

# **SUTTER COUNTY ASSESSMENT PRACTICES SURVEY**

**MAY 2014**

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## **CALIFORNIA STATE BOARD OF EQUALIZATION**

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No. 2014/027

May 30, 2014

TO COUNTY ASSESSORS:

**SUTTER COUNTY  
ASSESSMENT PRACTICES SURVEY**

A copy of the Sutter 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 Todd L. Retzloff, Sutter County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Sutter 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 September through October 2012. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Retzloff and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG:dcl  
Enclosure

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## **INTRODUCTION**

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

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

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

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

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

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

Our survey of the Sutter County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in Sutter 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.

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

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

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

In the area of administration, we found that the assessor is properly handling the staffing and assessment appeals programs. However, we noted that the workload, staff property and activities, and exemptions programs are in need of improvement.

In the area of real property assessment, we found that the assessor has effective programs for new construction and California Land Conservation Act (CLCA) property. While we found the assessor's declines in value program also to be effective, we noted a need for improvement regarding the information provided on the value notices posted on the assessor's website. In addition, we identified areas for improvement in the change in ownership, taxable possessory interests, and mineral property programs.

In the area of personal property and fixtures assessment, we found that the assessor has effective programs for business property statements, business equipment valuation, and aircraft. However, we found improvement is needed in the audit, manufactured homes, and vessels programs.

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

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

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

<b>RECOMMENDATION 1:</b>	Improve the workload program by reporting statistics as requested by the BOE pursuant to section 407.....	8
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**RECOMMENDATION 4:** Improve the disabled veterans' exemption program by: (1) removing the requirement that claimants need to file for exemption in person, (2) removing the requirement that claimants of the low-income provision of the disabled veterans' exemption submit personal financial information to qualify for exemption, (3) requiring documentation that the disabled veteran has been honorably discharged, and (4) granting the full disabled veterans' exemption when claims are filed timely. ....17

**RECOMMENDATION 5:** Improve the LEOP program by: (1) timely reassessing all properties owned by a legal entity undergoing a change in control or ownership, and (2) properly implementing the penalty process in accordance with section 482(b). ....21

**RECOMMENDATION 6:** Improve the declines in value program by including all required information on the value notice pursuant to section 619. ....29

**RECOMMENDATION 7:** Implement a program for the discovery of taxable possessory interests. ....32

**RECOMMENDATION 8:** Recognize declines in mineral right values for reasons other than depletion. ....33

**RECOMMENDATION 9:** Improve the audit program by: (1) notifying taxpayers of their right to appeal the result of an audit as required by Rule 305.3, and (2) requiring a situs inspection as a standard component of the audit process. ....36

**RECOMMENDATION 10:** Exclude site value from the reported purchase price of a manufactured home on rented or leased land when determining the current market value to be enrolled. ....40

**RECOMMENDATION 11:** Use Board-prescribed assessment form BOE-576-D, *Vessel Property Statement*. ....43

## **OVERVIEW OF SUTTER COUNTY**

Sutter County is located along the Sacramento River in California's Central Valley. Created in 1850, Sutter County is one of California's original 27 counties. The county encompasses an area of 608 square miles, which consists of 602 square miles of land area and 6.0 square miles of water area. The county is bordered by Butte County to the north, Yuba and Placer Counties to the east, Sacramento County to the south, and Yolo and Colusa Counties to the west.

As of 2012, the population of Sutter County was 95,022. Sutter County has two incorporated cities: Yuba City and Live Oak. The county seat is Yuba City. Sutter County is home to the Sutter Buttes, which are considered to be the smallest mountain range in the world.





The following table displays information pertinent to the 2012-13 assessment roll:

	<b>PROPERTY TYPE</b>	<b>ENROLLED VALUE</b>
<b>Secured Roll</b>	Land	\$2,476,072,698
	Improvements	\$4,559,714,727
	Personal Property	\$210,373,059
	Total Secured	\$7,246,160,484
<b>Unsecured Roll</b>	Land	\$15,776,892
	Improvements	\$227,383,507
	Personal Property	\$314,166,515
	Total Unsecured	\$557,326,914
<b>Exemptions<sup>2</sup></b>		(\$258,325,322)
	<b>Total Assessment Roll</b>	<b>\$7,545,162,076</b>

The next table summarizes the change in assessed values over recent years:<sup>3</sup>

<b>ROLL YEAR</b>	<b>TOTAL ROLL VALUE</b>	<b>CHANGE</b>	<b>STATEWIDE CHANGE</b>
2012-13	\$7,545,162,000	-1.0%	1.4%
2011-12	\$7,620,990,000	-2.3%	0.1%
2010-11	\$7,796,508,000	-4.6%	-1.9%
2009-10	\$8,174,802,000	-2.1%	-2.4%
2008-09	\$8,354,130,000	0.7%	4.7%

<sup>2</sup> The value of the Homeowners' Exemption is excluded from the exemptions total.

<sup>3</sup> State Board of Equalization Annual Report, Table 7.

## ADMINISTRATION

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

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

The following table shows the assessor's budget and staffing over recent years:

<b>BUDGET YEAR</b>	<b>GROSS BUDGET</b>	<b>PERCENT CHANGE</b>	<b>PERMANENT STAFF</b>
2012-13	\$2,151,693	1.0%	21
2011-12	\$2,129,966	-8.3%	22
2010-11	\$2,322,508	0.2%	24
2009-10	\$2,318,619	2.7%	24
2008-09	\$2,258,724	5.3%	24

The assessor had 21 full-time positions filled at the time of our survey. The 21 full-time positions consisted of the assessor, a chief appraiser, an assessment technical services manager, 6 appraisers, 1 appraisal aide, 2 auditor-appraisers, 1 map drafting/title technician, and 8 assessment technicians. In addition to those 21 full-time positions, the assessor had 2 part-time employees.

### ***Workload***

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

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

As shown in prior tables, the total roll value has decreased four of the past five years, most recently reflecting a decrease of 1.0 percent, while the gross budget has increased four of the past

five years, most recently reflecting an increase of 1.0 percent. However, even though the gross budget has increased four of the past five years, there was a 4.7 percent decrease overall in the budget from the 2008-09 roll year to the 2012-13 roll year. During this same time period, the assessor's workload has been changing. The number of new construction assessments has been fluctuating, increasing one year and then decreasing the next year. The number of decline-in-value assessments has increased each of the past four years, while the number of assessment appeals filed showed a decrease two of the past three years reported.

These trends are shown in the following table:

<b>WORKLOAD DESCRIPTION</b>	<b>2012-13</b>	<b>2011-12</b>	<b>2010-11</b>	<b>2009-10</b>	<b>2008-09</b>
New Construction Assessments	471	563	503	664	103
Decline-In-Value Assessments	11,230	9,383	9,039	6,365	4,237
Assessment Appeals Filed	N/A	144	94	490	617

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

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

During the survey, we requested statistics from the assessor for various topics, since the assessor had not reported requested statistics to the BOE for the annual *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for years 2009-10 and 2011-12. In addition, the assessor did not report requested statistics to the BOE for the annual *California Assessors' Offices and Assessment Appeals Boards' Salary and Benefits Survey* report for year 2011-12.

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

By not reporting statistics and other information to the BOE as required, the assessor is not in compliance with current statute.

**Staff Property and Activities**

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

The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, Statement of Economic Interests (Form 700), which requests information regarding

employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity.

In Sutter County, all certified staff are required to annually submit Form 700. This includes the assessor, chief appraiser, assessment technical services manager, appraisers, appraisal aide, and auditor-appraisers. Form 700s are collected and maintained by an assessment technician in the assessor's office. Upon our review, we found that the assessor and all required certified staff submitted Form 700 for 2012. Additionally, we found that the assessor certified to the BOE that he and his staff complied with the requirements of section 672 for 2012 by disclosing their financial interests.

The assessor recently drafted proposed written procedures for the assessment of staff-owned property and conflicts of interest. These procedures include reference to the Sutter County *Personnel Rules and Regulations* manual in regards to conflicts of interest, prohibited activities, and potential disciplinary actions for county employees.

