

# **SUTTER COUNTY ASSESSMENT PRACTICES SURVEY**

**DECEMBER 2003**

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## **CALIFORNIA STATE BOARD OF EQUALIZATION**

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December 31, 2003

TO COUNTY ASSESSORS:

No. 2003/089

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 Michael V. Strong, 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 Property Tax Division from November through December 2002. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Strong 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:jm  
Enclosure

# TABLE OF CONTENTS

**INTRODUCTION ..... 1**

**SCOPE OF ASSESSMENT PRACTICES SURVEYS ..... 2**

**EXECUTIVE SUMMARY..... 3**

**RESULTS OF 1999 SURVEY..... 5**

**OVERVIEW OF SUTTER COUNTY AND THE ASSESSOR'S OFFICE ..... 6**

**ADMINISTRATION ..... 9**

    STATE-COUNTY PROPERTY TAX ADMINISTRATION PROGRAM ..... 9

    APPRAISER CERTIFICATION ..... 10

    EXEMPTIONS ..... 10

    DISASTER RELIEF ..... 13

    ASSESSMENT FORMS ..... 14

    ASSESSMENT ROLL CHANGES ..... 14

    ASSESSMENT APPEALS ..... 16

**ASSESSMENT OF REAL PROPERTY ..... 17**

    CHANGE IN OWNERSHIP ..... 17

    NEW CONSTRUCTION ..... 19

    SUPPLEMENTAL ASSESSMENTS ..... 20

    CALIFORNIA LAND CONSERVATION ACT PROPERTY ..... 21

    DECLINE IN VALUE ..... 23

    TAXABLE GOVERNMENT-OWNED PROPERTY ..... 24

    POSSESSORY INTERESTS ..... 24

    LEASEHOLD IMPROVEMENTS ..... 25

    WATER COMPANY PROPERTY ..... 26

    MINERAL PROPERTY ..... 27

    PIPELINE RIGHTS-OF-WAY ..... 27

**ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES..... 29**

    AUDIT PROGRAM..... 29

    BUSINESS PROPERTY STATEMENT PROCESSING..... 30

    BUSINESS EQUIPMENT VALUATION ..... 31

    AIRCRAFT..... 33

    VESSELS ..... 34

    MANUFACTURED HOMES ..... 34

**APPENDICES ..... 35**

    A. COUNTY PROPERTY TAX DIVISION SURVEY GROUP ..... 35

    B. RELEVANT STATUTES AND REGULATIONS ..... 36

**ASSESSOR'S RESPONSE TO BOE'S FINDINGS ..... 42**

## **INTRODUCTION**

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

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

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increase the number of recommendations in the survey reports.

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

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

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

In addition, pursuant to Revenue and Taxation Code<sup>1</sup> section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. 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 contact with other public agencies in Sutter County that 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.<sup>2</sup>

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment.

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

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

## **EXECUTIVE SUMMARY**

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

In our 1999 survey, we made six recommendations addressing problems found in the assessor's policies and procedures. The assessor fully implemented all of our recommendations. The findings of the current survey are summarized below:

- The assessor and his appraisal staff possess the appraiser's certificates required by section 670.
- There are no problems with his assessment forms.
- The assessor has effective programs for processing exemptions, disaster relief claims, assessment appeals, the enrollment of new construction, supplemental assessments, and possessory interests. Moreover, the assessor has effective programs for valuing properties that have declined in value, leasehold improvements, and pipeline rights-of-way.
- The assessor has participated in the State-County Property Tax Administration Loan Program every year since 1998-99, enabling him to avoid backlogs in all areas of his assessment program.
- The assessor inappropriately exempted low-valued properties at the county airport.
- When enrolling escape assessments, the assessor does not include the notation on the current roll required by section 533.
- The assessor does not identify penalty assessments on the current roll as required by rule 261.
- The assessor does not timely apply the penalty for failure to file a change in ownership statement.
- The assessor fails to establish proper base year values for taxable government-owned properties.
- The assessor fails to obtain lists of tested water sites from public agencies to discover assessable property.
- The assessor has effective programs for the discovery of taxable personal property, processing business property statements, and valuing computers. The assessor also has effective programs for assessing leased equipment, aircraft, manufactured homes, and vessels, and for conducting audits.
- The assessor uses undocumented minimum percent good factors when valuing business property.

There were no significant assessment problems as defined in rule 371. 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>	Apply the low-value property exemption only to qualifying properties. ....	13
<b>RECOMMENDATION 2:</b>	Correctly identify penalty and escape assessments on the current assessment roll, as required by section 533 and rule 261.....	15
<b>RECOMMENDATION 3:</b>	Apply the section 482 penalty when a <i>Change of Ownership Statement</i> is not returned timely. ....	18
<b>RECOMMENDATION 4:</b>	Establish base year values for taxable government-owned properties according to BOE guidelines.....	24
<b>RECOMMENDATION 5:</b>	Obtain lists of tested water sites from public agencies to discover assessable property. ....	26
<b>RECOMMENDATION 6:</b>	Use Assessors' Handbook Section 581, <i>Equipment Index and Percent Good Factors</i> , as intended, when valuing older machinery and equipment. ....	31

## **RESULTS OF 1999 SURVEY**

### ***Low-Value Property Exemption***

We recommended that the assessor apply the county's low-value property exemption uniformly to all qualifying properties. The assessor now reviews contiguous parcels to determine eligibility for the low value exemption. Thus, the assessor has implemented this recommendation.

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

We recommended that the assessor value all qualifying possessory interests at the county fairgrounds. The assessor has implemented our recommendation.

### ***Equipment Valuation***

We recommended that the assessor value computers using the BOE's recommended factors. The assessor has implemented this recommendation.

### ***Aircraft***

We recommended the assessor apply the 10 percent penalty for failure to timely file an aircraft property statement. The assessor has implemented this recommendation.

### ***Manufactured Homes***

We recommended that the assessor properly classify manufactured homes as personal property. The assessor has implemented our recommendation.

### ***Mineral Properties***

We made a recommendation regarding the treatment of working capital and its recapture in an income approach. The assessor has implemented our recommendation.

## OVERVIEW OF SUTTER COUNTY AND THE ASSESSOR'S OFFICE

Sutter County was incorporated by the California State Legislature on February 18, 1850, as one of the state's original 27 counties. Sutter County is a major agricultural center located in Northern California. The county's southernmost border is approximately 10 miles north of the State Capital, Sacramento. The county is bounded by the Sacramento and Feather Rivers, encompasses 607 square miles, and provides easy access to the Lake Tahoe and San Francisco areas.

Sutter County has a population of approximately 78,900, with 43,000 persons residing in Yuba City and Live Oak, the county's only incorporated cities. Most of the remaining residents live in the small communities of Tierra Buena, Meridian, Rio Oso, Trowbridge, Sutter, Pleasant Grove, Nicolaus, East Nicolaus, and Robbins.

### **Staffing**

For the 2001-02 roll year, the assessor increased his staff by one, to a total of 24. The staff currently consists of the assessor, an assistant assessor, a chief appraiser, an office manager, a senior map drafting-title technician, six appraisers, three auditor-appraisers, nine assessment clerks, and an appraisal aide. In addition, the assessor uses a contract appraiser to value mineral properties.

