

# TEHAMA COUNTY ASSESSMENT PRACTICES SURVEY

**SEPTEMBER 2011**

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## CALIFORNIA STATE BOARD OF EQUALIZATION

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No. 2011/034

September 19, 2011

TO COUNTY ASSESSORS:

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 Dale Stroud, 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-Assessed Properties Division from November 2009 through January 2010. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The retired assessor, Mr. Mark Colombo, and the current assessor, Mr. Stroud, 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:ps  
Enclosure

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## **INTRODUCTION**

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the 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 Board, 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 Dale Stroud, Tehama County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, 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.

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

In our review of the assessor's administrative programs, we noted the assessor is doing a satisfactory job in handling staffing, workload, appraiser certification, staff property procedures, assessment forms, and exemptions. However, recommendations were made to improve the programs for assessment appeals, disaster relief, and assessment roll changes.

In the area of real property assessment, the assessor has effective change in ownership and decline in value programs. Recommendations were made to improve the programs involving new construction, California Land Conservation Act (CLCA) properties, taxable possessory interests, leasehold improvements, and mineral properties.

In the assessment of personal property and fixtures, the assessor has effective audit and business property statement programs; however, the assessor can improve the business equipment valuation program and the manufactured homes assessment program.

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

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. We found no significant assessment problems as defined in Rule 371. Accordingly, pursuant to section 75.60, Tehama County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

- RECOMMENDATION 1:** Revise the county website to reflect the assessment appeals filing deadline accurately.....11
- RECOMMENDATION 2:** Revise disaster relief procedures by: (1) revising the application for disaster relief and (2) conforming the notice of disaster relief reassessment to the requirements of section 170(c). .....12
- RECOMMENDATION 3:** Send a *Notice of Enrollment of Escape Assessment* as required by section 534.....13

**RECOMMENDATION 4:** Improve the new construction program by: (1) consistently classifying wells as land and (2) obtaining required information prior to granting new construction exclusions. ....25

**RECOMMENDATION 5:** Improve the program for assessing CLCA property by: (1) properly calculating assessed values of properties in nonrenewal, (2) documenting the expenses used in the valuation of CLCA properties, and (3) deducting a charge for the investment in irrigation improvements and wells. ....29

**RECOMMENDATION 6:** Revise the taxable possessory interest program by: (1) assessing all taxable possessory interests, (2) valuing taxable possessory interests based on net income to the lessor, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (4) using market based capitalization rates, and (5) calculating supplemental assessments and roll corrections based on the full value of a newly created taxable possessory interest.....30

**RECOMMENDATION 7:** Properly classify and consistently value structural improvements reported on the Business Property Statement (BPS) in the same manner as other real property.....33

**RECOMMENDATION 8:** Recognize base year value adjustments for decreases in reserves. ....35

**RECOMMENDATION 9:** Use the appropriate discount rate for determining the mineral value of CLCA property. ....35

**RECOMMENDATION 10:** Apply the mobile agricultural percent good factors prescribed on Table 6 of the AH 581 as intended.....41

**RECOMMENDATION 11:** Properly classify and assess all landlord-owned personal property in apartment complexes pursuant to section 602. ....42

**RECOMMENDATION 12:** Improve the manufactured home assessment program by: (1) periodically reviewing manufactured homes for declines in value and (2) excluding value attributable to park location. ....43

## OVERVIEW OF TEHAMA COUNTY

Tehama County lies midway between the City of Sacramento and the Oregon border. The county seat, Red Bluff, is located along Interstate 5 and the Sacramento River and is approximately 135 miles north of Sacramento. The county encompasses about 3,000 square miles and has three incorporated cities: Corning, Red Bluff, and Tehama. Tehama County is bounded by Shasta County to the north, Trinity and Mendocino counties to the west, Glenn County to the south, and Butte and Plumas counties to the east. The county's economy is based on agriculture, including ranching, farming, and timber production. Governed by a five-member board of supervisors, Tehama County has population of approximately 61,550.

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

| ASSESSMENT ROLL       | ENROLLED VALUE  |
|-----------------------|-----------------|
| Secured Roll          | \$4,554,517,589 |
| Unsecured Roll        | \$185,138,798   |
| Total Assessment Roll | \$4,739,656,387 |

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

| ROLL YEAR | TOTAL ROLL VALUE | PERCENTAGE CHANGE | STATEWIDE CHANGE |
|-----------|------------------|-------------------|------------------|
| 2009-10   | \$4,739,656,387  | -5.6%             | -2.4%            |
| 2008-09   | \$5,019,090,000  | 5.8%              | 4.7%             |
| 2007-08   | \$4,744,136,000  | 8.9%              | 9.6%             |
| 2006-07   | \$4,355,209,000  | 16.6%             | 12.3%            |
| 2005-06   | \$3,734,932,000  | 14.0%             | 11.1%            |

## ADMINISTRATION

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

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

To enable the assessor to perform his duties, the county board of supervisors annually funds the assessor's office through the county's general fund. The allotted funds are provided so the assessor can produce a timely assessment roll, administer legally permissible exemptions, develop and maintain a set of current maps delineating property ownership, defend assessments before an appellate body, and provide information and services to the public as needed.

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

| <b>BUDGET YEAR</b> | <b>GROSS BUDGET<sup>3</sup></b> | <b>PERCENT CHANGE</b> | <b>PERMANENT STAFF</b> |
|--------------------|---------------------------------|-----------------------|------------------------|
| 2008-09            | \$1,470,807                     | 19.0%                 | 20                     |
| 2007-08            | \$1,235,498                     | 3.3%                  | 20                     |
| 2006-07            | \$1,195,924                     | -2.9%                 | 20                     |
| 2005-06            | \$1,231,331                     | 18.1%                 | 21                     |
| 2004-05            | \$1,042,713                     | --                    | 20                     |

The Tehama County Assessor's Office has a full-time budgeted staff of 20 positions. This includes the assessor, assistant assessor, assessment roll manager, six real property appraisers, auditor-appraiser, cadastral drafting technician, and nine clerical and support personnel. For 2009-10, total staff has been reduced to 18 with the loss of one real property appraiser and one clerical position.

### ***Workload***

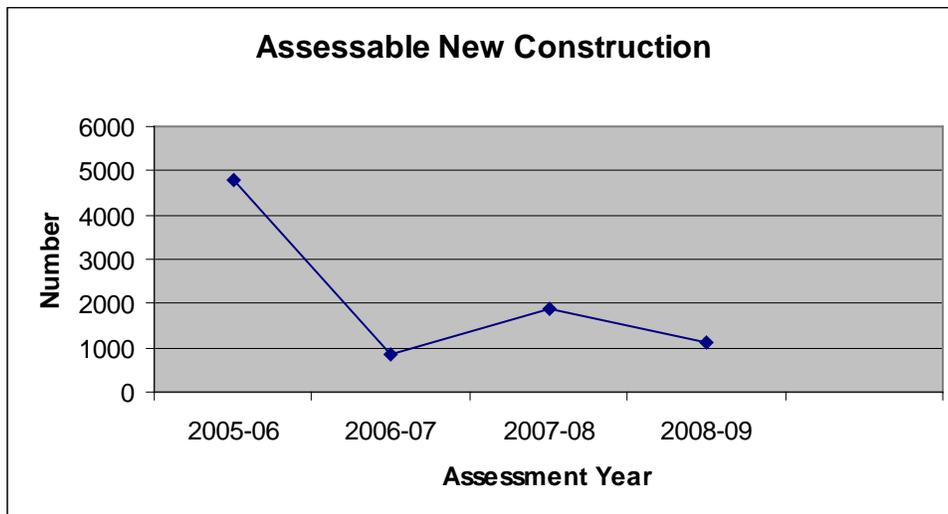
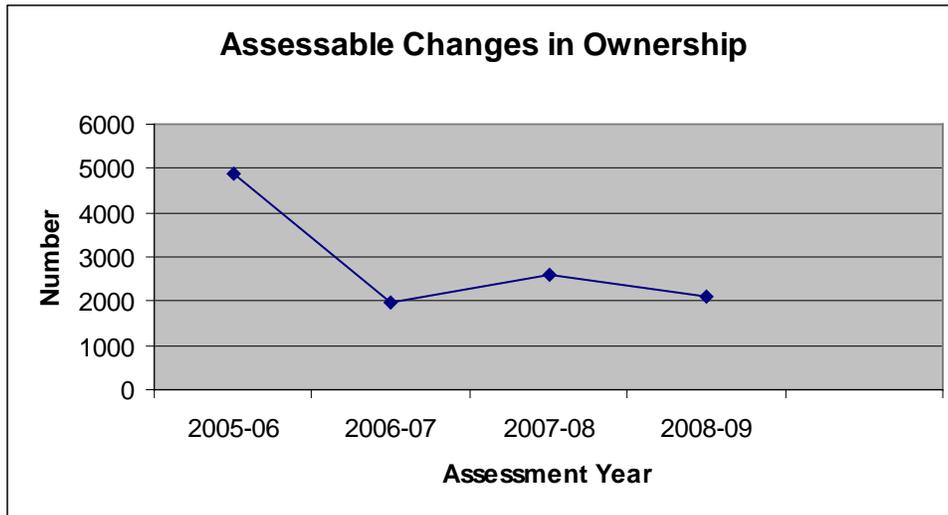
Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. To accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property.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

