

# TUOLUMNE COUNTY ASSESSMENT PRACTICES SURVEY

**MARCH 2010**

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March 11, 2010

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No. 2010/016

TO COUNTY ASSESSORS:

TUOLUMNE COUNTY  
ASSESSMENT PRACTICES SURVEY

A copy of the Tuolumne 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 Ken Caetano, Tuolumne County Assessor-Recorder, 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, the State Legislature, the Tuolumne County Board of Supervisors, and the Grand Jury.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from March through August 2008. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Caetano 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 level, 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 Tuolumne County Assessor-Recorder Office.<sup>1</sup>

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Tuolumne 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 Ken Caetano, Tuolumne County Assessor-Recorder, 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.

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<sup>1</sup> This report only covers the assessment functions of the assessor's office.

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

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

In addition, pursuant to Revenue and Taxation Code<sup>2</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 C.

Our survey of the Tuolumne County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Tuolumne County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2007-08 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

## EXECUTIVE SUMMARY

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

The assessor is effectively managing the administration programs for budget and staffing, staff property procedures, appraiser certification, assessment appeals, disaster relief, roll changes, low-value property tax exemption, the exemption programs, and assessment forms.

In the area of real property assessment, the assessor has effective programs for the enrollment of new construction, valuation of property with declines in value, and assessment of taxable government-owned property. However, we noted several practices in need of improvement; with the area of most concern in the assessment of taxable possessory interests. In the valuation of taxable possessory interests, the assessor should assess taxable possessory interests in accordance with statute, assess all taxable possessory interests at the county fairgrounds, periodically review possessory interests with stated terms of possession for declines in value, deduct allowed expenses from gross income when using the income approach to value taxable possessory interests, issue supplemental assessment for all taxable possessory interests, and add the present worth of the unpaid rents to the nominal sales price.

In the area of business and personal property assessment, the assessor has effective programs for the discovery of manufactured homes, the valuation of leased equipment, and aircraft. Again, however, we noted several practices in need of improvement in the business and personal property programs. The most significant of these recommendations are in the area of processing business property statements and in timely completing audits. In the assessor's audit program, he is currently behind in the completion of his annual audit workload; and he does not obtain a signed waiver of the statute of limitations when an audit will not be completed timely.

The balance of this report will enumerate and explain our recommendations for improvements in the assessor's operation and will not generally emphasize the positive aspects of his program. Notwithstanding the problems highlighted in this report, most properties and property types are assessed correctly. The Tuolumne County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2007-08 assessment roll indicated an average assessment ratio of 99.11 percent, and the sum of the absolute differences from the required assessment level was 1.32 percent. Accordingly, the BOE certifies that Tuolumne County is eligible to receive reimbursement 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:** Apply penalties for failure to file a change in ownership statement as required by section 482(a).....17

**RECOMMENDATION 2:** Deduct a capital replacement allowance for irrigation wells that contribute to the income being capitalized. ....25

**RECOMMENDATION 3:** Send periodic questionnaires to owners of TPZ land, requesting information on compatible, nonexclusive uses. ....27

**RECOMMENDATION 4:** Improve the taxable possessory interest program by: (1) reappraising taxable possessory interests in compliance with section 61; (2) assessing all taxable possessory interests at the fairgrounds; (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value; (4) deducting allowed expenses from gross income when using the income approach; (5) issuing supplemental assessments for all taxable possessory interests; and (6) adding the present worth of unpaid rents to the nominal sales price as required by Rule 21. ....28

**RECOMMENDATION 5:** Value historical property using current expense data. ....31

**RECOMMENDATION 6:** Issue supplemental assessments for structural leasehold improvements on the unsecured roll. ....32

**RECOMMENDATION 7:** Improve the water company property program by: (1) obtaining relevant assessment information to properly appraise all water company properties, and (2) auditing regulated water companies that fail to file annual property statements. ....33

**RECOMMENDATION 8:** Assess mining properties according to Rule 469. ....34

**RECOMMENDATION 9:** Timely audit the books and records of professions, trades and businesses pursuant to section 469. ....36

**RECOMMENDATION 10:** Obtain a signed waiver of the statute of limitations when an audit cannot be completed timely. ....37

**RECOMMENDATION 11:** Improve the business property statement processing program by: (1) annually sending a statement to non-profit organizations, and (2) auditing the accounts of taxpayers who fail to file statements for three or more consecutive years. ....38

**RECOMMENDATION 12:** Document the service lives used in the valuation of business equipment. ....40

**RECOMMENDATION 13:** Require vessel owners to file annual vessel property statements for vessels costing \$100,000 or more. ....43

## OVERVIEW OF TUOLUMNE COUNTY

The County of Tuolumne was incorporated in 1850 as one of the original 27 counties in the state of California. Tuolumne County lies on the western slope of the Sierra Nevada, bordered on the north by Calaveras and Alpine counties, on the east by Mono County, on the south by Mariposa County, and on the west by Stanislaus County.

The county encompasses 2,229 square miles, or 1,426,560 acres, and has only one incorporated city, Sonora. Historically, mining and timber industries dominated Tuolumne County's economy. In more recent years, as these industries have declined and the local economy has diversified, tourism has become an increasingly important industry. Other industry groups include machinery, printing, manufacturing, and home-based businesses.

Sonora is the county seat. Governed by a five-member board of supervisors, Tuolumne County has a population of over 56,000 people.

The following table displays information pertinent to the 2007-08 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
<b>Secured Roll</b>	Land	\$2,145,104,000
	Improvements	\$4,074,716,000
	Total Gross Secured	\$6,219,820,000
	Less Exemptions	(\$164,632,000)
	Total Secured	\$6,055,188,000
<b>Unsecured Roll</b>	Personal Property & Fixtures	\$248,408,000
	<b>Total Assessment Roll</b>	<b>\$6,303,596,000</b>

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

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2007-08	\$6,303,596,000	8.2%	9.6%
2006-07	\$5,824,223,000	11.2%	12.3%
2005-06	\$5,238,976,000	10.6%	11.1%
2004-05	\$4,736,895,000	8.5%	8.3%
2003-04	\$4,366,675,000	7.8%	7.3%

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

## ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, appraiser certification, assessment appeals, disaster relief, assessment roll changes, exemptions, the racehorse administrative tax, 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 as required before an appellate body, and provide information and service to the public as needed.

As shown in the following table, the assessor's budget has grown over 33 percent over recent years while the staff has remained relatively stable:

BUDGET YEAR	NET BUDGET	ANNUAL INCREASE	PERMANENT STAFF
2007-08	\$990,815	4.9%	13
2006-07	\$944,895	2.2%	14
2005-06	\$924,292	11.5%	14
2004-05	\$828,937	10.8%	14
2003-04	\$748,033	N/A	14

### ***Appraiser Certification***

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. There are a total of six certified appraisers, including the assessor, on staff; three hold advanced certificates. We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor uses contract appraisers, who, we found, also possess the required certifications.

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

We reviewed the assessor's internal controls and safeguards as they apply to the assessment of staff-owned properties.

One method used by the assessor to discover staff-owned properties or businesses in Tuolumne County is to review the *Statement of Economic Interests* (State Fair Political Practices Commission Form 700) filed by appraisers each year. The statement requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entities.

Appraisals of staff-owned properties are assigned to the appraiser responsible for the geographic area in which the property is located. Employees are not allowed to value property they own in Tuolumne County. If the assigned appraiser is also the owner, the appraisal is reassigned to another appraiser in the office. When an appraisal is completed on a staff-owned property, it is forwarded to the supervisor for review and approval before being enrolled.

### ***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 Property Tax Rules<sup>4</sup> 301 through 326 to regulate the assessment appeal process.

In Tuolumne County, the five-member board of supervisors serves as the county board of equalization and hears all assessment appeals. Assessment appeal hearings are held one to two times per year. There were no hearings scheduled during our survey period. The regular filing period for appeals in Tuolumne County is July 2<sup>nd</sup> through November 30<sup>th</sup>. No appeal has been held over for more than two years without obtaining the proper waiver.

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<sup>4</sup> All rule references are to sections of the California Code of Regulations, Title 18, Public Revenues.

