

# TEHAMA COUNTY ASSESSMENT PRACTICES SURVEY

DECEMBER 2006

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December 29, 2006

TO COUNTY ASSESSORS:

RAMON J. HIRSIG  
Executive Director

No. 2006/059

TEHAMA COUNTY  
ASSESSMENT PRACTICES SURVEY

A copy of the Tehama 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 Mark E. Colombo, Tehama 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 Tehama County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from May through June 2005. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Colombo 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

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## **INTRODUCTION**

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

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

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

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

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

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

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.<sup>2</sup>

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

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

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

## **EXECUTIVE SUMMARY**

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

In our 2001 Tehama County Assessment Practices Survey, we made 36 recommendations to address problems in the assessor's assessment policies, procedures and practices. The assessor fully implemented 11 of the recommended changes. Sixteen recommendations are no longer applicable because of statutory changes, changes in our guidelines to assessors, or because we found no evidence of inappropriate assessment. The remaining recommendations are repeated in this report.

Several administrative components of the assessor's programs need improvement:

- The assessor's contract with an appraisal consultant does not conform to the statutory requirements of section 674.
- The assessor's application for disaster relief and reassessment notice do not conform to the statutory requirements of section 170.

In the area of real property assessment, the assessor has effective programs for the enrollment of declines in value, Timberland Production Zone (TPZ) properties, and leasehold improvements. Other programs have areas where improvement is needed:

- The assessor still incorrectly classifies wells as improvements.
- The assessor incorrectly processes supplemental assessments on taxable government-owned property.
- The assessor does not account for landlord expenses when valuing orchards by using share rents, does not deduct a return on irrigation systems for orchards, and does not include a component for risk or property taxes in his capitalization rate when valuing compatible use.
- The assessor incorrectly calculates the base year value and the restricted value for taxable government-owned properties and still does not consider the factored base year value when determining the taxable value for taxable government-owned properties.
- The assessor still does not deduct allowable expenses from the possessory interests income stream, does not use the stated term of possession when annually determining market value, and still does not assess taxable possessory interests at the fairgrounds.

- The assessor double assesses land when valuing regulated water companies, and does not ensure that all water system property is identified and assessed.
- The assessor still does not appraise mineral properties according to Rule 469.

The assessor has effective programs for the discovery of leased equipment, and the discovery and valuation of aircraft. However, some of his existing practices in the area of personal property and fixture assessments should be revised:

- The assessor still uses uncertified staff in the valuation of business property.
- The assessor still assesses personal property owned by homeowners' associations.
- The assessor still incorrectly enrolls manufactured homes as improvements and includes site value in the assessment of manufactured homes located in rental parks.
- The assessor does not include sales tax as a component of market value when appraising vessels.

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

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

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

**RECOMMENDATION 1:** Revise the appraisal consultant's contract to conform to the statutory requirements of section 674.....14

**RECOMMENDATION 2:** Improve the disaster relief program by: (1) conforming the application for disaster relief to the requirements of section 170, and (2) revising the value notice sent to taxpayers who have been granted property tax relief. ....16

**RECOMMENDATION 3:** Classify wells as land.....26

**RECOMMENDATION 4:** Assess taxable government-owned property according to the provisions of section 75.14. ....27

**RECOMMENDATION 5:** Improve the program for assessing California Land Conservation Act property by: (1) capitalizing net income to arrive at the restricted value, (2) deducting an amount for the return on the irrigation system from the income stream to value living improvements, and (3) using the appropriate capitalization rate to value compatible uses. ....30

**RECOMMENDATION 6:** Improve the assessment of taxable government-owned properties by: (1) correctly establishing the base year value, (2) correctly calculating the restricted value, and (3) considering the factored base year value when determining the taxable value. ....31

**RECOMMENDATION 7:** Improve the possessory interest assessment program by: (1) assessing all taxable possessory interests, (2) valuing taxable possessory interests based on net income to the lessor, and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value. ....34

**RECOMMENDATION 8:** Improve assessment of water companies by: (1) correctly assessing land owned by regulated water companies when using the Historical Cost Less Depreciation value indicator, and (2) ensuring that all water system property is identified and assessed. ....37

**RECOMMENDATION 9:** Follow Rule 469 when appraising mineral properties. ....39

**RECOMMENDATION 10:** Ensure that a certified auditor-appraiser reviews assessments prepared by noncertified staff. ....43

**RECOMMENDATION 11:** Exempt personal property that is owned by homeowners' associations in accordance with section 224. ....44

**RECOMMENDATION 12:** Improve the program for assessing manufactured homes by: (1) classifying manufactured homes as personal property, and (2) ensuring that value attributable to in-park location is excluded from manufactured home assessments. ....46

**RECOMMENDATION 13:** Include sales tax as a component of market value when appraising vessels. ....49

## **RESULTS OF 2001 SURVEY**

### ***Standards and Quality Control***

We recommended the assessor develop and maintain a formal policy and procedures manual. The assessor still has not developed a formal manual, but he has made significant improvements in making office policies and guidelines available to staff. Therefore, we do not repeat this recommendation.

We also recommended the assessor implement a review process for appraisals and audits. The assessor has implemented this recommendation and the assistant assessor now reviews all appraisal work.

### ***Computer System***

We recommended the assessor store backup computer programs and data at a secure off-site location and develop a formal disaster recovery plan for the computer system. Because there is no express statutory requirement for such security measures, these recommendations are not repeated.

### ***Disaster Relief***

We recommended the assessor request that the board of supervisors update the county's disaster relief ordinance. On December 10, 2002, the supervisors adopted an ordinance that reflects current statutes.

We also recommended the assessor grant relief only upon receipt of a timely application. In our current review, we found no instances where tax relief had been granted without a properly filed application. Therefore, we do not repeat this recommendation.

### ***Assessment Roll Changes***

We recommended the assessor include section 506 interest on all applicable escape assessments. The assessor has implemented this recommendation.

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

We recommended the assessor process all BOE-reported changes in control of legal entities and accept only completed section 63.1 claims. The assessor has implemented both recommendations.

### ***New Construction***

We recommended the assessor log all building permits on the appraisal records. The assessor has not changed his policy, but we did not discover any taxable new construction that escaped

assessment as a result of his failure to log permit information. Therefore, we are not repeating this recommendation.

We recommended the assessor substantiate construction cost discounts that he applies to new residential swimming pools. At that time, the assessor routinely assessed new pools at 60 to 65 percent of their historical cost, although he had not performed a study to support these value adjustments. The assessor continues to value new residential pools at various discounts of their cost. However, the percentage range is now broader than before and the assessor's policy is to determine market value. Therefore, we do not repeat this recommendation.

We also recommended the assessor assess wells as land. The assessor still classifies these items as structural improvements; therefore, we repeat this recommendation.

### ***California Land Conservation Act (CLCA) Property***

We recommended the assessor uniformly assess comparable restricted properties. At that time, the assessor appeared to be using higher rents to value property when the owners failed to return CLCA questionnaires. We currently found no evidence of inconsistency in the market rents used to value these properties: therefore, we are not repeating this recommendation. We recommended the assessor use current rents to value CLCA property. In our current review, we found the agricultural questionnaires returned by property owners support the market rents used by the assessor. As a result, we are not repeating this recommendation.

We recommended the assessor enroll the lowest of the restricted value, factored base year value, or current market value. We found the assessor still does not compare the current market value with the other two values. Currently, we found the market value of agricultural land substantially exceeds both the restricted value and the factored base year value, making a three-way value comparison unnecessary. Because the assessor's current practice does not affect the values that would be enrolled for these parcels, we are not repeating this recommendation.

We recommended the assessor include all compatible use income when valuing CLCA properties. We found a number of compatible uses (such as hunting rights and mineral leases) that were not assessed. Currently, we found mineral leases being valued as compatible uses and no evidence that hunting rights are escaping assessment. As a result, we are not repeating this recommendation.

And finally, we recommended the assessor use the appropriate income stream to value living improvements. This issue still exists and we repeat this recommendation.

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

We recommended the assessor improve his program for discovering taxable government-owned properties, as we had found some parcels that may have escaped assessment. In our current review, we did not find any taxable government-owned properties that had escaped assessment. As a result, we are not repeating this recommendation.

We also recommended the assessor enroll taxable government-owned land at the lowest of its restricted value, factored base year value, or current market value. The assessor did not consider either the factored base year value or the current market value. While the assessor has modified his valuation procedures, his practice still does not conform to the law; therefore, we repeat our recommendation.

### ***Timberland Production Zone (TPZ) Property***

We recommended the assessor enroll improved property in TPZ at the lower of its factored base year value or current market value. Currently, we found no evidence that the assessor has overassessed these portions of the TPZ parcels; therefore, we do not repeat this recommendation.

We also recommended the assessor include all compatible use income in the assessment of TPZ properties and send annual questionnaires to TPZ landowners to discover compatible uses. In our current review, we did not find any specific escaped compatible uses. Because there is no statutory requirement to mail questionnaires to TPZ landowners, we do not repeat these recommendations.

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

We recommended the assessor add the present worth of unpaid rents to the sales prices of cabins located on United States Forest Service land. Since our last survey, the cabin owners have purchased the lots on which their cabins were located, thereby eliminating these taxable possessory interests in Tehama County.

We also recommended the assessor assess all taxable possessory interests. Because the assessor still does not enroll taxable possessory interests at the fairgrounds, we repeat this recommendation.

