionnaires from property owners, and other published data.

Capitalization Rates

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

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

In developing the capitalization rate used in the valuation process for CLCA properties, the assessor correctly uses the current interest component provided annually by the BOE, and includes components for risk and property taxes. The risk rates used by the assessor in the capitalization rate are .5 percent for row crops, .5 percent for grazing, and 4 percent for trees and vines, while the tax rate is specific to the property's location. The risk rate and the tax rate conform to the guidelines set forth in Assessors' Handbook Section 521.

We reviewed several CLCA assessments and found the assessor has an efficient and well organized program in place to value these properties. However, we found some areas where improvement is needed.

RECOMMENDATION 2: Improve the valuation of CLCA properties by:
(1) capitalizing compatible use income, (2) deducting a charge for a return of the well value from income attributable to the property, (3) assessing vineyard trellising as unrestricted improvements, (4) issuing supplemental assessments when the construction of trellising is completed, and (5) properly accounting for deductions for expense charges from the income stream attributable to the real property.

Capitalize compatible use income.

Agricultural preserve property encumbered by a CLCA contract is assessed on the basis of its agricultural income producing ability, including any compatible use income. In defining the income to be capitalized when valuing open-space properties subject to enforceable restrictions, section 423(a)(3) provides that revenue shall be the amount of money which the land can be expected to yield to an owner-operator. Although this income can be derived from any permitted use of the land under the terms by which it is enforceably restricted, section 428 prohibits residential uses from receiving a restricted valuation. Under these provisions, and in accordance with Government Code sections 51238.1, 51238.2 and 51238.3, the assessor must assume any use – other than a residential use – allowed by a contract is a compatible use. As indicated, when income generated by this use is attributable to the land, it must be capitalized in the manner specified for restricted properties.

We found the assessor is not recognizing compatible use income for properties having additional income from cell tower leases. The appropriate manner to value this income is for the appraiser to estimate the duration of the lease and capitalize the rent received as a level annuity. The present worth of the restricted reversionary value should then be added to the present worth of the annuity.

We also found the assessor allocates an estimated acreage for winery sites, assigns the site a base year value, and adjusts the base year value for inflation each lien date. The assessor should value permitted commercial sites allowed under open-space restrictions, such as wineries, by capitalizing an economic site rent using the open-space capitalization rate.

By not including these additional incomes, the assessor is incorrectly valuing those properties subject to open-space restrictions having compatible uses.

Deduct a charge for a return of the well value from income attributable to the property.

We found the assessor does not deduct a charge for the return of the well value in irrigation wells (recapture) when using the income approach to value the restricted land value. Wells are classified as land for property tax purposes; a return on the well value is included in the land capitalization rate. Pursuant to AH 521, wells are wasting assets.⁶ Therefore, a charge for a return of the well value must be subtracted from the income stream.

⁶ AH 521 (October 2003), Part II, page 24.

By not deducting a charge for the recapture of the investment in the well, the assessor is overstating the net income to the property and, therefore, overvaluing the property.

Assess vineyard trellising as unrestricted improvements.

The assessor values trellises as unrestricted fixed equipment during the period when the vines are exempt. When the vines become taxable, the factored base year value of the trellises and wire is deleted from the assessment roll. It is the assessor's view the trellises and wire are an integral part of the vineyard and this value is included in the living improvement value enrolled once the exemption period has ended. The trellis value is considered as part of the income attributable to the vines. The assessor does not deduct a charge for a return *on* or *of* the trellis investment from the income stream. This practice results in the value of the trellises being included in the restricted land portion of the property value.

Article XIII, section 3(i) of the California Constitution exempts from property tax vines until three years after the season first planted. Rule 131(h) provides, however, that orchard and vineyard structural improvements (e.g., stakes, trellises, and fences) are taxable both during and after the exemption period for trees and vines.

Pursuant to Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties*, the assessor should deduct a charge for a return *on* and *of* the value of improvements from the income stream before capitalizing the residual income into the value of the restricted property. This step is necessary because the income to be capitalized in open-space valuation is the net income attributable only to the land and restricted living improvements.