### **Budget**

As shown in the table below, on average, the assessor's budget has increased about 13.3 percent per year between 1998-99 and 2002-03. With a budget of \$1,623,255, the assessor prepared the 2002-03 local roll, which totaled nearly \$5.2 billion.

YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF	PTAP FUNDS RECEIVED*	PTAP STAFF
2002-03	\$1,823,291	12.3%	21.5	\$147,436	2.5
2001-02	\$1,623,255	24.2%	21.5	\$147,436	2.5
2000-01	\$1,306,492	11.5%	20.5	\$147,436	2.5
1999-00	\$1,171,793	-1.29%	20.5	\$147,436	2.5
1998-99	\$1,187,074		20.5	\$147,436	2.5

\*State-County Property Tax Administration Program

### **Assessment Volume**

Commensurate with county growth, annual assessments have increased since the 1999-00 roll year. The total increase between 1998-99 and 2002-03 was approximately 27.4 percent, reflecting an average annual increase of about 6.8 percent.

The following table illustrates the growth in assessed values during the past four years:

<b>ROLL YEAR</b>	<b>TOTAL ROLL VALUE</b>	<b>INCREASE</b>
2002-03	\$5,199,343,277	6.8%
2001-02	\$4,869,612,226	9.2%
2000-01	\$4,460,392,244	9.3%
1999-00	\$4,081,882,536	-0.21%
1998-99	\$4,090,533,317	

The next table provides a breakdown of property types for the 2002-03 assessment roll:

<b>PROPERTY TYPE</b>	<b>NUMBER OF ASSESSMENTS</b>	<b>ENROLLED VALUE</b>
<b><u>Secured Roll</u></b>		
Land		\$1,618,361,092
Mineral Property		41,606,472
Improvements		3,025,276,599
Fixtures		20,768,666
Personal Property		185,227,704
Less Secured Exemptions		(236,779,800)
Total Secured (Net of Exemptions)	29,316	\$4,654,460,733
<b><u>Unsecured Roll</u></b>		
Airplanes		\$14,089,804
Vessels		14,281,777
Land		9,416,178
Improvements		151,635,611
Fixtures		9,098,239
Personal Property		201,905,598
Less Unsecured Exemptions		(8,259,975)
Total Unsecured (Net of Exemptions)	6,295	392,167,232
<b><u>BOE Roll</u></b>		152,715,312
<b>Total Assessment Roll</b>	35,611	\$5,199,343,277

## ADMINISTRATION

This portion 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. We examined the State-County Property Tax Administration Program, appraiser certification, exemptions, the disaster relief program, and assessment forms. We also reviewed how the assessor processes corrections and changes to the completed assessment roll, and how the assessor prepares for and presents assessment appeals.

### ***State-County Property Tax Administration Program***

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP).<sup>3</sup> This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.<sup>4</sup>

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

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

Sutter County first participated in the PTAP in 1998-99 and currently is contracted to participate through May 30, 2003. The annual loan amount is \$147,436, and the required base year funding and staffing levels are \$729,929 and 19 positions, respectively. The Sutter County Auditor-Controller has certified to the State Department of Finance that the county has met the contractual requirements for loan repayment for every year under contract.

The assessor used PTAP funds for the following performance measures throughout the years of his contract (not all measures applied in each year):

- Performing annual reviews of properties experiencing declines in value;
- Performing mandatory and nonmandatory audits;

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<sup>3</sup> Stats. 1995, Ch. 914, in effect October 16, 1995.

<sup>4</sup> The Property Tax Administration Loan Program expired June 30, 2001. In 2001, the Governor approved AB 589 (Stats. 2001, Ch. 521), establishing the Property Tax Administration Grant Program for the fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

- Increasing "desk reviews" of personal property accounts;
- Maintaining production levels in the new construction and change in ownership programs;
- Completing accumulated assessment appeals;
- Providing staff with training in computer applications; and
- Acquiring additional computer hardware, software, and related equipment.

In order to remain current with the audit, new construction, change in ownership, and decline-in-value programs, the assessor used the PTAP funds to provide overtime for full-time employees and increased staffing by 2.5 positions on an annual limited-term basis. For every year he has participated in the loan program, the assessor has exceeded the performance measures established in his contract.

### ***Appraiser Certification***

Section 670 requires all persons who perform the duties of an appraiser for property tax purposes to hold a valid certificate issued by the BOE. The assessor's office has a total of 13 positions that require an employee to hold an appraiser's certificate.

The assessor, his staff, and his contract appraiser possess the required certificates. In addition, the contract with the non-employee appraiser conforms to the requirements of section 674.

### ***Exemptions***

#### **Church and Religious Exemptions**

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

Article XIII, section 4(b) authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes, and owned or held in trust by corporations or other entities that meet the following requirements: (1) are organized and operated for those purposes; (2) are non-profit; and (3) no part of whose net earnings inures to the benefit of any private shareholder or individual. The Legislature has acted upon such authorization by enacting the religious exemption in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

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

The following table shows the assessor's religious and church exemption workload for the last five years:

	RELIGIOUS		CHURCH	
	Amount of Exemptions	Number of Exemptions	Amount of Exemptions	Number of Exemptions
2002-03	\$36,355,204	86	\$217,261	1
2001-02	\$31,434,466	74	\$404,691	3
2000-01	\$31,748,930	82	\$298,145	2
1999-00	\$31,861,686	82	\$292,291	2
1998-99	\$31,219,300	84	\$ 85,983	1

There are no problems with the assessor's religious and church exemption programs.

### Welfare Exemption

The welfare exemption is available for property used exclusively for religious, hospital, scientific, or charitable purposes that is owned and operated by community chests, funds, foundations, or corporations organized and operating for those purposes. If the property is owned by one qualified organization and used by another qualified organization more than once per week, then both must file a claim for the property to receive exemption.

The welfare exemption is co-administered by the BOE and county assessors, and the claim must be approved by both agencies. Annual filing of the exemption claim with the assessor is required. The assessor reviews the claim and forwards a copy to the BOE. BOE staff review the claim and notify the assessor of approval or denial.

When the welfare exemption is claimed on a property for the first time, copies of the organization's articles of incorporation, tax-exempt letters, and financial statements must be submitted with the claim. The assessor reviews the claim form and the attached documents for completeness and compliance with the requirements for exemption. The assessor also performs a field inspection to verify that the information on the claim form is correct and the property is used exclusively for religious, hospital, scientific, or charitable purposes and activities. When the claim form, other required documents, and field inspection are complete, the assessor forwards a copy of those items to the BOE along with a recommendation for approval, partial approval, or total denial.

An assessor cannot grant a welfare exemption that has been denied by the BOE but may deny an exemption that was approved by the BOE.

The following table shows the assessor's welfare exemption workload for the last five years:

<b>YEAR</b>	<b>NO. EXEMPTIONS</b>	<b>ASSESSED VALUE</b>
2002-03	42	\$73,992,814
2001-02	38	\$70,343,500
2000-01	39	\$65,078,766
1999-00	28	\$57,055,286
1998-99	29	\$49,469,554

The assessor is processing the welfare exemption claims correctly. Accordingly, we have no recommendations in this area.

### Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value, and personal property with a full value, so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the assessment and collection costs. Section 155.20(b)(1) provides that the county board of supervisors has no authority to exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. The board of supervisors must adopt any such exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

Before passing a low-value property exemption resolution, the board of supervisors must determine at what level of assessment the cost of assessing property and collecting taxes, special assessments, and subventions exceeds the proceeds to be collected. Upon the recommendation of the assessor, the board of supervisors concluded that the threshold for assessed values was \$3,000 and adopted Resolution No. 96-15 on February 27, 1996, to provide an exemption for real and personal property with a value of \$3,000 or less.

For the 2002-03 roll, the assessor exempted 249 secured parcels valued at \$353,383, plus 2,494 unsecured accounts valued at \$3,652,132, for a total value of \$4,005,515.

In our prior survey, we recommended that the assessor apply the low-value property exemption uniformly to all qualifying properties. The assessor concurred with our recommendation and has implemented procedures to ensure consistency and uniform application of the low-value exemption. However, we found one other problem in this program.

**RECOMMENDATION 1:** Apply the low-value property exemption only to qualifying properties.

The assessor applied the low-value property exemption to land beneath privately-owned hangars located at the airport. However, in all cases, the combined total assessed value of the land and the hangar improvements exceeded the \$3,000 exemption limit.

Section 155.20 requires the assessor to consider the base year value of the appraisal unit when determining eligibility for exemption. In this case, the unit consists of land and improvements (hangar). The assessor's policy is to treat these parcels as a single unit. However, on four occasions the assessor's staff failed to manually override the low-value exemption code and inadvertently treated land and improvements separately, rather than a single unit. This caused the low-value exemption to be granted in error.

We recommend the assessor use the total property value when determining the low-value exemption.

### ***Disaster Relief***

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to assesses whose properties have been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any misfortune or calamity, to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to a misfortune or calamity that was caused by the suspension or restriction of the right to enter upon a possessory interest in state or federal government-owned land.

At the assessor's request, the Sutter County Board of Supervisors adopted Ordinance No. 1326, to provide property tax relief for taxpayers whose homes, businesses, and other properties have been damaged in a disaster or calamity. The ordinance was adopted on February 26, 2002.

### **Discovery**

The assessor discovers damaged or destroyed taxable property through quarterly fire reports sent by the fire departments of Yuba City, Live Oak, Robbins, and Sutter County. Taxpayers rarely initiate the request for disaster relief. We found that all property files for fire-damaged property, where disaster relief was claimed, contained fire reports. Most also contained newspaper clippings or other sources of information concerning the disaster.

When the assessor discovers damaged or destroyed property, he sends a disaster relief claim to the affected taxpayer. Staff maintains a log of the damaged property by parcel number, owner name, and address. These records indicate that the assessor processed 17 claims in Fiscal Year 1999-00, 24 in 2000-01, and 19 in the 2001-02.

The assessor properly calculates the prorated assessment and employs the correct assessment procedures for both disaster relief and reconstruction valuations. He also applies the article XIII A inflation factors when no repair work is done and measures market value both before and after the

disaster. The assessor generally processes disaster relief claims in accordance with the requirements of property tax law and includes sufficient documentation.

### **Assessment Forms**

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.<sup>5</sup> The BOE currently prescribes 74 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (e.g., size and color) of a prescribed form but cannot add to, change, or delete the specific language on the form. The assessor may also rearrange a form, provided the assessor obtains prior approval from the BOE.

Assessors may also use locally developed forms and questionnaires to assist them in their assessment duties. However, such forms may not be used as substitutes for BOE-prescribed forms, and no penalty may be imposed upon a property owner for failure to file such a form or questionnaire.

The BOE annually sends checklists to assessors for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists which forms they will use in the succeeding assessment year, and return the property statements and miscellaneous forms checklists by October 15, and the exemption forms checklist by December 1. By February 10, assessors are required to submit to the BOE the final prints of all forms they will use.<sup>6</sup>

The forms checklists for the 2003 lien date were returned to the BOE within the specified period. The assessor uses 67 of the 74 BOE-prescribed forms, one of which was rearranged. There were no problems with the assessment forms used by the assessor.

### **Assessment Roll Changes**

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessment roll may not be changed except as authorized by statute. All assessment roll changes are based on specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

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

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<sup>5</sup> Government Code section 15606(d); Revenue and Taxation Code sections 480(b), 480.2(b), 480.4(b); rules 101 and 171.

<sup>6</sup> Rule 171(a).

The volume of annual roll changes for the last five years is shown in the following table:

ASSESSMENT YEAR	NUMBER OF ROLL CHANGES
2001-02	378
2000-01	1,093
1999-00	423
1998-99	923
1997-98	976

The assessor makes roll changes within the authorized period of time, and *Notices of Proposed Escape Assessment* are correctly mailed to taxpayers at least 10 days before the changes are entered on the roll. However, escape assessments added to the current roll lack the notation required by section 533. Additionally, the current assessment roll, which is available to the public on computers in the assessor's office lobby, does not include the penalty identification required by rule 261.

**RECOMMENDATION 2:** Correctly identify penalty and escape assessments on the current assessment roll, as required by section 533 and rule 261.

On the current assessment roll, the assessor does not include the notation required by section 533 or the penalty identification required by rule 261. Section 533 requires the assessor to enter an escape assessment on the roll for the current assessment year. If the escape is for a prior roll, the entry on the current roll must state "Escaped assessment for year \_\_\_\_ pursuant to Sections \_\_\_\_ of the Revenue and Taxation Code." This notation provides notice of escape assessment to the public.

Rule 261 provides that when penalties are imposed under section 463, notice on the local roll is required. Rule 261 requires the assessor to enter section 463 penalty assessments on the local roll in one of three ways:

- (1) Adding appropriate penalties to the assessed value of each class of property to which the penalty is applicable and referencing the values by footnotes or entries in the remarks column or other columns which reads: "Includes\_\_% penalty added pursuant to Sec \_\_\_\_, R & T Code."
- (2) Inserting the amount to be added to the assessed value of each class of property below the assessed value and identifying the penalty by an entry on the same line but in another column or other columns which reads: "Penalty added pursuant to Sec. \_\_\_\_, R & T Code."
- (3) Entering the amount to be added to the assessed value of each class of property in another part of the roll, together with the name and address of the assessee, the tax-rate area code, the words "penalty added pursuant to Sec. \_\_\_\_, R & T Code" and a cross reference to the place on the roll at which the assessed values are entered.

The consequence of this omission is that an explicit statutory and regulatory requirement for escape assessments has not been met. (It should be noted, however, that this requirement does not apply to corrections that reduce the assessed value on the roll.)

We recommend that the assessor correctly identify penalties and escape assessments on the current roll as required by section 533 and rule 261.

**Assessment Appeals**

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeal boards, and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted rules 301 through 326 to regulate the functioning of the assessment appeal process.

We found that the assessor has a good working relationship with the assessment appeals board (AAB). There are about 80 outstanding appeal applications scheduled to be resolved this year. In addition, the county uses the correct application form, which is available at both the assessor's office and at the office of the clerk of the board.

The following table summarizes recent assessment appeals activity in Sutter County.