The following table illustrates the assessment appeal workload in recent years:

<b>ASSESSMENT ROLL</b>	<b>2006-07</b>	<b>2005-06</b>	<b>2004-05</b>	<b>2003-04</b>	<b>2002-03</b>
Appeals Workload					
Appeals Filed	10	4	13	13	15
Appeals Carried Over	12	10	14	9	0
<b>Total Appeals Workload</b>	<b>22</b>	<b>14</b>	<b>27</b>	<b>22</b>	<b>15</b>
Resolution:					
Withdrawn	3	0	12	6	5
Stipulation	3	2	4	2	1
Appeals Reduced	0	0	0	0	0
Appeals Upheld	0	0	1	0	0
Appeals Increased	0	0	0	0	0
Others	0	0	0	0	0
<b>Total Resolved</b>	<b>6</b>	<b>2</b>	<b>17</b>	<b>8</b>	<b>6</b>
To Be Carried Over	16	12	10	14	9

The majority of appeals in Tuolumne County involve commercial properties. Because property owners typically contact the assessor's office when there are questions involving the valuation of their property, many questions are resolved without the need for an appeal.

The application for changed assessment can be obtained at the board of supervisors' office or county website. No fee is charged to file an appeal. When the clerk of the board receives the completed application, the clerk date stamps it, reviews it for completeness and timely filing, provides a copy to the assessor, and schedules the appeal for a hearing. In compliance with section 1605.6, the clerk of the board sends a letter to the applicant with notification of the time, date and place of the hearing.

The assistant assessor receives a copy of each appeal from the clerk of the board. The assistant assessor reviews the appeal and assigns it to an appraiser for handling. The appraiser attempts to make contact with the applicant prior to the scheduled hearing to explain the assessment, understand the applicant's concerns, and try to resolve the concerns.

If an applicant is satisfied with the explanation of the assessment, the appraiser suggests the applicant withdraw the appeal by sending a letter to the clerk of the board. If the applicant and the appraiser can resolve the concerns and agree to a new assessment, the assessor creates a stipulation letter outlining the details of the agreement. After both parties sign the stipulation, the assessor sends it to the appeals board for approval. If no agreement can be reached, the appeal process continues and the scheduled hearing takes place.

During our current survey, no appeals hearings were scheduled. However, we reviewed an appeal packet from a prior hearing and found the file to be well organized.

Overall, the assessor's appeals program is well administered.

***Disaster Relief***

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

To obtain relief under section 170, assesses 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 of value reductions in current market value and reduce the assessed values by those percentages. However, the amount of the reduction shall not exceed the actual loss.

The Tuolumne County Board of Supervisors adopted a disaster relief ordinance (Ordinance 1046) on February 12, 1980. The original ordinance was amended on January 21, 2004 (Ordinance 2551) to conform to existing statutory provisions. The amended ordinance grants the assessor the authority to initiate a reassessment when it is determined that the taxable property was damaged or destroyed by misfortune or calamity. We found the amended disaster relief ordinance conforms to the current provisions of section 170.

The following table shows the number of disaster relief claims filed over recent years:

<b>ROLL YEAR</b>	<b>CLAIMS FILED</b>
2006-07	14
2005-06	14
2004-05	17
2003-04	19
2002-03	15

The assessor discovers calamities through building permits issued for repairs, field canvassing, taxpayer notification, and newspaper articles. The assessor is working with the fire marshal to arrange for regular transmittal of fire reports.

Upon discovery of a calamity, the assessor mails an application to each affected property owner. The application is also available on the Tuolumne County website. When an application is received, the staff logs it, date-stamps it, reviews it, and assigns it to an appraiser. We reviewed the records of several properties which were granted disaster relief. The assessor verified the damage, noted the damage amount on the records, and reduced the assessment when appropriate. We further verified proper notification was sent to the owners advising them of the reduced value and their appeal rights.

Overall, the assessor's disaster relief program is well administered and we found no issues or concerns.

***Assessment Roll Changes***

Each year the assessor must complete the local assessment roll and deliver it to the auditor by July 1st. 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 by the assessee.

The following table shows the number of roll changes processed over recent years:

ROLL YEAR	ROLL CHANGES
2007-08	474
2006-07	356
2005-06	517
2004-05	565
2003-04	428

Real property appraisers initiate roll changes involving value adjustments on the secured roll by filling out a *Request for Assessment Change Order* form. For business property, the auditor-appraiser initiates roll changes. In either case, the change is documented by remarks on the appraisal record and the computer system.

After the roll change for an escape assessment has been approved and processed, the computer generates a *Notice of Proposed Escape Assessment* form. A copy of this form is sent to the property owner and the escape assessment is not issued for 10 days as provided by section 531.8. After 10 days, a *Notice of Enrollment of Escape Assessment* is mailed to the taxpayer and a copy is forwarded to the county auditor for processing.

The assessor uses a locally developed *Notice of Proposed Escape Assessment*. This form complies with the provisions of section 531.8. The Tuolumne County Board of Supervisors has not adopted a resolution pursuant to section 1605(c). Therefore, the assessor uses the BOE-prescribed *Notice of Enrollment of Escape Assessment* (BOE-66-A). An application for changed assessment must be filed within 60 days of the date of the mailing.

We found roll changes were processed correctly.

**Low-Value Property Tax Exemption**

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

Section 155.20(b)(1) provides that a county board of supervisors shall not exempt from taxation property with a total base year value or full cash value of more than \$5,000 (effective January 1, 2010, the maximum amount that can be exempted under a "low value" local ordinance was increased to \$10,000), or more than \$50,000 in the case of certain taxable possessory interests. A board of supervisors must adopt a low-value property tax exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

In Tuolumne County, the board of supervisors adopted an ordinance implementing the provisions of section 155.20 commencing with the fiscal year 1993-94. In its current form, this ordinance exempts from taxation unsecured personal property with a full value of \$2,000 or less and manufactured home accessories installed on, or added to, manufactured homes purchased prior to July 1, 1980, with a base year or full value of \$5,000 or less.

We found the assessor's low-value property tax exemption program to be current and accurate.

**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 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 following table illustrates the number of church and religious exemptions processed, and the amount exempted, in Tuolumne County for recent years:

<b>ROLL YEAR</b>	<b>CHURCH</b>	<b>EXEMPTED VALUE</b>	<b>RELIGIOUS</b>	<b>EXEMPTED VALUE</b>
2007-08	1	\$3,629,895	68	\$24,056,403
2006-07	1	\$3,724,155	66	\$23,034,805
2005-06	7	\$3,488,950	64	\$20,604,264
2004-05	7	\$3,420,543	65	\$19,606,865
2003-04	0	0	67	\$18,618,256

In Tuolumne County, we found the assessor properly processed church and religious exemption claims.

### Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

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

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC or valid SCC issued by the BOE. 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 following table shows the number of welfare exemption claims processed and their corresponding exemption value for recent years:

ROLL YEAR	WELFARE	EXEMPTED VALUE
2007-08	71	\$121,844,627
2006-07	71	\$113,828,787
2005-06	72	\$111,451,688
2004-05	66	\$104,550,717
2003-04	67	\$92,814,551

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. In addition, we reviewed claims for low-income housing property, including properties owned by a limited partnership holding an SCC. We found the assessor is properly administering the welfare exemption.

### 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 a deceased disabled veteran's unmarried surviving spouse). The amount of exemption is \$100,000 or, for qualifying low-income veterans, \$150,000. Both of these amounts are adjusted annually by a cost of living index factor.

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 \$100,000 disabled veterans' exemption requires a one-time filing; annual filing is required for the \$150,000 low-income veterans' exemption.

The following table illustrates the number of homeowners' and disabled veterans' exemptions processed and their corresponding exempted value for recent years:

ROLL YEAR	HOMEOWNERS'	EXEMPTED VALUE	DISABLED VETERANS'	EXEMPTED VALUE
2007-08	13,272	\$92,539,473	136	\$13,334,968
2006-07	13,229	\$92,210,944	115	\$10,733,411
2005-06	13,159	\$91,771,984	103	\$9,085,176
2004-05	13,149	\$91,785,704	100	\$8,603,492
2003-04	13,145	\$91,703,938	87	\$7,170,926

In Tuolumne County, we found the assessor is properly processing homeowners' and disabled veterans' exemptions. Accordingly, we have no recommendations in this area.