According to the assessor's proposed written procedures, the assessment of staff-owned property is to be handled in the same manner as all other property assessments. Staff-owned property is to be valued by the appraiser of the assigned geographical area, unless that appraiser is the owner of the staff-owned property. In those cases, the chief appraiser will reassign the appraisal to another appraiser. All staff-owned property assessments must be reviewed by the chief appraiser. Any property assessments owned by the chief appraiser will be reviewed by the assessor. In addition, the chief appraiser will annually review the list of staff-owned properties, as compiled from ownership records, self-reporting, and the filing of Form 700, and confirm that the enrolled values are correct.

In addition, the assessor's proposed procedures include a provision for conflicts of interest. Employees are informed of the provisions of section 1365, which states, "The county assessor and the employees of the assessor's office shall not engage in any gainful profession, trade, business or occupation whatsoever for any person, firm, or corporation, or be so engaged in their own behalf, which profession, trade, business, or occupation is incompatible or involves a conflict of interest with their duties as officers and employees of the county. Conflict of interest shall include receipt of compensation or gifts from private persons or firms for advice or other services relating to the taxation or assessment of property."

Section 1365(c) further provides that if the assessor or attorney general finds that any employee of the assessor's office has violated any provision of section 1365(a), such violation shall be grounds for dismissal. The assessor's proposed written procedures also provide that employees are not allowed to participate in real estate services within Sutter County and penalties for noncompliance are outlined in section 18, "Disciplinary Action," of the *Personnel Rules and Regulations* manual, which includes termination.

We reviewed the assessor's drafted proposed written procedures, the collection and maintenance of Form 700, the list of staff-owned property as provided by the assessor, and several staff-owned property records. We found an area in need of improvement.

**RECOMMENDATION 2:** Develop and implement written procedures that address economic interests and the assessment of staff-owned property.

While the assessor has recently drafted proposed written procedures for staff-owned property, these procedures had not been approved or implemented as of the date of our survey. In addition, these procedures did not address economic interests and did not fully address all issues associated with tracking and assessing staff-owned property. We also found several staff-owned properties that were not included on the assessor's list of staff-owned properties annually reviewed by the chief appraiser.

One of the fundamental duties of an assessor is to establish the fair market value of property; at times, this will involve the assessment of property in which county staff have an interest. Letter To Assessors (LTA) No. 2008/058 was issued as a guide to assist assessors in establishing procedures relative to the assessment of staff-owned property. Additionally, the issue of preventing conflicts of interest in assessors' offices has been statutorily addressed. Section 672 provides that certified employees must reveal their financial interests held in corporations and section 1365 prohibits the assessor and his/her employees from engaging in remunerative employment that would involve a conflict of interest with their official activities.

The procedures for the assessment of staff-owned property need not be lengthy or complicated, but should be formalized in a written format and provided to all staff. The procedures adopted by the assessor should:

- Clearly define the assessor's policies and procedures,
- Establish staff's responsibilities,
- Create a file or listing of all staff-owned property in the county,
- Contain well-defined review procedures, and
- Accurately track and document all events with potential assessment implications.

Development of written procedures for staff-owned property that includes the above bulleted practices is recommended. This is deemed particularly important for smaller assessor operations, where staff is involved in a wide variety of office functions. It would be a good business practice for the assessor to develop and/or incorporate the use of a form for staff to document all events and activities related to real and personal property that they own within the county subject to taxation. A sample form used for this purpose is included in LTA No. 2008/058, *Employee Property Activity Report*. In addition, development of written procedures related to economic interests is also recommended. Development of written procedures including these areas will help ensure that staff is aware of and follows office policy.

### **Assessment Appeals**

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the Board has adopted Rules 301 through 326 to regulate the assessment appeals process.

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

Sutter County has one assessment appeals board (AAB) consisting of three regular members and two alternate members appointed by the board of supervisors. The county does not have hearing officers. Pursuant to section 1624.01, all members of the AAB have successfully completed the required training as provided in section 1624.02. In Sutter County, the filing period for assessment appeals is July 2 through November 30. Electronically filed assessment appeal applications are not accepted at this time.

Assessment appeal applications are submitted directly to the clerk. The clerk date stamps the application, reviews the application for completeness, determines if the application is timely filed, and assigns the application an assessment appeal number. The clerk then forwards a copy of the assessment appeal application to the assessor. BOE-305-AH, *Application for Changed Assessment*, is available at the clerk's office and on the county's website. The clerk will also send out applications to taxpayers per telephone or mail requests. The clerk works with the assessor to ensure that no assessment appeal is held for more than two years without an extension or waiver being filed.









The following table shows welfare exemption data for recent years:

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2012-13	98	\$164,870,612
2011-12	102	\$165,562,988
2010-11	97	\$124,537,283
2009-10	100	\$157,950,129
2008-09	78	\$141,405,690

In general, we found the assessor's welfare exemptions to be well administered. Staff uses the correct versions of BOE-267, *Claim For Welfare Exemption (First Filing)*, and BOE-267-A, *20\_\_ Claim For Welfare Exemption (Annual Filing)*. In addition, staff ensures that the forms are complete and include original signatures, as well as any necessary supplemental affidavits. Organizations are required to submit copies of valid OCCs when submitting a first-filing claim. OCCs are then reviewed for continued validity when annual claims are filed. Field checks are performed to inspect the property and to take photographs of the property for documentation. Detailed notes are kept regarding the property, including any discussions with the claimant during the inspection. When an exemption is either partially or completely denied, the assessor properly notifies the claimant by sending BOE-267-F, *Welfare Or Veterans' Organization Exemption Assessor's Finding On Qualification Of Property Use*.

While the majority of the assessor's welfare exemptions program is handled properly, we found an area in need of improvement.

**RECOMMENDATION 3:** Properly grant the welfare exemption for property being used for housing religious personnel in accordance with Rule 137.

We found an example of a property owned by an exempt organization that was being used for housing religious personnel. The assessor properly required that the claimant provide an explanation as to the use of the property. However, the assessor went on to further require, "Additional documentation should identify the occupant of the residence on each of the lien dates, a schedule of prayer meetings, Bible studies, youth group meetings or other religious activities held at the site during each of the calendar years 2004, 2005, 2006, 2007 and 2008."

In response, the claimant provided an attachment to the welfare exemption claim giving a detailed explanation as to the use of the property, stating that the property was used to provide the minister with housing as part of the total salary compensation, provided the minister with a private study/library for sermon preparation, and provided the minister a location for personal religious counseling, prayer meetings, bible study, and youth group meetings as part of the minister's religious duty. The assessor denied the welfare exemption claim, indicating that the claimant did not provide sufficient documentation as requested previously.

Rule 137 provides guidance in applying the welfare exemption for housing purposes. Rule 137(c) states, "For purposes of determining eligibility for the welfare exemption, it is the

use of the housing and related facilities by the organization owning the property that is to be considered, not the use by the occupants. If the organization's use of the property is incidental to and reasonably necessary for the accomplishment of the organization's exempt purposes, the property is eligible for exemption. The occupant's use for personal or residential purposes is secondary to the organization's primary exempt purpose and shall not disqualify the property from exemption either in whole or in part."

The claimant provided the assessor with a sufficient explanation of the use of the property and justification for the exemption well within the guidelines provided by statute. The assessor's request for the claimant to provide the names of occupants as of the lien date over multiple years, as well as provide schedules of activities conducted was unnecessary and not required by statute. By denying the exemption, the assessor may be disallowing a full or partial exemption to which the claimant may be entitled to receive.

**Disabled Veterans' Exemption**

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

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

The following table shows disabled veterans' exemption data for recent years:

<b>YEAR</b>	<b>DISABLED VETERANS' EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2012-13	219	\$23,442,408
2011-12	217	\$22,812,200
2010-11	207	\$21,460,810
2009-10	208	\$21,989,690
2008-09	193	\$19,959,271

We reviewed several disabled veterans' exemption claims and found areas in need of improvement.

**RECOMMENDATION 4:** Improve the disabled veterans' exemption program by: (1) removing the requirement that claimants need to file for exemption in person, (2) removing the requirement that claimants of the low-income provision of the disabled veterans' exemption submit personal financial information to qualify for exemption, (3) requiring documentation that the disabled veteran has been honorably discharged, and (4) granting the full disabled veterans' exemption when claims are filed timely.

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

We found that it is the assessor's practice to require claimants for the disabled veterans' exemption to file for the exemption in person. Filing in the presence of assessor's personnel is a requirement of the veterans' exemption, not the disabled veterans' exemption. Requiring 100 percent disabled individuals or their representatives to appear before the assessor is not supported in statute and is an unreasonable imposition, possibly representing an unnecessary hardship for the claimant.