Roll Year	Appeals Filed	METHOD OF RESOLUTION					
		Cases heard by AAB			Stipulation	Withdrawn	Continued
		Reduced	Upheld/ Denied	Increased			
2001-02	63	3	6/13		9	29	3
2000-01	65	1	7/12		4	15	26
1999-00	81	8	4/10	3	4	49	3
1998-99	109	13	9/8	1	14	55	9
1997-98	223	18	9/6		12	168	10

We reviewed appeals of single-family residences, commercial properties, and industrial complexes, and found supporting evidence to be well documented and organized.

The assessor's assessment appeals program appears to be in compliance with all applicable rules and statutes. The program includes timely resolution of cases, adherence to filing periods, and adequacy of written findings and conclusions.

## ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following 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 land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land.

Under article XIII A of the California Constitution, the taxable value of most real property may not exceed its full cash value as of the later of (1) the 1975 lien date or (2) the property's most recent change in ownership or completion of new construction. This ceiling on taxable value establishes the property's "base year value," which is subject to an annual inflation adjustment not to exceed two percent.

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

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

### **Document Processing**

The assessor's primary means of discovering properties that have changed ownership is by reviewing deeds and other documents provided by the county recorder. The recorder sends the deeds and other recorded documents electronically to the assessor. The recorded documents are printed for processing and examined by the senior drafting technician for accurate property descriptions and correct assessor's parcel numbers (APN's). Documents are then logged in by the office manager and distributed to the assessment clerk assigned to deed processing.

The assessor also receives Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), when completed by the assessee at the time of recording a deed. Approximately 80 percent of such recordings include a PCOR. The assessor sends Form BOE-502-AH, *Change of Ownership Statement* (COS), to transferees who did not complete a PCOR. An assessment clerk maintains a computer log of COS forms sent and notes forms not returned within the 45-day period allowed by

law. She then notifies the office manager so that penalties can be applied. Most COS forms are returned timely.

**RECOMMENDATION 3:** Apply the section 482 penalty when a *Change of Ownership Statement* is not returned timely.

The assessor does not apply the section 482 penalty when a COS is not returned or returned after the deadline. When a penalty is to be enrolled, the assessor's procedure is to send a letter to the taxpayer and file a copy of the letter in the property file. However, we could not find a copy of the penalty letter in any of the files where a COS was not returned and the assessor's computer system did not show a penalty had been enrolled. Two files did contain copies of the returned COS, but they appear to have been returned after the 45-day period allowed by section 482.

Section 482 provides that a person is required to file a COS. Additionally, section 482 provides that failing to file a COS within 45 days after a written request from the assessor shall result in a fine of \$100 or 10 percent of the taxes. By not processing penalties in a timely fashion, the assessor is not enforcing section 482 as prescribed.

We recommend that the assessor apply the section 482 penalties.

### Legal Entity Ownership Program

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides additional detail about the application of section 64.

Since there is usually no recorded notice of the transfer of an interest in a legal entity, discovery of changes in ownership resulting from such transfers is often difficult.

The BOE's Legal Entity Ownership Program (LEOP) unit investigates and verifies changes in control and ownership reported by legal entities and transmits to each county a listing, with corresponding property schedules, of the entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide detailed information pertaining to the counties in which they have property, the assessor's parcel number, or how many parcels they own. Because of the lack of reliable data provided by the entities, the LEOP unit advises assessors to thoroughly research each named entity's holdings to determine that all affected parcels are identified and properly appraised.

The assessor receives reports of legal entity changes in ownership from the LEOP unit and assigns the change in ownership to an appraiser. The appraiser may work with an auditor-appraiser to determine which properties or portions of properties actually transferred.

We examined seven legal entity changes in ownership, transmitted to the county by the LEOP unit. We found all had been reviewed and appraised where necessary. There were no problems with the assessor's change in ownership of legal entities program.

## Exclusions

The assessor correctly excludes interspousal transfers from reappraisal. Additionally, the assessor correctly processes transfers to and from family trusts.

The assessor uses the proper claim forms for the exclusion of change in ownership transfers between parents and children, or grandparents and grandchildren, and is current in reporting claim information to the BOE. The assessor is late in reporting section 69.5 exclusions (for persons 55 and older) to the BOE. However, all the allowed claims that we reviewed were completed properly and filed timely.

## ***New Construction***

Section 71 requires the assessor to determine the full cash value of newly constructed real property as of its date of completion, or on each lien date while construction is in progress. When the assessor appraises completed new construction at full cash value, a new base year value is created for the newly constructed portion. Rule 463 governs the assessment of new construction by interpreting and making more specific the requirements of section 71. Chapter 6 of Assessors' Handbook Section 502, *Advanced Appraisal*, provides additional guidance for assessing new construction.

## Discovery

Most new construction activity is discovered from building permits. Currently, the assessor receives an average of about 2,250 permits annually from four permit-issuing agencies: the Sutter County Planning and Public Works Department, the Sutter County Environmental Health Department, and the cities of Live Oak and Yuba City. It appears that all of these agencies provide current copies of all permits and building plans where available.

Additional sources of discovery include newspaper articles, and business property statements. Staff appraisers may also discover new construction activity while working their assigned areas of the county.

Construction in progress is enrolled at market value as of the lien date. Upon completion, the full value of the new construction is enrolled and a supplemental assessment is generated. The assessor enrolls all discovered new construction, including low-value items such as wells and patio covers.

The following table shows the number of new construction projects by fiscal year. In addition, it shows the number of new construction projects that have been completed without a permit.

ASSESSMENT ROLL	2002-03	2001-02	2000-01	1999-00	1998-99
Completed with Permit	1,175	796	799	797	860
Partial Completion	62	264	275	285	351
Completed without Permit	20	126	126	98	230
Total:	1,257	1,186	1,200	1,180	1,441

### Self Reporting

The assessor employs a self-reporting program for the assessment of new construction. This program reduces the amount of time and cost associated with the appraisal of new construction. The assessor sends a self-reporting questionnaire for new construction on most types of property, including residential, commercial, industrial, and rural property. The assessor compares the information obtained from the questionnaire with the information provided by the permit-issuing agency and cost estimate performed using various cost manuals. If the reported cost is within the range of value provided by the permit-issuing agency and cost estimate, the assessor will enroll the cost submitted on the questionnaire as the value of the new construction.

Occasionally, the assessor will audit the reported costs by contacting the property owners and contractors to verify the cost. In addition, the assessor will perform a field inspection of the new construction to verify the information provided on the questionnaire. These contacts will confirm the accuracy of the self-reporting questionnaire and may provide additional information about the new construction.

Overall, the assessor's tracking and control procedures for new construction are effective. As noted in the prior survey, the assessor's comprehensive program for assessing new construction complies with all statutory requirements. The permit-processing program results in thorough monitoring of new construction and an effective valuation process.

### Supplemental Assessments

Sections 75 et seq. require the assessor to issue a prorated assessment (i.e., a supplemental assessment) to reflect any increase or decrease in assessed value resulting from a change in ownership or new construction. The supplemental assessment covers the portion of the fiscal year remaining after the date of change in ownership or completion of new construction.

The assessor processed approximately 3,200 supplemental assessments for the 2000-01 assessment roll year. All supplemental assessments are prepared daily. As required by law, a notice for each supplemental assessment is sent to the taxpayer of record. On the second to the last Friday of the

month, the new taxable values are enrolled on the supplemental roll and transmitted to the county auditor. Included on this roll are the resulting taxes due or amounts to be refunded.