**Assessment Forms**

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

For the Tuolumne County Assessor's Office for the year 2007, we found that:

- The assessor used 50 of the 80 BOE-prescribed forms;
- Of the 50 forms used, the assessor did not rearrange any;
- The assessor has timely provided the BOE with copies of final prints and forms checklists.

We have no recommendations for this program.

## ASSESSMENT OF REAL PROPERTY

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

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

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

### ***Changes 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 following table shows the total number of recorded documents received by the assessor and the transfer document activity in Tuolumne County in recent years:

<b>ROLL YEAR</b>	<b>RECORDED DOCUMENTS</b>	<b>RESULTING CHANGES IN OWNERSHIP</b>
2007-08	10,552	2,306
2006-07	11,800	2,621
2005-06	16,732	2,922
2004-05	17,621	2,639
2003-04	15,243	2,934

The assessor's primary source of discovering properties having changed ownership is through review of deeds and other documents recorded at the county recorder's office. Since the assessor is also the recorder, the coordination between the offices is excellent. The recorder's office

requires form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), accompany documents submitted for recordation for the transfer of ownership of real property. In addition, Tuolumne County has adopted an ordinance requiring deeds be identified by assessor's parcel number.

About 99 percent of transfer documents are accompanied by a PCOR. If a transfer document is received without a PCOR, the recorder's office will add a \$20 charge to the recording fee. PCOR forms are available at both the assessor's and recorder's office.

All recorded documents are scanned by the recorder into a shared database with the assessor. The assessor's computer system filters and imports the electronic documents in the database based on certain parameters. Each day, an assessment technician picks up paper copies of PCORs from the recorder's office, scans the PCORs into the computer system, and attaches the PCOR to the appropriate electronic document file.

The assessment technician reviews the electronic document file, determines if any additional correspondence needs to be sent to the property owner, such as a parent-child transfer form or form BOE-502-AH, *Change of Ownership Statement* (COS), determines the percentage of transfer, and codes each document as a reappraisable or non-reappraisable event. The electronic document file is then sent to another assessment technician who updates the name and ownership status on the computer system.

If a PCOR was not filed at deed recordation or completed incorrectly, the assessor will send a COS to the property owner requesting information within approximately 15 days. If there is no response from the property owner after 15 days, the assessor sends another COS with another 15 day deadline. If there is no reply to the second request, a final COS is sent to the property owner, again with a 15 day deadline. If there is no response to the final COS request, the assessor reappraises the property; however, he does so without applying the section 482 penalty for failure to file a COS.

**RECOMMENDATION 1:** Apply penalties for failure to file a change in ownership statement as required by section 482(a).

The majority of recorded deeds qualifying as a change in ownership in Tuolumne County are accompanied by a PCOR. If a PCOR is not returned with the recorded deed, the assessor's staff sends up to three COS notices to the property owner. All three notices are sent approximately within the 45 day requirement set by section 482(a). If there is no response to the final notice, the assessor values the property. However, penalties are not applied to the roll.

Section 482(a) provides that if a person or legal entity required to file a statement described in section 480 fails to do so within 45 days from the date of a written request by the assessor, a penalty of either \$100 or 10 percent of the taxes applicable to the new base year value, whichever is greater, but not to exceed two thousand five hundred dollars (\$2500) if the failure to file was not willful, shall be added to the assessment made on the roll.

The information contained in a properly completed PCOR or COS assists the assessor in making an accurate assessment. By failing to apply the penalty required by section 482(a), the assessor

not only makes reappraisal more difficult, but conveys to the public these statements and the application of the penalty are unimportant.

We recommend the assessor apply the section 482 penalty when the COS is not returned, is returned late, or is incomplete.

### 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. Subdivisions (c) and (d) of Rule 462.180 provide examples of transactions that either do or do not constitute a change in entity control, and hence, either do or do not constitute a corresponding change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of changes in legal entity ownership, and, therefore, no corresponding recorded notice of the real property transfer.

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

The assistant assessor reviews the monthly listing received from the BOE and confirms that the indicated changes in control are valid transfers of real property owned by the legal entity. He then gives the listing to an assessment technician who enters the data into the computer system and distributes the information to an appraiser for reassessment.

We found the assessor properly identifies the transfers and reappraises the properties owned by legal entities shown on the BOE listings.

Section 63.1 Exclusions and Section 69.5 Base Year Value Transfers

Applications and information regarding section 63.1 exclusions and section 69.5 base year value transfers are available to the public at the assessor's office and website. The following table represents section 63.1 and section 69.5 claims filed and granted in Tuolumne County for recent years:

<b>ROLL YEAR</b>	<b>SECTION 63.1 CLAIMS FILED</b>	<b>SECTION 63.1 CLAIMS GRANTED</b>	<b>SECTION 69.5 CLAIMS FILED</b>	<b>SECTION 69.5 CLAIMS GRANTED</b>
2007-08	175*	151*	20*	N/A
2006-07	298	262	60	24
2005-06	301	292	50	30
2004-05	362	330	81	28
2003-04	233*	246	53*	26

\* Only partial information was available

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer of the principal residence and the first one million dollars of other real property between parents and their children. Under specified circumstances, a limited number of transfers of property from grandparents to their grandchildren are also excluded.

An appraiser technician reviews all section 63.1 claims and determines whether each transfer qualifies for the exclusion. The assessor submits quarterly reports to the BOE, listing approved section 63.1 transfer exclusions involving property other than principal residences. In addition, an assessment technician reviews the report from the BOE regarding claim amounts over \$1,000,000. If there are excess claim amounts, the assessment technician gives the file to an appraiser to reassess the excess amounts.

If the excess claim amounts involve parcels in counties other than Tuolumne, the assessment technician attempts to contact the assessor's office in the other counties to confirm whether the other counties are aware of the limit and the proper handling of the overage. Pursuant to section 62(p), the assessor does not process changes in ownership for transfers between registered domestic partners.

Section 69.5 allows qualified homeowners who are 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of their principal residences to a replacement dwelling purchased or newly constructed within the same county. Claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling. Section 69.5 allows counties to adopt ordinances to expand benefits to include intercounty transfers.

Tuolumne County does not accept base year value transfers from other counties (intercounty). Section 69.5 claims involving base year value transfers within the county (intracounty) are reviewed by an assessment technician for acceptance and tracked on a spreadsheet. Tuolumne County submits required quarterly reports to the BOE listing approved section 69.5 exclusions.

We found the assessor's staff processes sections 63.1 and 69.5 claims effectively.

**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. Section 70 further establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

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

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

Most new construction activity is discovered from building permits. Currently, the assessor receives building permits from three permit-issuing agencies: City of Sonora, Tuolumne County, and State of California. Field inspection is the main method for discovering non-permitted new construction.

The processing of permits is the responsibility of the assistant assessor. All permits are screened and those identified as evidencing new construction are flagged for review. The assistant assessor routinely checks each enrolled value for accuracy.

The following table shows the permit workload of the assessor for recent years:

<b>ROLL YEAR</b>	<b>PERMITS RECEIVED</b>	<b>NEW ASSESSMENTS</b>	<b>TOTAL VALUE ADDED</b>
2006-07	2,108	1,306	\$133,774,465
2005-06	2,297	1,428	\$136,229,105
2004-05	2,351	1,254	\$122,407,153
2003-04	2,380	1,312	\$110,601,876
2002-03	2,342	1,191	\$97,861,199

Section 71 requires the assessor to enroll construction in progress at its current market value on each lien date. When new construction is complete it is assessed at current market value as of its completion date and a base year value is assigned.

The appraiser determines the completion status of new construction from an on-site review, a review of the notice of completion from the building department, or information from the

taxpayer. Sources used to develop a cost indicator of value include: *Marshall and Swift Residential Cost Handbook* and Assessors' Handbook Section 531, *Residential Building Costs*.