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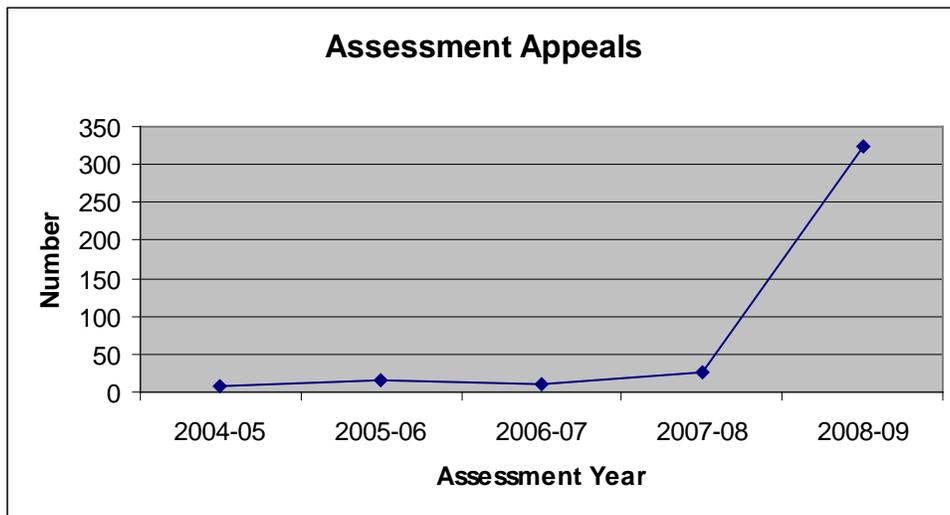
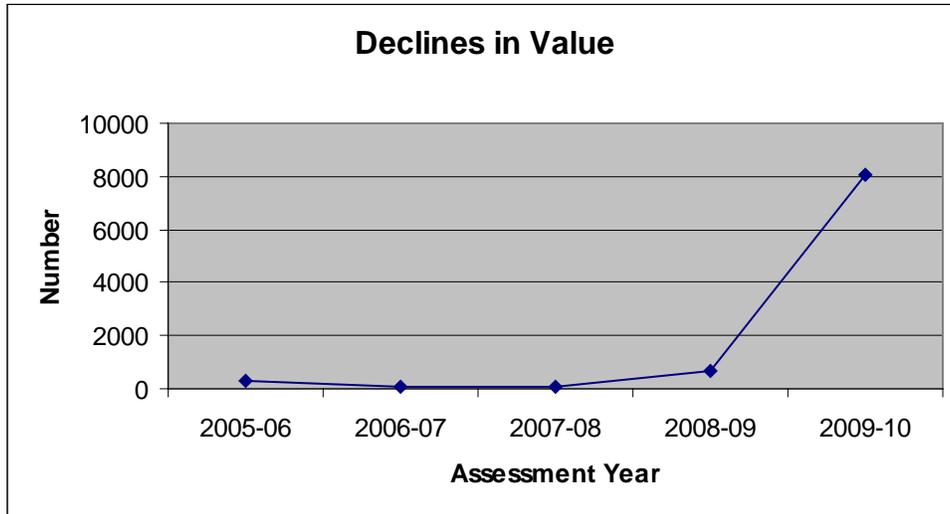
<sup>3</sup> County of Tehama Budget Unit Financing Uses Detail Budget.

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

While the total roll value and the gross budget have increased four out of the past five years, there has been a decline in the number of assessable changes in ownership and the number of permits resulting in assessable new construction over the same period. The following tables illustrate these changes:



However, the decrease in workload for assessable changes in ownership and assessable new construction was replaced by significant workload increases in the areas of declines in value and assessment appeals. The following tables illustrate these changes:



**Appraiser Certification**

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless they hold a valid appraiser's certificate issued by the BOE.

For 2009-10, there are eight certified appraisers on staff, including the assessor; all hold advanced appraiser's certificates. We found that the assessor and his staff possess the required appraiser's certificates. Additionally, we found that the one auditor-appraiser performing audits meets the requirements referenced in section 670(d). The assessor uses contract appraisers.

In Tehama County, the assistant assessor serves as the training coordinator. He oversees the training and certification program for appraisers and tracks individual appraisal education continuously utilizing BOE annual reports. The assessor does not offer any direct financial incentive to obtain an advanced certificate; however, appraisers are encouraged to take the necessary courses to obtain their advanced certification as soon as possible since it is required for promotion.

According to the BOE report on training hours of certified staff, no appraisers were deficient as of June 30, 2009. The training coordinator requires all appraisers to be current or have a surplus in their continuing education hours.

The assessor has contracted with a private appraisal firm for active oil and gas well appraisals. The contractor possesses a permanent appraiser's certificate and is current in his continuing education hours. The current agreement meets the requirements of section 674.

We commend the assessor for making certain his certified appraisers and consultants meet their continuing education requirements.

### ***Staff Property Procedures***

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

The assessor discovers staff-owned properties through name recognition when a recorded deed is received in the office, through self-declaration by the staff member acquiring the property, and from the certified staff's annual filing of the California Fair Political Practices Commission Form 700, *Statement of Economic Interests* (Form 700). Form 700 requests information regarding employee ownership in any real property, other than a primary residence, as well as any ownership interest in any business entity.

Employees are not allowed to value property in which they have an ownership interest. Instead, the assistant assessor assigns the appraisal to a senior appraiser. When complete, the appraisal is returned to the assistant assessor for review before enrollment.

We reviewed property owned by the assessor, the assistant assessor's property, and various other staff-owned properties at random. In every instance, the most recent valuation of the property had been prepared by a certificated employee other than the employee who owned the property. We found no problems with the assessor's valuation of staff-owned properties.

### ***Assessment Appeals***

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

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

In Tehama County, the five elected members of the board of supervisors sit as the local board of equalization for property tax appeals. There are no hearing officers.

Assessment appeals applications are filed with the clerk. The clerk confirms applications are complete and timely filed. Copies are sent to the assessor's office. The assessor notifies the clerk and the tax collector by April 1 of each year as to whether notices of assessed value of real property on the secured roll will be sent by August 1 as required by section 1603(b)(3)(A).

The clerk, in turn, certifies the last day of the filing period and notifies the State Board of Equalization as to whether it will be September 15 or November 30. For each of the past five years the filing period for appeals in Tehama County has been July 2 through November 30.

For assessment appeal purposes, an appraiser and the assistant assessor review applicable data and arrive at a value conclusion together. After review, the taxpayer is contacted. If the applicant decides to withdraw their appeal or agrees to a stipulated value, the assessor will send a letter to the taxpayer for their review and signature. Approximately 75 percent of appeals in Tehama County ended with a stipulation for the 2008-09 assessment year. We reviewed a sampling of appeals resolved through stipulations and confirmed that the values had a reasonable basis. All stipulated values are heard by the appeals board. If no agreement can be reached between the assessor and applicant, the clerk schedules the appeal for hearing. An appraiser prepares an appeal fact sheet for each appeal hearing. The assistant assessor defends the assessed value before the appeals board. We reviewed copies of appeal fact sheets prepared by appraisers and presented by the assistant assessor from prior hearings; the packets were well organized and the assessed values were well supported.

The clerical staff and the assistant assessor track the progress of assessment appeals to ensure all appeals are resolved timely. No appeal filed in the last five years has gone unresolved for more than two years without a timely filed extension.

The following table sets forth the assessor's appeals workload for recent years:

| ASSESSMENT ROLL                      | 2008-09    | 2007-08   | 2006-07   | 2005-06   | 2004-05  |
|--------------------------------------|------------|-----------|-----------|-----------|----------|
| Appeals Filed                        | 325        | 27        | 10        | 16        | 7        |
| Appeals Carried Over From Prior Year | 5          | 5         | 3         | 2         | 0        |
| <b>Total Appeals Workload</b>        | <b>330</b> | <b>32</b> | <b>13</b> | <b>18</b> | <b>7</b> |
| Resolution:                          |            |           |           |           |          |
| Withdrawn                            | 50         | 9         | 3         | 6         | 2        |
| Stipulation                          | 245        | 12        | 4         | 5         | 2        |
| Appeals Reduced                      | 0          | 0         | 0         | 0         | 0        |
| Appeals Upheld                       | 4          | 6         | 1         | 3         | 0        |
| Appeals Increased                    | 0          | 0         | 0         | 0         | 0        |
| Other Determination*                 | 0          | 0         | 0         | 1         | 1        |
| <b>Total Resolved</b>                | <b>299</b> | <b>27</b> | <b>8</b>  | <b>15</b> | <b>5</b> |
| To Be Carried Over**                 | 31         | 5         | 5         | 3         | 2        |

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

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

The majority of appeals filed in Tehama County for the 2008-09 roll year were decline-in-value appeals. No appeals have been filed involving the question of exemptions.

Over all, the Tehama County assessment appeals program is well managed; however, we do have one recommendation.

**RECOMMENDATION 1:** Revise the county website to reflect the assessment appeals filing deadline accurately.

The Tehama County website states in the "General Information about Your Property Taxes" section, "Appeals on regular assessments must be filed each year between July 2 and September 15." This statement does not accurately reflect the Tehama County assessment appeals filing deadline of November 30. The current statement regarding the filing deadline on the county website may lead a taxpayer to believe they are too late to file an assessment appeal when in fact they have additional time.

**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 relief is available to any assessee whose property suffers damage exceeding \$10,000 (without 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 section 170, assesseees must make a written application to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment. Alternatively, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

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 reductions in current market value and reduce the assessed values by those percentages.

The Tehama County Board of Supervisors last updated the county's disaster relief ordinance on December 17, 2002. In our review of the amended disaster relief ordinance, we found the contents reflect the current provisions of section 170.

Calamities are discovered through building permits issued for repairs, field canvassing, taxpayer initiated contact, and newspaper articles. Upon discovery, the assessor mails an application to the property owner. Returned applications are date stamped and placed in a binder for historical reference. The application, along with the property record, is forwarded to an appraiser for evaluation.

In our review of disaster relief records, we found that the assessor verified the damage had occurred, noted the damage amount on the records, and reduced the assessment when appropriate. We also found two areas in which the assessor can improve the disaster relief program.