### ***Mineral Property***

We recommended the assessor follow Rule 469 when appraising mineral properties. The assessor has not implemented this recommendation, and we repeat it in this report.

We also recommended the assessor require mineral property operators to file Form BOE-560-A, *Aggregate Production Report*. Because there is no express statutory requirement for this recommendation, it is not repeated.

### ***Audit Program***

We recommended the assessor adopt minimum audit standards. Because the assessor has improved the quality of his audits, we do not repeat this recommendation.

### ***Business Property Statement Program***

We recommended the assessor discontinue use of the "short" form of the annual business property statement (Form BOE-571-S) for assesseees owning business property of \$200,000 or

more in value. The assessor is currently sending the long version (Form BOE-571-L) to all active accounts.

We also recommended the assessor use certificated staff in the valuation of personal property as required by section 670. We found that the assessor still uses an assessment clerk III in the valuation of business property accounts. Therefore, we repeat this recommendation.

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

We recommended the assessor use equipment index and percent good factors that are applicable to the category of equipment being appraised. The assessor has implemented this recommendation.

We recommended the assessor properly and consistently assess personal property in apartments. Currently, we found no evidence that apartment personalty was improperly assessed. Therefore, we are not repeating the recommendation.

We also recommended the assessor exempt personal property owned by homeowners' associations in accordance with section 224. In our current review, we found that the assessor still assesses personal property to homeowners' associations. Therefore, we repeat this recommendation.

### ***Manufactured Homes***

We recommended the assessor enroll manufactured homes as personal property. The assessor still classifies manufactured homes as real property; therefore, we are repeating this recommendation.

We also recommended the assessor annually enroll the lower of the factored base year value or the current market value of manufactured homes. We found that factored base year values of some manufactured homes have not been reviewed for several years. However, our current review indicated that the enrolled values are within the market range indicated by the BOE cost manual. As a result, we are not repeating this recommendation.

### ***Vessels***

We recommended the assessor assess vessels at market value. In our current review, we found that the assessor has revised his vessel assessment procedures and documented the basis for the assessments. Therefore, we are not repeating the recommendation.

### ***Aircraft***

We recommended the assessor consistently enforce the filing deadline for the historical aircraft exemption. Our current review found the assessor to be in full compliance with the statutory provisions.

## OVERVIEW OF TEHAMA COUNTY

Tehama County lies midway between the City of Sacramento and the Oregon border. The county seat, Red Bluff, is located on Interstate 5 and the Sacramento River, and is approximately 135 miles north of Sacramento. The west boundary of the county is the Pacific Coast Range and the east boundary is the ridge line of the Sierra Nevada. The county's economy is based on agriculture, including ranching, farming, and timber production.

The county encompasses about 3,000 square miles and has three incorporated cities: Corning, Red Bluff, and Tehama. Governed by a five-member board of supervisors, Tehama County has a population of more than 57,000 people, of whom about 25 percent reside in the City of Red Bluff.

The assessor produced a local assessment roll for 2004-05 of \$3,276,104,000, which was an increase of 8.3 percent over the 2003-04 roll total of \$3,025,809,000. The following table illustrates the growth in assessed values during the past several years:<sup>3</sup>

<b>ROLL YEAR</b>	<b>TOTAL ROLL VALUE</b>	<b>% CHANGE</b>	<b>STATEWIDE CHANGE</b>
2004-05	\$3,276,104,000	8.3%	8.3%
2003-04	\$3,025,809,000	5.6%	7.3%
2002-03	\$2,866,181,000	3.8%	7.3%
2001-02	\$2,761,516,000	6.3%	9.4%
2000-01	\$2,598,913,000		

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<sup>3</sup> Information from the State Board of Equalization Annual Reports.

The following table displays property type, number of assessments, and enrolled value information pertinent to the 2004-05 assessment roll from information provided by the assessor:

	<b>PROPERTY TYPE</b>	<b>NUMBER OF ASSESSMENTS</b>	<b>ENROLLED VALUE</b>
<b>Secured Roll</b>	Secured	34,314	\$2,907,437,643
	CLCA Land (Agricultural Preserve)	3,952	\$172,036,928
	Timberland Production Zone	956	\$25,732,203
	CLCA Land In Nonrenewal	140	\$11,333,221
	CLCA Land Assessed at Factored Base Year Value	131	\$32,392,398
	CLCA Trees and Vines	323	\$84,269,237
	Farmland Security Zone	50	\$10,490,069
	<b>Total Secured</b>	39,866	\$3,243,691,699
<b>Unsecured Roll</b>	Personal Property and Fixtures	3,387	\$119,276,455
	<b>Total Assessment Roll</b>	43,253	\$3,362,968,154

For the 2004-05 year, the assessor reviewed over 5,500 deeds and processed over 6,000 permits. The roll included 141 taxable possessory interests, and 1,264 decline-in-value assessments. The assessor also completed a business property workload that included over 4,200 business property statement reviews, 28 completed audits, 3,459 manufactured homes, 1,655 vessels, and 115 aircraft.

## ADMINISTRATION

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

### **Budget and Staffing**

The assessor's budget and staffing levels for recent years, including both General Fund and PTAP funding, is shown in the following table:

BUDGET YEAR	GROSS BUDGET	INCREASE	PERMANENT STAFF	PTAP FUNDS RECEIVED	PTAP STAFF
2004-05	\$1,146,180	8.3%	20	\$97,222	2.5
2003-04	\$1,057,917	-0.01%	19	\$97,222	2.5
2002-03	\$1,065,362	5.8%	21	\$97,222	2.5
2001-02	\$1,006,889	7.4%	21	\$97,222	2.5
2000-01	\$937,291		21	\$97,222	2.5

The assessor's office has 20 budgeted full-time positions, including the assessor. The following table shows the staff positions and the number of employees in each classification:

CLASSIFICATION	NO.	CLASSIFICATION	NO.
Assessor	1	Auditor Appraiser	1
Assistant Assessor	1	Senior Assessment Clerk	1
Assessment Roll Manager	1	Assessment Clerk III	4
Chief Cadastral Drafting Technician	1	Assessment Clerk II	2
Senior Appraiser	4	Transfer Clerk	2
Appraiser II	1	Receptionist	1

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

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

tax administration.<sup>4</sup> This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which was available to counties for fiscal years 2002-03 through 2006-07.<sup>5</sup> The grant program operates in essentially the same manner as the loan program except that if a county does not meet its performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

If an eligible county elects to participate, the county submits a resolution as described in section 95.35 to the State Department of Finance. The resolution 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 resolution provides that verification of performance is provided to the State Department of Finance by the county auditor-controller.

Tehama County has participated in PTAP since April 1, 1996. For contract year 2004-05, the assessor received a grant of \$97,222. The county's required base funding and staffing levels for the assessor's office are \$650,239 and 15 positions, respectively. The Tehama County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for loan repayment for every year under contract.

The assessor has effectively used PTAP funds for timely completing assessments for transfers, new construction, and business personal property and fixtures; timely completing assessment appeals and mandatory and nonmandatory audits; reviewing properties experiencing declines in value; and timely processing supplemental assessments. PTAP has augmented the assessor's staff with 2.5 additional positions (one transfer clerk, one assessment clerk, and a half-time cadastral drafting technician). All expenditures are designed to increase the long-term productivity of the assessor's office and other county units (assessment appeals board and tax collector) that are part of the property tax system.

### ***Appraiser Certification***

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. There are a total of eight certified appraisers on staff, of whom seven hold advanced certificates and one has a permanent appraiser's certificates. We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraiser performing mandatory audits meet the requirements referenced in section 670(d). The assessor does use contract appraisers.

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<sup>4</sup> Chapter 914, Statutes of 1995, in effect October 16, 1995.

<sup>5</sup> State-County Property Tax Administration Program funding has been suspended for two years, beginning with the 2005-06 California State Budget.

## Appraisal Consultant Contract

The County of Tehama has contracted with a private consulting firm to provide services to the assessor in the appraisal of oil, gas, and aggregate rock mineral rights within the county. We reviewed the current agreement and found that it does not meet the requirements of section 674.

**RECOMMENDATION 1:** Revise the appraisal consultant's contract to conform to the statutory requirements of section 674.

We reviewed the appraisal services contract and found that the language of the agreement signed on May 20, 2003, did not meet the statutory requirements of section 674.

Section 674 requires the following:

- At least two competitive bids.
- Contractor shall maintain confidentiality of assessee data.
- Contractor shall not provide appraisal data to another party.
- Contractor shall purge and return to the assessor any assessee records.
- The contract shall include the provision of section 674(b) and (c).

This agreement lacks definite provisions for the control and disposition of the assessee's confidential information and records and also lacks a written declaration stating that the contractor has complied with the provisions of section 674. In Letter To Assessors 2000/055, dated September 15, 2000, the BOE recommended contract provisions that would satisfy the requirements of section 674. Without these restrictive provisions, the contractor may legally retain or use the information and material gathered during the appraisal process for the benefit of other parties.

## ***Assessment Appeals***

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

Currently, the county board of supervisors acts as the local board of equalization for property tax appeals. The local board of equalization hears applications for changes in value affecting properties on the unsecured and secured roll. The regular filing period for assessment appeal applications is between July 2 and November 30 of the assessment year in question.