We found that supplemental assessments for the 2001-02 fiscal year were handled correctly. For events occurring on or after the lien date and on or before May 31, two supplemental bills were issued, and all supplemental assessments were enrolled. The assessor properly enrolls negative supplemental assessments when the situation warrants. In addition, the assessor properly provides builders with an exclusion from supplemental assessment (builder's inventory exclusion provided pursuant to section 75.12) if the builder applies for the exclusion within the required time limit.

The assessor has an excellent supplemental assessment program that is documented and organized.

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

Agricultural preserves may be established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965 for the purpose of determining boundaries of areas in which the city or county is willing to enter into contracts with property owners. Property owners in an agricultural preserve who choose to enter into a contract agree to restrict the use of their lands for agriculture and compatible uses in exchange for assessment at a restricted value. Lands under such contracts are valued for property tax purposes by a methodology based upon agricultural income-producing ability, including income derived from compatible uses (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 421 through 430.5 govern the assessment of land subject to agricultural preserve contracts. Assessors' Handbook Section 521 (AH 521), *Assessment of Agricultural and Open-Space Properties*, provides BOE-approved guidance for the appraisal of these properties.

On September 26, 2000, Sutter County's Board of Supervisors adopted Resolution No. 00-073, which established the geographical area within which the county would be willing to enter into agricultural preserve contracts with landowners, and set forth the rules for administering the program.

The number of CLCA contracts increased from 12 for fiscal 2001-02 to 73 for 2002-03. The 73 contracts represented 294 parcels encompassing 38,774 acres. The total assessed value of these parcels was \$61,077,913, which represents a reduction of \$26,160,484 from the assessed values that would have been enrolled without the assessment restrictions permitted by the CLCA contracts. As of November 27, 2002, taxpayers had contracted to add an additional 4,917 acres to the CLCA program for the 2002-03 fiscal year. None of the CLCA contracts are in non-renewal status, and there are no Farmland Security Zone (FSZ) contracts. FSZ contracts are more restrictive CLCA contracts, but provide greater valuation benefits than the general CLCA contracts.

Most of the CLCA parcels in Sutter County are used for field crops, with the balance of the acreage being used for grazing and orchards. Currently, each appraiser values all real property (including CLCA) assigned to his or her geographical area.

We found that the staff correctly segregates homesites from land subject to the restricted valuation method, assessing them as separate appraisal units. They also correctly classify the land and improvements.

### Income and Expenses

The income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce and subtract the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring, such as lease payments for oil or gas exploration rights, communication facility sites, and recreational uses such as hunting or fishing. There are no limits placed upon the income to be capitalized unless the contract contains a provision establishing a minimum annual income per acre.

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

The staff utilizes a computer spreadsheet to calculate and track the restricted value, factored base year value, and current market value for each property. They typically use the actual cash rent, as reported by the taxpayer on questionnaires they submit annually, as the gross income in the income approach. In some instances they estimate the gross income using share crop rents. The staff includes rent income from compatible uses when appropriate. They estimate operating expenses using information submitted by the property owners and data provided in the county crop reports.

### Capitalization Rates

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

- An interest component annually determined and announced by the BOE;
- A risk component based on the location and characteristics of the land, the crops to be grown thereon and the provisions of any lease or rental agreement to which the land is subject;
- A component for property taxes; and

- A component for amortization of any investment in perennials over their estimated economic life when the total income from land and perennials other than timber exceeds the yield from other typical crops grown in the area.

To determine the risk component for the CLCA capitalization rate, the staff starts with the 1 percent risk rate suggested as a reasonable base rate in the AH 521. Then, depending on whether the rent used in the income approach is a cash rent or share rent, and on the type of property, the staff add or deduct from this base risk rate to arrive at the risk component.

The assessor has an effective program for the assessment of CLCA properties.

**Decline in Value**

Section 51 requires the assessor to enroll the lesser of either a property's factored base year value or its full cash value, as defined in section 110. When a property's current market value falls below its factored base year value on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's market value rises above the factored base year value, then the assessor must enroll the factored base year value. (Assessors' Handbook Section 501 *Basic Appraisal*, January 2002, page 140.)

The following table shows the statistics for properties with decline-in-value assessments for the last five years:

ASSESSMENT ROLL	2002-03	2001-02	2000-01	1999-00	1998-99
Total Parcels on Decline	1,688	2,562	3,354	3,257	3,158
FBYV of those Parcels	\$317,316,241	\$456,160,530	\$571,777,489	\$585,003,223	\$583,368,614
Total Fair Market Value	\$258,901,551	\$418,108,083	\$546,472,191	\$511,242,421	\$501,867,379
Total Value Reduction	(\$58,414,690)	(\$38,052,447)	(\$25,305,298)	(\$73,760,802)	(\$81,501,235)

Each decline-in-value assessment is coded to prevent the computer program from applying the annual inflation factor. This coding also flags each of these properties for annual review. Due to the strengthening of the local real estate market in recent years, the number of properties with decline-in-value assessments has decreased significantly, from 3,354 in 2001-01 to 1,688 for 2002-03.

Staff appraisers are assigned to specific geographic areas and have the responsibility to discover and reappraise all properties in their areas that are experiencing declines in value. Methods of discovery

include the appraiser's knowledge of the market values in their assigned areas, along with requests for review by property owners, and formal appeals to the assessment appeals board.

The assessor has an effective and thorough program for annually reviewing and adjusting real property assessments to reflect declines in value

### ***Taxable Government-Owned Property***

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

For the 2002-03 fiscal year, the staff enrolled 120 Section 11 properties, 118 of which were owned by Sacramento County. These properties had a total assessed value of \$2,594,116. The only taxable improvements on these parcels were relatively minor items such as irrigation pumps.

**RECOMMENDATION 4:** Establish base year values for taxable government-owned properties according to BOE guidelines.

The assessor does not establish base year values for taxable government-owned properties according to the guidelines provided in Letter To Assessors (LTA) 2000/037. Instead, the assessor establishes the base year value based on the current market value.

In LTA 2000/037, dated June 15, 2000, the BOE provided guidance for the assessment of Section 11 properties. The guidelines provide that base year values of Section 11 properties acquired after March 1, 1975, are established at the lower of current market value as of the date of change in ownership, or the 1967 assessed value multiplied by the appropriate Phillips Factor as of the date of change in ownership. The assessor uses the current market value as of date of change in ownership to establish the base year value without considering the value determined pursuant to section 11. This method of determining the base year value may result in the overassessment of taxable government-owned properties.

We recommend that the assessor assess Section 11 properties according to the guidance provided in LTA 2000/037.

### ***Possessory Interests***

A taxable possessory interest results from the possession, or a right to possession, of publicly owned real property, where 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 is based on the value of the rights actually held by the possessor; the rights retained by the public owner are generally not taxable.

To discover possessory interests, the assessor regularly contacts government agencies that own property in Sutter County. As a result, the assessor has enrolled 195 separate possessory interest assessments on the 2002-03 assessment roll, totaling \$10,186,372.

In our prior survey, we recommended that the assessor assess all qualifying possessory interests at the county fairgrounds. The assessor has complied with our recommendation.