The assessor uses a self-reporting program to assess many new construction projects. The assessor sends out about 50 questionnaires each month to property owners with a return rate of about 85 to 90 percent. After reviewing the questionnaires for accuracy and validity, appraisers use them to determine the type and value of new construction.

We found the assessor's new construction program is current and reflects accurate value calculations.

**Declines in Value**

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

The following table shows the number of decline in value properties, excluding manufactured homes, processed in Tuolumne County over recent years:

ROLL YEAR	PROCESSED DECLINES IN VALUE
2006-07	29
2005-06	50
2004-05	118
2003-04	225
2002-03	427

During the five years that this survey covers, the dramatic decline in property values that many counties in California are currently experiencing was not as prevalent in Tuolumne County, which accounts for the low number of properties in decline-in-value status in Tuolumne County during our survey period. In contrast, for the period following the roll years covered by this survey, the assessor enrolled an additional 3,601 properties in decline-in-value status.

Tuolumne County does not have a formal program to annually identify properties with a market value less than the factored base year value; however, the assessor is continuously watching the local market for any changes in market values. The assessor mainly relies on property owner requests for review to discover declines in value. The assessor provides taxpayers with a form, entitled *Request for Property Review*, which is located at both the assessor's counter as well as on the assessor's website. Although the form requests the property owner to attach supporting documentation, it is not a requirement for a review of the property.

Once the request is received, it is logged on a spreadsheet for tracking purposes and assigned to an appraiser based on the location of the property. If the appraiser determines that a property has declined in value, the information is entered on the spreadsheet and a roll correction is processed.

Decline in value properties are identified in the computer system to prevent the system from automatically applying the inflation factor to the prior year's taxable value. The assistant assessor reviews the spreadsheet to ensure all properties are being reviewed timely. Our review of several decline in value properties shows that, pursuant to section 51(e), the assessor reappraises property in decline in value status annually and enrolls the lower of the market value or the factored base year value.

Tuolumne County does not have an abundance of subdivisions or homogeneous tracts. When a decline in value is discovered, the appraiser will review and lower the assessment for the property in question. If homes in the area have similar features and dates of sale, the appraiser will review the homes to determine if other declines in value have occurred to surrounding properties.

Value notices are sent to property owners when the assessed value has changed due to a decline in value, if the decline in value remains on the roll for the current assessment year, or if the decline in value has been fully or partially restored. We found the notice meets the requirements of section 619.

Overall, the assessor's decline in value program is well administered, and we found no issues or concerns.

### **California Land Conservation Act Properties**

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

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

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

For the 2007-08 roll, Tuolumne County had a total of 107,096 acres under CLCA contract with 13,805 acres in non-renewal status. The total assessed value for land and improvements was \$113,970,493 or 1.8 percent of the total assessed value on the 2007-08 roll.

The following table shows the acreage under CLCA contract and land in nonrenewal status for recent years:

ROLL YEAR	PARCELS	CLCA ACRES	ACRES IN NONRENEWAL	TOTAL ASSESSED VALUE
2007-08	922	107,096	13,805	\$113,970,493
2006-07	921	117,458	2,156	\$94,626,650
2005-06	919	117,539	1,346	\$83,022,717
2004-05	899	117,641	544	\$73,021,814
2003-04	911	117,733	689	\$66,145,202

The CLCA acreage has remained relatively stable in recent years. The increase in nonrenewal acreage in 2007-08 is attributable to the board of supervisors passing a new CLCA resolution in June 2004. The provisions in the new resolution are more restrictive; thus, many properties under contract do not meet the new requirements.

Most of the rural land in Tuolumne County consists of grazing land, which makes up over 90 percent of all CLCA properties. The county's leading commodities are livestock and poultry with a value of over \$21 million.

Each appraiser works all of the CLCA properties in his or her assigned areas. Field reviews are conducted to: (1) value all new construction, (2) conduct reappraisals following changes in ownership, and (3) review any other activity that may trigger a value review. The CLCA assessment program is completely automated (the variable items inputted are the capitalization rate, production, expenses, and income). The computer program calculates the restricted value and compares the restricted value with the factored base year value to determine the taxable value.

In Tuolumne County, the total taxable value of land subject to CLCA contract in 2007 was \$13,542,250, or an average of less than \$150 per acre. Therefore, the market value has rarely been the lowest value indicator and is presumed to set the upper limit of value.

### Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. AH 521 provides that "even though it might be highly unlikely (or impossible where local zoning regulations forbid the separate parcelization and/or sale of a homesite on an agricultural property) for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner." In other words, the homesite must be valued at the lesser of the factored base year value or the fair market value of a comparable, unrestricted, homesite. We found that this is the assessor's policy and practice for homesites on parcels not in nonrenewal status.

## Income and Expenses

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

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

## Capitalization Rates

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

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

When valuing CLCA property, section 423(a)(1) requires the assessor to capitalize an annual income determined from market rents, imputed to the land being valued, based upon rent actually received and typical rentals received in the area for similar land in similar use.

The assessor uses cash rents to value grazing land. The only exception is the valuation of grazing permits on National Forest lands. The assessor uses information provided annually by the United States Forest Service to determine an animal unit month indicator to value these permits.

Our review of the assessor's CLCA program notes the following area for improvement.

**RECOMMENDATION 2:** Deduct a capital replacement allowance for irrigation wells that contribute to the income being capitalized.

The assessor does not allow for a recapture of the investment in irrigation wells as a deduction from gross income to land as required by section 423. The return on wells is correctly included in the restricted value calculation for land.

Assessors' Handbook Section 521 (AH 521), *Assessment of Agricultural and Open-Space Properties*, at page II-24 provides that the appraiser should deduct a charge for a return of the value of improvements from the income stream prior to capitalizing the market 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 the recapture of the investment in irrigation wells, the assessor overstates the net income to the property and overvalues the property.

### ***Taxable Government-Owned Properties***

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

For 2007-08, Tuolumne County had 353 parcels owned by local government agencies located outside the agencies' boundaries. The total assessed value of these properties was \$44,214,188.

Tuolumne County has eight new taxable government-owned properties as compared to our 2004 survey. The assistant assessor oversees the taxable government-owned properties program and annually reviews the assessment of these parcels. The assessor enrolls the lowest of the restricted value, the factored base year value, or the current fair market value.

We reviewed several taxable government-owned properties in the county. We compared the tax rate code of the parcels to the BOE's list of tax rate areas and it appears those identified as taxable government-owned properties fall outside the district boundaries and are being properly assessed.

We also reviewed several parcels on the county's list of zero value public lands properties. We compared the tax rate code of these parcels to the BOE's list of tax rate areas and it appears the assessor properly exempts this type of property.

We found the assessor's taxable government-owned properties program to be current and reflect accurate value calculations.

**Timberland Production Zone Properties**

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The annual value of a TPZ property is determined by its appropriate per-acre site value (section 434.5) plus the lower of the current market value or the factored base year value of any compatible, nonexclusive uses of the property (section 435).

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

The following table shows the total TPZ acreage and assessed value for recent years:

<b>ROLL YEAR</b>	<b>PARCELS</b>	<b>ACRES</b>
2007-08	378	83,161
2006-07	380	83,654
2005-06	375	83,774
2004-05	375	83,884
2003-04	375	83,904

The Tuolumne County Board of Supervisors passed an ordinance adopting the TPZ district in 1977. The land zoned TPZ is assessed in accordance with values determined each year by the BOE. The BOE's values exclude the value of standing timber.

All TPZ properties located in Tuolumne County are classified as Pine-Mixed Conifer and are valued among the five different site classes.

Our review indicates the assessor properly follows the BOE's schedule of per-acre values for different site classes of TPZ parcels. The assessor updates TPZ values annually based on the site class values provided by the BOE. All land zoned as TPZ is identified on the assessment roll with the notation "Timber Preserve," and paper files are stamped "TPZ" in conformance with section 433. Currently, there are no TPZ parcels in nonrenewal or decline in value status.

Exclusive compatible uses of TPZ land for homes and other structures are valued in accordance with article XIII A of the California Constitution at the lower of the factored base year value or current market value. The assessor deducts a reasonable site for the structure from the TPZ acreage and values the land and the improvement separately from the TPZ value.