Applications received by the clerk of the assessment appeals board are reviewed, validated, and entered into the system with a copy forwarded to the assessor. After the assistant assessor

reviews the application, he confers with the assessor concerning the action to be taken. The assistant assessor then contacts the taxpayer to discuss their claim.

Should the taxpayer decide to withdraw an appeal or stipulate to an agreed value, the assessor sends a letter with the appropriate attachments to the taxpayer for review. Upon receipt of a signed letter to the clerk of the assessment appeals board and subsequent board action, the appeal is officially withdrawn or, in the case of a stipulation, the value is changed.

If no agreement can be reached, the appeal process continues and a hearing is scheduled. The assistant assessor represents the assessor at most board hearings.

The following table illustrates the number of appeals filed and board decisions for recent years:

<b>ASSESSMENT ROLL</b>	<b>2003-04</b>	<b>2002-03</b>	<b>2001-02</b>	<b>2000-01</b>
Appeals Filed	21	31	20	26
Open	1	5	5	2
<b>Total Appeals Workload</b>	22	36	25	28
<b>Resolution:</b>				
Withdrawn	11	17	11	9
Stipulation	4	15	8	10
Appeals Reduced	1	1	0	2
Appeals Upheld	2	1	1	1
Appeals Increased	0	0	0	0
Other Determination*	0	1	0	1
<b>Total Resolved</b>	18	35	20	23
<b>To Be Carried Over</b>	4	1	5	5

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

No appeal in the last four years has gone unresolved for more than two years, unless the taxpayer has agreed to a waiver of the statutory time limits.

We reviewed a number of appeals and found them to be clear and well documented. Overall, the assessor's portion of the assessment appeal program is well administered.

***Disaster Relief***

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

section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

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

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

In our 2001 survey, we recommended the assessor request that the board of supervisors update the county's disaster relief ordinance. On December 10, 2002, the supervisors adopted an ordinance that reflects current statutes.

We also recommended the assessor grant relief only upon receipt of a timely application. In our current review, we found no instances where tax relief had been granted without a properly filed application. However, we found two areas needing improvement in the assessor's administration of disaster relief.

**RECOMMENDATION 2:** Improve the disaster relief program by: (1) conforming the application for disaster relief to the requirements of section 170, and (2) revising the value notice sent to taxpayers who have been granted property tax relief.

**Conform the application for disaster relief to the requirements of section 170.**

The assessor's application for property tax relief following a misfortune or calamity does not ask the property owner to describe the condition of the property or estimate its value after the damage or destruction.

Section 170(a)(3) specifies that the written application for tax relief should indicate the condition and value, if any, of the property immediately after the damage or destruction.

Requesting this additional information will assist the assessor in determining whether the property owner is eligible for tax relief following a misfortune or calamity and the amount of relief that should be provided.

**Revise the value notice sent to taxpayers who have been granted property tax relief.**

To inform property owners of value changes to their properties as the result of a misfortune or calamity reassessment, the assessor uses the same value notice used to inform property owners of changes to the assessed values of their properties as of the lien date. This value notice is not accurate when used in conjunction with disaster relief. It references section 1603, which

addresses the standard appeal period for assessments, not the appeal period applicable to disaster relief assessments.

Section 170(c) provides that the assessor shall notify the applicant in writing of the amount of the proposed reassessment due to a misfortune or calamity. This notice shall state that the applicant may appeal the proposed reassessment to the local board of equalization within six months of the mailing of the notice. However, the value notice used by the assessor incorrectly references a deadline of November 30.

The value notice currently in use is not appropriate for notifying taxpayers of reassessments brought about by misfortunes or calamities.

**Assessment Roll Changes**

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

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

The following table shows the number of secured and unsecured roll changes processed by the assessor over a five-year period:

<b>ROLL YEAR</b>	<b>NUMBER OF ROLL CHANGES</b>
2004-05	595
2003-04	601
2002-03	634
2001-02	689
2000-01	727

Roll changes are initiated by real property appraisers or auditor-appraisers with a roll correction transmittal document. A senior appraiser reviews the document and forwards it to a senior assessment clerk for processing. The senior clerk prepares escape assessment notices and notices of changes in assessment for the taxpayers and, when needed, an individual letter explaining the value reduction. The assessor or the assistant assessor approves the roll corrections before the notices are sent out.

A *Notice of Proposed Escape Assessment* is sent to the taxpayer. A waiting period of at least 10 days is required before an escape assessment can be enrolled. The roll correction transmittal

documents are forwarded to the county auditor. The taxpayers are notified by mail of the increase or decrease in value after the value has been enrolled. If there is an increase, Form BOE-66-A, *Notice of Enrollment of Escape Assessment*, is sent to inform the taxpayer of the right to appeal the assessment, as required by section 534.

We reviewed the assessor's roll change process and procedures as well as a sample of roll changes and found no problems.

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

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

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

In 1984, the Tehama County Board of Supervisors passed Resolution 19-1984, which established a property tax exemption for all real property with a base year value of \$1,000 or less and all personal property with a full value of \$1,000 or less. The county has made no amendments or changes to the resolution since that date.

To implement this resolution, the assessor enrolls property assessments of less than \$1,000 with a zero-value code on the computer system. The county auditor receives a print out of all qualifying properties and runs a matching program to verify that all qualifying properties will be exempted.

We examined several low-valued assessments where the assessor applied the low-value property exemption. The assessor correctly enrolls low-valued new construction when the value of the entire appraisal unit exceeds the exemption limit. In addition, because the county has not adopted a resolution or ordinance allowing the exemption of small escapes or small supplemental assessments, the assessor properly enrolls these assessments.

The assessor's low-value property exemption program meets the requirements of law.

### ***Exemptions***

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

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code,

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

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

In Tehama County, church and religious exemption claims are processed by the assessment office manager, with assistance from an assessment clerk III. They rely on Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions* (AH 267), and printed guidance received in various exemption workshops conducted by the BOE. Although field inspections historically have been performed by the appraiser responsible for the area of the county where the exempt property is located, the assessment office manager may assume the duty of inspecting new filings for church, religious, or welfare exemptions.

There are only two current church exemption claims and both conform to statutory filing requirements for the 2004-05 roll. All other religious organizations have qualified for the religious exemption.

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

<b>ROLL YEAR</b>	<b>NO. OF CHURCH EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>	<b>NO. OF RELIGIOUS EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2004-05	2	\$28,645	64	\$18,054,338
2003-04	2	\$28,616	63	\$16,623,280
2002-03	2	\$24,817	64	\$17,060,345
2001-02	2	\$24,761	64	\$16,702,395
2000-01	2	\$24,613	65	\$15,930,764

The assessor adheres to statutory filing requirements. New claims are date stamped to document timeliness and late filings are penalized according to section 270. Properties for which an exemption is claimed are subject to field inspection to confirm eligible use. The assessor is careful to allow exemptions only for uses that qualify for the religious or church exemption. If a

claimant fails to return the annual religious exemption termination notice, the assessor contacts the claimant to confirm continued eligibility for the religious exemption.

Overall, the assessor maintains an effective program for administering church and religious exemptions.

**Welfare Exemption**

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

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

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

In Tehama County, welfare exemption claims are processed by the assessment office manager. The following table summarizes welfare exemptions granted on the local roll for recent years:

<b>ROLL YEAR</b>	<b>NUMBER OF EXEMPTIONS</b>	<b>EXEMPT VALUE</b>
2004-05	49	\$50,550,061
2003-04	40	\$46,327,620
2002-03	37	\$41,465,593
2001-02	26	\$35,412,809
2000-01	25	\$34,115,176

We reviewed a variety of welfare exemption claims on file at the assessor's office, including first-time filings, denied claims, partial exemptions, and late filings. We reviewed claims related to medical clinics; reasonably necessary staff housing; land conservation easements; rental housing for low-income, handicapped, and elderly persons; a monastery and religious retreat center; churches; a counseling center; group homes for youth; and a community service organization.

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

## **Assessment Forms**

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.<sup>6</sup> For the 2004 lien date, the BOE prescribed 75 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 (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists and any rearranged forms to the BOE by October 15 in the case of property statements and miscellaneous forms and by December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

A review of the forms used by the Tehama County Assessor's Office for the year 2005-06 revealed the following:

- Of the 79 BOE-prescribed forms, the assessor used 49.
- Of those 49 forms used, the assessor rearranged only 4 forms.
- The checklists were received approximately a week late.
- The rearranged forms were received late.
- The final prints of the forms used were received timely.

We also reviewed locally-developed forms, letters, questionnaires, and notices. With the few exceptions noted above, the assessor is in general compliance with established form procedures.

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<sup>6</sup> Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

## ASSESSMENT OF REAL PROPERTY

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

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

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

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

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

### **Document Processing and Discovery**

The assessor processed approximately 5,500 deeds in 2004. The clerical staff download and print out deeds that are sent electronically by the Tehama County Recorder. Staff then collect the accompanying Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), from the recorder and match them to the printed deeds. Staff send the deeds and matching PCORs to the drafting section to verify the reported parcel numbers.

Clerical staff then update the property's history records, recording any parcel splits or combinations, and notes any requested exemptions or deeds that will not require reappraisal, such as interspousal transfers. If the clerical staff determine a deed may require reappraisal, they give the appraisal record, deed, PCOR, and other documents to the real property appraiser assigned to the specific area or property type referenced.