**RECOMMENDATION 2:** Revise disaster relief procedures by: (1) revising the application for disaster relief and (2) conforming the notice of disaster relief reassessment to the requirements of section 170(c).

**Revise the application for disaster relief.**

The assessor's application for disaster relief does not request information regarding the condition and value of the property immediately after the damage. Section 170(a)(3) provides that an application must show the condition and value of the property, if any, immediately after the damage or destruction. This required information will assist the assessor in determining whether the property owner is eligible for tax relief following a misfortune or calamity.

**Conform the notice of disaster relief reassessment to the requirements of section 170(c).**

The notice currently used by the assessor to notify taxpayers of disaster relief reassessments is the same notice used to notify the taxpayers of reassessments due to changes in ownership and new construction. This *Notice of Supplemental Assessment* provides that the filing period for a formal appeal is within 60 days from the date of mailing printed on the notice or the postmark

date for the tax bill, whichever is later. However, section 170(c) provides that taxpayers may appeal a disaster relief reassessment within six months of the mailing of the notice. Failure to notify taxpayers of their assessment appeal rights properly may lead the taxpayer to believe they have missed the 60-day deadline to file an appeal when in fact they have an additional four months in which to file.

**Assessment Roll Changes**

Each year the assessor must complete the local assessment roll and deliver it to the auditor by July 1. Once the roll is delivered to the auditor, any correction that would decrease the amount of unpaid taxes requires the consent of the board of supervisors. 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 roll changes processed in recent years:

| ROLL YEAR | ROLL CHANGES PROCESSED |
|-----------|------------------------|
| 2009-10   | 746                    |
| 2008-09   | 518                    |
| 2007-08   | 592                    |
| 2006-07   | 410                    |

We reviewed documentation for assessment roll changes and found most roll changes are correctly prepared, well documented, and enrolled timely. However, we found one problem with the notice used.

**RECOMMENDATION 3:** Send a *Notice of Enrollment of Escape Assessment* as required by section 534.

The assessor does not properly notify taxpayers of the enrollment of an escape assessment. The only notice taxpayers receive related to escape assessments is the *Notice of Proposed Escape Assessment*. The *Notice of Proposed Escape Assessment* states in part, "If you disagree with the proposed assessment, you may file an assessment appeal within 60 days after a second notice. If a second notice is not provided, the tax bill based on the escape assessment will serve as notice." The tax bill states that appeals may be filed between July 2 and November 30.

Section 534 requires taxpayers be apprised of the right to an informal review of the assessment by the assessor and of the right to file an appeal of the assessment within 60 days of the date of mailing printed on the notice or the postmarked date, whichever is later. The assessor's notification procedure does not provide this information to the taxpayer with clarity. In addition,

section 534(d)(2) provides that the *Notice of Proposed Escape Assessment* required by section 531.8 does not satisfy the notification requirements of section 534.

The assessor's failure to send the notice required by section 534 precludes taxpayers from being informed of their right to an informal review of the assessment and right to file an appeal contesting the assessment.

**Exemptions**

**Church and Religious Exemptions**

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

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

The assessor processed 3 church exemption claims and 62 religious exemption claims for the 2009-10 assessment roll. The following table sets forth religious and church exemption data for recent years:

| <b>ROLL YEAR</b> | <b>RELIGIOUS EXEMPTIONS</b> | <b>EXEMPTED VALUE</b> | <b>CHURCH EXEMPTIONS</b> | <b>EXEMPTED VALUE</b> |
|------------------|-----------------------------|-----------------------|--------------------------|-----------------------|
| 2009-10          | 62                          | \$24,919,987          | 3                        | \$249,511             |
| 2008-09          | 62                          | \$24,082,719          | 2                        | \$29,378              |
| 2007-08          | 64                          | \$21,740,678          | 2                        | \$29,155              |
| 2006-07          | 65                          | \$21,328,616          | 2                        | \$29,067              |

The assessor's exemption staff consists of the assessment roll manager and two assessment clerks. This staff processes all church, religious, welfare, and disabled veterans' exemption claims. The assessment roll manager typically reviews each claim before an exemption is granted.

Several claims, for both the religious and church exemptions, were reviewed during our survey. It was evident from our review that the county ensures all statutory requirements are met before an exemption is issued. No deficiencies were found in the processing of these types of claims.

**Welfare Exemption**

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

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

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

The assessor processed 52 welfare exemption claims for the 2009-10 assessment roll. The following table sets forth welfare exemption data for recent years:

| <b>ROLL YEAR</b> | <b>WELFARE EXEMPTION</b> | <b>EXEMPTED VALUE</b> |
|------------------|--------------------------|-----------------------|
| 2009-10          | 52                       | \$83,621,483          |
| 2008-09          | 56                       | \$88,795,891          |
| 2007-08          | 44                       | \$64,384,547          |
| 2006-07          | 65                       | \$55,263,248          |

The assessor ensures each organization claiming a welfare exemption holds a valid OCC issued by the BOE. Furthermore, the assessor is diligent in performing on-site inspections of properties seeking exemption for the first time. Additionally, the assessor confirms all other requirements have been met before a welfare exemption is issued on any property.

Several welfare exemption claims were reviewed during the survey; these included, but were not limited to, claims for properties used for low-income housing, charitable activities, and hospital activities. No deficiencies were found.

**Homeowners' and Disabled Veterans' Exemptions**

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

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

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

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

The assessor processed 13,677 homeowners' exemption claims and 186 disabled veterans' exemption claims for the 2009-10 assessment roll.

The following table sets forth the homeowners' exemption and disabled veterans' exemption data for recent years:

| <b>ROLL YEAR</b> | <b>HOMEOWNERS' EXEMPTION</b> | <b>EXEMPTED VALUE</b> | <b>DISABLED VETERANS' EXEMPTION</b> | <b>EXEMPTED VALUE</b> |
|------------------|------------------------------|-----------------------|-------------------------------------|-----------------------|
| 2009-10          | 13,677                       | \$94,580,371          | 186                                 | \$19,109,942          |
| 2008-09          | 13,656                       | \$94,505,784          | 184                                 | \$18,697,384          |
| 2007-08          | 13,638                       | \$94,274,290          | 182                                 | \$17,501,777          |
| 2006-07          | 13,496                       | \$93,135,589          | 175                                 | \$15,839,793          |

The assessor strictly follows statutory guidelines in the administration of both the homeowners' and disabled veterans' exemptions. Several new disabled veterans' claims were reviewed. These claims were processed within statutory guidelines.

**Assessment Forms**

Government Code section 15606 requires the Board to prescribe and enforce the use of all forms for the assessment of property for taxation. Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment

duties. However, such forms may not be used as substitutes for Board-prescribed forms, and no penalty may be imposed upon a property owner for failure to file a county-developed form or questionnaire.

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

We reviewed the forms used by the Tehama County Assessor for the 2009-10 roll year. Our review indicates no recommendations for this program.

## ASSESSMENT OF REAL PROPERTY

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

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed 2 percent.

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

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

### **Document Processing**

The assessor maintains written procedures for processing changes in ownership. The following table shows the total number of transfer documents received and the total number of assessable events in Tehama County in recent years:

| ROLL YEAR | DOCUMENTS RECEIVED | ASSESSABLE EVENTS |
|-----------|--------------------|-------------------|
| 2008-09   | 4,289              | 2,103             |
| 2007-08   | 5,285              | 2,595             |

The assessor's primary source for discovering properties that have changed ownership is through the analysis of deeds and other recorded documents. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, to accompany documents submitted for recordation of the transfer in ownership of real property. Copies of blank PCORs are available from both the assessor's and recorder's offices as well as the Tehama County website. In order to facilitate accurate property identification, local ordinance requires the assessor's parcel number (APN) to be indicated on all deeds. However, the assessor often discovers the APN provided is not always valid, so he always confirms the APN based on the property description.

The recorder does not initially screen documents sent to the assessor. Instead, the recorder electronically images all documents into a computer system that is shared with the assessor.

Although the assessor receives recorded documents daily, there is a three-day lag between the time the recorder processes a document and the assessor receives the document.

The assessor reviews all electronic documents received from the recorder. Documents relating to the assessor's functions are imported and indexed into one computer system, and parcel history information is posted into another computer system. Transfer analysts scan and index PCORs and match the PCOR with the recorded document. Transfer documents are worked by recording date. Transfer analysts note the transfer information on the appraisal records and in the computer system, determine if the transfer is an assessable event, and place appraisal records in an appraiser's work drawer for valuation. It takes approximately one month from recordation to completion of the transfer analysts' duties.

The assessor also discovers potential changes in ownership through change of address requests, notices of homeowner exemption termination due to death, probate information, deeds to perfect title, the death list from the recorder, and contact from transferors, transferees, attorneys, or family members.

The death list is reviewed by an assessment clerk. Recently, the recorder has started to send the assessor a redacted death list, which contains only the decedent's name and date of death. Unless a fee is paid, the assessor cannot obtain the social security number. The assessor is finding it more difficult to identify the decedent without this information. When the assessment clerk is able to identify the proper person, the transfer analysts search the assessment roll to identify all parcels owned by the decedent. A "Change of Ownership Statement upon Death" letter and form and, if applicable, a section 63.1 claim form are sent. For changes in ownership resulting from the death of a property owner, the assessor properly uses the date of death as the event date.

We examined several recorded documents and found the assessor has an effective program for the discovery and determination of assessable events.

## Leases

Transfer analysts process all long and short-term lease transactions discovered through recorded documents, appraiser canvassing, business property statements, and PCORs. The assessor does not obtain copies of all long-term leases. If the terms of the lease are not disclosed by the PCOR or the recorded document, a letter is sent to obtain the terms. If the transfer analysts are unable to determine the term or obtain the information from the lessor or lessee, the transactions are given to the assistant assessor to review and make the ultimate decision on assessability.