The assessor discovers exclusive and nonexclusive compatible uses of TPZ properties through permits and taxpayer contacts. If an appraiser is in the area, he or she may field inspect the TPZ property. However, there is no schedule for canvassing TPZ parcels to discover any compatible uses. In addition, the assessor does not send out questionnaires to TPZ landowners. Therefore, we make the following recommendation for improvement to the program.

**RECOMMENDATION 3:** Send periodic questionnaires to owners of TPZ land, requesting information on compatible, nonexclusive uses.

We found the assessor values permitted exclusive uses such as residential homesites, but has no systematic canvassing program of TPZ lands to determine whether other existing, compatible, exclusive or nonexclusive uses exist.

Section 435(a) requires the assessor to value TPZ land according to the site value schedules expressed in section 434.5 plus the value of any compatible, nonexclusive uses of the land. These uses may include grazing, hunting, camping, mining, and others. The value of these compatible uses must be determined annually and added to the site class values of the TPZ land.

Once land is zoned TPZ and enrolled as such by the assessor, there is usually little contact between the assessor and owners of TPZ lands. This creates a discovery problem if there is income to the property from compatible uses. The assessor should remedy this situation by periodically sending questionnaires to the participating TPZ landowners requesting information on compatible uses.

### ***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 is responsible for identifying the existence of taxable possessory interests and valuing them upon their creation, renewal, or renegotiation of the lease, and upon the construction of new improvements on the property.

The Tuolumne County Assessor's program for discovering taxable possessory interests includes an annual polling of all government entities in the county requesting information on agreements with private parties. The assessor annually contacts 17 public agencies by letter to request current information on new or changed tenancies, and current rents for tenants. There are currently 674 taxable possessory interests assessed on the secured roll and 271 on the unsecured roll with a total value exceeding \$85 million.

Most taxable possessory interest appraisals are the responsibility of the assistant assessor. However, taxable possessory interests associated with cabins on forest service lands are valued by the real property staff. The total assessed value of all taxable possessory interests was approximately 1.3 percent of the local roll value for fiscal year 2007-08.

Following are several recommendations for improvement to the assessor's assessment program for taxable possessory interests.

**RECOMMENDATION 4:** Improve the taxable possessory interest program by:  
(1) reappraising taxable possessory interests in compliance with section 61; (2) assessing all taxable possessory interests at the fairgrounds; (3) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value; (4) deducting allowed expenses from gross income when using the income approach; (5) issuing supplemental assessments for all taxable possessory interests; and (6) adding the present worth of unpaid rents to the nominal sales price as required by Rule 21.

**Reappraise taxable possessory interests in compliance with section 61.**

We found that the assessor does not reappraise taxable possessory interests at the end of the term of possession used to value the taxable possessory interest. Instead, the factored base year value is enrolled.

Section 61(b)(2) provides that the renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used to value the interest does not result in a change in ownership until the end of that reasonably anticipated term of possession. At the end of the reasonably anticipated term of possession used by the assessor, a new base year value, based on a new reasonably anticipated term of possession, shall be established for the possessory interest.

By not revaluing taxable possessory interests at the end of their reasonably anticipated terms of possession, as provided in section 61(b)(2), the assessor is not recognizing the change in ownership occurring at the end of the initial term of possession.

**Assess all taxable possessory interests at the fairgrounds.**

We found a number of tenants using the Tuolumne County Fairgrounds for several years; however, no assessments have been enrolled for these uses. These interests appear to have the exclusivity, durability, independence, and private benefit required of taxable possessory interests.

Since Tuolumne County does not have a section 155.20 low-value property tax exemption for taxable possessory interests at a fairground facility, we believe the assessor should enroll all such taxable possessory interests. Failure to assess these valuable rights means taxable property is escaping assessment.

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

For those taxable possessory interests that arise from written contracts, the assessor does not use the stated term of possession when determining the market value for each lien date. Instead, the assessor annually enrolls the factored base year value until the expiration of the contract term of possession or a change in ownership occurs.

Rule 21, subdivision (d), provides that a stated term of possession is deemed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee have reached a mutual understanding or agreement to modify the contract term. Rule 21(a)(6) also provides that the stated term of possession for a taxable possessory interest is the remaining period of possession under the contract. Thus, in general, the reasonably anticipated term of possession of a taxable possessory interest declines on each lien date. Since this decline in the reasonably anticipated term of possession may have a material effect on the market value of the taxable possessory interest, the value of such taxable possessory interest should be reviewed.

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

### **Deduct allowed expenses from gross income when using the income approach.**

We found the assessor does not deduct any operating expenses from the gross income of a taxable possessory interest before discounting the income stream into an indicator of value.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, at page 31, provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent.

A public owner will always incur some management expense with each taxable possessory interest. Other lease agreements may require the public owner to pay for insurance, maintenance, or utilities. By estimating the current market value using gross income rather than net income to the lessor, the assessor is overstating this value indicator.

### **Issue supplemental assessments for all taxable possessory interests.**

Tuolumne County assesses taxable possessory interests on the secured and unsecured roll. However, for assessments made on the unsecured roll, the assessor has no procedures for making supplemental assessments.

Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that supplemental assessments shall be issued following a change in ownership or new construction.

The assessor's current policy of not issuing supplemental assessments on taxable possessory interests on the unsecured roll is contrary to statute.

**Add the present worth of unpaid rents to the nominal sales price as required by Rule 21.**

When using the comparative sales approach to value, the assessor enrolls the reported sales price, or the indicated market value based on comparable sales, as the value of the taxable possessory interest. However, in determining the sales prices of both the subject and comparable sales, the assessor is not adding the present worth of the unpaid future contract rent to the sales prices.

Rule 21(e)(1)(A) provides that when using the direct comparative sales approach to value, the assessor must add the present worth of any unpaid future contract rents to the sale price of the property.

The sale price of a taxable possessory interest is an incomplete indicator of its total market value unless all future rents have been prepaid. When future rents for the right of use and possession are unpaid, the sale price serves only as an indication of the equity value. To arrive at the actual consideration in the sale of a taxable possessory interest, the appraiser must add the present worth of the unpaid future contract rents to the reported selling price. The sum of these two components provides an indication of the total market value of the taxable possessory interest.

Failure to comply with Rule 21 will result in under-assessments of taxable possessory interests.

***Restricted Historical Properties***

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with the legislative body of a city, county, or city and county restricting the use of that property in exchange for valuation according to a statutorily prescribed capitalization of income method. For assessment purposes, qualified historical property under such a contract is referred to as "restricted historical property." Section 50280.1 provides that in order for a property to qualify as historical property, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Restricted historical properties are assessed annually at the lowest of the factored base year value, the current market value, or the restricted value. The restricted value must be determined by the income capitalization method, as provided in section 439.2. In this method, a fair or market rent less "ordinary and necessary" expenses is capitalized by a rate that is not derived from the market but is a summation of:

- An interest component that is determined annually by the BOE;
- A risk component of two percent (four percent if the property is owner-occupied);
- A component for property taxes; and,
- A component for amortization of the improvements.

For the 2007-08 roll, the assessor enrolled five qualifying historical properties at a taxable value of \$573,046. The assistant assessor is responsible for valuing and reviewing each historical property.

We noted one problem with the assessor's assessment program for restricted historical properties.

**RECOMMENDATION 5:** Value historical property using current expense data.

We found the assessor still uses outdated expense data in valuing restricted historical properties. In some cases, the assessor was using the same expense data found in our 2004 survey.

It is unlikely that all categories of operating expenses would be exactly the same as found at the time of our prior survey. The assessor does not send questionnaires to owners of restricted historical properties requesting updated expense information.

Section 439.2(a)(3) provides that income and expenses used in valuing a restricted historical property shall be those typical for the period of valuation. In order to accurately value a historical property, the assessor must use the most current data available. One method to obtain this data is to send questionnaires to the property owners, requesting they provide the needed information.

***Leasehold Improvements***

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

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over 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 form BOE-571-L, *Business Property Statement (BPS)*, coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessments are being made 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.