More than 95 percent of recorded documents are accompanied by a PCOR. If no PCOR is submitted, the recorder imposes a \$20 non-filing fee and the assessor sends Form BOE 502-AH, *Change of Ownership Statement* (COS), to the assessee. If the assessee does not respond within

the 45 days allowed by section 480, the assessor applies the penalty and sends a *Notice of Penalty*. Since the board of supervisors has not authorized the assessor to remove the penalty if a COS is returned within 60 days of the *Notice of Penalty*, the assessor also sends the *Application for Abatement of Penalty* (for submission to the board of supervisors) to the assessee.

Staff keep a follow-up file for all COS forms sent, which includes a cover sheet, the date the *Notice of Penalty* was sent, and whether the penalty was abated.

The assessor does not have a formal system in place to discover unrecorded transfers. He may learn about unrecorded transfers at the public counter or through mismatched parcel numbers on recorded documents.

The assessor receives a monthly list of recorded deaths in Tehama County from the recorder. In addition, multiple and partial interest transfers, discovered during deed processing, are entered on the assessor's database and noted on the property record.

### Legal Entity Ownership Program (LEOP)

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

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

In our 2001 survey, we recommended the assessor process all changes in control reported by legal entities. For our current survey, we examined six changes in control listed by the BOE's LEOP unit and found the assessor processed all six reported changes and related parcels. The assessor's business division also processed all additional changes in control reported on the business property statements. The assessor has complied with our previous recommendation and his program now meets mandated requirements.

### Valuation

We found changes in ownership are processed timely and well documented. Most aspects of the assessor's change in ownership program were in compliance with statutory requirements.

## Change in Ownership Exclusion and Base Year Value Transfer

Section 63.1 excludes from change in ownership the purchase or transfer (on or after November 6, 1986) of the principal residence and the first one million dollars of other real property between parents and children, when a claim is timely filed. In addition, section 69.5 allows qualified homeowners at least 55 years old or severely disabled to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly constructed in the same county and of equal or lesser value. The claim for this benefit must also be filed timely and the original dwelling must have been sold.

We reviewed a number of sections 63.1 and 69.5 claims and found the claims were completed correctly and claimants were qualified for the benefits.

## **New Construction**

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

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

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

## Discovery

The assessor discovers most new construction activity from his review of building permits. He receives building permits from four permit issuing agencies: the Tehama County Building Department, the Tehama County Department of Environmental Health, and building departments in the cities of Red Bluff and Corning.

Other methods the assessor uses to discover new construction include newspaper articles, business property statements, and field canvassing. In addition, from 1997 through 2002 he used State-County Property Tax Administration Program funds to employ a full-time appraiser to inventory improvements and discover escape new construction in the valley portion of the county.

Permit Processing

An assessment clerk following guidelines determines which permits represent potential new construction. The assessment clerk notes on the appropriate building records permits to be worked, then files the hard copies of the permits with the property files for the appraisers to work. Permits that are not considered new construction, such as those issued for plumbing, electrical, or re-roofing projects, are culled and are not documented on the appraisal records. The following table shows the number of building permits issued in recent years and the number of resulting new assessments:

<b>ROLL YEAR</b>	<b>NUMBER OF PERMITS ISSUED</b>	<b>NEW CONSTRUCTION ASSESSMENTS</b>
2004-05	6,343	4,440
2003-04	5,185	3,630
2002-03	4,144	1,674
2001-02	3,752	926
2000-01	2,407	1,185

Valuation

The assessor periodically receives copies of building plans from each permit-issuing agency. He is able to access the county building department's database to check inspection and completion dates. The other three agencies provide the assessor with lists showing their construction inspections and the dates projects are completed.

When each agency issues a building permit, the permit applicant is also given a self-reporting form to submit to the assessor, informing him of the nature of the work to be performed and its cost. The assessor estimates that 60 to 70 percent of property owners provide the requested information.

The assessor enrolls new construction at its reported cost only if a field review indicates the cost is reasonable. As there are few sales or rent comparables available, commercial, industrial, and miscellaneous residential new construction is typically valued by the cost approach. The assessor considers both the cost and market approaches in valuing new residences.

In our 2001 survey, we recommended the assessor log all building permits on the appraisal records. The assessor's current policy is to not maintain any record of culled permits. While maintaining a detailed history of improvements to a property may prove beneficial to the appraisal staff when making appraisal judgments involving that property, we did not discover any taxable new construction that escaped assessment due to this policy. As a result, we are not repeating that recommendation.

In addition, in our 2001 survey, we recommended the assessor substantiate construction cost discounts that he applies to new residential swimming pools. At that time, the assessor routinely assessed new pools at 60 to 65 percent of their historical cost, although he had not performed a

study to support these value adjustments. The assessor is still valuing new residential pools at various discounts of their historical cost. Because we could not obtain specific market data on pool values in Tehama County, we cannot refute the assessor's practice and, therefore, do not repeat this recommendation.

Finally, in our 2001 survey, we recommended that the assessor enroll wells and well casings as land. Since the assessor is still classifying these items as structural improvements, we repeat this recommendation.

**RECOMMENDATION 3:** Classify wells as land.

It is the assessor's policy to classify wells as structural improvements. Rule 124 provides that wells are land. Classification of wells as improvements rather than as land results in the overassessment of wells if they are located on California Land Conservation Act parcels because as unrestricted improvements they would be valued at the lower of current market or factored base year value, rather than at a restricted section 423 value.

***Declines in Value***

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

Like many other counties, Tehama County has experienced increases in property values in recent years, particularly among residential properties. Consequently, the number of properties with a full cash value lower than factored base year value has decreased. On the 2004 roll, there were 1,264 such properties; for 2003, there were 1,837.

The assessor has no formal program for discovering properties not already in decline in value status. Instead, he depends upon requests for revaluation from property owners and his appraisers' knowledge of their assigned areas. However, the assessor review values of unique agricultural properties such as olive orchards that may experience declines in market value. The assessor tracks all decline-in-value properties to ensure that the annual inflation factor is not applied.

We examined several properties with declining values. We found the assessor reviews all decline-in-value properties annually as mandated in section 51(e). When the annual review of decline-in-value properties indicates an assessment increase, the assessor sends a notice to property owners that contain all statutory required elements. In addition, the assessor treats fixtures as a separate appraisal unit when determining value declines for commercial property.

The assessor's decline in value program is well organized and adequately documented.

## **Supplemental Assessments**

Sections 75 and following require the assessor to appraise property at its full cash value upon change in ownership or completion of new construction and to issue a supplemental assessment based upon the change in ownership or new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completed new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

We reviewed several enrolled supplemental assessments and found that supplemental assessment calculations, prorations, and billings were correctly processed. The assessor uses Form BOE-67-A, *Notice of Supplemental Assessment*, to advise assesseees of impending supplemental assessments. The notice is properly prepared and timely provided.

The assessor issues two supplemental assessments whenever there is a change in ownership or completed new construction on or after January 1, but on or before May 31. The assessor correctly applies the inflation factor to the new base year for events that occur between January 1 and June 30, as indicated in section 75.18, correctly applies the statute of limitations for processing supplemental assessments, and grants the builders' exclusion authorized in section 75.12 when timely claims are submitted.

We noted only one problem with the assessor's supplemental assessment program.

**RECOMMENDATION 4:** Assess taxable government-owned property according to the provisions of section 75.14.

The assessor has incorrectly enrolled supplemental assessments for taxable properties acquired by local governments.

Land belonging to a local government is normally exempt from property taxation. However, article XIII, section 11, of the California Constitution allows taxation of locally owned government property if it is located outside its agency boundaries and if the property was taxable when acquired. Section 11 also establishes an alternate assessment formula for taxable government-owned property.

Section 52(d) requires that all taxable government-owned property be valued according to article XIII, section 11. Because these properties are not subject to article XIII A, they are also excluded from supplemental assessment under section 75.14.

By levying supplemental assessments for taxable government-owned properties, the assessor is violating express constitutional and statutory requirements.

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

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

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

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

In 1968, the Tehama County Board of Supervisors adopted a resolution that detailed the procedures for initiating, filing, and processing requests to establish agricultural preserves. In 1999, the board of supervisors adopted an ordinance that created the Farmland Security Zone (FSZ), a more restrictive form of the CLCA contract.

For fiscal year 2004-05, the assessor enrolled 779,294 acres of agricultural land restricted by CLCA or FSZ contracts. These 4,596 parcels had a total assessed value of \$131,464,039. One hundred and forty of these parcels are in nonrenewal status.

### **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.

When building the capitalization rate applicable to the income streams of CLCA properties, the assessor correctly combines the BOE-announced interest rate, a risk rate appropriate to the type of property being valued, and the actual property tax rate.

### Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. AH 521 provides that "even though it might be highly unlikely or impossible for the unrestricted improvements to actually be bought and sold in the marketplace, the unrestricted improvements must be valued as though they were a separate appraisal unit and traded in that manner." In other words, the homesite must be valued at the lesser of the factored base year value or the fair market value of a comparable homesite.

The assessor treats homesites as separate appraisal units and correctly values them at the lower of market value or factored base year value. However, homesite values are not handled correctly when they are part of a CLCA parcel that is in nonrenewal. This shortcoming is discussed in our multi-part recommendation.

### Income and Expenses

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

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

We found two problems in the way the assessor determines the net income to be capitalized into the estimated restricted value for CLCA properties. These shortcomings and others are discussed in the following recommendation.