The transfer analysts list the lessor and lessee interests in the computer system, noting the expiration date of the lease term and, depending on the event and term remaining, specifying the assessee. Once lease documents have been processed and determined to be assessable events, the information is sent to an appraiser or auditor-appraiser for valuation.

## Penalties

If a PCOR is not filed with the recorded document, the assessment clerk sends BOE-502-AH, *Change of Ownership Statement* (COS), to the property owner to obtain transfer information.

The assessment clerk tracks each COS and keeps the property record. The transferee has 45 days to respond to the COS. If after 45 days there has been no response, a second COS is sent to the property owner along with a penalty notice and application for abatement of penalty. At such time, the property record is given to the assessment roll manager to start the penalty process. The property owner is typically given an additional 15 days to respond. If after 15 days there has been no response, the property is reappraised using the documentary transfer tax, cost approach, or market approach. Once a new value has been placed on the roll, the penalty is applied.

### Transfer Lists

The assessor does not maintain a transfer list. Pursuant to section 408.1(a), the assessor shall maintain a list of transfers of any interest in property, other than undivided interests, within the county that have occurred within the preceding two-year period. However, section 408.1(e) provides that this requirement shall not apply to any county with a population under 50,000 people, as determined by the 1970 federal decennial census. Based on the population of Tehama County in 1970, the assessor is not required to maintain a transfer list.

### 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 document evidencing a change in control in a legal entity.

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

The assessor does not process many transfers of legal entities. Monthly reports received from the BOE are reviewed, and any potential transfers are processed by the transfer analysts. The transfer analysts confirm if any companies listed on the reports held real property within Tehama County. For changes in control, the transfer analysts ensure all of the entity's real property, unless excluded, is reassessed because of the change in control by running a name search to identify all properties with the same ownership. The county also discovers potential changes in control or ownership of legal entities through business property statements and appraiser observations during fieldwork.

If the transfer results in an assessable event, the transfer analysts update the transfer information on the appraisal record and provide the appraisal record to the appraiser for valuation.

Our review of several legal entity records shows the county does a thorough job in reviewing most BOE reports and reassessing all property interests identified on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities* (BOE-100-B). The assessor does not have written procedures or policies for processing the BOE-100-B or for investigating legal entities that appear on the BOE's annual non-response list. To assist the assessor with the legal entity program, the BOE provided information about processing legal entity transfers, interpreting reports received from the BOE, and notifying the BOE upon discovery of a potential change in control.

### Change in Ownership Exclusions – Section 63.1

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

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

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

Applications and information regarding exclusions are available to the public at the assessor's office and on the Tehama County website. Transfer analysts review all section 63.1 applications and determine if the exclusion will be accepted or denied.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. The assessor correctly reports the factored base year value to the BOE for transferred property under the Williamson Act.

If a claim form indicates the property being transferred is other than the principal residence of the claimant, the transfer analysts review previous transfers subject to the \$1 million limitation. Claims are denied only when the transfer analysts are certain the claimant has exceeded the limit. If the claimant is close to the limit, the BOE is contacted to confirm the transfer is eligible for the exclusion.

When the assessor receives the quarterly *Report of Transfers Exceeding \$1,000,000* from the BOE, the transfer analysts ensure the dates are correct, review the total value of transfers, disallow exclusions made after the limit was exceeded, process roll corrections, and report any corrections in the next quarterly report to the BOE. If necessary, contact is made with other counties and the claimant to clarify information and determine which property to exclude and which to reappraise.

Pursuant to section 63.1(i), the assessor maintains the confidentiality of claim forms by storing all submitted claim forms in a secure area. The information contained in the forms is not available to the public.

The BOE reviewed several accepted and denied section 63.1 claim forms and found them to be properly handled.

### Change in Ownership Exclusions – Section 69.5

Section 69.5 allows qualified homeowners who are 55 years of age or older or who are severely and permanently disabled to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. Section 69.5 authorizes individual county boards of supervisors to adopt ordinances to expand this exclusion to properties located outside the county.

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

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

Tehama County does not accept base year value transfers from other counties. Applications and information regarding base year value transfers under section 69.5 are available to the public at the assessor's office and on the Tehama County website.

Appraisers determine the fair market value of both the replacement and original properties. The assistant assessor applies the appropriate value comparison percentage based on the date the replacement property was purchased or construction was completed and determines if the exclusion is statutorily allowable. The assessor does not process many section 69.5 claims. All accepted and denied claims are tracked in a log by a senior assessment clerk.

Pursuant to section 69.5(n), the assessor protects confidential information furnished on the claim forms, which are kept in a secured area away from public access.

We reviewed several accepted and denied section 69.5 claim forms and found them to be properly handled.

### Valuation

Once a transfer has been determined to be an assessable event, the information is typically sent to an appraiser for valuation. The time to complete the valuation process varies depending on the complexity of the transfer. Every assessable transfer is reviewed to confirm that the reported sale price accurately reflects market value. Typically, residential changes in ownership are valued using the market and cost approaches; whereas, all three approaches to value are considered when valuing commercial changes in ownership. Value conclusions are documented on the

appraisal record, and any supporting documentation is attached to the file. Appraisers are encouraged to conduct field checks of all transferred properties.

To assist with valuations, appraisers maintain residential sales data in shared electronic folders. Data is updated as appraisers process sales. The assistant assessor currently maintains sales data and valuations for commercial property. In recent years, the assessor has discovered increasing numbers of declines in value of commercial properties; however, he is finding it difficult to assess these properties properly because, with current market trends, it is difficult to obtain reliable commercial data.

Although it takes the transfer analysts approximately one month to complete the initial processing of the transfer document, enough information is entered into the system by the end of the week the deeds are received from the recorder that appraisers are aware of pending work and can plan ahead for field checks.

The assessor properly values and documents conclusions for changes in ownership and correctly processes supplemental assessments.

### ***New Construction***

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

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

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

The Tehama County Assessor has few written procedures, policies, and forms dealing with the discovery and assessment of new construction. The assessor provides some information to the public on his website regarding new construction; however, there is no information or any claim forms on the website regarding new construction exclusions.

### **Discovery**

The assessor's primary means of discovering assessable new construction is through building permits. The assessor receives building permits from four permit-issuing agencies: the Tehama County Environmental Health Department, the Tehama County Building Department, the City of Red Bluff, and the City of Corning. The Tehama County Building Department provides the

assessor with all its permits on a daily basis, while permits from the other permit-issuing agencies are received on a monthly basis.

The assessor receives notices of completion and building plans from each of the permit-issuing agencies except the City of Corning. The Tehama County Building Department transmits the building inspection history and notices of completion to the assessor electronically, while the other permit-issuing agencies provide this information in hard-copy format; all plans are received in hard-copy format. Processing permits is the responsibility of an assessment clerk. Permits for repair and maintenance items, such as plumbing, electrical, and reroofing projects, are culled and not documented on the building records. Permits describing assessable new construction are documented on the applicable building record by the assessment clerk and placed with the property file and plans in a drawer for the appraiser to value.

Permit-issuing agencies distribute new construction self-reporting questionnaires to permit applicants at the time the permit is issued, and the applicant is instructed to return the questionnaire to the assessor. Approximately 60 to 70 percent of self-reporting questionnaires are returned to the assessor. The historical cost provided on the new construction questionnaire is only enrolled if a field review indicates the historical cost is a reasonable indication of market value at the time of completion of the new construction.

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

| <b>ROLL YEAR</b> | <b>BUILDING PERMITS</b> | <b>NEW ASSESSMENTS</b> |
|------------------|-------------------------|------------------------|
| 2008-09          | 4,721                   | 1,145                  |
| 2007-08          | 5,436                   | 1,887                  |
| 2006-07          | 4,744                   | 871                    |
| 2005-06          | 6,826                   | 4,778                  |
| 2004-05          | 6,343                   | 4,440                  |

The assessor does not have a formal program for discovery of non-permitted new construction. Methods used for the discovery of non-permitted new construction include appraiser's knowledge of specific geographical areas and business property statements. Escaped new construction is enrolled as of the date of discovery or completion date if the date of completion can be determined. The assessor enrolls supplemental assessments, as allowed by law, for escaped new construction when discovered.

**Valuation**

The assessor values new construction by estimating the market value of the improvements as of lien date for construction in progress and as of the date of completion for completed new construction. Appraisers determine the status of new construction from building inspection results and notices of completion from the permit-issuing agencies, information provided by taxpayers, or field reviews. All assessable new construction permits are field reviewed.

Residential new construction is typically valued using the market approach, while commercial new construction is usually valued using all three approaches to value. Industrial and agricultural properties are primarily valued using the cost approach. When valuing new construction using the cost approach, the sources of cost data include the Assessors' Handbook Section 531, *Residential Building Costs*, *Marshall Valuation Service*, historical costs provided by taxpayers, and Assessors' Handbook Section 534, *Rural Building Costs*. The unit cost source is documented on the property record.

For additions, the assessor assigns a percent good to the addition in light of the revised percent good of the entire structure. For separate, entirely new structures, the assessor assigns a 100 percent good rating to the structure.

Appraisers prepare diagrams for all newly constructed buildings using Apex software. The diagrams are based on the building plans when the building plans are available; however, if the building plans are not available, the appraisers prepare diagrams based on field measurements.

The assessor's records were well documented, clearly showing construction in progress assessed as of the lien date, completed new construction assessed as of the date of completion, and appropriate supplemental assessments based on the completion date.