### ***Leasehold Improvements***

Leasehold improvements are improvements or additions to leased property that have been made by the tenant or lessee. Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

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

When real property is reported on the business property statement, coordination between the assessor's real property and business property divisions is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and avoid escapes and double assessments. The assessor's office must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and if additions are properly enrolled. Additionally, both divisions must agree on which items will be assessed by which division; otherwise escapes or double assessments may result.

The most common sources for the discovery of leasehold improvements are business property statements and building permits. Section B of Form BOE-571-L, *Business Property Statement*, contains information regarding real estate related assets owned by a tenant at the rented location of the business enterprise. Tenants are required to report costs incurred for construction, remodeling, or alterations to their rented or leased premises.

The assessor uses a three-part routing slip to advise each division, real or business property, of new construction or other leasehold improvements. When the business property division discovers what may be assessable real property reported on a property statement, they use the routing slips to refer the information to the real property appraiser within whose geographical area the property is located. The real property appraiser determines how the new improvements should be assessed. If the appraiser recommends that the improvement be assessed to the lessee, the business property division will enroll it in an unsecured account. When the assessor's staff discovers that a new lessee has purchased tenant improvements (TI's) from the prior lessee, the staff determines a new base year value for the TI's and assesses them to the new lessee. If a lessee vacates a space and abandons the TI's, the assessment of them is secured to the real property.

We found that the assessor is in compliance with generally accepted assessment practices relating to leasehold improvements.

### **Water Company Property**

Water company property assessed on the local tax roll may include property owned by private water companies, mutual water companies, as well as portions of government-owned water systems. Each type presents different assessment problems.

#### **Municipal Water Systems**

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

In Sutter County, the land and improvements of the municipal water system are located outside the city limits and are assessed correctly under article XIII, section 11 of the California Constitution as taxable government-owned property.

#### **Mutual Water Companies**

A mutual water company is a private association created for the purpose of providing water, at cost, primarily to its stockholders or members. When incorporated, the association can enter into contracts, incur obligations, own property, and issue stock. However, if unincorporated, it can do these things only in the names of the members. Corporations organized for mutual water company purposes are not subject to regulation by the CPUC unless they deliver water for compensation to persons other than stockholders and members.

The assessor's mutual water company files contain the original articles of incorporation and current copies of the Form BOE-540-S, *Mutual or Private Water Company Property Statement*. The value of the mutual water company property was correctly reflected in the assessments of the parcels served by the water system.

**RECOMMENDATION 5:** Obtain lists of tested water sites from public agencies to discover assessable property.

The assessor does not obtain lists of tested water sites to discover assessable properties. In our 1999 survey, we suggested that the assessor request lists of tested water sites from the county's Department of Environmental Health and from the California Department of Health Services, Office of Drinking Water. Because the assessor has not obtained these lists of tested water sites, there is a potential for property escaping assessment.

We obtained a list of private, nonregulated water sites from the county's Department of Environmental Health. We checked several companies on the list with the assessor's database and could not find any assessments for them. This indicates that the assessor may not be assessing any wells, ponds, or pumps related to these companies.

Although many wells, ponds, or other water-producing property on the listed sites may have little or no value, or may be already included in the overall valuation, other such property may be escaping assessment. A review of these lists would assist the assessor in determining whether private water companies escaped assessment or were improperly assessed.

We recommend that the assessor obtain lists of tested water sites from public agencies to discover assessable property.

### **Mineral Property**

Rule 469(b) provides that the rights to enter upon land for the purpose of exploration, development, or production of minerals are "taxable real property interests to the extent they individually or collectively have ascertainable value." Subsequent subsections of the rule set forth the procedures for valuing these taxable real property interests.

In adopting rule 469, the BOE determined that due to the unique nature of mineral interests and the requirements of article XIII A, the assessor must select the one point in time when the mineral right will be valued by reference to proved reserves. Once the base year value is established, it cannot be increased except as permitted under article XIII A.

Sutter County has four aggregate mining properties and 252 oil and gas producing properties with a total assessed value of \$41,606,472. The 252 oil and gas producing properties have 169 active wells, of which 21 were completed during the year. Eighty-nine wells are producing below their economic level or are shut-in. The assessor uses an outside consultant to assist in assessing these properties. We reviewed the procedures for assessing the petroleum properties and found no procedural deficiencies.

In our prior survey, we made a recommendation regarding the treatment of working capital and its recapture in the income approach. The assessor has implemented this recommendation.

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

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority. In *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42, the court ruled that, while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, governing county assessors in the valuation of intercounty pipeline lands and rights-of-way.

The assessor's program for discovering pipeline rights-of-way involves requiring staff appraisers to monitor construction activity in their assigned areas. The assessor enrolled three pipeline rights-of-way in 2002: two were referred from BOE's Valuation Division, and one was discovered by the assessor. The three enrolled pipeline rights-of-way are listed as possessory interests and valued according to sections 401.10, 401.11, and 401.12. The assessor applies the low-density measure for pipeline rights-of-way in Sutter County. The total assessed value of these pipeline rights-of-way is approximately \$845,700 for the 2002-03 roll.

All pipeline right-of-way accounts appeared to be properly assessed and all files contained appropriate business property statements. We found no problems or discrepancies in the assessor's pipeline right-of-way program.

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

An 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.

Annually, the assessor's business property staff processes over 3,900 property statements, audits about 100 accounts, and enrolls values for approximately 176 aircraft and 3,264 vessels.

### ***Audit Program***

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

### **Mandatory Audits**

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

Sutter County has a total workload of approximately 160 mandatory audit accounts, or an average of about 40 audits per year. The assessor has a timely mandatory audit program.

### **Nonmandatory Audits**

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

The following table shows the total number of audits completed over the last four years. The decrease in the total number of mandatory audits is due to the increase in the mandatory audit threshold from \$300,000 to \$400,000 in January 2001.

ASSESSMENT ROLL	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS	NET VALUE CHANGE
2002-03	103	34	69	\$11,098,870
2001-02	94	47	47	\$10,419,957
2000-01	101	41	60	\$12,049,495
1999-00	108	42	66	\$17,190,979

### Statute of Limitations

In general, section 532 requires that the assessor enroll an escape assessment discovered during an audit within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

The assessor either completes audits within the statutory time allowed or obtains a waiver of the statute of limitations from the taxpayer if the audit cannot be completed in a timely manner.

### 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 audited amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the business property.

We reviewed a number of recently completed audits. During the course of an audit the assessor routinely verifies taxpayers records to determine if a change of control (ownership) or new construction has occurred. The assessor also verifies leased equipment, accounts for supplies, and properly classifies equipment. In all cases that we reviewed, the audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

### ***Business Property Statement Processing***

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

The assessor processes nearly 3,900 business property statements annually, excluding vessels and aircraft. Vessels and aircraft are reported separately on specially designed statements.

In Sutter County, when the assessor receives a business property statement (BPS), it is date-stamped and checked for completeness. Incomplete or unsigned statements are returned to the filer with the assessor retaining a copy of the statement. Once the support staff completes the initial screening, the completed business property statements are then assigned to an auditor-appraiser for processing of the reported costs.

The assessor's BPS processing procedures are effective. In addition, a comparison of the actual property statement processing practices to pertinent authoritative citations showed those practices to be in accordance with the law.