**Remove the requirement that claimants of the low-income provision of the disabled veterans' exemption submit personal financial information to qualify for exemption.**

In Sutter County, the assessor requires all claimants for the low-income provision of the disabled veterans' exemption to submit personal financial information in order to qualify for exemption. The assessor requires the claimant to provide bank statements in addition to other income verification before granting the exemption.

Unlike the veterans' organization exemption, personal financial information is not required to support a claim for the low-income provision of the disabled veterans' exemption. As noted in the instructions on BOE-261-G (P4), *Claim for Disabled Veterans' Property Tax Exemption*, claimants are merely required to attest to their annual income and return the claim form by February 15. While the assessor does have the authority to request additional documentation pursuant to section 441(d)(1) if he deems it necessary, this would be on a case-by-case basis and not a requirement of all claimants. Requesting personal financial information from all claimants is not required by statute and may cause an unnecessary burden for claimants.

**Require documentation that the disabled veteran has been honorably discharged.**

We found that the assessor does not require proof that the disabled veteran was honorably discharged. Article XIII, section 3 of the California Constitution specifically states that the veteran must be discharged under honorable conditions. Although the Department of Veterans Affairs has indicated that a veteran would not typically be eligible to receive a 100 percent disability rating if the discharge conditions were dishonorable, they are eligible to receive compensation if they are discharged under "general" or "other than honorable conditions." The assessor's practice of not requesting a *Certificate of Release or Discharge from Active Duty* (DD Form 214) or some other verification of honorable discharge may result in the assessor granting exemptions to ineligible claimants.

**Grant the full disabled veterans' exemption when claims are filed timely.**

We found that it was the assessor's practice to consider a disabled veterans' exemption claim to be timely filed only if the claim was filed within 30 days of the receipt of the United States Department of Veterans Affairs (USDVA) determination letter.

Section 276.2(a) states, "If property becomes eligible for the disabled veterans' exemption as described in Section 205.5 after the lien date, and an appropriate application for that exemption is filed on the later of 90 days after the date on which the property became eligible or on or before the next following lien date, there shall be canceled or refunded the amount of any taxes, including any interest and penalties thereon, levied on that portion of the assessed value of the property that would have been exempt under a timely and appropriate application."

By applying late-filing provisions to a disabled veterans' exemption when the claim was filed timely, the assessor is not allowing certain claimants to receive the full exemption for which they are entitled to receive.

## ASSESSMENT OF REAL PROPERTY

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

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

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 2 percent.

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

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

### **Document Processing**

The assessor's primary source for discovering properties that have changed ownership is through the analysis of deeds and other recorded documents from the county recorder's office. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), to accompany documents submitted for recording that transfer ownership of real property. If a transfer document is received without a PCOR, the recorder's office will apply a \$20 charge to the recording fee. PCORs are available at both the assessor's and recorder's offices, as well as on their websites. Sutter County has a local ordinance that requires the assessor's parcel number (APN) to be noted on all documents involving real property that are submitted for recording.

The recorder's office prescreens the recorded documents based on criteria provided by the assessor. The prescreened recorded documents are then scanned and sent electronically from the recorder to the assessor on a daily basis. The assessor also receives the original PCORs from the recorder's office on a daily basis, and scans the PCORs into the computer system.

The assessor's map drafting/title technician reviews each document and corresponding PCOR, verifying that the name of the grantor, the legal description, and the APN being transferred are correct. An assessment technician gives a secondary review of each document to confirm the map drafting/title technician's review. If the transfer is eligible for a possible exclusion, any necessary correspondence is sent to the property owner. For those transfers resulting in a

reappraisable event, the document and corresponding PCOR are forwarded to the appraisal staff for valuation.

We reviewed several recorded documents and found that the assessor conducts a proper and thorough review of documents experiencing a change in ownership.

## Penalties

When a recorded document is received without a PCOR or the PCOR is incomplete, the assessor sends the property owner a BOE-502-AH, *Change in Ownership Statement* (COS), along with a letter requesting that the COS be completed and returned within 90 days.<sup>4</sup> The COS is monitored and tracked on a computer spreadsheet. If the COS is not returned within 90 days, the document is forwarded to an appraiser for valuation and the penalty process is applied.

## Transfer Lists

Pursuant to section 408.1(a), the assessor shall maintain a list of transfers of any interest in property, other than an undivided interest, within the county, which have occurred within the preceding two-year period. Section 408.1(e) states the provisions of section 408.1(a) shall not apply to any county with a population under 50,000 people, as determined by the 1970 federal decennial census. Based on the population of 41,935 in Sutter County in 1970, the assessor is not required to maintain a transfer list and has elected not to maintain one.

## Legal Entity Ownership Program (LEOP)

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

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

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the

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<sup>4</sup> Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended section 482(a) from 45 days to 90 days to allow property owners to return a completed COS when requested by the assessor before penalties are applicable.

date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE.<sup>5</sup> The BOE advises county assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

In Sutter County, the assessor discovers changes in control or ownership of legal entities by reviewing monthly LEOP reports from the BOE, business property statements, recorded documents, regional business journals, and local media.

When the assessor receives the monthly LEOP reports, an assessment technician reviews the report for the effective dates and for any changes that have occurred. The assessment technician identifies and reviews all parcels located within the county. A name search is also performed to ensure that all of the entity's real property is identified and reassessed. Once a change in control or ownership of a legal entity has been confirmed and processed for a reappraisable event, the parcels involved are assigned to the appropriate appraiser for valuation.

We reviewed several properties owned by legal entities undergoing changes in control or ownership and found areas in need of improvement.

**RECOMMENDATION 5:** Improve the LEOP program by: (1) timely reassessing all properties owned by a legal entity undergoing a change in control or ownership, and (2) properly implementing the penalty process in accordance with section 482(b).

**Timely reassess all properties owned by a legal entity undergoing a change in control or ownership.**

We found several properties owned by legal entities having undergone a change in control or ownership that had not been reassessed, even though the assessor was notified of the change in control or ownership for those legal entities through the BOE's LEOP program.

Section 64(c)(1) provides that when a legal entity acquires controlling interest of another legal entity by obtaining more than 50 percent of the voting stock or a majority ownership interest in that legal entity, there is a change in ownership of the real property owned by the legal entity being acquired.

By not reassessing properties owned by legal entities identified as having undergone a change in control or ownership, the assessor may be enrolling incorrect assessments for those properties. In addition, by not timely reassessing these properties, if the properties go unprocessed for four years or more, the assessor may lose revenue for the years beyond the statute of limitations for levying supplemental and escape assessments.

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<sup>5</sup> Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.



**Properly implement the penalty process in accordance with section 482(b).**

We found instances where the assessor failed to apply penalties to properties owned by legal entities that had failed to timely file a BOE-100-B due to a change in control or ownership in accordance with section 482(b), even though the assessor had been notified of the penalty by the BOE.

Section 482(b) states that if a legal entity required to file a statement described in section 480.1 or 480.2 fails to do so within 90 days from the earlier of (1) the date of the change in control or the change in ownership of the legal entity, or (2) the date of a written request by the BOE, a specific penalty shall be applied.<sup>6</sup>

By not applying penalties to properties owned by legal entities that fail to file a BOE-100-B or fail to file a BOE-100-B timely, the assessor is not in compliance with current statute and causes inequitable treatment of taxpayers.

**Change in Ownership Exclusions – Section 63.1**

Section 63.1 generally excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first \$1 million of other real property between parents and children. Section 63.1 also excludes qualifying purchases or transfers from grandparents to their grandchildren.

To enforce the \$1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. However, if an assessor opts not to report quarterly to the BOE, the assessor must track such transfers internally to be in compliance with section 63.1.

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

Applications regarding exclusions are available to the public at the assessor's office and on the assessor's website.

The assessor is proactive in notifying taxpayers of a possible exclusion when a PCOR or COS indicates that a transfer may be between parent(s) and child(ren) or from grandparent(s) to grandchild(ren). The assessor will send a claim form and cover letter to the property owner advising of a possible exclusion from reassessment. An assessment technician tracks the claim form using a computer spreadsheet. If there is no response within 45 days, a second claim form is sent. The assessor allows the property owner an additional 60 days to respond before processing the transfer for reassessment. Sutter County has a resolution in place allowing the

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<sup>6</sup> Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier. At the time of our survey, it was 90 days.

assessor to charge a \$145 processing fee if a transferee fails to return a certified claim for exclusion pursuant to section 63.1(j)(2) after two written requests and within 60 days of the date of the second written request.