**RECOMMENDATION 5:** Improve the program for assessing California Land Conservation Act property by: (1) capitalizing net income to arrive at the restricted value, (2) deducting an amount for the return on the irrigation system from the income stream to value living improvements, and (3) using the appropriate capitalization rate to value compatible uses.

**Capitalize net income to arrive at the restricted value.**

The assessor values orchards on CLCA land based on share rent income. Using information provided by owners of agricultural land, the assessor concluded that a 25 percent share rent was appropriate for the 2004-05 fiscal year. To estimate the gross income for an almond orchard, for example, he would multiply the total number of pounds of almonds produced by the market price per pound, and then by the lessor's 25 percent share of the proceeds.

AH 521 provides that the income to be capitalized into a land value must be the net income. The handbook explains that a gross economic income derived using cash rents will typically require fewer adjustments for expenses than one derived from share rents, but that a management charge is generally applicable to both income streams.

The assessor claims that the 25 percent share rent he used to value orchards reflected net income rather than gross income. However, there is no indication on the agricultural questionnaires that the owners were providing a net income rather than gross income. There is also no evidence in the property files that the assessor considered lessor expenses in applying the 25 percent share rent. Finally, if the assessor considered the share rent a net income, he should have applied a management fee adjustment to the net income.

Because the assessor is treating share rents as net income rather than gross income, he is overassessing CLCA property.

**Deduct an amount for the return on the irrigation system from the income stream to value living improvements.**

When the assessor values orchards with permanent irrigation systems that are subject to CLCA contracts, he does not deduct an amount for the return on the irrigation system from the income stream.

Income from orchards that are served by a permanent irrigation system includes income attributable to that improvement. Nonliving improvements that are not subject to CLCA contract, such as irrigation systems, are assessed separately from the property that is subject to the CLCA contract. Because these separately assessed, unrestricted irrigation systems contribute to the income stream, the assessor must deduct an amount for the return on the investment in these irrigation systems before capitalizing the income stream into an indicator of tree value.

Leaving the income attributable to the irrigation systems in the income streams overvalues the living improvements.

**Use the appropriate capitalization rate to value compatible uses.**

The assessor uses only the BOE-announced interest rate for CLCA property as the capitalization rate when valuing compatible uses. He does not add components for risk or property tax.

Section 423(a)(3) provides that the revenue to be capitalized when valuing CLCA properties shall include money from any use of the land permitted under the contract. Section 423(b) provides that the capitalization rate used in valuing CLCA land shall be the sum of an interest component announced by the BOE, a risk component, and a component for property taxes.

The assessor's practice of valuing compatible uses without including the risk and property tax components in the capitalization rate results in overassessments.

***Taxable Government-Owned Property***

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

For the 2004-05 assessment roll, the assessor enrolled seven taxable government-owned properties with a total assessed value of \$318,099.

In our 2001 survey, we recommended the assessor enroll taxable government-owned land at the lowest of its restricted value, factored base year value, or current market value. At that time, the assessor did not consider either the factored base year value or the current market value. While the assessor has modified his valuation procedures, his current practice is incorrect. As a result, we repeat and expand our recommendation.

**RECOMMENDATION 6:** Improve the assessment of taxable government-owned properties by: (1) correctly establishing the base year value, (2) correctly calculating the restricted value, and (3) considering the factored base year value when determining the taxable value.

**Correctly establish the base year value.**

When taxable government-owned property changes ownership, the assessor automatically enrolls as the base year value his estimate of its current market value.

Letter To Assessors 2000/037, dated June 23, 2000, specifies that the base year values for taxable government-owned properties acquired after March 1, 1975 are to be set at the lower of current market value as of the date of the change in ownership, or the 1967 assessed value

multiplied by the appropriate BOE-announced factor as of the date of the change in ownership (restricted value).

The assessor's practice of enrolling the current market value as the base year value of the property that has changed ownership after March 1, 1975 without considering the restricted value has resulted in the overassessment of taxable government-owned property.

**Correctly calculate the restricted value.**

In determining the annual taxable value of a government-owned property, the assessor uses its 1967 full market value instead of the 1967 assessed value.

Article XIII, section 11(b), of the California Constitution provides that the restricted value shall be determined by multiplying its 1967 assessed value by the appropriate BOE-announced factor. In 1982, when the assessment ratio was changed from 25 percent to 100 percent and the BOE adjusted its factor to account for this change, the assessor continued to calculate the restricted value with the 1967 full market value.

By calculating the restricted value of taxable government-owned property using the 1967 full market value rather than the assessed value, the assessor is determining a restricted value that is four times greater than the appropriate value. This practice is contrary to constitutional provisions and leads to overassessments.

**Consider the factored base year value when determining the taxable value.**

When annually determining the value to enroll for taxable government-owned property, the assessor compares the current market value with the restricted value and enrolls the lower of the two.

In *San Francisco Co. vs. San Mateo County*, 10 Cal 4th 554, the California Supreme Court determined that the provisions of article XIII A of the California Constitution apply and that taxable government-owned land is to be enrolled at the lowest of its restricted value, its current market value, or its factored base year value.

Because the assessor has not been considering the factored base year when valuing these properties, some parcels have been overassessed.

***Timberland Production Zone Property***

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

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

For the 2004-05 roll, the assessor in Tehama County assessed 956 parcels of TPZ land comprising approximately 243,000 acres with a total assessed value of about \$23.8 million. One senior appraiser is assigned to oversee TPZ assessments, among his other duties. An assessment clerk updates the TPZ land values annually based on the site class values published by the BOE. The site classes for timberland in Tehama County were originally established by an employee of the assessor's office.

TPZ parcels are clearly identified on the assessor's roll. The assessor correctly applies the BOE-published site class values to TPZ land in Tehama County. When there is a change in ownership, the assessor reappraises residential sites and structures on TPZ land and correctly issues supplemental assessments. He does not issue supplemental assessments for TPZ land.

In our 2001 survey report, we recommended that the assessor make the following revisions to his TPZ assessment program:

- Ensure that unrestricted appraisal units (structures and sites for structures) on TPZ parcels are assessed at the lower of factored base year value (FBYV) or current market value (CMV).
- Identify and assess all existing compatible, nonexclusive uses of TPZ land.

The few recent sales of TPZ land having structures or other improvements indicate that the FBYV of the unrestricted appraisal unit is below its CMV. Therefore, since there is no evidence that the assessor has overassessed these portions of the TPZ parcels, we do not repeat this recommendation.

The assessor has not conducted a systematic canvassing of the 243,000 acres of TPZ land in Tehama County to identify all existing, compatible, nonexclusive uses; nor has he mailed questionnaires to TPZ landowners. However, in the original TPZ site classification process, the assessor inventoried all parcels and assessed all structures. Since then, he has attempted to discover new compatible uses such as communications towers through a review of building permits issued by the county. Since we did not identify any specific escaped compatible uses and there is no statutory requirement to mail questionnaires to TPZ landowners, we do not repeat these recommendations.

We found no problems in the assessor's program for assessing TPZ property.

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

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

the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

For fiscal year 2004-05, the assessor enrolled 141 taxable possessory interests with a total assessed value of \$2,546,505.

The auditor-appraiser is responsible for valuing all taxable possessory interests. He annually requests usage reports from the 19 public agencies on whose property these interests are located, and receives responses from most of them.

Taxable possessory interests are identified by 9-digit account numbers. The first three digits represent the public agency that owns the property, while the second three numbers identify the type of possessory interest. The last three digits in the account number identify the particular lessee and may, for example, correlate with the unit number of an airport hangar or the lot number on which a cabin or house is located.

In our 2001 survey, we recommended the assessor add the present worth of unpaid rents to the sales prices of cabins located on United States Forest Service land. This recommendation is no longer applicable. Prior to 2004, the cabin owners purchased the fee interest in the lots on which their cabins are located, thereby eliminating that type of taxable possessory interest in Tehama County.

In both our 1994 and 2001 surveys, we recommended the assessor assess all taxable possessory interests. In the 2001 report, we stated that land with small docks owned by the State Lands Commission and uses of fairground property were escaping assessment. The taxable values of the possessory interests in the smaller docks are now below the county's \$1,000 low-value exemption threshold and are therefore exempt. However, because the assessor is still not enrolling taxable possessory interests at the fairground, we repeat that recommendation. We also address two other areas where the possessory interest assessment program could be improved.

**RECOMMENDATION 7:** Improve the possessory interest assessment program by:  
(1) assessing all taxable possessory interests, (2) valuing taxable possessory interests based on net income to the lessor, and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

**Assess all taxable possessory interests.**

The assessor has not enrolled any of the taxable possessory interests at the fairgrounds. In response to our 2001 recommendation to assess all taxable possessory interests, the assessor indicated he would encourage the board of supervisors to adopt a resolution exempting from taxation possessory interests at the county fairgrounds with a total base year value of less than \$50,000. The board of supervisors has not adopted such a resolution.

The assessor's policy of not enrolling taxable possessory interests located at the county fairground has resulted in the escape of taxable property.

**Value taxable possessory interests based on net income to the lessor.**

When applying the income approach, the assessor values some taxable possessory interests based on projected gross income to the lessor rather than on the projected net income.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, provides that in the direct method of the income approach, the appraiser estimates the value of the taxable possessory interest by discounting either the estimated economic rent less allowed expenses paid by the public owner, or that portion of the estimated future net operating income attributable to the taxable possessory interests.