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

#### Commercial, Industrial, and Agricultural Equipment

Assessors' offices use business property value factors that are derived by combining cost index factors (trend factors) with percent good factors for the valuation of machinery and equipment. Section 401.5 provides that the BOE shall issue information that, in the judgment of the BOE, will promote uniformity in appraisal practices and in assessed values throughout the state. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581 (AH 581), *Equipment Index and Percent Good Factors*.

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581. Except for older years, the percent good factors also parallel those found in the AH 581.

#### Minimum Valuation Factors

**RECOMMENDATION 6:** Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended, when valuing older machinery and equipment.

The assessor uses undocumented minimum percent good factors in the valuation of older machinery and equipment. This results in overassessments of most older machinery and equipment.

The percent good factors in AH 581 are based on the assumption that, as business equipment ages, it gradually loses its ability to earn a profit for its owner. In some cases, equipment wears out physically to the point where it is not cost-effective to repair it. In other cases, the equipment may be in excellent condition physically, but new technology, a changing market relative to the type of equipment, and other factors make the equipment obsolete.

Some equipment, when no longer cost-effective to operate, will have a salvage value, whereas other equipment will have a negative value due to the cost of disposal. AH 581 factors assume that, on the

average, equipment will have a zero value when retired. For commercial and industrial equipment, the factors decline from 100 percent good when acquired new to one percent good (99 percent depreciation) for equipment that has survived long past the average service life of similar equipment but is still in use.

The CAA tables employed by the assessor use AH 581 percent good factors except that they employ undocumented minimum percent good for older equipment. This means that very old equipment that is about to be retired is valued as though it has several years of profitable service left.

There is no question that some older equipment is worth much more than one percent of replacement cost new, just as some newer equipment is worth substantially less than the percent good suggested by AH 581. When making appraisals of individual items of equipment, the assessor may use sales data, income data, or any other available evidence to find fair market value.

However, when using the AH 581 tables, it is important to use the tables as presented. Use of undocumented minimum percents good may value some equipment correctly but will substantially overvalue most older equipment.

We recommend that the assessor use the AH 581 as intended in order to avoid overvaluations.

### Computer Valuation

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issued valuation factors for computer equipment. In AH 581, Table 6: Computer Valuation Factors, the BOE provides valuation factors for use when valuing computer equipment.

We found that the assessor values computers using the BOE-recommended factors.

### Leased Equipment

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

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

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

We found the leased equipment program to be well managed, with the assessor doing an excellent job in the discovery, tracking, and assessing of leased equipment.

## **Aircraft**

### General Aircraft

Section 5363 requires the assessor to determine the market value of aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards to be used by the assessor. 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* as an alternate for aircraft not listed in the *Bluebook*.

The 2002-03 assessment roll included 170 general aircraft with a total assessed value of \$14,089,804. Sources of aircraft discovery include listings from the Federal Aviation Agency (FAA) and aircraft owners. The assessor also receives referrals about aircraft from other counties.

In our prior survey report, we recommended that the assessor apply the 10 percent penalty for failure to timely file an aircraft statement. The assessor has implemented this recommendation.

The program is efficiently administered, with the assessor using the recommended aircraft price guides and making all necessary adjustments based on information provided by the taxpayer.

### Historical Aircraft

Aircraft of historical significance are exempt from taxation upon meeting certain requirements. Section 220.5 defines "aircraft of historical significance" as any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

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

The assessor granted six historical aircraft exemptions for the 2002-03 tax roll. The assessor receives all the affidavits for the exemption of these aircraft by 5:00 p.m. on February 15 of each year. The assessor

verifies the 12 occasions of public display required for the historical aircraft exemption and collects the one-time \$35 application fee with the initial filing.

The assessment procedures for historical aircraft conform to the requirements of section 220.5.

### **Vessels**

Assessors in California are required to annually appraise vessels at market value and to assess all vessels with an assessed value above \$400, unless the county has a low-value property exemption. The Sutter County Board of Supervisors has passed a resolution that exempts real and personal property valued at \$3,000 or less.

For the 2002-03 assessment roll, the assessor enrolled 3,264 vessels with a total assessed value of \$14,281,777. The primary discovery sources are Department of Motor Vehicle (DMV) reports, marina lists, field canvasses, referrals from other counties, and information provided by the vessel owners themselves. Data relied upon for valuation include reported purchase prices and the *N.A.D.A. Marine Appraisal Guide* (NADA). We found the assessor's vessel assessment program well administered.

### **Manufactured Homes**

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation. A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes governing the valuation and assessment of manufactured homes are contained in Revenue and Taxation Code sections 5800 through 5842. Most manufactured homes are classified as personal property and enrolled on the secured roll.

The assessor enrolled 803 manufactured homes on the 2002-03 assessment roll, with a total taxable value of \$18,299,917. Until recently, the assessment of manufactured homes was the responsibility of one real property appraiser. For the last six months an appraiser aide has been providing assistance in valuing and enrolling these properties. In our prior survey, we recommended that the assessor classify manufactured homes as personal property rather than as improvements. The assessor has complied with this recommendation.

The manufactured home assessment program is generally well coordinated. Records are well documented and contain timely assessment information. Manufactured homes are properly classified as personal property on the secured roll.

## **APPENDICES**

### **A. County Property Tax Division Survey Group**

#### ***Sutter County Assessment Practices Survey***

##### ***Chief, County Property Tax Division***

Mickie Stuckey

##### ***Survey Program Director:***

Benjamin Tang

Principal Property Appraiser

##### ***Survey Team Supervisor:***

Arnold Fong

Supervising Property Appraiser

##### ***Survey Team Leader:***

Dale Peterson

Senior Specialist Property Appraiser

##### ***Survey Team:***

Simeon Okoroike

Senior Petroleum and Mining Property Engineer

Wesley Hill

Associate Property Appraiser

Kim Trotto

Associate Property Appraiser

Ken King

Associate Property Appraiser

Mike Shannon

Associate Property Auditor-Appraiser

Marilyn Jones

Tax Technician II

## **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 also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

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

(a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

(b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

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

**15644. Recommendations by board.**

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to

what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

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

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

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

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

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

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

**Revenue and Taxation Code****75.60. Allocation for administration.**

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

(b) For purposes of this section:

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

**Title 18, California Code of Regulations**

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

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

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

- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
- (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

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

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

**Rule 371. Significant assessment problems .**

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

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

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

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

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

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

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

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

ASSESSOR'S OFFICE

(530) 822-7160



COUNTY OF SUTTER

Michael V. Strong, Assessor

November 21, 2003

Mickie Stuckey  
Chief, County Property Tax Division  
State Board of Equalization  
P.O. Box 942879  
Sacramento, CA 94279-0062

Re: Response to Findings and Recommendations  
Sutter County Assessment Practices Survey

Dear Ms. Stuckey:

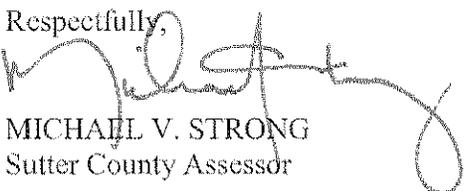
We are appreciative of the opportunity, pursuant to the provisions of Government Code Section 15645, to respond to the recommendations as set forth in the Board's recent survey, above referenced. We request, therefore, that the responsive comments on the following pages be incorporated within the final version of the survey report.