An assessment technician reviews all section 63.1 applications and determines if the exclusion will be granted or denied. If a claim is denied, the property owner is notified in writing of the reason for the denial.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives a *Report of Transferors Exceeding \$1,000,000* from the BOE, the report is reviewed to determine if property in Sutter County has exceeded the limit. If multiple properties transfer on the same day, the assessor allows the property owner or representative to determine which properties to exclude and which to reassess. If parcels exceeding the limit are in counties other than Sutter County, the assessor contacts the property owner to determine how they would like to have the excess allocated and which properties to reassess. The assessor may contact the other counties involved if deemed necessary.

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

We reviewed several section 63.1 claim forms and found them to be properly handled.

### Change in Ownership Exclusions – Section 69.5

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

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

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

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

If a PCOR or COS indicates that a transfer may involve a base year value exclusion, the assessor sends interested parties a claim form, along with a cover letter explaining the exclusion. An assessment technician reviews all submitted claim forms for completeness and accuracy. Claim forms are forwarded to an appraiser to determine the fair market value of both the replacement and original properties, and to determine whether the property values meet the exclusion

requirements before accepting or denying the claim. The chief appraiser reviews all approved and denied claim forms. If a claim is denied, the property owner is notified in writing.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. When the assessor receives a *Duplicate SSN Report* from the BOE, the report is reviewed in order to determine if any claims made in Sutter County are subject to reassessment due to a duplicate filing in another county.

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

In Sutter County, there have been very few section 69.5 claims filed in recent years. We reviewed section 69.5 claim forms and found them to be properly handled.

## **Valuation**

Once a transfer has been determined to be a reappraisable event, the information is sent to an appraiser for valuation. Every reappraisable transfer is reviewed to confirm whether the reported purchase price reflects market value; the purchase price is not automatically enrolled. Residential and commercial properties experiencing a change in ownership are typically valued using the comparative sales approach. Appraisers may also use the income and/or cost approaches in the valuation process when deemed appropriate. Field inspections are conducted at the appraiser's discretion.

The assessor maintains a comparable sales database for various property types, including residential and commercial properties. The sales database is updated on a continuous basis as sales information is input into the computer system.

We reviewed several property records having recently experienced a change in ownership. We found that the assessor's office is following proper procedures for valuation and has an efficient valuation program in place for reappraising properties having undergone a change in ownership.

## **New Construction**

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

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

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

### Discovery

Building permits are the assessor's primary means of discovering new construction. The assessor receives building permits from three permit-issuing agencies: Sutter County Building Division of the Development Services Department, Yuba City Building Division, and City of Live Oak Building & Code Enforcement Department. In addition, the assessor receives permits for water wells and septic systems from the Sutter County Environmental Health Services Division of the Development Services Department.

Other discovery methods for new construction include field canvassing by appraisers in their assigned areas, viewing satellite photos, reviewing business property statements, receiving information from taxpayers, and reviewing newspaper articles.

The following table shows the total number of building permits received and the number of new construction assessments processed in recent years:

<b>YEAR</b>	<b>PERMITS RECEIVED</b>	<b>NEW CONSTRUCTION ASSESSMENTS</b>
2012-13	1,088	471
2011-12	1,057	563
2010-11	996	503
2009-10	1,635	664
2008-09	1,512	103

### Permit Processing

The assessor receives all building permits from each of the permit-issuing agencies. Building permits are received in hard copy format or through email, depending on the agency. Building plans and notices of completion are also received from the agencies. Although not required by ordinance, the assessor's parcel number (APN) is listed on most permits.

An appraisal aide is responsible for screening all permits to determine if the permit indicates assessable new construction. Those permits deemed not assessable are discarded. Permits indicating assessable new construction are input into the computer system and hard copies of the permits are forwarded to the appropriate appraiser's file, where the permit will remain until construction is completed. Those permits in question as to whether they represent assessable new construction are also input into the computer system and forwarded to the appraiser for the appraiser to determine if the work indicated is assessable or not.

The appraisers review the forwarded permits from the appraisal aide and send out cost questionnaires to the property owners. The information provided on the cost questionnaire is used by the appraiser as an additional source of data in the valuation process. Field inspections

are performed at the appraiser's discretion, depending upon the type of building permit issued and the information received, if any, from the cost questionnaire.

When unpermitted new construction is discovered, the assessor values and enrolls the escaped new construction as of the date of completion, whenever possible. The assessor properly enrolls supplemental assessments and escape assessments for all applicable years, as allowed by law.

The appraisal aide prepares diagrams for new construction using computer drawing software. The diagrams are typically based on the building plans and a hard copy of the completed drawing is placed in the property record file.

### Construction In Progress (CIP)

On each lien date, section 71 requires the assessor to enroll CIP at its fair market value. The assessor values new construction by estimating the full value of new construction as of the date of completion. For CIP, the appraiser must determine the completion status of new construction on each lien date and estimate the fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the CIP at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned. We reviewed several property records involving CIP. We have no recommendations regarding the assessor's practice of valuing CIP.

### Valuation

Appraisers value new construction at its full value as of the date of completion. An appraiser confirms completion of new construction through field inspections, information provided by permit-issuing agencies, and new construction cost questionnaires.

Appraisers rely primarily on the cost approach to value new construction for residential properties; however, the comparative sales approach may also be used when appropriate. For commercial or industrial properties, new construction is valued using the cost, comparative sales, and/or income approaches. Appraisers use a variety of sources to develop a cost indicator of value for new construction, including Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), the owner's reported costs, and *Marshall Valuation Service* for commercial and industrial properties. The appraiser documents the source of the cost indicator on the property record.

The assessor sends cost questionnaires to the property owners of building permits involving new construction. Field inspections are performed at the appraiser's discretion.

### Summary

We reviewed several new construction records and found the assessor's program for the discovery and assessment of new construction to be well managed. We found the property records to be well documented and the values to be reasonable. We have no recommendations for this program.

### Declines in Value

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

The following table shows data for declines in value over recent years:

YEAR	NUMBER OF PROPERTIES REVIEWED	NUMBER OF DECLINE-IN-VALUE ASSESSMENTS	TOTAL REDUCTION IN VALUE TO ASSESSMENT ROLL DUE TO DECLINE-IN-VALUE ASSESSMENTS
2012-13	11,826	11,230	\$1,146,962,600
2011-12	10,527	9,383	\$1,004,657,604
2010-11	8,281	9,039	\$896,582,992
2009-10	7,745	6,365	\$657,125,288
2008-09	5,190	4,237	\$320,079,605

Due to unfavorable economic conditions, Sutter County has experienced a notable decline in property values. Consequently, there has been a significant increase in the total number of properties eligible for decline-in-value assessment. As can be seen in the previous table, the increase in the number of properties being reviewed for a possible decline in value and the increase in the number of decline-in-value assessments placed on the roll has resulted in an increase in the assessor's overall workload.

Discovery and valuation of properties experiencing a decline in value are high priority for the assessor. The assessor and his staff have been very proactive in discovering and adjusting the assessments of properties affected by declines in value. The assessor runs advertisements periodically on the local radio station and in the local newspaper informing taxpayers that they should request to have their property value reviewed if they believe their current assessed value is higher than current market value. The assessor's primary method of discovering declines in value is through taxpayer requests for an informal review, assessment appeals, and appraisers' familiarity with their assigned areas.

Taxpayers may request an informal review of their assessment by completing and submitting an *Informal Request For Decline In Value (Prop 8) Review/Reassessment* form to the assessor. This form is available to the public at the assessor's office and on the assessor's website. The assessor's informal review form properly notifies taxpayers of their rights to file a formal assessment appeal with the clerk of the board and includes the filing period in which a taxpayer may file an appeal. All requests for an informal review must be filed no later than December 31. Taxpayers filing an informal request for review are notified of the results by telephone or by letter.

The assessor has implemented a computer program to aid in the identification and valuation of residential properties experiencing a decline in value. This program is a computer-assisted mass appraisal system; it is not a fully computerized valuation module. Each appraiser is responsible for identifying and valuing the declines in value in their assigned areas. Appraisers identify homogenous neighborhoods within their areas and then group similar single-family residences by property characteristics within those neighborhoods. The comparative sales approach is used to value the properties. Appraisers use computerized spreadsheets to classify the properties and make any necessary adjustments. The spreadsheets also allow the appraiser to easily identify the properties that may require further analysis before a declined in value can be determined. Residential properties that are unique or unusual are reviewed by the appraiser on an individual basis.