### Exclusions and Exemptions

The assessor properly applies most statutory exclusions and exemptions for new construction. Thus, newly planted orchards are exempted for the first four years, and newly planted vineyards for the first three years; active solar energy systems are not assessed to the original owner; fire sprinkler systems are included when valuing new structures by the cost approach; permits for underground storage tanks repaired or replaced to comply with environmental regulations are culled with other repair and maintenance permits; and the replacement of a structure damaged or destroyed in the course of remediating environmental contamination of a site is excluded from the definition of new construction if the property owner provides federal or state proof of contamination to the assessor within the statutory period.

Over all, we found the assessor's program for the assessment of new construction to be thorough and values reasonable; however there are two areas where improvements can be made.

**RECOMMENDATION 4:** Improve the new construction program by: (1) consistently classifying wells as land and (2) obtaining required information prior to granting new construction exclusions.

### Consistently classify wells as land.

It is the assessor's policy to classify wells as structural improvements except for wells on California Land Conservation Act (CLCA) parcels; for CLCA parcels, the assessor correctly classifies wells as land. Rule 124 provides that wells are land. By not attributing any value to the land for the new construction of domestic water wells, the assessor is underassessing the land and overassessing the improvements.

**Obtain required information prior to granting new construction exclusions.**

The assessor excludes new construction performed for the purpose of making a dwelling more accessible to a severely and permanently disabled person who is a permanent resident of the dwelling without the statements required by section 74.3. The assessor also excludes new construction performed for the purpose of making a building or structure more accessible to, or more usable by, a disabled person without the statement and notification required by section 74.6. If the permit description indicates the permit is for disabled persons' access improvements, a site inspection is performed to verify the accuracy of the description. The construction is excluded from assessment if the permit description is accurate.

Section 74.3 excludes from the term "newly constructed" certain construction, installations, or modifications of an existing single- or multi-family dwelling eligible for the homeowners' exemption if the work is performed for the purpose of making the dwelling more accessible to a severely and permanently disabled person who is a permanent resident of the dwelling. For this exclusion to apply, the following conditions must be met: (1) the new construction must be completed on or after June 6, 1990 on existing dwellings, (2) the dwelling must be eligible for the homeowners' exemption, and (3) the work performed must be for the purpose of making the dwelling more accessible to a severely and permanently disabled person who is a permanent resident of the dwelling.

To receive the exclusion, the disabled person, their spouse, or their legal guardian must submit to the assessor the following: (1) a statement signed by a licensed physician or surgeon, of appropriate specialty, certifying the person is severely and permanently disabled as defined in section 74.3(b) and identifying specific disability-related reasons why the accessibility improvements or features are needed, and (2) a statement by the claimant identifying the construction, installation, or modification necessary to make the dwelling more accessible to the disabled resident.

For buildings other than an owner-occupied dwellings, section 74.6 excludes from the term "newly constructed" the construction, installation, removal or modification of any portion or structural component of an existing building or structure to the extent it is made for the purpose of creating a building or structure more accessible to, or more usable by, disabled persons. For this exclusion to apply, the following conditions must be met: (1) the new construction must be completed on or after June 7, 1994 to an existing building, (2) the new construction must be for the purpose of making the building more accessible to, or more usable by, disabled persons, and (3) the new construction must not qualify for the new construction exclusion provided by section 74.3.

To receive the exclusion, the property owner must submit to the assessor the following: (1) notice prior to, or within 30 days of, the completion of the project that they intend to claim the exclusion for improvements making the building or structure more accessible to, or usable by, a disabled person; (2) a statement by the property owner, primary contractor, civil engineer, or architect identifying the portions of the project making the building more accessible to, or usable by, a disabled person; and (3) no later than six months after the completion of the project, all documents necessary to support the exclusion.

Use of BOE-63, *Disabled Persons Claim for Exclusion of New Construction*, and BOE-63-A, *Claim for Disabled Accessibility Construction Exclusion from Assessment*, may facilitate this process. Both forms guide the taxpayer in providing the assessor the statements and certifications necessary to receive the exclusion. Failure to obtain the necessary information required by sections 74.3 and 74.6 may cause the assessor to exclude new construction that would otherwise be taxable.

***Declines in Value***

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

Due to unfavorable economic conditions, property values in many areas of California have either declined or become stagnant. As a result, many assessors have reduced taxable values below FBYVs. Tehama County is no exception. The following table shows the number of decline-in-value assessments in Tehama County for recent years:

| <b>ROLL YEAR</b> | <b>DECLINES IN VALUE</b> |
|------------------|--------------------------|
| 2009-10          | 8,095                    |
| 2008-09          | 680                      |
| 2007-08          | 80                       |
| 2006-07          | 89                       |
| 2005-06          | 280                      |

Prior to 2009 the assessor had no formal program to identify properties with market values less than their FBYVs. Declines in value were primarily discovered through taxpayer requests and appraisers' knowledge of values. However, for the 2009-10 roll year, the assessor prepared a market study to identify geographical areas and a base year value period for changes in ownership and new construction affected by declines in market value. Based on this market study, assessor's staff reviewed 13,000 properties for declines in market value by multiplying FBYVs by market study decline-in-value factors.

Taxpayers may request an informal review of their property value by submitting a "Valuation Review Request Form" located on the assessor's website. Providing a list of comparable sales is not required. Decline-in-value adjustments are documented with a list of comparable sales, income data, or cost data. When a property owner in a homogeneous tract requests a review, and it is determined the property's value has declined below its FBYV, the appraiser also reviews the assessments of similar properties in the same neighborhood.

Decline-in-value properties are tracked to ensure the annual inflation factor is not applied until their FBYVs are restored. In addition, beginning in 2009-10, properties in decline-in-value status have been filed in a special storage area, making the properties easily identifiable for annual

reviews. Decline-in-value properties are annually reviewed after the first lien date of reduced taxable value.

A value notice is sent to a property owner when the assessed value has been temporarily reduced due to a decline in value, when the decline in value remains on the roll for the current assessment year, and when the decline in value has been fully or partially restored. The value notice includes a statement of the assessment appeals filing period and an explanation of the stipulation procedure on the back. The value notice also shows the FBV of the property.

Overall, the assessor's decline-in-value program is effective and well administered.

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

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

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses 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 guidance for the appraisal of these properties.

For the 2009-10 roll year, Tehama County had 4,524 parcels encumbered by CLCA contracts, encompassing approximately 792,500 acres. Of this total, approximately 10,897 acres were designated as Farmland Security Zone. Tehama County has 346 parcels in nonrenewal status. No contracts have been cancelled since our prior survey. The total assessed value enrolled on CLCA properties for the 2009-10 assessment year was \$440,089,854. Most of the rural property in Tehama County consists of almond, walnut, and prune orchards, and grazing lands.

The valuation of CLCA property in Tehama County, including changes in ownership and new construction, is the responsibility of one principal appraiser. The assessor calculates restricted values using an appropriate capitalization rate, including a component for risk, when determining the restricted values of CLCA properties. Rents are updated upon analysis of rental and expense information submitted with agricultural questionnaires and information from the county's annual crop report. The assessor compares the total restricted value of the appraisal unit to the factored base year value and the current market value as if unrestricted. The lowest of the three values is enrolled.

The assessor's CLCA program is well managed; however, some incorrect procedures were noted.

**RECOMMENDATION 5:** Improve the program for assessing CLCA property by: (1) properly calculating assessed values of properties in nonrenewal, (2) documenting the expenses used in the valuation of CLCA properties, and (3) deducting a charge for the investment in irrigation improvements and wells.

**Properly calculate assessed values of properties in nonrenewal.**

In determining the nonrenewal value, the assessor incorrectly starts with the factored base year value of the entire CLCA property (both restricted and unrestricted portions). The assessor subtracts the factored base year value of the unrestricted portion at the end of the calculation.

Section 426 describes in detail how the value of the restricted portion of property subject to a CLCA contract should be valued after notice of nonrenewal has been given. The proper procedure is to begin the calculations with the factored base year value of the restricted portion only, not the factored base year value of the entire property. By including both the factored base year value of the restricted and unrestricted portions in the calculation, the assessor incorrectly discounts the unrestricted portion.

The assessor's current practice results in the underassessments of these properties.

**Document the expenses used in the valuation of CLCA properties.**

The assessor values orchards on CLCA land based on five-year-averages of both production and share rent income. Using information provided by owners of agricultural land, the assessor concluded a 7.5 percent to 30 percent share income was appropriate depending on the type of crop. The assessor states the income used is a net income; however, there is no documentation to support his contention that the share income used is net rather than gross income.

The AH 521 provides that expenditures to be charged against income are those that are ordinary and necessary in the production and maintenance of the income. When the income is derived from land, amounts shall be excluded to provide a fair return on investment in operating assets other than land, to amortize depreciable property ("return of"), and to compensate the owner-operator fairly for operational and managerial services. Without documenting such expenses, neither the assessor nor the taxpayer knows whether the expenses are ordinary or necessary to maintain the income stream.

**Deduct a charge for the investment in irrigation improvements and wells.**

The assessor currently does not allow for a return *on* and *of* the investment in irrigation improvements or a return *of* the investment in irrigation wells in the income approach used to value CLCA properties.

In valuing irrigated lands, the assessor uses market rents that include the income generated by irrigation improvements. When this income is capitalized into value, the land value estimate will include the value contribution of the irrigation improvements. If the assessor adds a separate

increment of value for the irrigation improvements, the improvements will be doubly assessed. In accordance with AH 521 and to avoid double assessments, the assessor should deduct a charge for the income attributable to the irrigation improvements from the income stream prior to capitalizing the income into value.

Wells are classified as land for property tax purposes. Thus, return on investment in wells is appropriately included in the land capitalization rate; nonetheless, wells are a wasting asset, and an allowance for capital replacement must be subtracted from the income stream. By failing to deduct a charge for recapture of the investment in irrigation wells, the assessor overstates the net income to the property and overvalues the 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.