We would first like to acknowledge the BOE survey team members, who conducted their business with diligence, consideration, and a high degree of professionalism. These individuals thoughtfully allowed only minimal intrusion into our operations, were respectful of our needs, concerns, and constraints – and were most agreeable to work and associate with. We appreciate the difficulty of the job undertaken and, although we viewed aspects of some covered topics from different perspectives, we found each team member to be most reasonable and willing to consider our views in discussion.

Overall, we believe the survey report, resulting in only six recommendations – and containing a number of express commendations – is a testimony to the exemplary quality and quantity of work performed by the staff of this office. While facing ever-increasing demands, and regardless of circumstance, these men and women continually strive to do their best. I am most fortunate and blessed to have such a dedicated staff. Accordingly, I extend, to all of them, my grateful appreciation for their individual contributions, collective mutual cooperation, unwavering adherence to law and precept, daily commitment to a high level of public service, and overall excellence in job performance.

As always, I am available for discussion, should there be any question or concern regarding this survey report and/or our responsive comments contained herein.

Respectfully,

  
MICHAEL V. STRONG  
Sutter County Assessor

Enclosure

**SUTTER COUNTY  
ASSESSMENT PRACTICES SURVEY  
NOVEMBER 2003**

**RECOMMENDATIONS & RESPONSES**

**RECOMMENDATION 1:** Apply the low-value property exemption only to qualifying properties.

**RESPONSE:**

A computer program automatically monitors values and applies the low-value exemption, whenever the total assessment does not exceed the \$3,000 threshold. In cases such as the subject airport hangars, however, where land and improvements are separately assessed, it is necessary to manually override this program, in order to correctly apply the exemption to the *total* value. In this case, the requisite override was inadvertently missed, resulting in the problem noted in the Survey. We have issued corrections and measures have been taken to prevent this from reoccurring in the future.

**RECOMMENDATION 2:** Correctly identify penalty and escape assessments on the current assessment roll, as required by section 533 and rule 261.

**RESPONSE:**

Both Board staff and assessors essentially agree that the **Section 533** notice requirement is an archaic provision, as it was intended for hard-copy versions of the assessment roll. Due to the advent of electronic rolls, recently chaptered legislation, (either CAA sponsored SB 1059 or BOE sponsored SB 1062) was to have deleted the notice requirement, but instead, it was modified only – so further amendment is still necessary. We no longer produce a hard-copy secured roll, as all assessment data is available to the public, by computer, in electronic format. Given the outmoded nature of the Section 533 notice requirement and, due to our anticipation of its ultimate revocation, we find no reason to expend scarce time, dollars, and resources for implementation of this recommendation.

The BOE survey team additionally asserts a lack of adherence to the **Rule 261** penalty notice requirement, for late or non-filing of property statements. The Survey narrative and analysis lists 3 *options* for notating the addition of Section 463 penalties on the roll. We find these options, as noted in the survey, to be less flexible and rather more restrictive than the actual language of Rule 261(a).

We do produce a hard-copy version of the unsecured assessment roll and, contrary to the claim of the BOE survey team, that roll does, in fact, include the required notation, whenever necessary, in the following manner: “A \_\_\_ PERCENT PENALTY OF \$\_\_\_\_\_ ADDED PER R & T CODE 463.” This language complies with the Rule 261(a) requirement that the roll include a notation containing “words substantially to [the] effect” of the examples shown therein.

**RECOMMENDATION 3:** Apply the section 482 penalty when a Change in Ownership Statement is not returned timely.

**RESPONSE:**

We agree to having been remiss, during the time period subject to survey, in failing to apply statutory penalties, pursuant to Section 482. And we concur with the above recommendation. This situation has been rectified and penalties shall be applied in all circumstances where Change in Ownership Statements are not completed or returned within the prescribed time limits.

**RECOMMENDATION 4:** Establish base year values for taxable government-owned properties according to BOE guidelines.

**RESPONSE:**

The Supreme Court's finding in *City and County of San Francisco v. County of San Mateo et al.* (1995) 10 Cal.4<sup>th</sup> 554 affirms that the proper base year value is the 1975 appraised value, for taxable government owned properties that were appraised for the 1975 lien date. As the court pointed out, there are several definitions of base year value under Revenue and Taxation Code Section 110.1. Section 110.1(d) defines base year value as the appraised value for property that was appraised as a result of a periodic reappraisal pursuant to Section 405.5 for the 1975 lien date. For taxable government owned properties that were appraised for the 1975 lien date under Article XIII, Section 11, the appraised value was the lesser of full cash value or the Phillips Factor value.

The focus of the above recommendation, however, is a different class of properties. These properties are distinguished from the those in the above referenced court case for two reasons. First, they were not valued under Article XIII Section 11 for the 1975 lien date. Secondly, they changed ownership after the 1975 lien date. BOE guidelines provide that base year values of taxable government owned properties acquired after the 1975 lien date are established at the lesser of current market value as of the date of change in ownership, or the Phillips Factor value.

The BOE guidelines, however, are in conflict with Section 110.1(a)(2)(A), which specifically defines base year value as the *fair market value* for property that changed ownership *after* the 1975 lien date. Section 110.1 does not encompass a value comparison. The BOE guidelines, therefore, effectively create a new definition of base year value. Consequently, following these guidelines may result in establishing a base year value that is *less* than fair market value; again, in direct conflict with the provisions of Section 110.1. Accordingly, we do not concur with the above recommendation.

**RECOMMENDATION 5:** Obtain lists of tested water sites from public agencies to discover assessable property.

**RESPONSE:**

We reviewed the lists of tested water sites, as referenced and provided to our office by the BOE survey team. Many of the listed sites comprised schools, churches, apartments, and other commercial properties. The BOE survey team states that they checked "several companies" listed (we do not know which ones), but "could not find any assessments for them." However, we conducted a more exhaustive review and confirmed, to the contrary, that in all cases the taxable property was properly assessed and, in fact, no wells or related improvements had escaped assessment. While we agree that these lists *might* provide an additional method of discovery, our review confirms the fact that well permits and other sources of information, heretofore utilized, already capture all necessary data.

**RECOMMENDATION 6:** Use Assessor’s Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended, when valuing older machinery and equipment.

**RESPONSE:**

As noted in the Survey narrative and analysis, we utilize the CAA *Business Assessment Factors*, including the minimum percent good factors contained therein, in valuation of business machinery and equipment. Although the BOE survey team characterizes these factors as “undocumented,” we cannot agree that they are any less documented than the minimum percent good factors set forth in the AH 581, which, as stated in the Survey narrative, merely “assume that . . . equipment will have a zero value when retired.” (Emphasis added.)

Further, consideration is always granted, and appropriate corrections entered by this office, whenever reliable evidence is submitted by property owners, in support of valuations contrary to those indicated by the factors.

The CAA *Business Assessment Factors* are in nearly universal use by assessors throughout the state, thereby producing consistent valuation procedures among the various counties. Accordingly, and on the additional basis of the foregoing considerations, we disagree with the above recommendation and, therefore, will continue to utilize the CAA minimum percent good indicators.