Once the computer-assisted valuation of a selected neighborhood is complete, the appraiser of the area reviews the results for potential errors and to identify properties that may require further analysis. When the appraiser is satisfied that all value conclusions are accurate for that particular neighborhood, the data is submitted to the chief appraiser for review and approval. Subsequently, an assessment technician enters the approved values into the computer system.

The assessor does not have a computer-assisted program to value commercial or rural properties experiencing a decline in value. Commercial or rural properties are reviewed for potential declines in value when the taxpayer requests an informal review, the appraiser of the area becomes aware of a potential decline in value, or the taxpayer files an assessment appeal.

Commercial or rural properties experiencing a decline in value are reviewed on an individual basis. For rural properties, the appraiser uses the cost and comparative sales approaches to determine current market value. For commercial properties, the appraiser uses the cost, income, and/or comparative sales approaches to determine current market value. In addition, the appraiser sends a letter to the property owner requesting additional information, such as income and expense data or comparable sales data, to assist the appraiser in the valuation process.

On June 7, 2011, the Sutter County Board of Supervisors adopted Resolution No. 11-056, authorizing the assessor to use the county website to provide value notices pursuant to section 621. A value notice is posted on the assessor's website for a property owner when the assessed value has been temporarily reduced due to a decline in value, when a reduced value remains unchanged on the roll for the current assessment year, or when the FBV has been fully or partially restored. The value notice includes the FBV and the proposed current assessed value.

We reviewed several decline-in-value assessments and found that the assessor properly reviews and adjusts properties experiencing a decline in value pursuant to section 51. Each decline-in-value assessment is coded with a "P" to identify the property for tracking purposes in order to prevent the annual inflation factor from automatically being applied to the prior year's taxable value and to ensure that the decline-in-value assessment will be annually reviewed.

Overall, the assessor's declines in value program is effective and well administered. However, we found an area in need of improvement.

**RECOMMENDATION 6:** Improve the declines in value program by including all required information on the value notice pursuant to section 619.

As stated previously, in accordance with section 621, Sutter County has a resolution allowing the assessor to post value notices on his website. However, the value notice posted on the website does not include the required information in regards to the property owner's assessment appeal rights as required by section 619(b).

Section 619(b) provides that the information given by the assessor to the assessee shall include a notification of hearings by the county board of equalization, which shall include the period during which assessment appeals will be accepted and the place where they may be filed. The information shall also include an explanation of the stipulation procedure set forth in section 1607.

By not including all required information in the value notice posted on the assessor's website, indicating that a value change has occurred to the assessed value, the assessor is not in compliance with current statute and taxpayers are not being properly notified of their right to file an assessment appeal.

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

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

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

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

For the 2012-13 roll year, Sutter County had 555 parcels encumbered by CLCA contracts, encompassing 64,667 acres. The total assessed value for land and improvements was \$148,022,877. Sutter County has 22 parcels totaling 849 acres in nonrenewal status. There have been no contracts cancelled in recent years.

In Sutter County, the gross agricultural production value for 2012 was approximately \$527 million. This was a 3.7 percent decrease from the 2011 value of \$547 million. In 2012, the top five crops by value in Sutter County were rice, walnuts, dried plums (prunes), peaches (processing), and tomatoes (processing).



The Sutter County Board of Supervisors has adopted the provisions of section 423.3, which provides that the assessed value of CLCA property shall not exceed a specified percentage of its factored base year value. The assessor applies a uniform percentage of no more than 75 percent to the factored base year value, compares that value to the current market value and the restricted value, then enrolls the lowest of the three values.

On September 27, 2011, the Sutter County Board of Supervisors adopted Resolution No. 11-082A, implementing the provisions of Assembly Bill (AB) 1265 in accordance with Government Code Section 51244(b). Based on these provisions, the Williamson Act contract terms in Sutter County were modified from a ten-year term to a nine-year term with a corresponding reduction in the property tax benefit by 10 percent. CLCA property owners were sent a letter of notification of the proposal to revise their contract term from a 10-year term to a 9-year term, and that they had until February 1, 2012 to serve notice of nonrenewal to begin the cancellation process for the 2012-13 roll year instead of accepting the modified contract terms.

In Sutter County, it is the responsibility of each appraiser to value the CLCA properties located within their assigned areas. Income and expense data is gathered from a variety of sources, such as CLCA questionnaires sent to property owners and the county's annual crop report. This data is used to determine income and expense rates to be used in the valuation process.

The assessor's staff utilizes a number of computer worksheets and spreadsheets to assist in the valuation of properties under CLCA contract. The assessed values, both restricted and unrestricted, of all CLCA properties are maintained on a master spreadsheet. Income and expense data is updated each year and entered into the spreadsheet to aid in calculating the restricted values. When developing a capitalization rate to be used in the valuation process, the assessor correctly includes the current interest component provided annually by the BOE, a risk component, and a property tax component.

The assessor's master spreadsheet shows the factored base year value, the section 423.3 value, the restricted value, and the current market value. As previously stated, the assessor compares the section 423.3 value, the restricted value, and the current market value as if unrestricted, enrolling the lowest of the three values. In addition, since the county has enacted AB 1265, an additional calculation has been added to the master spreadsheet showing, if applicable, the additional 10 percent value to be assessed to affected parcels thereby reducing the tax benefit received due to their restricted status under their CLCA contract.

The assessor properly treats properties not restricted by a CLCA contract, such as homesites or residences, and values them at the lower of factored base year value or current market value in accordance with section 428.

The assessor properly issues supplemental assessments on unrestricted portions of CLCA properties that undergo changes in ownership or are have any completed new construction. Pursuant to section 75.14 and section 52(a), supplemental assessments are not issued for restricted land or living improvements.

Our review of the assessor's CLCA program also found that the assessor properly uses an inclining-stable-declining method to value living improvements. CLCA properties in nonrenewal

status were valued correctly in accordance with section 426. CLCA properties having compatible uses were correctly valued.

We have no recommendations for the assessor's CLCA program.

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

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

For the 2012-13 roll year, the assessor enrolled 163 taxable possessory interests with a total assessed value of \$14,760,435. Some of the uses on these publicly-owned properties included airplane hangars at the county airfield, private boat docks, concessionaires and other private users of the county fairgrounds, and cable television franchises.

Taxable possessory interests are enrolled on the unsecured roll. The assessment roll correctly shows the name of the specific local, state, or federal agency that holds title to the real property where the taxable possessory interest is situated. One real property appraiser is responsible for the assessment of all taxable possessory interests located within the county.

As part of the discovery process for taxable possessory interests, each year the assessor sends a letter to the Yuba-Sutter Fairgrounds requesting information on current taxable possessory interests. In addition, the assessor receives information from two other public agencies regarding current taxable possessory interests. The assessor does not use BOE-502-P, *Possessory Interests Annual Usage Report*, to obtain this information nor does the assessor send letters to any other public agencies owning property in Sutter County. If no information is received from a public agency, the appraiser obtains the required information through telephone conversations or other forms of informal communication with either the public agency or the tenant/lessee of the taxable possessory interest.

The assessor maintains adequate appraisal records for each taxable possessory interest. The record contains the names of the lessee, the fee owner or public agency, the taxable possessory interest assessment number, the assessor's parcel number for the underlying parcel, a description of the use, the base year, the base year value, the term of possession used by the assessor to establish the base year value, and value calculations. This information assists the assessor in identifying when a change in ownership occurred due to a creation, renewal, extension, or assignment of a taxable possessory interest. Hard copies of the appraisal record are maintained in individual property folders.

The primary method of valuation used by the assessor to value taxable possessory interests is the income approach-direct method. In the direct method, the value of the taxable possessory interest is determined by discounting the estimated future market rent over the reasonably anticipated term of possession.

Our review of the assessor's taxable possessory interests program found an area in need of improvement.