The assessor conducts an aggressive possessory interest discovery program whereby he regularly contacts 19 government agencies owning property in Tehama County. As a result, there are 177 separate possessory interest assessments on the 2009-10 roll totaling \$4,688,567. Possessory interests in Tehama County include cable television rights-of-way, airport hangars and tie downs, marinas, fairgrounds, grazing permits, mining claims, and cabins located on United States Forest Service land. One auditor-appraiser is assigned full-time to the assessment of possessory interests. Our review noted several areas where the program could be improved.

**RECOMMENDATION 6:** Revise the taxable possessory interest program by:  
(1) assessing all taxable possessory interests, (2) valuing taxable possessory interests based on net income to the lessor, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (4) using market based capitalization rates, and (5) calculating supplemental assessments and roll corrections based on the full value of a newly created taxable possessory interest.

### **Assess all taxable possessory interests.**

The assessor attempts to discover new taxable possessory interests by annually requesting rent roll information from numerous public agencies. However, he does not review private uses of the county fairgrounds to determine whether taxable possessory interests exist. We obtained a listing of concessionaires and exhibitors from the Tehama County fairgrounds manager; the listing indicates that the assessor is overlooking a number of taxable possessory interests. The uses of the fairground facilities should be investigated to see whether they constitute taxable possessory

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

**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* (AH 510), 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 estimated future net operating income attributable to the taxable possessory interest. A public owner will always incur some management expenses 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, resulting in overassessments.

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

We found the assessor does not use the stated term of possession when determining the market value of a taxable possessory interest for each lien date. It is the assessor's practice not to estimate the market value using a declining premise; instead, he enrolls the factored base year value (FBYV) until the expiration of the contract term of possession or until there is a change in ownership.

Rule 21(d)(1) provides that the term of possession stated in a lease shall be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee have mutually agreed to other terms. Rule 21(a)(6) defines the "stated term of possession" as the remaining period of possession as specified in the lease, including any options if it is reasonable to assume the options will be exercised. Thus, the stated term of possession of a taxable possessory interest declines on each lien date. As this may have a material effect on the market value of the taxable possessory interest, the appraiser must estimate the market value of a taxable possessory interest on the lien date based on a declining term, compare this value with the FBYV, and enroll the lower of the two values. Absent a decrease in the appropriate discount rate or an increase in the economic rent imputable to the taxable possessory interest, it is likely the FBYV of a taxable possessory interest will exceed the fair market value as the stated term declines.

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

**Use market based capitalization rates in the appraisal of taxable possessory interests.**

In accordance with Rule 21(e)(3)(A), the assessor uses the direct approach to value taxable possessory interests whenever possible. However, we noted the assessor is deriving a capitalization rate using components that include 1 percent for property taxes, 0.5 percent for risk, and 5 percent for bond rates. He then adds an additional 2 to 3 percent for amortization of improvements to arrive at a rate of 8.5 to 9.5 percent for improvements.

Rule 8 provides that a capitalization rate may be developed by either comparing the anticipated net incomes of recently sold comparable properties with their sale prices or by deriving a weighted average of the capitalization rates (rates of return) for debt and equity capital appropriate to California money markets. This weighted average involves weighting the separate rates of debt and equity by the relative amounts of debt and equity capital expected to be used by a typical purchaser of the subject taxable possessory interest. The assessor's method of deriving a capitalization rate using a component for property taxes, risk rate, and a percentage for a rate of return on bonds is not the same as deriving a weighted average per Rule 8.

In addition, the capitalization rate should not contain a property tax component. With most taxable possessory interests, the possessory interest tax is paid by the possessor in addition to rent; this is a standard contractual provision. Assuming the rental income to be capitalized for the taxable possessory interest has been estimated on this basis, the capitalization rate should not contain a component for property taxes.

**Calculate supplemental assessments and roll corrections based on the full value of a newly created taxable possessory interest.**

When the assessor issues supplemental assessments or roll corrections, we found he calculates the supplemental assessment or roll correction based on the difference between the existing taxable possessory interest roll value and the value of the new taxable possessory interest rather than the full value of the new taxable possessory interest.

The AH 510 provides the procedure to be followed when there is a termination and creation of a taxable possessory interest in the same year. There should not be a negative supplemental assessment for the taxable possessory interest that terminated, and the supplemental assessment amount for the newly created taxable possessory interest should be based on its full value, without offset for a prior value, on the regular assessment roll. The same procedure would apply to roll corrections. The assessor's practice has resulted in underassessments of newly created taxable possessory interests.

***Leasehold Improvements***

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

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

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

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

The majority of leasehold improvements in Tehama County are discovered from Schedule B of the BPS and from building permits. Other discovery tools include BOE-571-D, *Supplemental Schedule for Reporting Monthly Acquisitions and Disposals of Property Reported on Schedule B of the Business Property Statement* (supplemental schedule), review of leases, and field observations by business and real property staff.

The majority of valuation assessments of leasehold improvements are handled by the senior auditor-appraiser. Any leasehold improvements identified as real property structural improvements are handled by the commercial property appraiser, who was the assistant assessor at the time of the survey. The senior auditor-appraiser checks reported costs and descriptions on the BPS and supplemental schedule, determines proper identification of the leasehold improvement, and decides to whom the property should be assessed. Coordination via email or verbal discussion between the senior auditor-appraiser and the commercial appraiser takes place to avoid escapes and double assessments.

The real property division receives permits for new construction involving leasehold improvements. When received, the commercial appraiser discusses new construction with the senior auditor-appraiser to determine if the leasehold improvements will be handled by the real property division or the business property division. Permit activity and how the leasehold improvement will be handled are noted on the real property appraisal records.

Supplemental assessments are not issued for leasehold improvements classified as fixtures. Supplemental assessments are issued for leasehold improvements classified as structural improvements.

We reviewed a number of BPSs and real property records with leasehold improvements and determined most improvements were properly identified and assessed. We did recognize one area in need of improvement.

**RECOMMENDATION 7:** Properly classify and consistently value structural improvements reported on the Business Property Statement (BPS) in the same manner as other real property.

We noted inconsistent treatment of structural leasehold improvements. The assessor's valuation methodology is driven more by circumstance than the nature of the improvement. In some cases,

the assessor applies business equipment depreciation schedules to some structural improvements reported under column B1 of the BPS. In addition, in cases where the assessment is unsecured, many vaguely described entries in the structural improvement column of the BPS are classified and enrolled as fixtures without any further investigation as to the proper classification. A generic classification of "Leasehold Improvement" is indicated on the account and depreciation schedules are applied.

Structural improvements, whether paid for by the tenant or the landlord, should be assessed in the same manner as other real property. A base year value should be established and factored each subsequent roll year by the annually-determined inflation factor in accordance with article XIII A. Further investigation should be conducted if clarification as to the proper classification of the improvement is necessary.

By depreciating these improvements in a manner similar to business personal property and trade fixtures, the assessor is underassessing tenant-installed structural improvements. This will produce a significant valuation difference between similar improvements assessed on secured real property parcels versus those assessed on unsecured business property accounts. This practice also prevents supplemental assessments from being properly applied and may result in escape assessments on the supplemental roll.

### **Mineral Property**

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

Petroleum, mining, and geothermal properties comprise the three main categories of mineral properties. There are no assessable geothermal properties in Tehama County.

#### **Petroleum Properties**

Petroleum property mineral rights refer to the rights to remove petroleum and natural gas from the earth. Pursuant to Rule 468, the right to remove petroleum and natural gas from the earth is a taxable real property interest.

The value of the petroleum property in Tehama County has declined from prior years due to decreases in reserves and a softening market for natural gas. The value of the petroleum property in Tehama County is \$20,333,000. This is a drop in value of 60 percent from the previous year's value of \$50,799,000.

The assessor employs a mineral appraisal consultant to value the gas wells located in the county. The consultant has been working for the county for a number of years and has well established procedures and practices that generally comply with BOE policies. However, we found one area where the petroleum properties assessment program could be improved.

**RECOMMENDATION 8:** Recognize base year value adjustments for decreases in reserves.

The consultant's calculations for adjustments to base year values do not reflect negative adjustments in value.

Reserves can reflect a negative change from prior years for several reasons including reduction due to changed economic conditions and reduced performance of the reservoir. Just as increases to reserves are added to the adjusted base year value, decreases in expected reserves need to be reflected in the base year value. The reserves used to calculate the adjusted base year value should be the same as the current reserves for the well.

Failure to account for the change in base year reserves properly results in an improper base year unit value for the reserves. While the correct reserve estimate is brought forward each year, the base year value of the reserves does not reflect the proper prior year value, and as a result, the unit value is improperly calculated and then indexed. This results in a base year value that is much greater than it should be and could lead to an overassessment of the property.

### Mining Properties

Mining property mineral rights refer to the rights to explore, develop, and produce minerals, other than oil, gas, and geothermal resources, and the real property associated with these rights. Pursuant to Rule 469, the rights to enter in or upon land for the purpose of exploration, development, or production of minerals are taxable real property interests to the extent they individually or collectively have ascertainable value. "Minerals" means organic and inorganic earth material including rock but excluding oil, gas, and geothermal resources.

Tehama County has several active sand and gravel mining operations. Mining properties associated with California Land Conservation Act (CLCA) lands are appraised by the agricultural appraiser. Mining properties are enrolled at their market value, which is adjusted annually for inflation by a factor not to exceed 2 percent. In our examination of mining property records, we found one area in which the mining properties assessment program could be improved.

**RECOMMENDATION 9:** Use the appropriate discount rate for determining the mineral value of CLCA property.

Appraisers that value CLCA land with associated mineral rights typically use the same restricted discount rate to value the mineral cash flows as they use to value surface land income.