**Discovery**

The most common methods of discovery for leasehold improvements are the BPSs and building permits. Schedule B of the BPS is a useful source for discovering tenant improvements. It is the responsibility of the assistant assessor to identify and forward permits for tenant improvements to the business property unit. The permits are then matched with the BPS of the tenant. The BPS is copied, and the copy and permit are forwarded to the real property unit for review.

The real property unit will identify the items and related costs listed in the structure column of Schedule B of the BPS that are their responsibility and return the package to the business property unit for final review and assessment of the remaining items. The business property unit will assess the remaining items as fixtures.

With one exception, we found the assessments of leasehold improvements were adequately processed and assessed.

**RECOMMENDATION 6:** Issue supplemental assessments for structural leasehold improvements on the unsecured roll.

We found the assessor does not issue supplemental assessments for structural leasehold improvements assessed on the unsecured roll to the tenant's business account. Instead, the unsecured tenant improvements are valued annually using the full value factor also applied to business personal property.

Since structural leasehold improvements are real property, they are subject to supplemental assessments upon change in ownership or new construction. The provisions of section 75 et seq. apply to structural leasehold improvements, whether enrolled on the secured or unsecured roll. The assessor's practice has resulted in lost revenue to the county and the failure to establish base year values for real property items.

### ***Water Company Properties***

Taxable water company properties may include property owned by private water companies, mutual water companies, or some types of government-owned water system properties. Each type of water company presents different assessment issues.

#### **Private Water Companies**

Private water companies, both regulated and unregulated, are utility companies that earn a profit from the sale of water. Regulated private water companies are those regulated by the California Public Utilities Commission (CPUC). The CPUC regulates the rates charged by these private water companies, limiting profits to an authorized return on the companies' investment. The market values of real property owned by regulated companies are tied directly to those rates. Rate regulation may result in the current market value of the real property being lower than its factored base year value because the CPUC may not allow certain expenses or capital improvements.

Tuolumne County has seven regulated water companies. For fiscal year 2007-08, the total assessed value of these companies' real property was \$989,355. The assessor utilizes the historical cost less depreciation (HCLD) approach to develop a market value indicator for the real property owned by these companies.

#### **Municipal Water Systems**

Article XIII, section 3(b) of the California Constitution exempts from taxation government-owned property located within the government agency's boundaries. This includes both property owned by city water departments located within city limits, and property owned by water districts located within district boundaries. When the water system is located outside of the government agency's boundaries, this exemption does not apply. Article XIII, section 11 of the

California Constitution provides that publicly owned property (including a water system) located outside its boundaries is taxable if it was taxable at the time it was acquired by the district.

There are no municipal water properties in Tuolumne County.

### **Mutual Water Companies**

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to the land, improvements, and delivery system owned by the mutual water company. This is so because the values of these properties are reflected in the assessments of the member or stockholder parcels. We were able to identify 94 mutual water companies in Tuolumne County.

There are two areas within the water company program that need improvement.

**RECOMMENDATION 7:** Improve the water company property program by:  
(1) obtaining relevant assessment information to properly appraise all water company properties, and (2) auditing regulated water companies that fail to file annual property statements.

### **Obtain relevant assessment information to properly appraise all water company properties.**

We found the assessor does not regularly receive the annual water company reports available from the CPUC for regulated water companies. These reports contain the data necessary for developing indicators of value for the income and HCLD approaches. Additionally, the assessor does not request copies of the articles of incorporation from mutual water companies.

In order to properly assess the real and personal property of mutual water companies, the assessor must review the articles of incorporation. The articles of incorporation identify, among other things, the legal ownership of the companies.

### **Audit regulated water companies that fail to file annual property statements.**

In our prior survey, we found the assessor did not request annual BPSs from regulated water companies. The assessor, however, has implemented our recommendation and is now requesting annual BPS filings from all regulated water companies. Notwithstanding, however, some regulated water companies are still not complying with the request to file a BPS.

Without current information, the assessor cannot identify personal property subject to assessment or determine what changes have occurred. Therefore, we recommend the assessor audit the books and records of those water companies that do not file a BPS.

## **Mineral Properties**

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. Tuolumne County has only mining properties.

Tuolumne County mining properties are appraised by the assistant assessor. There are four quarries in the county, and 429 unpatented mining claims, of which, 118 of these are valued above the county's low value property tax exemption limit. The remaining unpatented mining claim values fall below the limit and are not enrolled. We found that the assessment of the unpatented mining claims complies with current BOE guidelines. However, we found that the assessor does not make an annual determination of the current market value of the quarry property, nor does he adjust the reserves for depletion (production) or for the discovery of new reserves.

**RECOMMENDATION 8:** Assess mining properties according to Rule 469.

The assessor only adjusts the base year value of the reserves of mining properties by the annual inflation factor. He makes no adjustments for reductions due to production or increases due to new reserves.

Rule 469(e)(2)(A)(6) provides that the current adjusted base year value of proved reserves is the sum of the prior year's reserves, less the depletion from production, adjusted by the inflation factor, and increased by the value of new reserves. Failure to properly account for depletion of reserves in the base year value can result in an over assessment of the mining property. In cases where new reserves are discovered, failure to adjust for these new reserves can result in an underassessment of the property.

In addition, Rule 469(e)(2)(C) provides that declines in the value of mineral properties are recognized when the market value of the appraisal unit is less than the current adjusted base year value of the same unit. By failing to determine the current market value of the appraisal unit each year, the assessor is not able to determine whether a property has declined in value.

## ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

In this section of the survey report, we review the assessor's programs for conducting audits, processing business property statements, valuing business property, and discovering and assessing leased equipment, manufactured homes, aircraft, and vessels.

### **Audits**

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 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, county assessors are required to annually audit a significant number of audits as specified in section 469, as amended. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002–03 fiscal year to the 2005–06 fiscal year, with at least 50 percent to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

In Tuolumne County, the audit workload is the responsibility of one auditor-appraiser. The auditor-appraiser is not only responsible for conducting audits, but also for reviewing audits completed by contract auditors. Additionally, the assessor participates in the California Counties Cooperative Audit Service Exchange.

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

ROLL YEAR	TOTAL AUDITS	MANDATORY AUDITS	NET VALUE CHANGE
2007-08	3	3	0
2006-07	5	5	\$114,335
2005-06	0	0	0
2004-05	5	5	\$392,912
2003-04	12	12	\$843,216

During our review of the assessor's records, we found that many audits are not being completed timely. Accordingly, we have one recommendation in this area of the assessor's program.

**RECOMMENDATION 9:** Timely audit the books and records of professions, trades and businesses pursuant to section 469.

At the time of our fieldwork, the assessor had a total mandatory audit workload (under the old system of mandatory audits) of approximately 68 accounts or an average annual workload of 17 audits. We found the assessor is falling short of this number and is carrying forward the uncompleted audits to the next year. By carrying forward the uncompleted audits, the assessor is increasing his workload in subsequent years and making it more difficult to complete the required number of audits.

For fiscal year 2007-08, the assessor had an audit workload of 30 audits but only three were completed. This means that 27 audits were not completed and will be added to the next fiscal year's workload. Similarly, for fiscal year 2006-07, a total of 24 mandatory audits were assigned but only five were completed.

Given the assessor's history of not being able to complete a significant number of audits timely, with only three completed for 2007-08 and five completed for 2006-07, under the new system, he would still fail to complete the *significant number of audits* (8) required and selected using the formula set forth in section 469(a)(1).

Audits verify the proper reporting of the largest business property accounts. By failing to complete audits timely, the assessor may have allowed taxable property to permanently escape assessment if he is unable to enroll the escape assessments prior to the expiration of the statute of limitations. This creates the possibility of a loss in revenue to the county. Therefore, we recommend that the assessor take appropriate action to bring the audit program current.

## 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.

We found, while the California Counties Cooperative Audit Service Exchange requests waivers of the statute of limitations when it cannot timely complete an audit, the assessor does not request waivers when he cannot timely conduct an audit.