**RECOMMENDATION 7:** Implement a program for the discovery of taxable possessory interests.

The assessor does not have a program in place for discovering new taxable possessory interests or for discovering changes to existing taxable possessory interests. As mentioned previously, the assessor has contact with three public agencies owning land in Sutter County, but does not actively seek information regarding private uses of public lands from other public agencies owning property in the county. In addition, the assessor does not utilize Board-prescribed form BOE-502, *Possessory Interests Annual Usage Report*, to annually contact all public agencies owning land in the county in order to obtain information on private users of these public lands.

Section 480.6 states that every state or local government entity that is the fee owner of real property in which one or more taxable possessory interests have been created shall annually file with the county assessor, no later than the 15th day of the first month following the month in which the lien date occurs, a real property usage report. The report shall include all of the following information:

- (1) The name and address of the fee owner of the real property.
- (2) The name and address of each holder of a possessory interest in the real property.
- (3) The types of transactions in which the holders of the possessory interests acquired those interests, whether creations, renewals, subleases, or assignments.
- (4) The description of the subject real property.
- (5) The date of each transaction in which a holder of a possessory interest in the real property acquired that interest.
- (6) The terms of each transaction described in paragraph (5), including all of the following:
  - (A) The consideration given for the possessory interest, whether paid in money or otherwise.
  - (B) The terms of the possessory interest, including any renewal or extension option.
  - (C) For any subleases, the original term and remaining term of the sublease, and the consideration paid for the master lease.
  - (D) For any assignments, the original term and remaining term of the assignment, and the consideration paid for the underlying lease.

BOE-502-P, *Possessory Interests Annual Usage Report*, satisfies all of the requirements as set forth in section 480.6.

By not having a program in place to annually contact all public agencies owning real property in the county, the assessor may be allowing taxable possessory interests to escape assessment, resulting in a loss of revenue and unequal treatment of taxpayers.

### ***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 high temperature geothermal properties located in Sutter County.

### **Petroleum Property**

Sutter County has hundreds of natural gas wells. In the past, the assessor had contracted with a mineral consultant to value these wells. However, the contract has since been terminated and the wells are now valued in-house by a real property appraiser.

Our review of the mineral property program noted the following recommendation:

**RECOMMENDATION 8:** Recognize declines in mineral right values for reasons other than depletion.

We found that when a gas property has a decrease in reserves for other than the prior year's production, the assessor recognizes the decrease in proved reserves, but not the corresponding decrease that should be reflected in the factored base year value of the mineral rights.

Changes to proved reserves can happen for many reasons. The assessor's mineral valuation properly accounts for depletion of reserves and the subsequent decrease in the factored base year value of the mineral right due to that reason. However, changes in well economics can also reduce reserves. For example, reduced product prices can lead to decreases in proved reserves, as can mechanical problems in a well. The assessor's current practice can be corrected by adjusting the mineral spreadsheet being used in the valuation process to allow a negative value for new reserves when there is a decrease in proved reserves.

By not properly recognizing a decline in the value of the mineral right for reasons other than depletion, the assessor may be enrolling incorrect assessments.

## **ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES**

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

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

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

### ***Audit Program***

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

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

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

In Sutter County, the audit responsibility falls upon two full-time auditor-appraisers, who are under the direction of the chief appraiser.

As noted previously, effective January 1, 2009, section 469 specifies a minimum audit workload. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete 23 audits per year. The assessor has consistently met the minimum audit threshold since the amendment of section 469, most recently completing a total of 28 audits for the 2011-12 roll year. Given recent audit production levels, it appears the assessor will meet his audit workload for the 2012-13 roll year. We also reviewed the assessor's audit selection methodology and found audit candidates included in the pool of largest accounts are being properly identified and processed.

### 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 signed waivers of the statute of limitations from taxpayers when he anticipates an audit will not be completed in a timely manner. Due to the assessor's timeliness in completing his audit workload, the use of waivers has not been required during recent years.

### Audit Quality

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

We found that the assessor performs change in control (ownership) reviews, verifies leased equipment, accounts for supplies, and properly classifies equipment during the audit process. We sampled several recently completed audits and found that in all cases the audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. The assessor's audit quality is further enhanced by a standardized review process where every completed audit is reviewed by the chief appraiser. We also reviewed the assessor's application of roll corrections to reflect audit findings. When correcting for audit findings indicating a net underassessment (escape), the assessor informs the property owner of their right to an appeal and separately enrolls roll corrections for each year in which the escape assessment took place pursuant to section 531.

Overall, the assessor's audit program is effectively managed. However, we found areas in need of improvement.

**RECOMMENDATION 9:** Improve the audit program by: (1) notifying taxpayers of their right to appeal the result of an audit as required by Rule 305.3, and (2) requiring a situs inspection as a standard component of the audit process.

**Notify taxpayers of their right to appeal the result of an audit as required by Rule 305.3.**

In Sutter County, the assessor does not notify taxpayers of their right to appeal audit findings when the audit results in no change to a previously enrolled assessment, even though the audit discloses property subject to escape assessment. We found that the assessor only informs taxpayers of their right to an appeal when the combined audit findings result in a net escape assessment of taxable equipment for a specific tax year. For other audit results, the assessor properly informs the taxpayer of the audit results in writing; however, there is no mention of the taxpayer's right to appeal audit findings.

Section 469 generally provides that the assessor shall provide the taxpayer with the results of an audit in writing. In implementing section 469, Rule 305.3(d)(2) provides that the taxpayer must be informed of their appeal rights, regardless of whether or not an escape is actually enrolled, if the audit discloses property subject to an escape assessment. When taxpayers are not advised of their appeal rights in relation to a net overassessment or a "no change" audit finding, they have no knowledge of their entitlement to equalization on the entire property for the year of such escape, regardless of whether or not the assessor actually enrolls an escape assessment.

**Require a situs inspection as a standard component of the audit process.**

For the majority of the audits we reviewed, we found no evidence that the assessor had conducted a situs inspection. According to the assessor's audit staff, situs inspections are only conducted when deemed necessary.

A situs inspection is an essential aspect of any complete audit. Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, discusses the importance of physical inspections in an audit program. An inspection should be standard procedure, especially for audits involving large commercial and industrial operations or in situations involving excess capacity, functional obsolescence, idle plants, or other unusual circumstances.

By foregoing the physical inspection of the property, the assessor risks missing assets that have dropped from the books and he cannot gain a full appreciation of the overall condition of the taxable property. A physical inspection is a fundamental component of the audit process and can be a pivotal step in reaching an informed value conclusion.

***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 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.

## Workload

The following table displays the assessor's workload of secured and unsecured BPSs and assessments for the 2012-13 roll year:

TYPE OF PROPERTY STATEMENTS	TOTAL	SECURED VALUE	UNSECURED VALUE	TOTAL ASSESSED VALUE
General Business	3,369	\$169,259,807	\$413,175,014	\$582,434,821
Agricultural	975	\$71,425,296	\$82,461,547	\$153,886,843
Apartments	231	\$1,106,161	\$0	\$1,106,161
Direct Billing	427	\$1,021,060	\$1,602,237	\$2,623,297
Financial	26	\$1,427,734	\$1,743,000	\$3,170,734
Leased Equipment	267	\$0	\$36,749,157	\$36,749,157
Service Stations	14	\$4,288,661	\$618,469	\$4,907,130
<b>Totals</b>	<b>5,309</b>	<b>\$248,528,719</b>	<b>\$536,349,424</b>	<b>\$784,878,143</b>

## Discovery

The assessor utilizes a wide range of tools in discovering taxable business property. In addition to taxpayer self-reporting and periodic field canvassing, the assessor reviews city and county business licenses, fictitious business name filings, business directory services, real property appraiser referrals, landlord reports of tenants, and BOE notifications. We found that the assessor employs a sufficiently diversified program for discovering business personal property.

## General Statement Processing

BPSs are first reviewed by an assessment technician for completeness and the inclusion of an authorized signature. Incomplete BPSs and statements submitted without an authorized signature are returned to the property owner, along with a letter indicating the reason for the rejection; a copy of the incomplete statement is retained by the assessor. Completed BPSs are date stamped and submission dates are entered into the computer system to reflect the timely submission. BPSs are then forwarded to staff for valuation. Certified auditor-appraisers make all valuation judgments. The computer system automatically applies a section 463 penalty to all accounts where BPSs were either not submitted or submitted subsequent to the statutory deadline of May 7.