The discount rate applied to determine the value of the mineral rights should not be the same discount rate used to determine the value of the CLCA land. The discount rate used to value mining properties associated with CLCA land is the same rate that would be used to value any other mining property with similar risk. In addition, mineral rights are to be valued as unrestricted property. Therefore, the proper method of appraisal for mineral rights associated with CLCA land is to determine the value of the open space surface land, adjust that value downward to reflect any decrease in income as a result of the mining activity on disrupted land,

and then add the taxable value of the mineral rights and associated production equipment that should be included in the mineral appraisal unit.

The assessor's practice results in underassessments.

## 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 upon information provided in property statements.

In this section of the survey report, we review the assessor's audit program, business property statement processing program, business equipment valuation, and the assessment of manufactured homes.

### ***Audit Program***

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

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

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

There is one auditor-appraiser in the Tehama County Assessor's Office as of the date of this survey. The assessor completed 19 audits for the 2008-09 roll year for a value change of

\$988,196. Therefore, it appears the assessor will easily complete the newly defined number of 11 audits as required by section 469 effective January 1, 2009.

### **Statute of Limitations**

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

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

### **Audit Quality**

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

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

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

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

Workload

The following table displays the assessor's workload of secured and unsecured BPSs and assessments for the 2009-10 assessment roll:

| <b>TYPE OF PROPERTY STATEMENTS</b> | <b>TOTAL</b> | <b>SECURED VALUE</b> | <b>UNSECURED VALUE</b> | <b>TOTAL ASSESSED VALUE</b> |
|------------------------------------|--------------|----------------------|------------------------|-----------------------------|
| Agriculture                        | 628          | \$38,360,968         | \$13,481,057           | \$51,842,025                |
| General Business (Active Accounts) | 2,004        | \$156,775,677        | \$103,298,975          | \$260,074,652               |
| Vessels                            | 2,166        | \$0                  | \$14,514,859           | \$14,514,859                |
| Aircraft                           | 194          | \$0                  | \$20,667,541           | \$20,667,541                |
| <b>Totals</b>                      | <b>4,992</b> | <b>\$195,136,645</b> | <b>\$151,962,432</b>   | <b>\$347,099,077</b>        |

The business property division is comprised of one senior auditor-appraiser and an assessment clerk III.

General Statement Processing

The assessment clerk date stamps all submitted BPSs and reviews them to ensure they are complete and include a legally acceptable signature. Complete BPSs are then sorted for processing. A data field in the mainframe is coded to reflect the timely submission. Incomplete BPSs are copied and mailed back to the property owner along with a memo indicating the reason for rejection. A copy of the incomplete BPS is placed in the jacket pending resubmission.

The assessment clerk processes the majority of the BPSs with the aid of a schedule, prepared by the senior auditor-appraiser, which details usage guidelines of valuation tables by industry type. The senior auditor-appraiser processes the most complex BPSs, which include the largest commercial and industrial operations as well as all leasing companies. Once processed, the completed personal property jackets are returned to the back of the filing cabinet drawers. Property records without a returned BPS remain in the front of the drawers. Once the filing deadline passes, records remaining in the front drawers are easily accessible for review to determine if a physical inspection and section 501 estimated assessment is necessary.

We reviewed the BPS program, including processing procedures, use of Board-prescribed forms, processing by non-certified staff, completeness of BPSs, authorized signatures, application of penalties, real property division coordination, and record storage and retention. In addition, we reviewed several active BPSs. We found all BPSs sampled evidenced the proper usage of Board-prescribed forms and were properly signed.

Discovery

The assessor utilizes a wide range of tools in discovering taxable business property. In addition to taxpayer self-reporting, the assessor reviews fictitious business name filings, city and county

business licenses, sales tax permits, real property appraiser referrals, landlord reports of tenants, business directory services, and BOE notifications. Furthermore, the assessor performs field inspections of habitual non-filers who fail to file a BPS for three consecutive years. We found the assessor employs effective methods of discovering business personal property.

### **Filing Procedures**

Pursuant to section 441.5, in lieu of completing a BPS, information required of the taxpayer may be furnished to the assessor as attachments to the BPS provided the attachments are in a format as specified by the assessor and a copy of the actual BPS is signed by the taxpayer and carries appropriate reference to the data attached. The assessor allows taxpayers to submit attachments in lieu of completing a BPS as provided by section 441.5 only if the taxpayer or the taxpayer's assignee submits the signed original BPS. We reviewed several BPSs and found the taxpayer or an authorized agent appropriately signed statements even when a rendition was attached to an original of the BPS.

Our review also included verifying the assessor's procedures for processing late-filed and non-filed BPSs. The BPSs we sampled evidenced the proper application of the late-filing penalties pursuant to section 463.

### **Direct Billing**

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

The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer BPSs requiring annual processing by the assessor's staff, which increases the time available for the auditor-appraiser to perform other required duties.

The assessor maintains a small direct billing program with 111 accounts for the 2009-10 roll year. The program is well regulated and appropriate controls are in place to reduce the chance of escape assessments. One such control is the assessor's requirement that participating businesses file a BPS every three years in order to update taxable equipment information.

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

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

Section 401.5 provides that the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes

Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581).

The assessor uses standardized economic life codes to classify business property accounts by industry type in the computer system. The following table displays the assessor's current secured and unsecured business property assessments during the 2009-10 assessment year:

| CATEGORY              | SECURED      |                      | UNSECURED    |                      | TOTAL        |                      |
|-----------------------|--------------|----------------------|--------------|----------------------|--------------|----------------------|
|                       | NO.          | ASSESSED VALUE       | NO.          | ASSESSED VALUE       | NO.          | ASSESSED VALUE       |
| General Business      | 804          | \$156,775,677        | 1,200        | \$103,298,975        | 2,004        | \$260,074,652        |
| Agricultural          | 552          | \$38,360,968         | 76           | \$13,481,057         | 628          | \$51,842,025         |
| Vessels               | 0            | \$0                  | 2,165        | \$14,514,543         | 2,165        | \$14,514,543         |
| 4% Vessels            | 0            | \$0                  | 1            | \$316                | 1            | \$316                |
| Aircraft              | 0            | \$0                  | 193          | \$20,664,608         | 193          | \$20,664,608         |
| Certificated Aircraft | 0            | \$0                  | 1            | \$2,933              | 1            | \$2,933              |
| <b>TOTAL</b>          | <b>1,356</b> | <b>\$195,136,645</b> | <b>3,636</b> | <b>\$151,962,432</b> | <b>4,992</b> | <b>\$347,099,077</b> |

**Construction and Agricultural Mobile Equipment Percent Good Factors**

The assessor utilizes appropriate factor tables for new and used construction and agricultural mobile equipment in accordance with the instructions on Table 5 and Table 6 in the AH 581. Section 401.16(a)(2) allows the assessor to average the new or used percent good factors for both construction and agricultural mobile equipment when the taxpayer does not indicate on the BPS whether the equipment was acquired new or used. When the condition upon purchase is known, the assessor should use the "new" or "used" table. We found the BOE-recommended cost index and depreciation tables to be correctly compiled. However, we found a problem with the assessor's application of these specialized valuation tables.

**RECOMMENDATION 10:** Apply the mobile agricultural percent good factors prescribed on Table 6 of the AH 581 as intended.

The assessor applies mobile agricultural valuation tables to all movable agricultural related personal property. These tables are intended for the valuation of self-propelled machinery. Therefore, the assessor is incorrectly calculating current market value estimates of non-mobile agricultural equipment including, but not limited to, bins, air compressors, irrigation pipe, risers, welders, and generators. These types of agricultural equipment should be valued using the agricultural index and the commercial percent good tables. Accurate assessments depend on the proper choice and application of the AH 581 tables. To ensure an accurate value indicator, the assessor should determine whether reported machinery and equipment is mobile in nature and then apply the appropriate factor table indicated in the AH 581.

## Classification

Machinery and equipment must be classified as either personal property or fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, that the item will remain annexed indefinitely. We found the assessor's fixed machinery and equipment proration to be reasonably and consistently applied among businesses based upon the nature of the operation. However, we found a problem with the assessor's classification of landlord-owned personal property in apartment complexes.

**RECOMMENDATION 11:** Properly classify and assess all landlord-owned personal property in apartment complexes pursuant to section 602.

We found the assessor classifies the entire value of most apartment complexes and multi-residential properties as real property, with no allowance for taxable personal property. The assessor currently enrolls personal property separately for 15 apartment complexes in Tehama County that operate dedicated offices with office equipment. However, the assessor does not separately assess landlord-owned personal property located at 61 other apartment houses.

Landlord-owned personal property in apartment complexes is assessable and reportable on the annual BOE-571-R, *Apartment House Property Statement*. Such personal property includes, but is not limited to, refrigerators, freestanding electrical stoves, gym equipment, pool equipment, laundry equipment, maintenance equipment, office furniture, and common area furniture. Section 602 requires taxable property to be classified by type on the assessment role. Rules 121 through 124 provide guidance in the proper classification of property.

Misclassifying personal property in apartment appraisals as improvements overstates the real property assessments while understating the personal property assessment. In general, the taxable value of real property increases annually due to the application of the article XIII A inflation factor, while personal property generally depreciates in value over time. Additionally, real property improvements are subject to supplemental assessments. Therefore, this practice not only fails to conform to section 602, but likely leads to over assessments of taxable personal property.

## **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 2009-10, Tehama County had 3,179 manufactured homes located in 36 mobile home parks. Each manufactured home located in a mobile home park is assigned a fictitious parcel number to ensure correct billing by the tax collector's office.