**RECOMMENDATION 10:** Obtain a signed waiver of the statute of limitations when an audit cannot be completed timely.

We found that the assessor does not request waivers when he cannot timely conduct an audit. If the assessor cannot complete an audit within the prescribed time period, the assessor should ask the taxpayer to sign a waiver of the statute of limitations, as authorized by section 532.1, in order to extend the time for making the assessment. This waiver protects the taxpayer if there was an over assessment and allows the assessor to enroll an escape assessment if a reporting deficiency is discovered. Without a signed waiver, the assessor is possibly losing revenue due to escape assessments that are precluded from assessment by the statute of limitations. Because the assessor is not completing his average number of audits annually, there are audit years beyond the reach of the statute of limitations. Therefore, we recommend the assessor obtain signed waivers of the statute of limitations any time an audit cannot be completed timely.

## Audit Quality

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

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

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

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

We reviewed the assessor's BPS processing program, including written procedures and files, to ensure it conforms to statutory and regulatory guidelines. A sampling of BPSs was reviewed to verify the use of BOE-prescribed forms, processing by certified staff, completeness of the property statements, application of penalties, coordination with the real property unit, record storage, and retention procedures.

We found the assessor checks for valid signatures and all statements are date-stamped when received. If a statement is unsigned, a copy is made and the original is returned to the taxpayer for signature. If a statement is received late, the date-stamped envelope is retained and a penalty is added as prescribed by section 463. When a statement reports any additions or deletions to real property items, those changes are referred to the real property unit for review. We found the assessor maintains the written authorizations for agents to sign property statements on behalf of the property owners in the business property files.

However, we have identified some areas needing improvement.

**RECOMMENDATION 11:** Improve the business property statement processing program by: (1) annually sending a statement to non-profit organizations, and (2) auditing the accounts of taxpayers who fail to file statements for three or more consecutive years.

### **Annually send a statement to non-profit organizations.**

We found the assessor does not annually send BPSs to non-profit organizations owning business property costing \$100,000 or more.

Section 441(a) requires each person owning taxable personal property, other than a manufactured home, having an aggregate cost of \$100,000 or more for any assessment year to file a signed BPS with the assessor. This provision also applies to non-profit organizations.

In order to ensure these non-profit organizations file appropriate BPSs, the assessor should annually send a BPS to them. This will serve as a reminder to these non-profit organizations of the section 441 requirement to file a BPS and will give the assessor the opportunity to apply section 463 penalties for any failures by the non-profit organizations to file a BPS.

BPSs from non-profit organizations are also important because without an annual accounting for what assets a non-profit organization has, the assessor may not be exempting the correct amount.

**Audit the accounts of taxpayers who fail to file statements for three or more consecutive years.**

When taxpayers fail to file a BPS for three or more consecutive years, the assessor makes an estimated assessment based on the prior year's assessment. The assessor does not, however, audit these taxpayers nor does he perform an on-site inspection of the business to confirm assets.

While section 501 allows the assessor to estimate the value of business property belonging to anyone who does not comply with the reporting requirements, it is not reasonable to make an estimated assessment for the current year when the taxpayer has not reported any new information for over three years. If a BPS was not received in the current year, but one was received in the previous year, it is reasonable to make an estimated assessment for the current year based on information from the previous BPS. However, when making estimated assessments for several years without any new information, the values become increasingly susceptible to error. This practice can lead to inaccurate assessments or loss of tax revenue due to the expiration of the statute of limitations.

As explained above, amendments to section 469, effective January 1, 2009, were made to allow the assessors more flexibility in determining which accounts will comprise their mandated annual audit workload and in maximizing their limited audit resources. Section 469(b)(2) allows the assessor to select from the remaining 50 percent of the annually required audits a pool of taxpayers having assessable trade fixtures and business tangible personal property, as determined in paragraph (1) of subdivision (a), in a manner that is fair and equitable to all taxpayers, which may be based on evidence of underreporting, as determined by the assessor.

Taxpayers of business property accounts who have failed to comply with the reporting requirements for three or more consecutive years should be part of this pool of potential audits.

***Business Equipment Valuation***

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

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

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The CAA price indices parallel those published in AH 581 with the exception of specific types of equipment, such as pagers, facsimile equipment, and photocopiers, that CAA recommends should not be trended. The assessor also generally uses the service lives provided by the CAA. However, we noticed some variation in the services lives within certain industries and certain assets groups.

**RECOMMENDATION 12:** Document the service lives used in the valuation of business equipment.

While the CAA recommends an eight-year life for apartment equipment/furniture, we found the assessor valued these assets with a 10- to 12-year life. Similarly, the CAA recommends a five-year life for tools, but the assessor used different lives to assess tools. In addition, supermarket equipment was valued with a 15-year life, while the CAA recommends a 12-year life.

We further found the assessor has no studies to support the different service lives. If the assessor believes that he has information to support a service life different from those recommended by the CAA, then he should provide the information in documenting his valuation of the business equipment.

### ***Leased Equipment***

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

Taxpayers are required to report on their annual BPSs all taxable leased equipment belonging to others. The lessee should report the name and address of the lessor, month and year of property acquisition, acquisition cost, location, and other relevant information such as sales taxes, freight, and installation costs.

Similarly, the lessor should report all taxable leased equipment on their annual BPS. This report should indicate the following: name and address of all lessees who are leasing the equipment, if the lease is a true lease or a conditional lease, acquisition date, duration of lease, acquisition cost, and if sales tax, freight, and installation costs are included in reported cost. If the lessor is a bank or a financial institution, the assessment is made directly to the lessee as provided in section 235.

We found the assessor properly assesses true leases to the lessor and conditional sales to the lessee. The lessors consistently reported pertinent information on the leased equipment. The assessor attempts to avoid double assessments by placing a copy of the reported leased equipment in the lessee's file; the copy is compared with the lessee's BPS.

The assessor has adequate procedures for tracking and cross-checking leased equipment.

### ***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 Revenue and Taxation Code 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.

The following table illustrates the number of manufactured homes assessed and their total enrolled values for recent years:

ROLL YEAR	MANUFACTURED HOMES	ASSESSED VALUE
2007-08	2,023	\$49,634,841
2006-07	2,024	\$49,058,555
2005-06	2,012	\$47,746,438
2004-05	1,999	\$46,708,592
2003-04	1,977	\$46,028,321

There are 1,429 manufactured homes within the county's 46 mobilehome parks and 594 manufactured homes sited on fee land. The assessment of manufactured homes in Tuolumne County is assigned by map book. In compliance with sections 5801(b)(2) and 5830, the assessor enrolls manufactured homes as personal property on the secured roll.

The assessor discovers taxable manufactured homes in the county by reviewing the State Department of Housing and Community Development reports, building permits, dealer reports of sale, relocation information from cooperating counties, and appraiser canvassing. Taxable manufactured home accessories are discovered by building permits and appraiser canvassing.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, takes into consideration sales prices listed in recognized value guides. The assessor uses the selling price, local market cost data, and *N.A.D.A. Manufactured Housing Appraisal Guide* (NADA) when considering the value of manufactured homes.

The assessor correctly applies supplemental assessments to new and transferred manufactured homes. Exemptions are correctly handled for the assessment of manufactured homes held in dealer's inventory and for those held or owned by financial institutions and insurance companies. In compliance with section 5803, site value is not included in the manufactured home assessment.

We found the assessor's manufactured homes program to be current and reflect accurate value calculations.

**Aircraft**

**General Aircraft**

General aircraft are privately owned aircraft used for pleasure or business but not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE

approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

The assessor discovers general aircraft from reviewing listings obtained from the Federal Aviation Agency, airport operators reporting on form BOE-577-B, *List of Aircraft*, and referrals from other county assessors' offices. We found the assessor annually submits an aircraft report to the California Department of Transportation, Division of Aeronautics, as required by section 5366.

The following table summarizes the number and assessed value of the general aircraft in Tuolumne County for recent years:

ROLL YEAR	AIRCRAFT	ASSESSED VALUE
2007-08	163	\$13,775,138
2006-07	161	\$13,574,391
2005-06	150	\$11,445,412
2004-05	138	\$9,613,436
2003-04	144	\$9,544,965

The assessor annually mails an aircraft property statement to aircraft owners of aircraft having situs in the county. The filing deadline is April 1<sup>st</sup>. A 10 percent penalty for failure to file or late-filing of the statement is imposed as permitted by section 5367.