## Direct Billing

Many assessors utilize an assessment procedure known as "direct billing" or "direct assessment." It is a method of assessing qualified lower-value business accounts without the annual filing of a BPS. The assessor establishes an initial value and continues the value for several years. Property statement filing is required periodically. Examples of businesses suitable for direct billing include apartments, barbershops, beauty parlors, coin-operated laundrettes, small cafes, restaurants, and professional firms with small equipment holdings.



The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer BPSs that must be processed annually by the assessor's staff. This program increases the time available for the appraisers to perform other required duties.

In Sutter County, 427 business accounts participated in the direct billing program during the 2012-13 roll year. The assessor's program is well regulated and appropriate controls are in place to reduce the chance of escape assessments by ensuring only well suited business accounts are included in the program and requiring participating businesses to file a BPS every three years in order to update taxable equipment information.

### Summary

We reviewed all major aspects of the assessor's BPS program, including processing procedures and use of Board-prescribed forms. In addition, we reviewed several recently processed BPSs. We found that in all observed cases, BPSs accepted by the assessor evidenced the proper usage of Board-prescribed forms, were completed in sufficient detail, and were properly signed. We have no recommendations for the assessor's BPS program.

### ***Business Equipment Valuation***

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

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

The assessor values assessable equipment using price index factors that are based on equipment index and percent good factors published in AH 581 and the California Assessors' Association's (CAA) business assessment factors. When there is good and compelling information available regarding equipment values that deviate from published equipment factor tables, that information is utilized by the assessor if it provides a better indicator of value.

Business equipment valuation is primarily handled by certified staff. Any work done by noncertified staff is reviewed by an auditor-appraiser. We reviewed a variety of business equipment assessments, including retail businesses, service businesses, industrial operations, and medical offices. We found that the assessor uses acceptable methods of valuing business equipment.

We have no recommendations for the assessor's business equipment valuation program.

## **Manufactured Homes**

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

In Sutter County, there were 838 manufactured homes enrolled for the 2012-13 roll year, with a total assessed value of \$21,103,505. There are 21 mobilehome parks in Sutter County. The assessor classifies manufactured homes as personal property and enrolls them on the secured roll. All manufactured homes in the county are valued by an appraisal aide, who is certified through the BOE.

In Sutter County, if a manufactured home is situated on an approved permanent foundation system, it is reclassified as real property and assigned to the appraiser responsible for valuing the real property in that geographic location. The appraiser verifies that the home is affixed to an approved foundation in accordance with Health and Safety Code section 18551, and requires proof that the notice of affixation (form 433A) has been recorded.

The assessor discovers assessable manufactured homes through information received from the Department of Housing and Community Development (HCD), dealer reports of sale, building permits, mobilehome tax clearance certificates, and field canvassing.

The assessor typically uses the comparative sales approach to value manufactured homes. In addition, the assessor uses Assessors' Handbook Section 531.35, *Manufactured Housing* (AH 531.35), as a guide to assist in the valuation process of the manufactured homes. For newly purchased manufactured homes, the assessor typically enrolls the reported sale price. The assessor also considers the condition, age, quality class, and/or square footage of the manufactured home before making a final value determination.

Section 5813 requires that manufactured homes be assessed at the lesser of the factored base year value or current market value. The assessor has developed a program to review the assessments of manufactured homes to ensure that declines in value are recognized accurately and consistently. Each year, the chief appraiser performs a decline-in-value study for manufactured homes using comparable sales data. The appraisal aide uses this study, along with AH 531.35, to determine current market value for the manufactured homes. The current market value determined for each manufactured home is compared to its factored base year value, and the lower of the two values is enrolled.

We reviewed several manufactured home assessments, including transfers, supplemental assessments, accessories, new construction, and new installations. We found an area in need of improvement.

**RECOMMENDATION 10:** Exclude site value from the reported purchase price of a manufactured home on rented or leased land when determining the current market value to be enrolled.

We found that the assessor typically values a recently purchased manufactured home on rented or leased land by enrolling the HCD reported purchase price without making an adjustment to exclude any site value that may be included in that purchase price. While the assessor considers published cost data, such as the cost data in AH 531.35, in the valuation process, typically the assessor enrolls the reported purchase price, even though the cost data indicated a much lower value. According to the notes in the property records reviewed, the HCD reported purchase price was enrolled pursuant to Rule 2. In addition, the comparable sales being utilized by the assessor also include the total purchase price without any adjustment being made for site value.

Section 5803(b) provides that since owners of manufactured homes on rented or leased land do not own the land on which the manufactured home is located and are subject to having the manufactured home removed upon termination of tenancy, "full cash value" does not include any value attributable to the particular site where the manufactured home is located on rented or leased land, which would make the sale price of the manufactured home at that location different from its sale price at another location on rented or leased land.

AH 531.35 recommends that using the replacement cost approach, which uses an indicator of value from a recognized value guide, plus the value of all manufactured home accessories, buildings, and structures, provides the best indication of value excluding site influence.

AH 531.35 goes on further to state that when using the comparative sales approach, the sale price of comparable manufactured homes located on rented or leased land will frequently include an increment attributable to site value. In order to comply with section 5803(b), the site value must be extracted from each sale before the sale can be used as a comparable, which is why the comparative sales approach is more difficult to apply to manufactured homes located on rented or leased land.

Failure to exclude the value attributable to the site from the HCD reported purchase price of a manufactured home on rented or leased land before enrolling that value as the current assessed value, or using it as a comparable sale, may cause the assessor to overassess certain taxpayers.

## **Aircraft**

### **General Aircraft**

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

For the 2012-13 roll year, the assessor enrolled 152 general aircraft with a total assessed value of \$17,805,871. An assessment technician handles the daily aircraft assessment responsibilities, while an auditor-appraiser reviews all value calculations and provides support.

Aircraft are discovered through airport operators' reports, Federal Aviation Administration (FAA) reports, referrals from other counties, and annual field canvassing.

Each year, the assessor mails BOE-577, *Aircraft Property Statement*, to the known owner of each aircraft in the county requesting current information on all aircraft. The form requests the owner to report engine information, air hours since the last major overhaul, airframe time, avionics equipment, overall condition, current situs information, and transfer information if applicable. The aircraft statement indicates a filing due date of April 1, and the assessor imposes a 10 percent penalty for failure to file and late-filings.

The assessment technician processes each submitted property statement, while an auditor-appraiser reviews a sampling of the processed statements on an annual basis. Once submitted, statements are first reviewed for completeness and the inclusion of an authorized signature. Statements submitted without an authorized signature are returned to the aircraft owner for completion. Aircraft owners that submitted property statements missing critical information are contacted in order to retrieve the necessary information. Assessed values are determined using the computerized version of *Bluebook*. A valuation worksheet for each aircraft being appraised is generated using this software to document the source and components included in the value conclusion.

We reviewed several general aircraft records for valuation methodology, the inclusion of legal signatures, and the application of late or failure to file penalties pursuant to section 5367. We found that the assessor's procedures for the discovery, valuation, and assessment of general aircraft conform to statutory provisions and guidelines set forth in *Assessors' Handbook Section 577, Assessment of General Aircraft (AH 577)*, and *Letter To Assessors No. 97/03*.

### Historical Aircraft

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

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

For the 2012-13 roll year, there were five historical aircraft with a total value of \$157,668.

We reviewed all five historical aircraft assessments and exemption claims. We found that the assessor properly obtained signed affidavits in Board-prescribed format and certification of attendance pursuant to section 220.5. The assessor properly granted the exemption when the statutory requirements were met.

We have no recommendations for the historical aircraft program.

## Vessels

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

In Sutter County, it is the responsibility of an assessment technician and an auditor-appraiser to process vessel property statements and perform vessel assessment duties. The auditor-appraiser reviews all vessel values to be enrolled.

The assessor's primary sources of discovery include reviewing DMV reports, referrals from other counties, information from vessel owners themselves, marina reports, and annual field canvassing.

The following table shows the number of vessels and their total assessed value in recent years:

YEAR	VESSELS	ASSESSED VALUE
2012-13	1,199	\$12,224,292
2011-12	2,577	\$11,252,197
2010-11	2,652	\$12,708,517
2009-10	2,693	\$15,043,731
2008-09	2,751	\$18,874,285

The assessor uses the National Automobile Dealers Association *Marine Appraisal Guide* (NADA) to value newly enrolled vessels. If current or reliable information is not available in NADA, the assessor uses the values of similar vessels from Internet websites (such as [iboats.com](http://iboats.com) and [Soldboats.com](http://Soldboats.com)) to obtain current, comparable sales data. For vessels not new to the county, values are derived using the BOE annual vessel valuation factors.