Manufactured homes are assigned to a real property appraiser based upon the home's location within the county. The assessor uses both the *National Automobile Dealers Association's*

*Manufactured Housing Appraisal Guide* and Assessors' Handbook Section 531, *Residential Building Costs*, to value manufactured homes. Additionally, the county receives periodic reports from the State Department of Housing and Community Development for transfers and voluntary conversions of manufactured homes from vehicle license fees to local property taxation.

The assessor has an effective program for the discovery and assessment of manufactured homes; however, there are two areas where improvements can be made to the program.

**RECOMMENDATION 12:** Improve the manufactured home assessment program by:  
(1) periodically reviewing manufactured homes for declines in value and (2) excluding value attributable to park location.

**Periodically review manufactured homes for declines in value.**

The assessor does not have a program to discover declines in value for manufactured homes. The assessor typically discovers declines in value when a manufactured home changes ownership. If the review indicates a decline in value, the assessor will review the assessment of similar manufactured homes and adjust the values accordingly.

Section 5813 requires manufactured homes be assessed at the lower of the factored base year value or current market value. A review of cost manuals and value guides indicate it is not unusual for manufactured homes to decline in value.

Although the assessor is not required to reappraise all properties each year, he should develop a program to review the assessments of manufactured homes periodically to ensure declines in value are recognized accurately and consistently.

**Exclude value attributable to park location.**

When a manufactured home in a mobile home 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 either the selling price or the value indicated by comparable sales as the base year value.

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 that would make the sales 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 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 the assessor's policy of relying on actual selling prices or market comparables, in addition to being contrary to section 5803(b), has resulted in incorrect assessments.

## **APPENDIXES**

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

#### ***Tehama County***

***Chief***

Dean Kinnee

***Survey Program Director:***

Benjamin Tang

Principal Property Appraiser

***Survey Team Supervisor:***

Pam Bowens

Supervising Property Appraiser

***Survey Team Leader:***

Glenn Danley

Senior Specialist Property Appraiser

***Survey Team:***

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Tammy Aguiar

Associate Property Appraiser

Julie Warren

Associate Property Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

Mike Nicholas

Tax Auditor

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

***Government Code***

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

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

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

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

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

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

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

**15642. Research by board employees.**

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

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

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

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

**15644. Recommendations by board.**

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

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

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

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

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

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

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

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

**Revenue and Taxation Code**

**75.60. Allocation for administration.**

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

(b) For purposes of this section:

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

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

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

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

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

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

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

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

**Rule 371. Significant assessment problems.**

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

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

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

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

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

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

Section 15645 of the Government Code provides that the assessor may file with the Board 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.

**DALE STROUD**  
ASSESSOR

**RECEIVED**

**AUG - 2 2011**

**Office of County Assessor**

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

County-*Assessed* Property Division  
State of California Department of Tax and Fee Administration

July 29, 2011

Dean R. Kinnee, Chief  
County-Assessed Property Division

STATE BOARD OF EQUALIZATION  
Property and Special Taxes Department  
450 N Street  
P.O. Box 942879  
Sacramento, CA 94279-0064

Dear Mr. Kinnee:

Please find the enclosed written response to the findings and recommendations contained within the Tehama County Assessment Practices Survey report dated July 2011.

Pursuant to section 15645 of the Government Code, I am requesting the, "Assessor's Responses to BOE Recommendations" be included in the final prepared report.

Thank you in advance for your assistance, should you have additional questions or wish to speak with me, please feel to contact me at (530) 527-5931 ext. 201 or at [DStroud@co.tehama.ca.us](mailto:DStroud@co.tehama.ca.us)

Sincerely,



Dale Stroud  
Assessor

## Assessor's Responses to BOE Recommendations

**Recommendation #1 – Revise the county website to reflect the assessment appeals filing deadline accurately.**

**Response:**

The confusion that this is referring to is actually on the Tax Collector web information. You can get to it by going to the county home page, the General Information link is under the Tax Collector. We simply had not reviewed the Tax Collector information and were unaware of the conflict. We will contact the Tax Collector to get this resolved.

**Recommendation #2 – Revise disaster relief procedures by: (1) revising the application for disaster relief and (2) conforming the notice of disaster relief reassessment to the requirements of section 172(c).**

**Response:**

- (1) After reviewing the application we concur with this recommendation and will make the changes requested.
- (2) Again, we concur. These changes will probably have to be implemented manually but the limited number of these activities should not cause a significant issue.

**Recommendation #3 – Send a Notice of Enrollment of Escaped Assessment as required by section 534.**

**Response:**

As allowed by law, this office has been using the tax bill as the 2<sup>nd</sup> notice. It appears as though the Tax Collector uses the standard tax bill as the billing mechanism for these types of assessments. The standard tax bill has the standard notice information on them. Since we have no control over the Tax Collectors operation we will start using the Notice of enrollment as the second notice.

**Recommendation #4 – Improve the new construction program by: (1) consistently classifying wells as land and (2) obtaining required information prior to granting new construction exclusions.**

- (1) We understand this recommendation. However, we do not believe that this results in any over or under assessment for the total property for residential assessments. To allocate as the recommendation suggests would result in a multiple base year for the land every time there is residential construction. This would result in tracking base years more difficult for our system. We do make this allocation in agricultural properties.
- (2) We concur and will implement the States forms to process.

**Recommendation #5: Improve the program for assessing CLCA property by: (1) properly calculating assessed values of properties in nonrenewal, (2) documenting the expenses used in the valuation of CLCA properties, and (3) deducting a charge for the investment in irrigation improvements and wells.**

**Response:**

- (1) We concur and will implement this change.
- (2) We currently use “net rent”. The recommendation is to better document this position. We would love to spend more time on each valuation but the budget demands continue to be “more with less”. We have lost 3 positions and are being asked to continue to downsize.
- (3) Our computer system is not designed to accommodate this adjustment. The implementation would obviously be another demand on staff. Again, this appears to be a budget issue, “More with Less” seems to be the consistent message.

**Recommendation #6: Revise the taxable possessory interest program by: (1) assessing all taxable possessory interests, (2) valuing taxable possessory interests based on net income to the lessor, (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (4) using market based capitalization rates, and (5) calculating supplemental assessments and roll corrections based on the full value of the newly created taxable possessory interest.**

**Response:**

- (1) We understand this recommendation; however, with staffing levels continuing to be reduced we have been unable to implement this part of this recommendation.
- (2) This office has already implemented this suggestion.
- (3) We concur and have already implemented this process.
- (4) Deriving capitalization rates for possessory interest assessments is a troublesome issue. There seems to be no accurate way of doing this. The most appropriate way is to use the market. However, the lack of data makes this methodology very difficult, if not impossible. As far as the Band of Investment method, you must be able to estimate what the investor is expecting as a rate of return on his investment to use in this formula. Again, with no data this is difficult to do. We would certainly be open to the State coming out with some suggested actual rates to be used on various types of possessory interest properties.
- (5) We are implementing this process. However, we are concerned that this procedure could cause double assessments.

**Recommendation #7: Properly classify and consistently value structural improvements reported on the BPS in the same manner as other real property.**

**Response:**

- (1) Most of this discussion centers on tenant improvements in commercial structures. These property modifications are made by the tenant and therefore does not increase the income the property produces. Due to the frequent turnover of the tenants combined with the next tenant removing these established improvements this office feels that they are in fact depreciating assets. They are their own appraisal unit, when assessed to the tenant. The life tends to be the life of the average commercial business. We understand the Boards position but feel our methodology, with the ability of our computer system and limited manpower, are producing the most accurate assessments possible in the most efficient manner.

**Recommendation #8: Recognize base year value adjustments for decreases in reserves.**

**Response:**

We believe this is being processed properly. We historically have had a consultant value these properties. He is deceased. We will address this issue for future assessments.

**Recommendation #9: Use the appropriate discount rate for determining the mineral value of CLCA property.**

**Response:**

We understand that the discount rate for CLCA uses and mineral uses could be different. However, as with trying to determine the appropriate rate for possessory interest assessments, these rates can be hard to calculate. The data out there is very limited. We agree with the State's recommended approach to value once the appropriate rate is established. We will use all resources to help determine the appropriate rate including the BOE.

**Recommendation #10: Apply the mobile agricultural percent good factors prescribed on Table 6 of the AH 581 as intended.**

**Response:**

We disagree with this recommendation. We do not believe that the factors that SBE would like us to use (AH 581 table 4) follow the market. We believe that the market makes very little distinction in value in the self propelled mobile equipment and the other moveable farm equipment.

**Recommendation #11: Properly classify and assess all landlord-owned personal property in apartment complexes pursuant to section 602.**

**Response:**

Even in this recommendation the survey crew states that the Assessor has allocated to personal property on 15 apartment complexes reviewed. These properties are the complexes large enough to have office equipment, pool equipment, exercise equipment, ECT... So we do break out this type of property and assess it as required. However, with the smaller complexes we are only talking about refrigerators and dishwashers. Typically we do not find out when the items are replaced and the rent does not change whether or these items are new or 10 years old. We believe our method for these properties does not result in an erroneous total property assessment and is the most efficient method of valuation with our limited resources.

**Recommendation #12: Improve the manufactured home assessment program by: (1) periodically reviewing manufactured homes for declines in value and (2) excluding value attributable to park location.**

**Response:**

- (1) Manufactured homes have been a problem since we inherited them. We are doing the best we can however our limited staffing and the abilities of our computer system limit how we process these properties.
- (2) We do not believe that we are including "park value" in our valuation process. Manufactured homes have increased in value when the market went up and have now decreased in value as the market declined. The NADA guide that we consider in our process would seem to indicate that we should be assessing these units at more then they are selling for now. Does this mean that there is a negative "park value" and we should appraise them higher then they are selling for? We believe by considering the guide and all other pertinent data that we are in compliance with this part of the recommendation.