A public owner will always incur some management expense with each taxable possessory interest. Other lease agreements may require the lessor to pay for additional items such as insurance, maintenance, or utilities. By estimating the fair market value based on gross income rather than net income to the lessor, the assessor may overstate the value indicated by the income approach. As a result, some taxable possessory interests have been overassessed.

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

We found that, for lien dates subsequent to the establishment of the base year value, the assessor does not determine the market value of grazing possessory interests having a stated term. Instead, he annually estimates the full cash value of these interests using an anticipated term of possession of ten years.

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

Though not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of grazing possessory interests with stated terms of possession to ensure that declines in value of taxable possessory interests are consistently recognized. Failing to assess a taxable possessory interest using the stated term of possession may overstate its taxable value.

**Leasehold Improvements**

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

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over a period of time, they may add and

remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on Form BOE-571-L, *Business Property Statement* (BPS), coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and avoid escapes and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

In Tehama County, common sources for discovery of leasehold improvements are building permits and Schedule B of the BPS. We reviewed the assessment of a number of leasehold improvements by reviewing the related business property records, real property records, and the tax change documents. We found that, when leasehold improvements are classified and assessed as trade fixtures, the improvements are valued with the appropriate depreciation factor schedules. A notation is made by the auditor-appraiser in the business records with a corresponding comment in the building records. When the improvements are classified as real property additions, the auditor-appraiser makes a comment in the business property records and forwards copies of the Schedule B of the BPS to the real property appraisers. A base year value is then established for the leasehold improvements.

Our review of leasehold improvements included the review of assessments of foreign improvements, billboards, and cell towers. We reviewed several reported foreign improvements and found that they were being processed correctly. In addition, two billboard business accounts were reviewed. We found that the billboards were being assessed within the BOE guidelines. A sample of cell tower sites was also reviewed. We found that the assessor is properly assessing the leased sites identified by the BOE subject to local assessment. Based on our review of the different types of leasehold improvements, we found that they were all being properly assessed.

### ***Water Company Property***

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

The assessor currently enrolls assessments for properties owned by 16 water companies in Tehama County, including all water companies in the county regulated by the California Public Utilities Commission (CPUC).

The assessor tracks water company property through special use codes in his computer system. The assistant assessor reviews and values all property owned by water companies for each lien date.

The assessor values real property owned by CPUC-regulated water companies using the historical cost less depreciation (HCLD) approach. He requests copies of the annual CPUC

report from these water companies. Although only one regulated water company consistently fails to submit copies of the CPUC report, the remaining companies do not always timely file reports.

The assessor correctly established base year values for the real property of the unregulated private water companies and mutual water companies. He assesses these properties annually at the lesser of fair market or factored base year value. In addition, the assessor obtained and reviewed the mutual water company's articles of incorporation to ensure that no mutual water system property had escaped assessment or had been double assessed.

We examined the assessor's appraisal files and value histories of water company properties. We found two areas that should be addressed.

**RECOMMENDATION 8:** Improve assessment of water companies by: (1) correctly assessing land owned by regulated water companies when using the Historical Cost Less Depreciation value indicator, and (2) ensuring that all water system property is identified and assessed.

**Correctly assess land owned by regulated water companies when using the Historical Cost Less Depreciation value indicator.**

The assessor adds the value of any excess land owned by CPUC-regulated water companies to the value estimate developed by the Historical Cost Less Depreciation (HCLD) approach. Assessors' Handbook Section 542, *The Appraisal of Water Companies and Water Rights* (AH 542), recommends using the HCLD method of valuing property owned by regulated water companies because the market value of these companies is usually dependent on their established rate base, which approximates historical cost.

The basic historical cost reported by CPUC, listed as "total plant in service," includes a value for all land owned by the water company. The assessor accepts the total plant in service value as the value of the improvements and land owned by the water company. He then values any excess land owned by the water company not associated with the water facility, adds this to the land value reported on the CPUC report, and enrolls the sum as land value for the water company.

The assessor's methodology has resulted in erroneous double assessments of land owned by CPUC-regulated water companies.

**Ensure that all water system property is identified and assessed.**

The assessor does not request or review lists of tested public water sites available from the State Department of Health Services, Division of Drinking Water, or the county's environmental health department. We reviewed these lists and permits for agricultural wells issued by the Tehama County Environmental Health Department. The assessor has not enrolled any assessable property at many of the tested sites and also has not assessed wells at two of the three sites we reviewed.

By not checking the departmental lists of tested water sites and reviewing agriculture well permits, the assessor may have allowed taxable property to escape assessment.

**Mineral Property**

Petroleum, mining, and geothermal properties comprise the three main categories of mineral properties. By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and general appraisal rules as all real property in the state. Additionally, there are three specific property tax rules that apply to mineral properties specifically. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. The rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties and specific to mineral properties only. There are no geothermal properties in Tehama County.

**Petroleum Property**

"Petroleum properties" refers to the right to remove petroleum and natural gas from the earth and the property associated with these rights. The right to remove such minerals from the earth is a taxable real property interest. Increases in recoverable amounts of petroleum and natural gas, caused by changed physical or economic conditions, constitute additions to such property interest. Conversely, reductions in recoverable amounts of such minerals, caused by production or changes in expectation of future production capabilities, constitute a reduction in interest.

The assessor uses a contract mineral property appraiser to value the gas wells in the county. We found no problems with the assessment of petroleum properties.

**Mining Property.**

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

Tehama County has several active sand and gravel mining operations. Mineral properties associated with CLCA lands are appraised by the agricultural appraiser. Those mineral deposits not located on CLCA properties are appraised by the auditor-appraiser. Properties are enrolled at

their market value, which is then adjusted in ensuing years by the annual California Consumer Price Index (CCPI).

We reviewed documentation, and examined property records, for the assessor's assessment of mineral properties. We found one area where the mineral property assessment program could be improved.

**RECOMMENDATION 9:** Follow Rule 469 when appraising mineral properties.

We found that the assessor is not following the provisions of Rule 469 when appraising mineral properties. The assessor enrolls the factored base year value of the properties and does not consider their current market values. No provisions are made to account for depletion of minerals or the addition of new reserves. Since most of the properties are extracted from within streambeds, the assessor assumes that reserves are renewed each year with the spring runoff. For the few properties that are not producing from streambeds, the assessor does adjust the base year mineral value for the depleted reserves.

For properties located on CLCA land, the enrolled value is calculated by capitalizing the anticipated income from minerals at the basic CLCA interest rate with no adjustment for risk. This appears to be the anticipated income at the time the minerals were leased. There does not appear to be any determination of the current anticipated income for these properties or comparison of anticipated production versus actual production. No determination of a base year value or adjustment for depletion of reserves has been made.

Mining operations are defined as a compatible use on CLCA land. However, all mining operation should be valued in accordance with the guidelines set forth in Rule 469. When capitalizing income, the assessor should use appropriate interest rates related to the mineral operation and not the statutory interest rate used for CLCA land. The base year mineral reserves should be annually depleted as production occurs and should not be based on a schedule determined when the property was first enrolled.

Rule 469 provides that declines in value be evaluated for the entire appraisal unit, which includes the land, improvements, fixtures, and reserves. Leach pads, tailing facilities, or settling ponds are the only items to be excluded from the mineral appraisal unit. The assessor is appraising the mineral rights separate from the associated equipment used to extract the minerals from the ground. If mineral prices are increasing, this practice results in an underassessment of the mineral reserves. If prices are declining, the assessor's method will result in an overassessment of the mineral reserves.

## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

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

### **Audit Program**

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

The following table shows the total number of audits completed and audit results for recent years:

<b>ROLL YEAR</b>	<b>TOTAL AUDITS</b>	<b>MANDATORY AUDITS</b>	<b>NONMANDATORY AUDITS</b>	<b>NET VALUE CHANGE</b>
2004-05	28	10	18	\$1,080,803
2003-04	28	15	13	-\$20,776,957
2002-03	22	12	10	\$2,724,897
2001-02	21	11	10	\$10,416,843
2000-01	18	10	8	\$1,305,370
<b>TOTALS</b>	<b>117</b>	<b>58</b>	<b>59</b>	<b>-\$10,688,838</b>

### Mandatory Audits

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

The assessor has a current workload of 50 mandatory audit accounts, or an average of about 13 audits per year. The Tehama County Assessor's Office participates in the California Counties Cooperative Audit Services Exchange for out-of-county or out-of-state audits. We reviewed the mandatory audit accounts and found that they were timely completed.

### **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 assessor performs nonmandatory audits as needed. The audit may be at the request of the taxpayer or based on information received from another governmental agency.

### **Statute of Limitations**

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

Our review of the audits indicated that a waiver of the statute of limitations is being used when appropriate.

### **Audit Quality**

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

In our 2001 survey, we recommended the assessor adopt minimum audit standards. To ensure that all taxable property is being assessed, we proposed the use of a standard audit format including audit narratives, audit summaries, and worksheets showing value calculations, asset account reconciliation, and the analysis of expense and lease/rental accounts. We found the assessor has revised his program and uses a standard audit format that includes these workpapers.

### ***Business Property Statement Program***

Section 441 requires each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more to annually file a property statement with

the assessor; other persons must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the property statement address a variety of property types, including commercial, industrial, and agricultural property, vessels, and certificated aircraft.