The assessor sends a county-developed form, *Vessel Owner's Report*, to the registered owners of all new vessels in the county, as well as vessels that have changed ownership. If the vessel owner fails to respond, the assessor then sends BOE-576-D, *Vessel Property Statement*, to the vessel owner requesting the owner to return the completed property statement. Vessels owners that fail to return BOE-576-D are assessed a 10 percent penalty in accordance with section 463.

Sutter County does not have any vessels with a cost of \$100,000 or more, nor do they have any documented vessels in recent years.

We reviewed a sample of vessel property statements and found that appropriate valuation methods were employed, including adding sales tax and delivery charges when using one of the value guides. Adjustments for condition and additional equipment were also made and section 463 penalties were made when appropriate. Values for the samples reviewed were found to be reasonable. However, we found an area in need of improvement.

**RECOMMENDATION 11:** Use Board-prescribed assessment form BOE-576-D, *Vessel Property Statement*.

As stated previously, the assessor initially sends a county-developed form, *Vessel Owner's Report*, in lieu of Board-prescribed form BOE-576-D, *Vessel Property Statement*. The assessor only sends BOE-576-D when the vessel owner fails to return the *Vessel Owner's Report*.

Pursuant to Letter To Assessors (LTA) No. 2004/049, a county may develop a form for use in their county for a specific use. However, a county may not use its own form if there is a Board-prescribed form available. In other words, if a Board-prescribed form is available, that form must be used. Using county-developed forms in lieu of Board-prescribed forms could mislead property owners and create confusion about current procedures and filing requirements.

## APPENDIXES

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

#### Sutter County

*Chief*

Dean Kinnee

*Survey Program Director:*

Mike Harris

Manager, Property Taxes

*Survey Team Supervisor:*

Sally Boeck

Supervisor, Property Taxes

*Survey Team Leader:*

Ronald Louie

Supervisor, Property Taxes

*Survey Team:*

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Andrew Austin

Senior Specialist Property Appraiser

Gary Coates

Associate Property Appraiser

Robert Marr

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Brian Salmon

Associate Property Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

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

***Government Code***

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

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

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

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

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



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

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

**15642. Research by board employees.**

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

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

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

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

**15644. Recommendations by board.**

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

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

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

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

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

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

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

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

**Revenue and Taxation Code**

**75.60. Allocation for administration.**

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

(b) For purposes of this section:

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

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

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

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

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

only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

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

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

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

**Rule 371. Significant assessment problems.**

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

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

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

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

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

## **ASSESSOR'S RESPONSE TO BOE'S FINDINGS**

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

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



# County of Sutter

## Assessor's Office

**TODD RETZLOFF, CCIM, ASSESSOR**  
(530) 822-7160

April 17, 2014

Mr. Dean Kinnee, Chief  
County Property Tax Division  
State Board of Equalization  
PO Box 942879  
Sacramento, CA 94279-0063

Re: Sutter County Assessment Practices Survey Response

Dear Mr. Kinnee,

I have reviewed the Sutter County Assessment Practices Survey Report and the recommendations contained within it. I have attached my response to the above referenced report pursuant to section 15645 of the Government Code.

I truly believe the periodic surveys conducted by the Board of Equalization are not only for the benefit of the public we serve, but the betterment of our office. Sally Boeck, Ronald Louie and the entire State Board staff were courteous, professional and respectful of my staff and their time. While we do not agree with every recommendation, we do appreciate their in-depth review of our practices and procedures. We were pleased by the willingness they showed in openly discussing their findings with the intent to increase our understanding and improve our practices. In addition, the BOE staff continues to support our efforts to complete our work accurately by allowing our staff to call upon them to answer any questions we may have on a current file. I want to express my appreciation to all of the BOE staff in their assistance in improving our assessment program.

Most importantly, I would like to thank the staff of the Sutter County Assessor's Office for their hard work and dedication, along with being courteous and serving the public in a professional manner. They are committed to teamwork, mutual respect and integrity and it is a privilege to work with each and every one of them.

Respectfully submitted,

A handwritten signature in blue ink that reads "Todd L. Retzloff".

Todd L. Retzloff, CCIM  
Sutter County Assessor



## Sutter County Assessment Practices Survey

April 2014

### Recommendations and Responses

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

Response: We concur. This was implemented for 2013. At the time of the survey, the staff member in charge of reporting the statistics had retired and we were unaware that the prior two years went unreported.

Recommendation 2: Develop and implement written procedures that address economic interests and the assessment of staff-owned property.

Response: We concur. At the time of the survey, our office had a limited staff-owned property program to identify those properties owned by staff members that are required to file form 700 with the BOE. We have expanded the program to include all staff from the Assessor's Office and look forward to the BOE providing guidance on better methods to improve this program and the discovery of property ownership.

Recommendation 3: Properly grant the welfare exemption for property being used for housing religious personnel in accordance with Rule 137.

Response: We concur. The one property in question has been granted the welfare exemption for the housing provided for staff. All future property will be reviewed with this in mind.

Recommendation 4: Improve the disabled veterans' exemption program by: (1) removing the requirement that claimants need to file for the exemption in person, (2) removing the requirement that claimants of the low-income provision of

the disabled veterans' exemption submit personal financial information to qualify for exemption, (3) requiring documentation that the disabled veteran has been honorably discharged, and (4) granting the full disabled veterans' exemption when the claims are filed timely.

Response: We concur. We have changed our office policy to reflect these recommendations.

Recommendation 5: Improve the LEOP program by: (1) timely reassessing all properties owned by a legal entity undergoing a change in control or ownership, and (2) properly implementing the penalty process in accordance with section 482(b).

Response: We concur. As a general rule, our LEOP program has been up to date and penalties have been properly assessed on all properties as we are notified by the BOE. Prior to and at the time of the survey in 2012, our office, like many in California had seen a reduction in staff due to layoffs. We also had a key member of our staff out on medical leave and got behind in the workload. Currently, we are cross training staff to keep this from reoccurring.

Recommendation 6: Improve the declines in value program by including required information on the value notice pursuant to Section 619.

Response: We concur. In accordance with section 621, Sutter County has a resolution allowing the Assessor to post value notices on our website. On the Assessor's website there is a link for Residential Property Assessment Appeals, which contains the information to walk a taxpayer through the process of an appeal, including a link to the BOE video on this subject. We will implement this recommendation as time is available from our IT department.

Recommendation 7: Implement a program for discovery of taxable possessory interests.

Response: We agree in concept with the use of a form. However we respectfully disagree on the form BOE 502-p. Sutter County has an effective policy for discovery of possessory interest users. Compliance with our requirement for reporting has been historically very good and implementation of the required form could disrupt or discourage compliance. There are no penalties to the reporting agencies for failure to report, so it is crucial to maintain a reasonable reporting requirement. Their cooperation is a more effective tool than the excessively detailed and burdensome requirement. However, this is a law and we will comply by mailing out the form, but we should also consider providing a note stating any format would be acceptable.

Recommendation 8: Recognize decline in mineral right values for reasons other than depletion.

Response: The mineral rights spreadsheet has been revised to comply with this recommendation.

Recommendation 9: Improve the audit program by: (1) notifying taxpayers of the right to appeal the result of an audit as required by Rule 305.3, and (2) requiring a situs inspection as a standard component of the audit process.

Response: We concur. Both recommendations have been implemented.

Recommendation 10: Exclude site value from the reported purchase price of a manufactured home on rented or leased land when determining the current market value to be enrolled.

Response: We concur. This recommendation has been implemented.

Recommendation 11: Use Board-prescribed assessment form BOE 576-D, Vessel Property Statement.

Response: We agree in concept with the use of a form. However we respectfully disagree on the form BOE 576-D. It is of the utmost importance to have

the vessel owner provide us with the data necessary for our staff to complete the valuation process. Compliance by vessel owners has been historically good and implementation of the required form could disrupt or discourage this. The good response we have historically received in the past is based upon a much simpler form developed by our office. Again, it is crucial to maintain a reasonable reporting requirement, as the vessel owners cooperation is a more effective tool than the excessively detailed and burdensome form. That being said, we will comply by mailing out the required BOE 576-D form. In the past, BOE form 576-D was not well received by vessel owners when it was first developed by the BOE and mailed out by our office.