Section 423 provides that CLCA contracts may allow nonliving improvements to be valued as restricted property; however, Sonoma County does not have such a provision. As nonliving improvements, trellises are not restricted and should not be valued by the restricted valuation method. The assessor's practice leads to underassessments because the improvements are valued as if restricted rather than unrestricted. Additionally, deleting trellises from the assessment roll when the vines become taxable results in the omission and miscalculation of supplemental assessments when there is a change in ownership.

Issue supplemental assessments when the construction of trellising is completed.

We found the assessor does not issue supplemental assessments when construction of trellising is completed.

Section 75.14 provides that property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessments. Nonliving improvements on restricted land, such as trellising, are subject to the assessment limitations of article XIII A of the California Constitution. Therefore, at the completion of the construction of the trellising, the new construction is subject to supplemental assessment. The assessor's practice is contrary to the requirements of law and results in a loss of tax revenue.

Properly account for deductions for expense charges from the income stream attributable to the real property.

The assessor is not deducting expenses for management, insurance, or maintenance from the income stream. According to the assessor, they are accounting for these expenses by using a lower land rent than they would normally use when calculating the restricted land value.

According to Assessors' Handbook Section 521, expense charges for property management, insurance, and maintenance are legitimate deductions from the gross income attributable to the property. 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 the improvements must be subtracted from the expected gross income prior to capitalization. Expenses that can properly be deducted from the gross income attributable to the real property are those incurred by the owner in managing their investment in the real property.

The assessor's practice of accounting for expenses based on the use of lower rents could be justified provided a sufficient analysis of rents and expenses indicates those expenses were accounted for. However, the assessor does not have documentation to support this claim.

The assessor's practice of not deducting for expense charges incorrectly values the restricted land value. This practice may cause the assessor to incorrectly enroll the factored base year value according to section 423 as the lowest of the calculated values.

Taxable Possessory Interests

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

Discovery of taxable possessory interests occurs primarily through contacting other public agencies which own land in Sonoma County and requesting information on leases. The assessor annually contacts 38 public agencies which own land in Sonoma County. In recent years, the response rate from other government agencies has been 100 percent. As a result, the assessor enrolled 2,052 taxable possessory interests on the 2008 roll.

Possessory interests in Sonoma County consist mainly of vendors at the county fairgrounds and boat slips and aircraft tie-downs at various public marinas and airports in the county. There is one cable television company which has a possessory interest in public property throughout the county. Additionally, there are three rental car companies and one major air carrier with a possessory interest at the Charles M. Schulz-Sonoma County Airport.

We found for month-to-month tenancies or leases without stated terms of possession, the anticipated terms of possession used are reasonable. We found for leases with stated terms of possession the assessor uses the stated term of possession. We found rents and capitalization rates used are market derived.

The assessor is in compliance with most applicable statutes; however, we did find one area needing improvement.

RECOMMENDATION 3: Deduct appropriate lessor expenses when using the income approach to value taxable possessory interests.

We found several cases in which the assessor did not deduct operating expenses from the gross income of a taxable possessory interest before converting the income stream into a value indicator.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent. Rule 21(e)(3)(C) provides that the income to be capitalized in the valuation of a taxable possessory interest is the "net return" attributable to the taxable possessory interest. A public owner will incur at least some management expense with each taxable possessory interest. Also, lease agreements may require the public owner to pay for insurance, maintenance, or utilities.

Capitalizing the gross income rather than the net income to the lessor overstates the full cash value of a taxable possessory interest. Typical expenses such as management should be recognized, in addition to any other lessor expenses specifically stated in the lease agreement.

Mineral Property

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

There are no assessable petroleum properties in Sonoma County.

Geothermal Properties

Geothermal property mineral rights refer to the rights to explore for, develop, and produce useful geothermal energy, and the real property associated with these rights. Pursuant to Rule 473, the rights to enter in or upon the land for the purpose of exploration, development, or production of proved reserves are taxable real property interests to the extent that they individually or collectively have ascertainable value. "Proved reserves" means that quantity of geothermal energy, capable of supporting the economic life of the geothermal project(s), which geological and engineering information indicate with reasonable certainty to be recoverable in the future, taking into account reasonably projected physical and economic operating conditions.