We found staff uses the *Bluebook* as the primary guide for valuing aircraft, with the *Vref* as an alternative guide for aircraft not listed in the *Bluebook*. Staff adjusts the indicated value downward by 10 percent for average condition, and makes adjustments for engine and airframe hours, additional condition issues with the aircraft, and any additional equipment. Our review indicated the appraisals were adequate and well documented.

### Historical Aircraft

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

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

for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which the exemption is claimed.

There were 17 historical aircraft assessed on the 2007-08 roll in Tuolumne County with a total value of \$736,251. We found that the assessor is properly assessing these aircraft, applying the exemption, and obtaining a signed affidavit for the historical aircraft exemption pursuant to section 220.5(c). We have no recommendations for this program.

**Vessels**

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

The following table shows the number of vessels assessed and their corresponding values for recent years:

ROLL YEAR	VESSELS	ASSESSED VALUE
2007-08	2,523	\$42,174,688
2006-07	2,427	\$39,631,445
2005-06	2,254	\$36,073,260
2004-05	2,120	\$33,193,187
2003-04	2,013	\$31,401,092

The assessor appraises vessels initially based on the current year's *N.A.D.A Marine Appraisal Guide* (NADA). In certain instances, other resources may be used, such as Internet resources and classified ads. If the vessel's reported purchase price falls within the value range indicated by the NADA, the purchase price is enrolled. If the purchase price does not fall within the value range suggested by NADA, the appropriate value from NADA is enrolled. In subsequent years, the assessment is based on a depreciation schedule developed from comparing indicated values from various years of NADA based on average condition and from several different categories of vessels.

Our review found the assessor does not require vessel owners to file annual vessel property statements for vessels costing \$100,000 or more.

**RECOMMENDATION 13:** Require vessel owners to file annual vessel property statements for vessels costing \$100,000 or more.

We found the assessor fails to send form BOE-576-D, *Vessel Property Statement*, to the owners of those vessels the assessor classifies as non-commercial vessels, regardless of the cost of those vessels.

Pursuant to section 441(a), each person owning taxable personal property, other than a manufactured home, having an aggregate cost of \$100,000 or more for any assessment year, shall file a signed property statement with the assessor. Additionally, Rule 171(d) provides that the assessor shall furnish property statement forms and instructions to every person required by law or requested by the assessor to file a property statement. These provisions apply to all vessels, including non-commercial vessels. The information provided by taxpayers in the property statements provides the assessor with current and accurate information regarding replacement engines and new accessories when making vessel appraisals. Failure to require property statement filings from owners of such vessels increases the risk of inaccurate assessments based on insufficient information.

## APPENDIXES

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

#### Tuolumne County

*Chief*

Dean Kinnee

*Survey Program Director:*

Benjamin Tang

Principal Property Appraiser

*Survey Team Supervisor:*

David Dodson

Supervising Property Appraiser

*Survey Team Leader:*

Pamela Bowens

Supervising Property Appraiser

*Survey Team:*

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Bob Donay

Associate Property Appraiser

Tammy Aguiar

Associate Property Appraiser

Catherine Houlihan

Associate Property Auditor-Appraiser

Chandra Williams

Associate Property Auditor-Appraiser

Angie Berry

Assistant Property Appraiser

Michael Saunders

Assistant Property Appraiser

Ryan Wong

Assistant Property Appraiser

Aaron Martinez

Tax Technician

Prubjit Singh

Tax Technician

## **B. Assessment Sampling Program**

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The BOE, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The BOE's County-Assessed Properties Division (CAPD) conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)

From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.

For purposes of analysis, after the sample is drawn, the items are identified and placed into one of the five categories listed below:

**Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

**Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

**New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

**Non-Proposition 13 properties.** Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, Timberland Production Zone property, and taxable government-owned property.

**Unsecured properties.** Those properties on the unsecured roll.

From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, that is, the "unexpanded" sample, to over-represent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

The field investigation objectives are somewhat different in each category, for example:

**Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? Was there a change in ownership? Was there new construction? Or, was there a decline in value?

**Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? Do we concur with the county assessor's new value? Was the base year value trended forward (for the allowed inflation adjustment)? Was there a subsequent ownership change? Was there subsequent new construction? Was there a decline in value?

**New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? Do we concur with the value enrolled? Was the base year amount trended forward properly (for the allowed inflation adjustment)? Was there subsequent new construction? Or, was there a decline in value?

**Non-Prop 13 properties** -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment, do we concur with the amount enrolled?

**Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

The results of the sample are then expanded as described above. The expanded results are summarized according to the five assessment categories and by property type and are incorporated into the published assessment practices survey report.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the CAPD. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

### **C. 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 Tuolumne County Assessor's response begins on the next page. The BOE has no comments on the response.



# COUNTY OF TUOLUMNE

# OFFICE OF ASSESSOR-RECORDER

Administration Center • 2 South Green Street • Sonora, CA 95370

Assessor: (209) 533-5535  
Assessor Fax: (209) 533-5674  
Recorder: (209) 533-5531  
Recorder Fax: (209) 533-6543

**KEN CAETANO**  
Assessor-Recorder

January 8, 2010

RECEIVED

JAN 11 2010

County-Assessed Properties Division  
State Board of Equalization

Mr. Dean R. Kinnee, Chief  
County-Assessed Properties Division  
State Board of Equalization  
PO Box 942879  
Sacramento, CA 94279-0062

Re: Assessor's Response – Tuolumne County Assessment Practices Survey Report

Dear Mr. Kinnee,

Pursuant to Section 15645 of the California Government Code, I am hereby submitting the attached response of the Tuolumne County Assessor-Recorder to the Assessment Practices Survey of the 2007-2008 assessment roll conducted by the State Board of Equalization. Please incorporate my response into your final Assessment Practices Survey Report.

We appreciate the acknowledgement that our office has an effective overall assessment program and that we meet the requirements for assessment quality established by section 75.60 of the California Revenue and Taxation Code.

The mission of this office is to provide information, services and accurate property assessments through our commitment to implement the property tax laws of the State of California with the utmost in quality and integrity. This survey affirms our commitment to providing the taxpayers of Tuolumne County with fair and equitable assessments through quality assessment practices.

I would like to thank the Board of Equalization survey team for the professional and courteous manner in which they conducted themselves during this survey. I would also like to express my deepest gratitude to the employees of the Tuolumne County Assessor-Recorder's Office for their hard work, expertise, dedication and commitment to public service.

Sincerely,

Ken Caetano, Assessor-Recorder  
County of Tuolumne

Enclosure

**Tuolumne County Assessor  
Responses to State Board of Equalization  
Assessment Practices Survey Report – 2007**

**Recommendation 1:** We concur. Although there are very few times when a penalty must be applied for non-filing, we will work to establish a procedure for enrolling the penalties required.

**Recommendation 2:** We concur. This recommendation will be implemented for those California Land Conservation Act properties that have irrigation wells.

**Recommendation 3:** We concur. This recommendation will be implemented for 2010-11.

**Recommendation 4:** We concur. However, we are limited in the staff necessary to implement all of this recommendation at this time.

**Recommendation 5:** We concur. This recommendation will be implemented for 2010-11.

**Recommendation 6:** We concur. However, additional programming will be required to process supplemental assessments on the Unsecured Roll.

**Recommendation 7:** We concur. However, we are limited in the staff necessary to implement this recommendation at this time.

**Recommendation 8:** We concur. However, we are limited in the staff necessary to implement this recommendation at this time.

**Recommendation 9:** We concur. However, we are limited in the staff necessary to implement this recommendation at this time.

**Recommendation 10:** We concur. This recommendation will be implemented for 2010-11.

**Recommendation 11:** We concur. This recommendation will be implemented for 2010-11.

**Recommendation 12:** We concur. For 2010-11, we will use the CAA recommended service lives.

**Recommendation 13:** We concur. This recommendation will be implemented for 2010-11.