### Workload

The following table displays the assessor's workload of property statements for the 2004-05 roll year:

<b>PROPERTY STATEMENTS</b>	<b>COUNT</b>	<b>SECURED VALUE</b>	<b>UNSECURED VALUE</b>	<b>TOTAL ASSESSED VALUE</b>
Agriculture	637	\$25,524,991	\$6,648,517	\$32,173,508
General Business (Active Accounts)	1,684	\$139,306,280	\$56,847,986	\$196,154,266
General Business (Direct Billing)	141	0	\$1,375,112	\$1,375,112
Vessels	1,655	0	\$9,671,869	\$9,671,869
General Aircraft	115	0	\$6,634,270	\$6,634,270
<b>TOTAL</b>	<b>4,232</b>	<b>\$164,831,271</b>	<b>\$81,177,754</b>	<b>\$246,009,025</b>

Our review of the business property statement processing included a sample of active business property statements.

### Direct Billing

Many assessors utilize the "direct billing" or "direct assessment" program. It is a program of assessing certain smaller business accounts without requiring the annual filing of a business property statement. Based on the information received from the taxpayer, a new assessed value is enrolled. Examples of businesses suitable for direct billing are small apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes, restaurants, and professional firms with small equipment holdings.

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

In Tehama County, there were 141 direct billing accounts assessed on the 2004-05 roll year. The assessor's guidelines for the direct billing program are: (1) the cost of assets must be under \$10,000, (2) the property must have a history of asset stability, and (3) the taxpayer must be scheduled to receive a property statement every four years. Taxpayers are removed from this program if they fail to file in the fourth year, if the cost of assets exceeds \$10,000, or if, in the opinion of the auditor-appraiser, it is warranted.

We reviewed a sample of direct billing accounts and we found that the program is properly administered.

### Discovery

The discovery of taxable property is an essential function of the county assessor. It is a difficult but necessary task to maintain accurate, up-to-date listings of assessable business properties. Discovery sources are building permits, business licenses, business and phone directories, tenant information from landlords, and physical inspections by the appraisers. The assessor also maintains a list of taxpayers that have multiple penalty assessments due to chronic failure to file the business property statements. These taxpayers are contacted as part of staff's fieldwork assignments.

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

### General Statement Processing

We reviewed the assessor's processing of business property statements for compliance with generally accepted practices, statutory provisions, and regulatory guidelines. Our review included verifying that BOE-prescribed forms are used, the same ownership appears on secured accounts, there are authorized signatures on the business property statements, mandatory property statement filings are made, and assessment procedures are correct.

In our 2001 survey, we recommended the assessor use certified staff in the valuation of business personal property as required by section 670. We found that the routine for processing business personal property statement has not changed.

**RECOMMENDATION 10:** Ensure that a certified auditor-appraiser reviews assessments prepared by noncertified staff.

We found that a noncertified assessment clerk III processes all routine business property statements except problem accounts. There is no systematic review of the value indicators she prepares.

Section 670 provides that no person shall perform the duties or exercise the authority of an appraiser for property tax purposes as an employee of the state, any county or city and county, unless he or she is the holder of a valid appraiser's or advanced appraiser's certificated issued by the BOE. In addition, in Letter To Assessors 2003/068, dated October 29, 2003, the BOE provided guidance for the use of noncertified assistants in the assessment of business property. Assistants may input the year of acquisition and cost information from source documents and select and apply full value and percent good factors, subject to instruction and review by a certified auditor-appraiser or appraiser.

The assessor's practice of using noncertified staff in the valuation process of business property is contrary to requirements in section 670, lacks the recommended elements of oversight and review, and could lead to erroneous value conclusions.

## **Business Equipment Valuation**

### Commercial, Industrial, and Agricultural Equipment

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

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

In our 2001 survey, we recommended the assessor properly and consistently assess personal property in apartments. In our review for this survey, we found no problems with the assessment of apartment personalty.

### Homeowners Associations' Personal Property

In our 2001 survey, we recommended the assessor exempt personal property owned by homeowners' associations in accordance with section 224. Currently, we found the assessor continues to assess personal property owned by homeowners associations. Therefore, we repeat our prior recommendation.

**RECOMMENDATION 11:** Exempt personal property that is owned by homeowners' associations in accordance with section 224.

We found that the assessor is assessing some of the personal property that is owned and used exclusively by homeowners' associations. The assessor believes that section 224 applies to furnishings, recreational personal property, and pets, but does not include office and yard equipment.

Section 224 allows an exemption from taxation for personal effects, household furnishings, and pets of any person. In *Lake Forest Community Association v. Orange County*, 86 Cal.App.3d 394, the court determined that the section 224 exemption includes all personal property owned by a homeowners' association and used exclusively for the benefit of the association members.

Homeowners' associations are being assessed for personal property that should be exempted.

### Minimum Percent Good Factors

The 2005 study by the CAA recommends the use of minimum percent good factors for older equipment. The minimum factors are based on the salvage value study by Marshall Valuation Service. The study indicated an average 9 percent minimum percent good factor for all industrial property and an average 10 percent minimum percent good factor for all commercial property.

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.

We found the CAA procedures to be correctly administered and the estimates of value to be properly calculated.

### ***Leased Equipment***

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

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

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

We found that the assessor has good assessment practices relating to leased equipment. The assessor compares the data reported on lessors' business property statements with the data reported on the lessees' business property statements to ensure that there are no double or escape assessments. We have no recommendations in this area.

### ***Manufactured Homes***

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

For roll year 2004-05, the assessor enrolled 3,459 manufactured homes with a total assessed value of \$68,593,451. Sixty-eight percent of these homes are located outside of mobilehome parks on land under the same ownership as the manufactured home, 23 percent are located in mobilehome parks, and the remaining 9 percent are located outside of mobilehome parks on land not owned by the owner of the manufactured home. These homes are valued by the appraiser responsible for that geographic area.

Manufactured homes are assigned a nine-digit account number. Homes that are located in mobilehome parks have account numbers that begin with "900" and include the map page and the space number within the park. Account numbers for manufactured homes located outside of mobilehome parks are similar to the assessor's conventional parcel numbers. Account numbers for homes situated on privately owned land begin with "9" and homes on rented land other than in a park begin with "8."

In our 2001 survey, we recommended the assessor annually enroll the lower of factored base year value or current market value for manufactured homes. It is the assessor's policy to change the enrolled values of these homes only when there is a change in ownership or new construction. In our current review, we discovered that the factored base year values of some older manufactured homes had not been reviewed for many years. However, we sampled several of these assessments of manufactured homes having older base years and found their enrolled values to be similar to the current market values indicated for them by the BOE cost manual. As the current practice results in reasonable assessments, we are not repeating this recommendation.

However, for more recently established base year values of manufactured homes that have sold, we noted overassessments, which are addressed in the following recommendation. We also noted that the assessor continues to enroll manufactured homes as real property, which we recommended in 2001 that he discontinue, and so we repeat that earlier recommendation.

**RECOMMENDATION 12:** Improve the program for assessing manufactured homes by:  
(1) classifying manufactured homes as personal property,  
and (2) ensuring that value attributable to in-park location is  
excluded from manufactured home assessments.

**Classify manufactured homes as personal property.**

Due to the limitations of his computer system, the assessor cannot enroll supplemental assessments for personal property assessments. To properly apply supplemental assessments to manufactured homes, he classified manufactured homes as real property.

Section 5801(b)(2) provides that manufactured homes are for the most part not classified as real property for property tax purposes. In addition, section 5810 states that, except for the specific provisions of the Manufactured Home Property Tax Law, manufactured homes shall be subject to property taxation in the same manner and extent, and subject to the same provisions of law, as any other personal property.

The assessor's practice is contrary to explicit statutory directive.

**Ensure that value attributable to in-park location is excluded from manufactured home assessments.**

When a manufactured home in a mobilehome park changes ownership, the assessor compares the sales price with the prices of recent sales of comparable manufactured homes in the same park. Based on his analysis of the comparable sales, he enrolls as the base year value either the selling price or the value indicated by comparable sales.

Section 5803(b) provides that the full cash value of a manufactured home located on rented or leased land does not include any value attributable to the particular site which would make the sale price different from its price at some other location on rented or leased land. This subdivision also provides that in determining the full cash value of a manufactured home located on rented or leased land, the assessor shall consider among other relevant factors cost data issued pursuant to section 401.5 or sales prices listed in recognized value guides.

Based on our comparison of the assessor's enrolled value with value estimates prepared from a recognized value guide, it is evident that the assessor's policy of relying on actual selling prices or market comparables is contrary to section 5803(b) and results in overassessments of newer homes in mobilehome parks.

## **Aircraft**

### **General Aircraft**

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

The Tehama County Assessor assessed 115 general aircraft for the 2004-05 roll year with a total value of approximately \$6,634,000. The assessor discovers aircraft through the airport manager's hangar reports, airport operators' tenants' lists, other counties' referrals, Federal Aviation Administration reports, and physical inspections of airports.

The certificated auditor-appraiser is responsible for valuing general aircraft. An aircraft property statement is mailed each year to the known owner of aircraft in the county requesting information about added or deleted equipment, engine air hours since last major overhaul, date of last overhaul, overall condition, and transfer information if the aircraft has been sold since the last lien date.

Upon receipt of the aircraft property statement, the auditor-appraiser makes the appropriate adjustments to determine a market value estimate. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

We found the procedures to be correctly administered and the estimates of value to be properly calculated.