The Geysers Steam Field, located in northeastern Sonoma County, is a significant source of geothermal energy for the North Coast region of California. This geothermal property has been producing electricity from subsurface steam since the late 1960s. The Geysers is the largest complex of geothermal power plants in the world, producing over 750 megawatts of electricity.

The majority of the field and power plants are owned by Calpine. Calpine acquired a large portion of The Geysers after electricity was deregulated in California. Calpine has since interconnected many of the wells so they can serve more than one power plant and allow more efficient operation of the steam field.

The geothermal properties are appraised by a mineral consultant. The total assessed value of these properties is over \$700,000,000. The consultant's files and procedures were reviewed and there are no current recommendations regarding geothermal properties.

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.

The Business Property Division is composed of 11 permanent staff directed by the Chief Appraiser. Audit responsibility falls upon one supervising auditor-appraiser, seven auditor-appraisers, and three assessment clerks.

In this section of the survey report, we review the assessor's programs for conducting audits, processing business property statements, and valuing business property.

Audit Program

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

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

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

assessors now have some flexibility in determining which accounts will comprise this mandated workload.

The following table shows the total number of audits completed over recent years:

ROLL YEAR	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS	NET VALUE CHANGE
2007-08	236	230	6	\$7,993,120
2006-07	209	204	5	\$72,073,108
2005-06	177	174	3	\$68,740,822
2004-05	187	179	8	\$98,164,786
2003-04	189	183	6	\$22,460,929

Based on the assessor's recent audit workload history, the assessor is in compliance with the requirements of section 469.

Statute of Limitations

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

The assessor requests waivers of the statute of limitations from taxpayers when she anticipates an audit will not be completed in a timely manner. We reviewed waivers for scheduled audits not completed during the current year and found them to be adequately prepared.

Audit Quality

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

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

Business Property Statement Program

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

For the 2008-09 roll, the assessor processed 12,104 business property statements with an assessed value of \$2,671,865,441. We reviewed the assessor's property statement processing procedures and files to ensure that they conform to statutory and regulatory guidelines.

Discovery

The assessor utilizes a wide range of tools in discovering taxable business property. Taxpayer self-reporting and real property appraiser referrals are significant means of discovering assessable property. Other means of discovery utilized by the assessor include reviewing city and county business licenses, fictitious business name filings, business directory services, and BOE notifications. We found the assessor employs effective methods for discovering business personal property.

Statement Processing

Business property statement processing begins with the assessment clerks, who review the submitted statements for completeness and processing. Any changes in owner name, DBA, situs, and mailing address are noted and input into the computer program. Property statements are forwarded to an auditor-appraiser or property appraiser only when a review is requested. At that time, a certified appraiser completes the valuation worksheets or reviews any value calculations prepared by the assessment clerks before a value determination is enrolled.

We reviewed the business property statement program, including processing procedures, use of BOE-prescribed forms, processing by non-certified staff, completeness of the property statements, authorized signatures, application of penalties, real property division coordination, and record storage and retention. We found no problems with the assessor's processing of business property statements.

Filing Procedures

Under section 441.5, in lieu of completing the property statement, information required of the taxpayer may be furnished to the assessor as attachments to the property statement. Such attachments must be in a format specified by the assessor, and a copy of the actual property statement must be signed by the taxpayer and carry appropriate references to the data attached. The assessor allows taxpayers to submit attachments in lieu of completing business property statements as provided by section 441.5 only if the taxpayer or the taxpayer's assignee submits a signed original of the statement.

Our review also included verifying the assessor's procedures for processing late-filed and non-filed statements. We found the assessor properly applies the late-filing penalty as required by section 463. Additionally, habitual non-filers are contacted in an attempt to collect accurate assessment information.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing qualified lower-value business accounts without the annual filing of a business property statement. The assessor establishes an initial value and continues it for several years. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes and restaurants, and professional firms with small equipment holdings. A property statement is sent to the participating business every four years to update assessment information.

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

The assessor maintains a direct billing program with direct billed accounts on both the secured and unsecured rolls totaling 2,955 assessments with a total assessed value of \$1,439,085,035.

E-Filing Business Property Statements

Property statements filed with the assessor using electronic media must have authentication methods specified by the assessor and approved by the BOE. The acceptance of an electronic filing (e-filing) is at the discretion of the assessor.

The assessor accepts two types of electronic filings. The first is the Megabyte e-file system that receives information directly from the taxpayer and is integrated directly into their computer system. The other e-file system is the Standard Data Record (SDR) system, which is generally used by large corporations with locations in multiple counties.

E-filings are authenticated through the assignment of a unique public key code known as the Business Identification Number (BIN). This code is a random number known only to the taxpayer and the assessor. The BOE has approved the authentication method for both the Megabyte and SDR systems.

The following table shows the number of e-filed statements received from both systems during recent years:

ROLL YEAR	TOTAL E-FILED	TOTAL MAILED	E-FILE PERCENTAGE	SDR SYSTEM
2008-09	1,711	17,130	10%	88
2007-08	193	15,773	1%	61
2006-07	35	14,881	.2%	43

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

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

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

We reviewed the written procedures and standardized valuation policies related to business property valuation.

Application of BOE Recommended Index Factors

The assessor has adopted the price indices and percent good factors recommended by the CAA. The price indices parallel the indices published in AH 581 with the exception of specific types of equipment (e.g., pagers, facsimile equipment, high tech medical equipment, and photocopiers) that the CAA recommends should not be trended. We found the assessor's application of BOE recommended valuation tables is both consistently and accurately applied.

Classification

Machinery and equipment must be classified as either personal property or fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, that the item will remain annexed indefinitely. We found no problems in the classification of machinery and equipment.

Computer Valuation

Pursuant to section 401.5, the BOE also issues valuation factors for computer equipment (see AH 581, "Table 7: Computer Valuation Factors"). We found the assessor has adopted the BOE factors and uses them in valuing computer equipment.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Sonoma County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

David Dodson

Supervising Property Appraiser

Survey Team Leader:

Pamela Bowens

Supervising Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Tammy Aguiar

Associate Property Appraiser

Michael Brennan

Associate Property Appraiser

Paulajean Eagleman

Associate Property Appraiser

Patricia Lumsden

Associate Property Appraiser

Michael Nicholas

Tax Auditor

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

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

15644. Recommendations by board.

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

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

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

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

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

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

(1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.

(2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:

(A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.

(B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

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

Rule 371. Significant assessment problems.

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

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

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting 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 Sonoma County Assessor's response begins on the next page. The BOE has no comments on the response.



SONOMA COUNTY

Clerk-Recorder-Assessor

www.sonoma-county.org/cra

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August 24, 2010

RECEIVED

AUG 27 2010

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

County-Assessed Properties Division
State Board of Equalization

Dear Mr. Kinnee:

Pursuant to Section 15645 of the California Government Code, the following constitutes the Assessor's Response to the recommendations presented in this Assessment Practices Survey for Sonoma County.

I would like to express my appreciation to the Board's Survey Team for the professional and conscientious manner in which the survey was conducted. Their positive acknowledgements and constructive comments regarding how the office works are appreciated.

We welcome the examination of our work and processes. Your constructive recommendations provide us the opportunity to focus on current policies and procedures. Doing so allows us to accomplish our mission of providing accurate, timely and fair assessments, while providing the highest level of benefit to the taxpayers and customers we serve.

I also want to acknowledge the staff of the Sonoma County Assessor's Office for their dedication, professionalism and commitment to serving the citizens of Sonoma County.

Sincerely,

Janice Atkinson
Clerk-Recorder-Assessor

Responses to BOE Recommendations:

Recommendation #1: Properly classify structural improvements in accordance with Rule 124.

We agree that Property Tax Rule 124 lists “tanks” as Improvements. We will consider changing our practice of enrolling them as land improvements. The change would only be prospective.

Recommendation #2: Improve the valuation of CLCA properties by: (1) capitalizing compatible use income; (2) deducting a charge for a return of the well value from income attributable to the property; (3) assessing vineyard trellising as unrestricted improvements; (4) issuing supplemental assessments when the construction of trellising is completed; and (5) properly accounting for deductions for expense charges from the income stream attributable to the real property.

We agree philosophically with all parts of this recommendation and will work toward implementing them as time, data and assessment technology allows.

Recommendation #3: Deduct appropriate lessor expenses when using the income approach to value taxable possessory interests.

We agree and for the 2009 assessment year forward have made the change in our possessory interest database.