## Historical Aircraft

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

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

In our 2001 survey, we recommended the assessor consistently enforce the filing deadline for the exemption. We noted that he granted full exemption for late filed claims. However, legislation effective January 1, 2005 added section 276.5, allowing an 80 percent exemption for an affidavit filed after February 15 but on or before August 1. We found the assessor to be in full compliance with the historical aircraft filing procedures in that he allows only a partial exemption for late filed exemption claims.

For the 2004-05 roll year, the assessor granted exemptions to 21 historical aircraft. We reviewed the declarations of historical aircraft claimants and found no problems.

## **Vessels**

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

The assessor valued approximately 1,600 vessels on the 2004-05 assessment roll, with a total assessed value of approximately \$10 million.

The primary sources of discovery are Department of Motor Vehicles (DMV) reports, and referrals from other counties. Vessels entering the county are valued using data from the *Anderson and Bugg Outboard Service Marine Blue Book* (ABOS) valuation guide. If current or reliable information is not available in the published value guide, the assessor uses the values of similar vessels located in his county, information from boat dealers, or various websites to obtain comparable sales data.

The chart below presents the assessor's vessel assessments for recent years:

ROLL YEAR	NUMBER OF VESSELS	ASSESSED VALUES
2004-05	1,655	\$9,671,869
2003-04	1,542	\$8,492,413
2002-03	1,518	\$7,813,462
2001-02	1,480	\$7,250,171
2000-01	1,500	\$7,133,452

In our 2001 survey, we recommended the assessor enroll vessels at market value and discontinue the practice of reducing the initial assessment of new vessels by 30 percent unless supported by a market study. In our sample of vessels reviewed, we determined that the assessor now uses depreciation valuation factors developed by Shasta County. These factors represent annual trends in market values for different classes of vessels. The annual study supports a percentage change in value from year to year by distinct vessel category. Therefore, we are not repeating the recommendation.

We found only one problem with the assessor's vessel assessment program.

**RECOMMENDATION 13:** Include sales tax as a component of market value when appraising vessels.

The assessor uses the ABOS publication to value vessels. Because this vessel guide is intended for use on a nationwide basis, it does not include any local sales or use tax. Although we found that the assessor selects the proper values listed in ABOS, he fails to add a sales tax component.

Generally, when determining market value where cost is the basis of that value, sales or use tax, freight, and installation costs are elements of the value, as stated in Assessors' Handbook Section 576, *Assessment of Vessels*.<sup>7</sup> Without all of the elements of cost included, appraised values will be understated. Sales tax is a recognized component of market value and should be added to the values listed in the published value guides when determining market values.<sup>8</sup>

Since sales tax has not been included in the vessel appraisals, vessels are underassessed in Tehama County.

<sup>7</sup> AH 576, p. 13.

<sup>8</sup> *Xerox Corp. v. Orange County* [1977] 66 Cal.App.3d 746.

## **APPENDIXES**

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

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

Mickie Stuckey

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

Arnold Fong

Principal Property Appraiser

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

Pete Gaffney

Supervising Property Appraiser

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

Dale Peterson

Senior Specialist Property Auditor-Appraiser

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

Jim McCarthy

Senior Petroleum and Mining Appraisal Engineer

Wesley Hill

Associate Property Appraiser

Kim Trotto

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Larry Gee

Associate Property Auditor-Appraiser

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

### **Government Code**

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

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

#### **15641. Audit of Records; Appraisal Data Not Public.**

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

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

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

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

**15642. Research by board employees.**

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may 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 Tehama County Assessor's response begins on the next page. The BOE has no comments on the response.

MARK E. COLOMBO  
ASSESSOR

Office of County Assessor

COUNTY OF TEHAMA  
P.O. BOX 428, RED BLUFF, CALIFORNIA 96080  
TELEPHONE (530) 527-5931  
FAX (530) 529-4019

November 9, 2006

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

RECEIVED

NOV 14 2006

County Property Tax Division  
State Board of Equalization

Dear Ms. Stuckey:

In accordance with Government Code Section 15645, I am providing the following response to the State Board of Equalization Assessment Practices Survey of Tehama County.

I want to express my appreciation to Mr. Arnold Fong and the survey team for the professional and courteous manner in which the survey was conducted. I agree with many of the recommendations and have corrected practices accordingly. We disagree on some issues and also have budget and revenue constraints that will keep some recommendations from being instituted.

Finally, I want to thank the staff of the Tehama County Assessor's Office for their dedication, professionalism and commitment to serving the citizens of Tehama County.

Sincerely,



Mark E. Colombo  
Tehama County Assessor

MARK E. COLOMBO  
ASSESSOR

## Office of County Assessor

### COUNTY OF TEHAMA

P.O. BOX 428, RED BLUFF, CALIFORNIA 96080  
TELEPHONE (530) 527-5931  
FAX (530) 529-4019

### Tehama County Assessor's Response To Assessment Practices Survey

**Recommendation 1:** Revise the appraisal consultant's contract to conform to the Statutory Requirements of Section 674.

**Response 1:** I have reviewed the R&T Code Section 674 and LTA 2000/55. As a result of this review, I agree with the recommendation and will at the next opportunity conform to the requirements of Section 674.

**Recommendation 2:** Improve the disaster relief program by: (1) conforming the application for disaster relief to the requirements of Section 170, and (2) revising the value notice sent to taxpayers who have been granted property tax relief.

**Response 2:** (1) This recommendation is a valid one. This form will be modified to comply with Section 170. (2) This change will result in us processing notices manually, we will comply.

**Recommendation 3:** Classify wells as land.

**Response 3:** This recommendation of assessing wells as land on California Land Conservation Act Parcels has been implemented. Domestic wells are still being assessed as improvements on all properties.

**Recommendation 4:** Assess taxable government-owned property according to the provisions of Section 75.14.

**Response 4:** We will comply with this recommendation.

**Recommendation 5:** Improve the program for assessing California Land Conservation Act property by: (1) capitalizing net income to arrive at the restricted value, (2) deducting an amount for the return on the irrigation system from the income stream to value living improvements, and (3) using the appropriate capitalization rate to value compatible uses.

**Response 5:** (1) We have attempted to use net share rents to arrive at net income. More documentation is necessary for us to establish these rents as net. We will attempt to gather that data prior to the next survey. (2) we will attempt to address this issue before the next survey and make adjustments if possible. (3) we have already begun to implement this recommendation.

**Recommendation 6:** Improve the assessment of taxable government-owned properties by: (1) correctly establishing the base year value, (2) correctly calculating the restricted value, and (3) considering the factored base year value when determining the taxable value.

**Response 6:** We will comply with the recommendation

**Recommendation 7:** Improve the possessory interest assessment program by: (1) assessing all taxable possessory interests, (2) valuing possessory interests based on net income to the lessor, and (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value.

**Response 7:** (1) We will enroll taxable possessory interests at the fairgrounds. Also, we will attempt to establish an exemption, by the Board of Supervisors, of up to \$50,000 for these types of properties. (2) we have already begun to implement this recommendation. (3) we believe from historic usage of grazing lands that the terms of these leases are not representative of actual

usage. We will continue to use 10 year terms and gather data to establish this as clear and convincing evidence for the next survey.

**Recommendation 8:** Improve assessment of water companies by: (1) correctly assessing land owned by regulated water companies when using the Historical Cost Less Depreciation indicator, and (2) ensuring that all water system property is identified and assessed.

**Response 8:** We will comply with both recommendations.

**Recommendation 9:** Follow Rule 469 when appraising mineral properties.

**Response 9:** We will re-examine our procedures for assessing mineral properties and make necessary adjustments prior to the net survey.

**Recommendation 10:** Ensure that a certified auditor-appraiser reviews assessments prepared by non-certified staff.

**Response 10:** After review of Section 670 and LTA 2003/068, I do understand the concern brought forward in this survey. However, LTA 2003/068 clearly indicates that activity of our support person is appropriate. The only issue becomes, does our auditor-appraiser review the value conclusions. I believe the oversight exists, but it exists at the beginning of the process. The auditor-appraiser has established very specific property type codes and instructions. If anything is out of the ordinary the auditor-appraiser makes the decisions and instructs the support person accordingly. To require the auditor-appraiser to review again is a demand on our resources that we can not justify. This is a budget issue.

**Recommendation 11:** Exempt personal property that is owned by homeowners' associations in accordance with section 224.

**Response 11:** If after analysis of Court Case, "Lake Forest Community Association vs. Orange County" we concluded all personal property should be exempt, we will comply with this recommendation.

**Recommendation 12:** Improve the program for assessing manufactured homes by: (1) classifying manufactured homes as personal property, and (2) ensuring that value attributable to in-park location is excluded from manufactured home assessments.

**Response 12:** (1) Manufactured homes are an assessment hybrid. They are statutorily declared personal property, but Section 580 et al defines their assessment procedures. Those procedures treat mobile homes more like real property than personal property. Mobile homes are subject to supplemental assessment while other personal property is not. Our personal property computer program will not process supplemental assessments; therefore, we can not handle mobile homes as personal property. I do not see, in the near future, a possibility of correcting this situation. (2) I believe we are assessing mobile homes in park locations in the appropriate manner.

**Recommendation 13:** Include sales tax as a component of market value when appraising vessels.

**Response 13:** We have already implemented this recommendation.

Respectfully submitted,



Mark E. Colombo  
Tehama County Assessor